telephone +61 8 8132 7950 email info@flindersmines.com

27 February 2012

The Manager
Market Announcements
Australian Securities Exchange
20 Bridge Street
SYDNEY NSW 2000

Dear Sir/Madam

Scheme Booklet, Notice of Scheme Meeting and Proxy Form

Please find attached for release to the market, the Scheme Booklet in relation to the Flinders Mines Limited (ASX: FMS) Scheme of Arrangement, including a Notice of Scheme Meeting and sample Proxy Form.

The Notice of Scheme Meeting is contained within the Scheme Booklet in Annexure 4, at page 64. A Scheme Booklet and a personalised Proxy Form have been sent to all shareholders.

An electronic copy of the Scheme Booklet, including the Notice of Scheme Meeting, is available on the Company's website at: www.flindersmines.com.

Yours faithfully

David W Godfrey
Company Secretary

Flinders MINES

Scheme Booklet for a proposal by

Magnitogorsk Iron and Steel Works OJSC

to acquire all of your Shares in

Flinders Mines Limited,

by way of a **SCHEME OF ARRANGEMENT**

The Directors of Flinders Unanimously Recommend that

You Vote in Favour of the Scheme

in the Absence of a Superior Proposal.

The Notice of the Scheme Meeting is set out in Annexure 4 to this Scheme Booklet.

This document is important and requires your immediate attention. You should read the document in its entirety before you decide whether to vote in favour or against the Scheme. If you are in any doubt as to what you should do, you should seek independent legal, financial or other professional advice.

FINANCIAL ADVISERS

citi

ae Investment House

LEGAL ADVISER

D|M|A|W LAWYERS

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ANNEXURES

IMPORTANT NOTICES

Purpose of the Scheme Booklet

This Scheme Booklet explains the proposed acquisition of Flinders by MMK. In particular, it explains the effect of the Scheme between Flinders and the Flinders Shareholders and provides such other information in relation to the Scheme as is required by the Corporations Act, the Corporations Regulations and ASIC regulatory guides and other information which may be relevant to the decision of Flinders Shareholders whether to approve the Scheme.

Flinders Shareholders should read the entire Scheme Booklet before making any decision about whether or not to vote in favour of the Scheme. If you are in any doubt as to what you should do, you should seek independent legal, financial or other professional advice.

Regulatory Information

This Scheme Booklet is the Explanatory Statement required under Part 5.1 of the Corporations Act in relation to the Scheme.

A copy of this Scheme Booklet has been given to ASIC pursuant to section 411(2) of the Corporations Act. ASIC has been requested to provide a statement, in accordance with section 411(17)(b) of the Corporations Act, that ASIC has no objection to the Scheme. If ASIC provides that statement, then it will be produced to the Court on the Second Court Date. Neither ASIC nor any of its officers takes any responsibility for the contents of this Scheme Booklet.

A copy of this Scheme Booklet has been lodged with ASX. Neither ASX nor any of its officers takes any responsibility for the contents of this Scheme Booklet.

Important Notice associated with the Court Order under section 411(1) of the Corporations Act

A copy of the Explanatory Statement was submitted to the Court in support of Flinders' application for an order of the Court requiring the convening of the Scheme Meeting.

The fact that under section 411(1) of the Corporations Act the Court has ordered that a meeting be convened and has approved the Explanatory Statement required to accompany the Notice of Meeting does not mean the Court:

- has formed any view as to the merits of the proposed Scheme or as to how you should vote (on this matter, you must reach your own decision); or
- has prepared, or is responsible for the content of, the Explanatory Statement.

Important Notice associated with the Second Court Hearing

The Federal Court Rules provide a procedure for Flinders Shareholders to oppose the approval by the Court of the Scheme or to make representations to the Court in relation to the Scheme. If you wish to oppose the approval of the Scheme at the Court hearing on the Second Court Date you may do so by filing with the Court and serving on Flinders a notice of appearance in the prescribed form together with any affidavit on which you wish to rely at the hearing. The notice of appearance and affidavit must be served on Flinders at least one day before the Second Court Date. That date is currently scheduled to occur on or about Tuesday, 3 April 2012. Any change to this date will be announced through ASX and is typically published by ASX on its website (*asx.com.au*) (ASX code: FMS). Alternatively, if you wish to make representations to the Court in relation to the Scheme, the Court may grant you leave to be heard at the hearing without becoming a party to the proceedings.

Responsibility for Contents

The information in this Scheme Booklet concerning Flinders and its Related Bodies Corporate (**Flinders Information**) has been prepared by Flinders and is the responsibility of Flinders. MMK and its Representatives, and the advisers of Flinders, do not assume any responsibility for the accuracy or completeness of the Flinders Information.

MMK has provided and is responsible for the information in Section 4 (**MMK Information**). MMK and its Representatives do not assume any responsibility for the accuracy or completeness of the information contained in the Scheme Booklet other than the MMK Information. Flinders and its Representatives, and the advisers of MMK, do not assume any responsibility for the accuracy or completeness of the MMK Information.

Ernst & Young has prepared the Independent Expert's Report in relation to the Scheme. A copy of that report is contained in Annexure 5 to this Scheme Booklet. Ernst & Young takes responsibility for the Independent Expert's Report.

Snowden has prepared the Technical Expert's Report in relation to the Scheme. A copy of that report is attached to the Independent Expert's report. Snowden takes responsibility for the Technical Expert's Report.

Forward Looking Statements

Certain statements in this Scheme Booklet are about the future. You should be aware that there are a number of risks (both known and unknown), uncertainties, assumptions and other important factors that could cause the actual conduct, results, performance or achievements of Flinders to be materially different from the future conduct, results, performance or achievements expressed or implied by such statements, or that could cause the future conduct to be materially different from the historical conduct. Such risks, uncertainties and assumptions include, among other things, the potential disadvantages of the Scheme set out in Section 2.4. Deviations as to future conduct, results, performance and achievements are both normal and to be expected.

None of Flinders, MMK and their respective Representatives, or any other person gives any representation, assurance or guarantee that the occurrence of the events expressed or implied in any forward looking statements in this Scheme Booklet will actually occur. You are cautioned about relying on these forward looking statements.

The forward looking statements in this Scheme Booklet reflect views held only as of the date of this Scheme Booklet. Subject to the Corporations Act and the ASX Listing Rules and any other applicable laws or regulations, each of Flinders and MMK disclaims any duty to update these statements, other than information in respect of which Flinders and MMK respectively become aware, prior to the Scheme Meeting which is material to the making of a decision by a Flinders Shareholder regarding whether or not to vote in favour of the Scheme.

No Investment Advice

This Scheme Booklet does not constitute financial product advice and does not take into account the individual investment objectives, financial situation and needs of Flinders Shareholders. The information in this document should not be relied upon as the sole basis for any investment decision in relation to your Flinders Shares. You should seek independent financial and tax advice before making any investment decision in relation to your Flinders Shares.

Privacy and Personal Information

Flinders and MMK and MMK's Related Bodies Corporate will need to collect personal information to implement the Scheme. The personal information may include the names, contact details and details of shareholdings of Flinders Shareholders, together with contact details of individuals appointed by Flinders Shareholders as proxies, body corporate representatives or attorneys at the Scheme Meeting. The primary purpose of the collection of personal information is to assist Flinders in the conduct of the Scheme Meeting and to enable the Scheme to be implemented. The collection of some of this information is required or authorised by the Corporations Act.

Flinders Shareholders who are individuals, and other individuals in respect of whom personal information is collected, have certain rights to access the personal information collected about them and may contact Flinders by email to *privacy@computershare.com.au* if they wish to exercise those rights.

The information may be disclosed to print and mail service providers, and to the Share Registry to the extent necessary to effect the Scheme. If the information outlined above is not collected, Flinders may be hindered in, or prevented from, conducting the Scheme Meeting or implementing the Scheme effectively, or at all.

Flinders Shareholders who appoint an individual as their proxy, body corporate representative or attorney to vote at the appropriate Scheme Meeting should inform that individual of the matters outlined above.

Entitlement to Inspect the Flinders Share Register

You should also note that all persons are entitled, under section 173 of the Corporations Act, to inspect a copy of the Flinders Share Register. The Flinders Share Register contains personal information about Flinders Shareholders.

Glossary

Capitalised terms used in this Scheme Booklet are defined in the Glossary contained in Section 8 of this Scheme Booklet. The documents reproduced in some of the Annexures to this Scheme Booklet each have their own defined terms which are sometimes different from those in the Glossary.

Date of this Scheme Booklet

This Scheme Booklet is dated Wednesday, 15 February 2012.

Updating this Scheme Booklet

Refer to Section 7.16 for information about the steps Flinders will take if information about the Scheme needs to be updated.

IMPORTANT DATES AND TIMES FOR THE SCHEME

Announcement of the Scheme	**Friday, 25 November 2011**
Date of this Scheme Booklet and Notice of Meeting	**Wednesday, 15 February 2012**
Date and time for determining eligibility to attend and vote at Scheme Meeting	**Wednesday, 28 March 2012 at 7:00pm**
Latest time and date for receipt of proxies for Scheme Meeting	**Wednesday, 28 March 2012 at 10:00am**
Scheme Meeting	**Friday, 30 March 2012 at 10:00am**
Second Court Date to approve the Scheme	**Tuesday, 3 April 2012**

If the Scheme is approved by Flinders Shareholders and the Court

Flinders to notify ASX of intention to lodge Court Order	**Friday, 30 March 2012**
Effective Date **1. The Court order is lodged with ASIC and the Scheme becomes binding** **2. Last day of trading in Flinders Shares**	**Wednesday, 4 April 2012**
Record Date for determining entitlements to Scheme Consideration (7:00pm Sydney, NSW time)	**Friday, 13 April 2012**
Implementation Date – date of dispatch of Scheme Consideration and Flinders Shares transferred to MMK or its nominee	**Wednesday, 18 April 2012**

Unless otherwise stated, all dates and times contained in this Scheme Booklet are Adelaide, SA time and are indicative only.

The actual timetable will depend on many factors outside the control of Flinders, including the Court approval process. Any changes to the above timetable will be announced to ASX and available on its website (*asx.com.au*) (ASX code: FMS) and also published on the Flinders website (*flindersmines.com*).

A MESSAGE FROM THE CHAIRMAN OF FLINDERS MINES LIMITED

Dear Fellow Shareholder

On 25 November 2011, Flinders Mines Limited (**Flinders**) announced that it had entered into a Scheme Implementation Agreement with Magnitogorsk Iron and Steel Works OJSC (**MMK**) under which it was proposed that MMK or its nominee would acquire all of the issued Shares in Flinders by way of Scheme of Arrangement (**Scheme**).

If the Scheme is approved and implemented, Flinders Shareholders will receive a cash payment equal to A$0.30 for each Flinders Share they own. The Scheme Consideration values Flinders at approximately A$554 million on a fully diluted basis.

The A$0.30 per share offer price reflects a 92.5% premium to Flinders' 1-month volume weighted average price prior to the announcement of MMK's proposal on 25 November 2011. Although the Flinders Directors believe that Flinders has significant growth prospects as an independent ASX-listed company, they also believe that the transaction is compelling for Flinders Shareholders and represents substantial value. A transaction with MMK enables Flinders Shareholders to avoid the development risks which would need to be overcome in order to bring the Pilbara Iron Ore Project into production. The offer price reflects a substantial premium to the historical trading prices of Flinders Shares and also compares favourably to historical precedent transactions.

The Flinders Directors believe the transaction delivers not only compelling value but also delivers certain cash proceeds for your Flinders Shares at a time of high equity market volatility and uncertainty surrounding the global economic outlook.

A comprehensive strategic review of Flinders has been performed and MMK's proposal represents the most compelling alternative available to Flinders Shareholders. Since the announcement of MMK's proposal on 25 November 2011, no Superior Proposal has emerged.

After careful consideration of MMK's proposal, the Flinders Directors unanimously recommend that, in the absence of a Superior Proposal, you VOTE IN FAVOUR of the Scheme at the Scheme Meeting to be held on Friday, 30 March 2012. Each Flinders Director who holds or controls the voting rights attached to Flinders Shares intends to vote those Shares, or procure that those Shares are voted, in favour of the Scheme in the absence of a Superior Proposal.

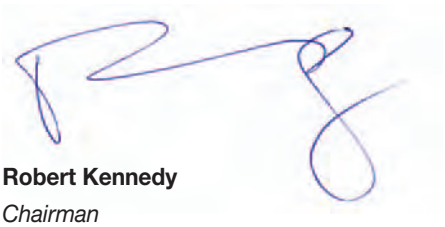
Flinders commissioned Ernst & Young to prepare the Independent Expert's Report. Ernst & Young has concluded that the Scheme is both fair and reasonable and is therefore in the best interests of Flinders Shareholders. A full copy of the Independent Expert's Report is set out in Annexure 5. I encourage you to read the Independent Expert's Report in its entirety in conjunction with the Scheme Booklet before voting on the Scheme.

Your vote is important in determining whether or not the Scheme will proceed. On behalf of the Flinders Directors, I encourage you to read this Scheme Booklet carefully as it contains essential information in relation to the Scheme and will assist you in reaching an informed decision. I also strongly encourage you to attend the Scheme Meeting which is to be held at Enterprise House, 136 Greenhill Road, Unley, South Australia on Friday, 30 March 2012 at 10:00am and **VOTE IN FAVOUR** of the Scheme. If you are unable to attend the meeting in person, you should complete the enclosed proxy form and return it in accordance with the instructions on the form as soon as possible, so that it is received no later than 10:00am on Wednesday, 28 March 2012.

If you have any questions about the Scheme, please contact the Flinders Shareholder Information Line on 1800 647 299 (toll-free within Australia) or +61 2 8256 3370 (internationally) between 8.30am and 4.30pm Monday to Friday. Alternatively, you should contact your financial or other professional adviser for specific information on the implications of the Scheme being implemented regarding your personal circumstances.

On behalf of the Flinders Directors, I strongly recommend you read the enclosed materials in full and **VOTE IN FAVOUR** of the proposed Scheme, in the absence of a Superior Proposal.

Yours sincerely



Robert Kennedy
Chairman

Your Vote is Important

For the Scheme to be implemented, it must be approved by a majority in number of eligible Flinders Shareholders present and voting (either in person or by proxy) at the Scheme Meeting (unless the Court decides otherwise). Flinders Shareholders voting in favour of the Scheme must also represent at least 75% of the total number of votes cast on the resolution at the Scheme Meeting.

The Court must also approve the Scheme. The Court may decline to approve the Scheme even if the resolution in favour of the Scheme is passed by the Requisite Majorities.

Who is Entitled to Vote?

Subject to any voting restrictions, you will be eligible to vote at the Scheme Meeting if you are registered as a Flinders Shareholder as at 7:00pm on Wednesday, 28 March 2012.

MMK and its associates are not entitled to vote at the Scheme Meeting.

When and Where is the Meeting?

The Scheme Meeting will be held on Friday, 30 March 2012 at Enterprise House, 136 Greenhill Road, Unley South Australia at 10:00am. Refer to the Notice of Meeting in Annexure 4.

How to Vote

To vote, you should:

1. Attend and vote in person at the Scheme Meeting; or
2. Appoint a proxy (or attorney or representative) to vote on your behalf at the Scheme Meeting.

Voting by Proxy

To vote by proxy you should complete the attached proxy form for the Scheme Meeting in accordance with the instructions on the form and lodge it (and a proxy appointment authority if applicable) with the Share Registry. The proxy form and proxy appointment authority can be lodged as follows:

In Person:

- *Share Registry*
  Computershare Investor Services Pty Limited,
  Level 5, 115 Grenfell Street, Adelaide,
  South Australia, 5000, Australia; or
- *Flinders Registered Office*
  Level 1, 136 Frome Street, Adelaide,
  South Australia, 5000

By Mail:

- *Share Registry*
  Computershare Investor Services Pty Limited,
  GPO Box 242, Melbourne,
  Victoria, 3001, Australia; or
- *Flinders Registered Office*
  PO Box 3065, Rundle Mall,
  South Australia, 5000, Australia.

By Facsimile:

- Fax to 1800 783 447 (within Australia) or
  +61 3 9473 2555 (outside Australia)

Vote Online:

- Flinders Shareholders can also cast their votes online by going to *investorvote.com.au* and following the prompts. To use this facility, Flinders Shareholders will need their holder number (SRN or HIN), postcode and control number as shown on the proxy form. Flinders Shareholders will have been taken to have signed the proxy form if it is lodged in accordance with the instructions on the website.

Custodian Voting:

- Intermediary Online Subscribers only (Custodians) can cast their vote by visiting *intermediaryonline.com*.

Proxy forms must be received by the Share Registry by 10:00am on Wednesday, 28 March 2012 to be valid. If you return your proxy form by post you should allow sufficient time for it to be received by the Share Registry before 10:00am on Wednesday, 28 March 2012.

If you return a proxy form you are still entitled to attend and vote at the Scheme Meeting if you are a Flinders Shareholder at 7:00pm on Wednesday, 28 March 2012. However, if you attend and vote at the Scheme Meeting then your proxy will be precluded from voting on your behalf.

If you appoint 2 proxies but do not allocate the proportion of voting rights to be exercised by each proxy, each proxy may exercise half your votes at the Scheme Meeting.

If you are a joint holder of Flinders Shares and more than one joint holder votes in respect of the same Flinders Shares at the Scheme Meeting, the vote of the holder named first in the Flinders Share Register will be counted to the exclusion of all other joint holders.

Voting by Corporate Representative or Attorney

If you are a corporate Flinders Shareholder and wish to appoint a representative to attend the Scheme Meeting, you should ensure that your representative can provide appropriate evidence of their appointment at the Scheme Meeting.

Alternatively, you may appoint another person by power of attorney to attend the Scheme Meeting and vote on your behalf. If the original power of attorney or a certified copy of the power of attorney has not been previously provided to Flinders, please attach a certified copy of the power of attorney when returning your proxy form.

How do the Flinders Directors Recommend I Should Vote?

After carefully considering the advantages and disadvantages of the Scheme and concluding that the advantages of the Scheme outweigh the disadvantages, the Flinders Directors unanimously recommend that, in the absence of a Superior Proposal, you **VOTE IN FAVOUR** of the Scheme at the Scheme Meeting to be held on Friday, 30 March 2012. Each Flinders Director who holds or controls the voting rights attached to Flinders Shares intends to vote those Shares, or procure that those Shares are voted, in favour of the Scheme, in the absence of a Superior Proposal.

SCHEME AND SCHEME CONSIDERATION

Q What is the Scheme?

A A scheme of arrangement is a statutory procedure under the Corporations Act that is commonly used to enable one company to acquire another company.

The Scheme is an agreement between Flinders and its shareholders to effect the acquisition of all Flinders Shares by MMK or its nominee. MMK will pay Flinders Shareholders or procure the payment of the Scheme Consideration of A$0.30 cash for each Flinders Share acquired. The exchange of each Flinders Share for A$0.30 cash will only occur if the Scheme is approved by the requisite number of Flinders Shareholders at the Scheme Meeting (unless the Court otherwise decides) and is approved by the Court.

Section 5 of this Scheme Booklet provides information on the implementation of the Scheme.

A copy of the Scheme is contained in Annexure 2 to this Scheme Booklet.

Q Are there any conditions attached to the Scheme?

A There are a number of conditions which must be satisfied or waived before the Scheme can be implemented.

As at the date of this Scheme Booklet, Flinders is not aware of any circumstances which it expects would prevent any of the outstanding conditions from being satisfied.

Both Annexure 1 and Annexure 2 to this Scheme Booklet provide information on the conditions attached to the Scheme.

Q What are the implications for Flinders if the Scheme is implemented?

A If the Scheme is implemented:

- all Flinders Shares at the Record Date will be transferred to MMK or its nominee and as a result, Flinders will become a wholly-owned subsidiary of MMK or its nominee;
- Flinders will apply to be removed from the official list of ASX; and
- all Flinders Shareholders at the Record Date will receive the Scheme Consideration (whether or not they voted in favour of the Scheme).

Section 1.8 of this Scheme Booklet provides information on the implications of the Scheme for Flinders Shareholders.

Q How much will I receive for each of my Shares if the Scheme is implemented?

A You will receive A$0.30 per Flinders Share.

Q What is the premium implied by MMK's offer to Flinders' Share price?

A MMK's offer of A$0.30 per Flinders Share represents a premium of:

- 81.8% to the closing price on 22 November 2011 (the final day that Flinders Shares traded before the Announcement Date);
- 92.5% to the 1-month volume weighted average price (VWAP);
- 100.1% to the 3-month VWAP; and
- 111.1% to the 6-month VWAP.

Section 2.3C of this Scheme Booklet provides information on the premiums implied by MMK's offer to Flinders' Share price.

Q If the Scheme is implemented, when will I be paid my money?

A If the Scheme is approved by Flinders Shareholders and the Court, the Scheme Consideration will be paid to Scheme Participants on the Implementation Date, which is currently anticipated to be Wednesday, 18 April 2012.

Flinders Shareholders should be aware that if the Scheme Meeting is postponed or adjourned and the Implementation Date is delayed, payment of the Scheme Consideration will also be delayed (but Flinders Shareholders will retain ownership of their Flinders Shares until the Scheme is implemented).

Section 7.2 and Annexure 2 to this Scheme Booklet provide information on payment of the Scheme Consideration.

Q If the Scheme is implemented, how will I be paid my money?

A On the Implementation Date, Scheme Participants will be sent a cheque to their Registered Address.

Section 7.2 and Annexure 2 to this Scheme Booklet provide information on payment of the Scheme Consideration.

Q Will I have to pay brokerage fees or stamp duty?

A No. You will not have to pay any brokerage fees or stamp duty in connection with the disposal of your Flinders Shares and your receipt of the Scheme Consideration.

Section 2.3H of this Scheme Booklet provides information on the fees payable in connection with this Scheme.

ASSESSMENT OF THE SCHEME

Q What do the Flinders Directors recommend I do?

A The Flinders Directors unanimously recommend that you vote in favour of the Scheme, in the absence of a Superior Proposal.

Each of the Directors intends to vote any Flinders Shares held or controlled by them in favour of the Scheme at the Scheme Meeting, in the absence of a Superior Proposal.

Section 2.3 of this Scheme Booklet sets out the reasons for the Flinders Directors' unanimous favourable recommendation of the Scheme.

Q What is the opinion of the Independent Expert?

A The Independent Expert, Ernst & Young, has concluded that the Scheme is fair and reasonable and is therefore in the best interests of Flinders Shareholders.

Section 1.4 of this Scheme Booklet provides information on the Independent Expert's conclusion.

A copy of the Independent Expert's Report is contained in Annexure 5 of this Scheme Booklet.

Q Why should I vote in favour of the Scheme?

A There are eight specific reasons outlined within this Scheme Booklet as to why you should vote in favour of the Scheme.

Section 2.3 of this Scheme Booklet sets out the reasons for voting in favour of the Scheme.

Q Are there any disadvantages associated with voting in favour of the Scheme?

A There are five specific reasons outlined in this Scheme Booklet as to why you may not want to vote in favour of the Scheme.

Section 2.4 of this Scheme Booklet sets out the potential disadvantages of the Scheme. You should also review Section 2.5 of this Scheme Booklet which sets out other considerations relevant to your assessment of the Scheme.

SCHEME MEETING, VOTING AND APPROVAL

Q Who is entitled to vote at the Scheme Meeting?

A All Flinders Shareholders who are recorded on the Flinders Share Register as at 10:00am on Wednesday, 28 March 2012 are entitled to attend and vote at the Scheme Meeting.

Refer to page 6 of this Scheme Booklet for further information regarding how to vote.

Q When and where will the Scheme Meeting be held?

A The Scheme Meeting is scheduled to be held at Enterprise House, 136 Greenhill Road, Unley, South Australia on Friday 30 March 2012 at 10:00am.

Q What are my options?

A As a Flinders Shareholder, you have the following options available to you following receipt of the Scheme Booklet:

- vote in favour of the Scheme;
- vote against the Scheme;
- sell your Flinders Shares; or
- do nothing, although the Flinders Directors encourage you to exercise your vote.

Please read the Scheme Booklet in full and contact your personal financial or other professional adviser for further advice.

Q Is voting compulsory?

A Voting is not compulsory. However, your vote is important and the Flinders Directors encourage you to exercise your vote.

Refer to Section 2 of this Scheme Booklet for further information regarding the Flinders Directors' unanimous recommendation that Flinders Shareholders vote in favour of the Scheme.

Detailed information on how to vote is set out on page 6 of this Scheme Booklet.

Q How will the Flinders Directors be voting?

A Each Flinders Director who holds or controls the voting rights attached to Flinders Shares intends to vote those Flinders Shares, or procure that those Shares are voted, in favour of the Scheme, in the absence of a Superior Proposal.

Section 2.2 of the Scheme Booklet outlines the voting intentions of Flinders Directors.

Q If I wish to vote at the Scheme Meeting, how do I vote?

A You can vote at the Scheme Meeting:

- in person;
- by sending in the proxy form in accordance with the instructions set out on the proxy form (enclosed); or
- by attorney.

Flinders Shareholders that are bodies corporate can vote through a corporate representative.

Refer to page 6 of this Scheme Booklet for information regarding how to vote. You should also review Annexure 4 of this Scheme Booklet, which contains the Notice of Meeting and the accompanying proxy form.

Q Will I still be bound by the Scheme if I do not vote or I vote against the Scheme?

A Yes. If the Scheme is approved by the requisite number of Flinders Shareholders (unless the Court decides otherwise) and the Court approves the Scheme, the Scheme will become Effective. In that case, each Flinders Share held by you at the Record Date will be transferred to MMK or its nominee and you will receive the Scheme Consideration notwithstanding that you did not vote or you voted against the Scheme.

Q What is the approval threshold for the Scheme?

A For the Scheme to proceed, it must be approved by:

- a majority in number (more than 50%) of those Flinders Shareholders present and voting at the Scheme Meeting in person, by proxy, by attorney or (in the case of a corporate Flinders Shareholder) by a corporate representative; and
- at least 75% of the total number of votes cast at the Scheme Meeting by Flinders Shareholders.

Note: the Court has a discretion to waive the first of these 2 requirements if it considers it appropriate to do so.

Q When will the results of the Scheme Meeting be known?

A The results of the Scheme Meeting will be available shortly after the conclusion of the Scheme Meeting which is scheduled to commence at 10:00am on Friday, 30 March 2012.

Q Are any other approvals required?

A If the Scheme is approved by Flinders Shareholders, Court approval is also required before the Scheme can become Effective. Subject to Court availability it is anticipated that a Court hearing to consider approval of the Scheme will take place on Tuesday, 3 April 2012.

Sections 1.7 and 5.5 of this Scheme Booklet provide further information on the necessary Court approval.

OTHER

Q What will happen if the Scheme is not approved by Flinders Shareholders or the Court?

A In this case, the Scheme will not proceed and:

- Flinders Shareholders will not receive the Scheme Consideration;
- the Flinders Share price is likely to fall below the Scheme Consideration, subject to adjustment for market factors including the volatility of global commodity, foreign exchange and financial markets;
- while it is possible that over time the Flinders Share price might improve to reach or exceed the Scheme Consideration, this is uncertain and the Flinders Directors are unable to provide assurance that this will happen;
- Flinders will remain subject to risks associated with developing the PIOP including the risks described in Section 2.5; and
- should Flinders continue to develop the PIOP and the Canegrass Project, there is no guarantee that Flinders would be able to overcome any or all of the associated risks – in particular those in relation to transport and port access.

Section 2.6 and Section 5.11 of this Scheme Booklet details information on the implications for Flinders if the Scheme does not proceed.

Q What will happen if an alternative proposal emerges?

A If Flinders receives an alternative proposal that it considers is not a Superior Proposal to this Scheme, the Flinders Directors will continue to recommend the Scheme.

If the alternative proposal is determined by the Flinders Directors in good faith to be a Superior Proposal and, as a result, the Flinders Directors propose to change their recommendation for Flinders Shareholders to vote in favour of the Scheme, the Flinders Directors must notify MMK of Flinders' intention to enter into an agreement in relation to the Superior Proposal and must provide MMK with full details of all material terms and conditions of the Superior Proposal (including its terms), together with any material information provided to the Rival Bidder not previously provided to MMK (Superior Proposal Notice).

Within three Business Days following receipt of the Superior Proposal Notice, MMK will have the right but not the obligation to amend the terms of the Scheme.

Flinders must not, within a period of three Business Days after giving the Superior Proposal Notice, enter into any binding agreement or otherwise progress the Superior Proposal.

Depending on the terms of the Superior Proposal and whether the Flinders Directors propose to change their recommendation in favour of the Scheme, a break fee of A$5.5 million may be payable by Flinders to MMK.

Since the Announcement Date and up to the date of this Scheme Booklet, no alternative proposal or Superior Proposal has emerged.

Q What are the tax implications of the Scheme?

A Tax consequences will vary between Scheme Participants. In the event that the Scheme is implemented, there may be some tax implications for Scheme Participants. A summary of the general Australian taxation implications of the Scheme for Scheme Participants is set out in Section 6.

You should consult with your own tax advisor regarding the consequences of acquiring, holding or disposing of Flinders Shares in light of current tax laws as they apply to you and your particular investment circumstances.

Section 6 of this Scheme Booklet provides further information on taxation implications for Scheme Participants.

Q Can I sell my Flinders Shares now?

A You can sell your Flinders Shares on market at any time before the close of trading on the ASX on the Effective Date. The Effective Date is currently expected to be Wednesday, 4 April 2012.

Q Where can I get further information?

A For further information, please call the Flinders Shareholder Information Line on 1800 647 299 (toll-free within Australia) or +61 2 8256 3370 (internationally) between 8:30am and 4:30pm Monday to Friday. Alternatively, you should contact your financial or other professional adviser for specific information on the implications of implementation of the Scheme on your personal circumstances.

SECTION 1:
OVERVIEW OF THE SCHEME

1.1 Background to the Scheme

On 25 November 2011, Flinders and MMK announced that they had signed a Scheme Implementation Agreement under which it is proposed that MMK or its nominee will acquire all of the Flinders Shares issued or outstanding on the Record Date under a scheme of arrangement. MMK was originally approached by Citi as part of the strategic review being undertaken by Flinders. MMK and Flinders then engaged in a series of confidential discussions, which culminated in MMK conducting extensive due diligence on Flinders and an offer being made.

1.2 Summary of the Scheme

The Scheme applies to Flinders Shareholders. Under the Scheme, MMK will pay Flinders Shareholders or procure the payment of A$0.30 for every Flinders Share held on the Record Date. The Scheme Consideration represents a 92.5% premium to the 1-month VWAP to 22 November 2011 (the last day Flinders Shares were traded before the Announcement Date) and implies a fully diluted value for Flinders of approximately A$554 million.

The key terms of the Scheme Implementation Agreement are summarised in Annexure 1.

Implementation of the Scheme is subject to a number of conditions being satisfied or waived. These conditions are summarised in Annexure 1 and are outlined in full in the Scheme of Arrangement in Annexure 2.

If the Scheme is implemented, Flinders will become a wholly owned subsidiary of MMK or its nominee and will be delisted from the ASX. For further information about the intentions of MMK for Flinders, see Section 4.6.

1.3 Directors' Recommendation

The Flinders Directors unanimously recommend that, in the absence of a Superior Proposal, you vote in favour of the Scheme. Each Flinders Director who holds or controls the voting rights attached to Flinders Shares intends to vote those Flinders Shares, or procure that those Flinders Shares are voted, in favour of the Scheme, in the absence of a Superior Proposal.

In making their recommendation, the Flinders Directors have carefully considered the following:

- the advantages of the Scheme set out in Section 2.3 of this Scheme Booklet;
- the potential disadvantages of the Scheme set out in Section 2.4 of this Scheme Booklet; and
- the other relevant considerations including potential risks relating to Flinders business described in Section 2.5 of this Scheme Booklet.

1.4 Independent Expert's Conclusion

Ernst & Young was appointed by Flinders as the Independent Expert to prepare a report on whether the Scheme is in the best interests of Flinders Shareholders. Ernst & Young has concluded that the Scheme is, in the absence of a Superior Proposal, in the best interests of Flinders Shareholders. A copy of the Independent Expert's Report is set out in Annexure 5 to this Scheme Booklet.

1.5 Implementation of the Scheme by way of a Scheme of Arrangement

The Scheme is to be effected by a scheme of arrangement pursuant to Part 5.1 of the Corporations Act. The consequences for Flinders and the intentions of the Flinders Directors for Flinders if the Scheme does not become Effective are summarised in Section 2.6.

1.6 Resolution to be Passed at the Scheme Meeting

In order for the Scheme to be implemented, the resolution put to Flinders Shareholders at the Scheme Meeting must be passed by:

- a majority in number (more than 50%) of those Flinders Shareholders present and voting at the Scheme Meeting in person, by proxy, by attorney or (in the case of a corporate Flinders Shareholder) by a corporate representative (unless the Court otherwise decides); and
- at least 75% of the total number of votes cast on the resolution at the Scheme Meeting by Flinders Shareholders.

The notice convening the Scheme Meeting which sets out the resolution is contained in Annexure 4.

1.7 Court Approval

If the necessary approvals in Section 1.6 are obtained, Flinders will apply to the Court for an order under section 411(4)(b) of the Corporations Act to approve the Scheme. If that order is obtained, Flinders will lodge a copy of that order with ASIC and the Scheme will become Effective under section 411(10) of the Corporations Act. An application to the Court for that order will be made as soon as possible after the Scheme Meeting has been held and is currently expected to be heard by the Court on Tuesday, 3 April 2012.

1.8 Effect of the Scheme on Flinders Shareholders

If the Scheme is approved by Flinders Shareholders and the Court, all Flinders Shareholders who hold Flinders Shares on the Record Date will participate in the Scheme. Upon implementation of the Scheme, each Flinders Shareholder will receive A$0.30 for each Flinders Share held by them on the Record Date and each Flinders Share will be transferred to MMK or its nominee under the Scheme. This will mean that Flinders will become a wholly owned subsidiary of MMK or its nominee and a member of the MMK Group.

1.9 Effect of the Scheme on Flinders Optionholders

Each Flinders Optionholder has entered into a cancellation deed in favour of Flinders under which all their Flinders Options will be cancelled if the Scheme becomes Effective. For each Flinders Option held, Flinders Optionholders will receive a cash amount representing the difference between the exercise price of the Flinders Option and the Scheme Consideration of A$0.30.

Table 1 – Consideration Payable to Cancel Flinders Options

	Number	Exercise Price (A$)	Expiring	Consideration Payable per Option (A$)	Total Consideration Payable (A$)
Options	240,000	0.084	05/03/2013	0.216	51,840
Options	1,121,666	0.045	03/02/2014	0.255	286,025
Options	300,000	0.055	26/08/2014	0.245	73,500
Options	320,000	0.085	30/06/2015	0.215	68,800
TOTAL					**480,165**

Source: Scheme Implementation Agreement.

ASX has granted a waiver of ASX Listing Rule 6.23.2 so that the Flinders Options may be cancelled for consideration without the approval of Flinders Shareholders. See also Section 7.12.

1.10 Effect of the Scheme on Flinders Incentive Right Holders

At the date of this Scheme Booklet, there were 23,072,700 Flinders Incentive Rights on issue.

If the Scheme becomes Effective, then in accordance with the Flinders Incentive Rights plan:

- each Flinders Incentive Right will vest on the Effective Date;
- on vesting, each Flinders Incentive Right will be valued at the Scheme Consideration of A$0.30;
- Flinders will pay each Flinders Incentive Rights Holder $1,000 cash in respect of each tranche of Flinders Incentive Rights they hold (subject to any tax required to be withheld) and will issue them with the number Flinders Shares equal to the total value of their Flinders Incentive Rights less the cash paid to them (including any tax withheld), rounded down to the nearest whole number of Flinders Shares; and
- as the Flinders Shares issued to the Flinders Incentive Rights Holders upon vesting of their Flinders Incentive Rights will be issued before the Record Date, the Flinders Incentive Rights Holders will be Scheme Participants and will be entitled to be paid the Scheme Consideration in respect of their Flinders Shares on the Implementation Date.

***Example**: A Flinders Incentive Rights Holder holds 10,000 Flinders Incentive Rights which were issued under one tranche. These rights are valued at $3,000 using the Scheme Consideration of A$0.30. If the Scheme becomes Effective, Flinders will pay the holder $1,000 cash (less any tax required to be withheld by Flinders) and will issue them with 6,667 Flinders Shares which will entitle them to be paid the Scheme Consideration for the Flinders Shares on the Implementation Date (approximately $2,000).*

If the Scheme becomes Effective, Flinders will be required to pay Flinders Incentive Rights Holders approximately $57,000 in cash (less any tax required to be withheld) and issue them with approximately 22.9 million Flinders Shares. On the Implementation Date, the Flinders Incentive Rights Holders will receive approximately $6.9 million in payment of the aggregate Scheme Consideration owing to them for the transfer to MMK or its nominee of the Flinders Shares issued to them upon the vesting of their Flinders Incentive Rights.

1.11 Key Documents

The key documents involved in effecting the Scheme are the:

- Scheme Implementation Agreement (the key terms of which are summarised in Annexure 1 to this Scheme Booklet);
- Scheme of Arrangement (included in Annexure 2 to this Scheme Booklet); and
- Deed Poll (included in Annexure 3 to this Scheme Booklet).

SECTION 2: RECOMMENDATION OF THE FLINDERS DIRECTORS

2.1 Flinders Directors' Recommendation

The Flinders Directors consider that the Scheme is in the best interests of Flinders Shareholders. The Flinders Directors therefore recommend that, in the absence of a Superior Proposal, you **VOTE IN FAVOUR** of the Scheme at the Scheme Meeting.

In considering whether to vote in favour of the Scheme, the Flinders Directors encourage you to read the whole of this Scheme Booklet including the Independent Expert's Report. The Flinders Directors also encourage you to then vote by attending the Scheme Meeting in person, or by appointing a proxy, attorney or corporate representative to vote on your behalf.

The Flinders Directors' reasons for recommending Flinders Shareholders vote in favour of the Scheme are set out in detail in Section 2.3 below.

2.2 Voting Intentions of Directors

Each Flinders Director who holds or controls the voting rights attached to Flinders Shares intends to vote those Flinders Shares, or procure that those Flinders Shares are voted, in favour of the Scheme in the absence of a Superior Proposal.

2.3 Why Flinders Shareholders should Vote in Favour of the Scheme

A The Flinders Directors believe that the Scheme is in the best interests of Flinders Shareholders and unanimously recommend that Flinders Shareholders vote in favour of the Scheme, in the absence of a Superior Proposal.

B The Independent Expert has concluded that the Scheme is in the best interests of Flinders Shareholders.

C The Scheme Consideration represents a significant premium over the trading levels for Flinders Shares prior to the Announcement Date.

D The premium implied by the Scheme Consideration compares favourably to historic precedent transactions of a similar scale.

E The Scheme Consideration provides cash and offers certain value for Flinders Shareholders, thereby eliminating any risks and uncertainties of remaining a Flinders Shareholder at a time of high equity market volatility and uncertainty regarding the global economic outlook.

F A comprehensive strategic review of the business has been performed and MMK's proposal represents the most compelling alternative available to Flinders Shareholders, in the absence of a Superior Proposal.

G If the Scheme is not implemented and no Superior Proposal emerges, the Flinders Share price may fall.

H No brokerage fees are payable by Flinders Shareholders.

The reasons set out above are discussed below in further detail.

A The Flinders Directors believe that the Scheme is in the best interests of Flinders Shareholders and unanimously recommend that Flinders Shareholders vote in favour of the Scheme, in the absence of a Superior Proposal

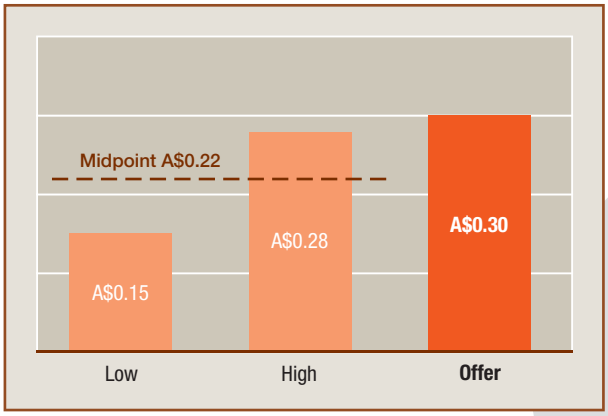
After careful consideration of MMK's proposal, the Flinders Directors have concluded that the Scheme is in the best interests of Flinders Shareholders and unanimously recommend that Flinders Shareholders vote in favour of the Scheme, in the absence of a Superior Proposal.

Each Flinders Director who holds or controls the voting rights attached to Flinders Shares intends to vote those Flinders Shares, or procure that those Flinders Shares are voted, in favour of the Scheme in the absence of a Superior Proposal.

B The Independent Expert has concluded that the Scheme is in the best interests of Flinders Shareholders

The Flinders Directors commissioned Ernst & Young to prepare an Independent Expert's Report in relation to the Scheme. The Independent Expert has assessed the fair value of a Flinders Share to be in the range of A$0.15 to A$0.28. As the Scheme Consideration is A$0.30 per Share, the Independent Expert has concluded that the Scheme is in the best interests of Flinders Shareholders.

Figure 1 – Independent Expert Range vs Offer



Source: Independent Expert's Report.

The Independent Expert has considered a number of factors in assessing the Scheme including:

- the fair market value of a Flinders Share based on a valuation of Flinders' net assets on a going concern basis, cross checked using an industry rule of thumb and analysis of recent share trading compared to the Scheme Consideration for each Share;
- the likelihood of a Superior Proposal being available to Flinders;
- other factors which the Independent Expert considers relevant to Flinders Shareholders in their assessment of the Scheme; and
- the position of Flinders Shareholders should the Scheme not proceed including the risks of development of the PIOP and the Canegrass Project.

Annexure 5 to the Scheme Booklet contains a complete copy of the Independent Expert's Report. The Flinders Directors encourage you to read the Independent Expert's Report in its entirety.

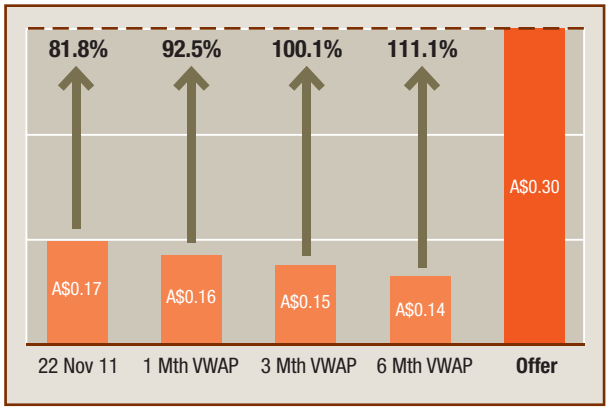
C The Scheme Consideration represents a significant premium over the trading levels for Flinders Shares prior to the Announcement Date

The Scheme Consideration offered by MMK represents a significant premium to historical market prices of Flinders Shares.

The Scheme Consideration of A$0.30 per Share represents a premium of:

- 81.8% to the closing price of Flinders Shares on 22 November 2011, being the date Flinders Shares were placed in trading halt prior to the Announcement Date;
- 92.5% to the 1-month VWAP;
- 100.1% to the 3-month VWAP; and
- 111.1% to the 6-month VWAP.

Figure 2 – Premium Comparison

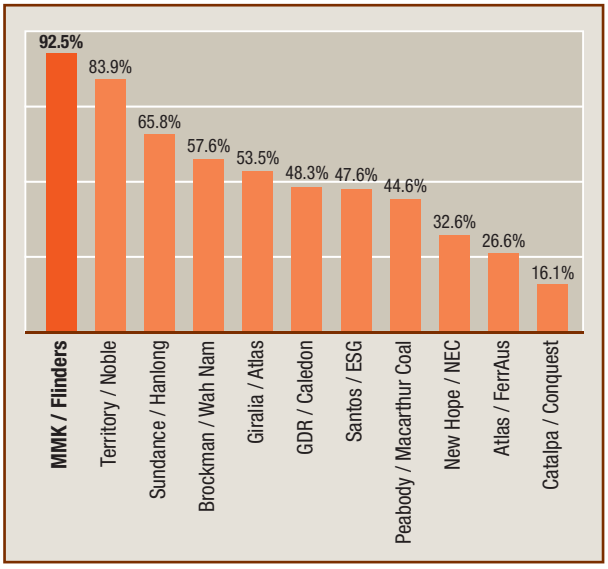


Source: IRESS.

D The premium implied by the Scheme Consideration compares favourably to historic precedent transactions of a similar scale

The Scheme Consideration represents a significant premium to the Flinders Share price over various historical trading periods. The premium to the 1-month VWAP is the highest premium paid in the Australian resources sector for a 100% acquisition of similar scale (transaction value over A$200 million) over the past 12 months.

Figure 3 – Precedent Transactions: Premium to 1-Month VWAP Comparison



Source: IRESS, Company Filings, Flinders Announcement on 25 November 2011.

E The Scheme Consideration provides cash and offers certain value for Flinders Shareholders, eliminating any risks and uncertainties of remaining a Flinders Shareholder at a time of high equity market volatility and uncertainty regarding the global economic outlook

In assessing the transaction, the Flinders Directors have evaluated their expectation of Flinders' growth prospects and risks associated with the development of the PIOP and the Canegrass Project including the uncertain global economic outlook and volatility in global equity markets. Although Flinders has significant growth prospects as an independent ASX-listed company, Flinders' current strategy and the development of the PIOP would take time to be fully implemented and involves development and execution risk, including exposure to factors that are outside the control of Flinders. Accordingly, the value of your Flinders Shares (in terms of price) and the return you are able to receive from your investment (in terms of future dividends) is uncertain.

On the other hand, the cash consideration payable to Flinders Shareholders as part of the Scheme enables Flinders Shareholders to realise the value of their investment with certainty (in terms of both value and timing).

F A comprehensive strategic review of Flinders' business has been performed and MMK's proposal represents the most compelling alternative available to Flinders Shareholders, in the absence of a Superior Proposal

In August 2011, Flinders engaged Citi as its financial adviser. As part of its engagement, Citi performed a comprehensive strategic review of the alternatives available to Flinders. As a result of the review, a number of alternatives were assessed in detail, including the independent development of the PIOP and the Canegrass Project. This review was comprehensive and of the alternatives available to Flinders, the Flinders Directors believe that MMK's offer represents the most compelling value outcome for Flinders Shareholders, in the absence of a Superior Proposal.

Some of the key alternatives assessed as part of the strategic review included:

- Independent development and funding of the PIOP and potentially the Canegrass Project.
  - Whilst the potential upside available to Flinders Shareholders from this alternative is significant, as with any development project, Flinders Shareholders would be exposed to risks as outlined in Section 2.5.
    - In particular, there is the risk that an infrastructure solution may not be found on acceptable terms or that the terms eventually agreed would be less attractive than previously expected. Although discussions with infrastructure providers are well advanced, terms acceptable to Flinders have not yet been agreed and there can be no guarantee that they will be agreed.
- Strategic partnership by way of partial sale of the project, forming a joint venture for development of the PIOP and potentially the Canegrass Project.
  - Whilst a strategic partnership has the potential to significantly reduce key risks such as in relation to obtaining funding for development, unless a joint venture partner is able to provide an infrastructure solution, then Flinders Shareholders are still exposed to development risk.

G If the Scheme is not implemented and no Superior Proposal emerges, the price of Flinders Shares may fall

The Flinders Directors unanimously recommend MMK's offer in the absence of a Superior Proposal. Since the Announcement Date and up to the date of this Scheme Booklet, no Superior Proposal has emerged. The Flinders Directors have no information to suggest a Superior Proposal will be made.

Even if a Third Party Proposal emerges and it is a Superior Proposal, MMK has the right under the Scheme Implementation Agreement to match the proposal.

If the Scheme is not implemented and no Superior Proposal emerges, the Flinders Directors consider it likely that the market value of your Flinders Shares will fall below current levels and the amount of the Scheme Consideration, particularly in light of the various risks that remain for Flinders in developing the PIOP and the Canegrass Project as identified above.

H No brokerage fees are payable by Flinders Shareholders

The Scheme provides you with an opportunity to realise the value of your Flinders Shares without having to pay any brokerage fees.

2.4 Potential Disadvantages of the Scheme

Potential disadvantages associated with the Scheme are as follows:

A You may disagree with the Flinders Directors' recommendation and the Independent Expert's conclusion.

B You will not be able to participate in any potential upside that may result from being a Flinders Shareholder.

C In the absence of the Scheme, you may consider that there is the potential for a Superior Proposal to emerge. However, having conducted a comprehensive strategic review, the Flinders Directors consider it unlikely that a Superior Proposal will emerge.

D You will cease to have exposure to fluctuations in iron ore prices through Flinders, and such prices may increase in Australian Dollar terms in the future.

E The tax consequences of the Scheme may not be suitable for your financial position.

The reasons set out above are discussed below in further detail.

Although the Flinders Directors recommend that you vote in favour of the Scheme (in the absence of a Superior Proposal) and the Independent Expert has concluded that the Scheme is in the best interests of Flinders Shareholders, the Scheme has a number of potential disadvantages that Flinders Shareholders should consider with regard to their individual circumstances in deciding whether to vote in favour of the Scheme.

A You may disagree with the Flinders Directors' recommendation and the Independent Expert's conclusion

You may disagree with the recommendation of the Flinders Directors and the conclusion of the Independent Expert that the Scheme is in the best interests of Flinders Shareholders.

B You will not be able to participate in any potential upside that may result from being a Flinders Shareholder

If the Scheme is implemented, the Flinders Shares held by you will be transferred to MMK or its nominee in return for Scheme Consideration of A$0.30 cash per Flinders Share. As a consequence, each of you will cease to be a Flinders Shareholder. This will mean that:

- You will no longer participate in any potential future value upside in the Flinders business through Flinders Share price appreciation and future dividends. However, if you retain your investment in Flinders you will be exposed to the inherent risks associated with such an investment. For further information regarding the risks to the Flinders' business, refer to Section 2.5.
- You will lose your voting rights as a Flinders Shareholder, and therefore your ability to influence the future direction of Flinders. All future benefits, risks and costs associated with being a Flinders Shareholder will accrue exclusively to MMK or its nominee, as the sole Flinders Shareholder following implementation of the Scheme.

Some Flinders Shareholders may wish to retain an interest in Flinders as a listed company because they wish to invest in a publicly listed company with the particular profile of Flinders such as industry, geography and size. Implementation of the Scheme may not be attractive to Flinders Shareholders who wish to retain this investment profile. However, it should be noted that there is no guarantee of growth or future earnings due to a number of risks associated with the development of Flinders' projects as identified in Section 2.5.

C In the absence of the Scheme, you may consider that there is the potential for a Superior Proposal to emerge. However, having conducted a comprehensive strategic review, the Flinders Directors consider it unlikely that a Superior Proposal will emerge

The Flinders Directors unanimously recommend MMK's offer, in the absence of a Superior Proposal. However, there remains the possibility that a Superior Proposal could emerge prior to the Scheme Meeting.

If the Scheme does not proceed, it is possible that an alternative acquirer or merger partner may emerge and offer greater value for Flinders Shares than would be realised under the Scheme.

The Flinders Directors are not presently aware of any such Superior Proposal and have no evidence that as at the date of this Scheme Booklet a Superior Proposal is likely to be forthcoming.

D You will cease to have exposure to fluctuations in iron ore prices through Flinders, and such prices may increase in Australian Dollar terms in the future

As Flinders is involved in exploring for and seeking to develop iron ore, the price of Flinders Shares is affected by movements in iron ore prices in Australian Dollar terms. If iron ore prices increase in Australian Dollar terms, your investment in Flinders may be worth more than the value that would be realised under the Scheme. However, as noted within the risks identified in Section 2.5, iron ore prices and exchange rates have fluctuated in recent years and may continue to fluctuate significantly in the future. Therefore, there is no guarantee that iron ore prices will increase in Australian Dollar terms in the future.

E The tax consequences of the Scheme may not be suitable for your financial position

If the Scheme proceeds, MMK's offer of A$0.30 cash per Flinders Share might result in taxation consequences (including potentially crystallising a CGT liability) earlier than expected for some Flinders Shareholders, which may reduce the after tax value received.

Flinders Shareholders who are Australian residents for tax purposes and who have a tax cost base of less than A$0.30 in Flinders Shares will derive a capital gain equal to the difference between A$0.30 and their tax cost base. No CGT roll-over relief will be available to Flinders Shareholders.

The Scheme may also have tax consequences for Flinders Shareholders who are not residents of Australia for tax purposes.

If the Scheme is not implemented, there are no current tax consequences for Flinders Shareholders. It should be noted however that any future disposal of your Flinders Shares may also crystallise a CGT liability.

Further information about the tax consequences of the Scheme for Flinders Shareholders is set out in Section 6 of this Scheme Booklet. However, Scheme Participants should seek their own professional advice regarding the individual tax consequences applicable to them.

2.5 Other Considerations – Risks relating to Flinders' Business

A Share Market Conditions

The prices at which Flinders Shares trade on the ASX may rise or fall in response to a number of factors affecting the market for equities in general which are unpredictable and unrelated or disproportionate to the operating performance or the underlying performance of Flinders as a listed entity. Such factors include changes in the general economic outlook, interest and inflation rates, currency exchange rates, investor sentiment and the demand for and supply of capital.

Recent volatility in global commodity, foreign exchange and financial markets means there is uncertainty in relation to the valuation of Flinders. Continued volatility will result in uncertainties and risks regarding the likelihood and timing of Flinders delivering future cash flows to Flinders Shareholders, which could also have an adverse impact on Flinders' Share price if the Scheme is not implemented.

The Flinders Directors are not able to offer any assurance about the future prospects of Flinders or the Flinders Share price. Nor can the Flinders Directors provide assurance about when, if ever, the Flinders Share price might reach the price per Flinders Share offered as Scheme Consideration.

B Rail Access and Development Risk

Although Flinders' PIOP is close to existing and proposed rail export infrastructure, Flinders is yet to secure an agreement with a rail access provider to support the development of the PIOP. There are risks associated with obtaining any rail access agreement. In particular, there may be delays in agreeing to rail access or to the development of proposed rail lines which in turn could result in delays to development of the PIOP.

C Port Access and Development Risk

Both Flinders' PIOP and Canegrass Project require port access to be commercialised. No port alternative has been considered for the Canegrass Project at this time given the early stage nature of the development. Currently, Flinders is considering utilising the proposed multi-user Anketell Port for the PIOP. There is the risk that the proponent selected by the Government of Western Australia for development of the port is unable or unwilling to accommodate Flinders' proposed iron ore production. This may in turn jeopardise Flinders' iron ore production goals.

Further, as with any port development, there is the risk that the development could be delayed or may not be financed with the result that Flinders would need to seek an alternative development solution, which may be costly or unavailable.

Further information regarding Flinders' infrastructure options is set out in Section 3.1 of the Independent Expert's Report in Annexure 5.

D Financing Risk

Development of the PIOP will require significant capital expenditure. If Flinders was to develop the project without a funding partner, debt or equity, or a combination of both, would need to be secured independently. There is a risk that debt may not be available to Flinders on acceptable terms or at all. This may require Flinders to raise a large amount of equity which could result in dilution to some existing Flinders Shareholders.

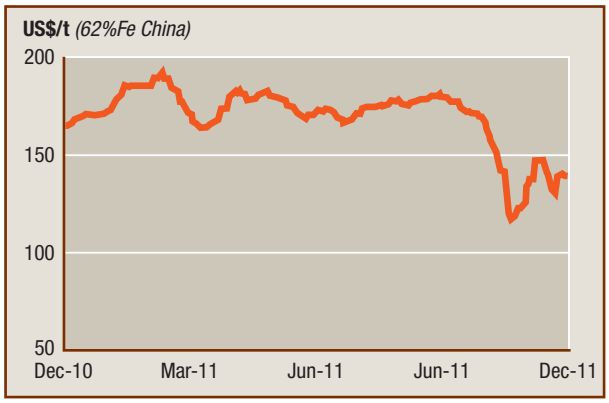
There is no guarantee that Flinders would be able to raise sufficient funds to develop its projects.

E Iron Ore Price Risk

In the event of successful project development, Flinders' future sales revenues will be derived from the sale of iron ore to export markets such as China. A number of supply and demand factors outside Flinders' control affect the iron ore price. Notwithstanding that some analysts believe that demand from China and other developing economies that are key end markets for iron ore will remain strong, the iron ore price and, as a result, the economics of Flinders' project development, are reliant on these economies remaining strong. Should developing countries' economic growth slow down significantly, iron ore prices may fall. If iron ore prices were to fall materially, there is a chance that Flinders' PIOP and Canegrass Project will not be economic to develop.

Historic iron ore prices have been volatile and as a result there is the risk that iron ore price fluctuation may have an adverse impact on Flinders' future sales revenues.

Figure 4 – Iron Ore Price Over Past 12 Months (US$/t)



Source: Bloomberg.

F Exchange Rate Risk

Iron ore prices are currently benchmarked in US dollars. Accordingly, any future sales of iron ore that Flinders may be able to achieve are therefore likely to be denominated in US dollars. The income and expenditure of Flinders is, and would be, accounted for in Australian dollars. Any future Australian dollar revenues generated by Flinders would therefore be adversely impacted by a strengthening Australian dollar relative to the US dollar. Flinders will therefore be exposed to foreign exchange rate risk, which could impact Flinders' financial position. While such currency movements can be hedged by Flinders to an extent, they will largely be outside of the control of Flinders.

G Exploration and Mine Development Risk

Mineral exploration and development inherently involves financial risks. Exploration is costly and involves exacting techniques which must be applied over extended periods of time. Flinders cannot foresee nor guarantee whether any further exploration activities will succeed in the discovery of a commercially viable ore deposit.

Although Flinders has established significant Mineral Resources at its PIOP in the West Pilbara region of Western Australia and Canegrass Project in the Midwest Region of Western Australia, its future value is materially dependent on the success or otherwise of the activities directed towards development of these assets. It is common in new mining operations to experience unexpected problems and delays during development, construction and mine start-up, which delay the commencement of mineral production. Accordingly, there is no assurance that Flinders' future exploration and development activities will develop into profitable mining operations.

Risks to Flinders in exploration include the uncertainties associated with projected continuity of an ore deposit, fluctuations in grades and values of the product being mined, and unforeseen operational and technical problems. Exploration may also be adversely affected or hampered by a variety of non-technical issues such as limitations on activities due to seasonal changes, industrial disputes, land claims, heritage and environmental legislation, mining legislation and many other factors beyond the control of Flinders.

There is no guarantee that future exploration on land over which Flinders has exploration permits and licenses will lead to additional commercial discoveries or, if there is such a discovery, that Flinders will be able to develop it successfully.

H Production and Other Operational Risks

Flinders' future operations will be subject to a number of factors that can cause material delays or changes in operating costs for varying lengths of time. Operational risks include weather conditions and natural disasters, disruption of energy supply, unexpected technical problems, unanticipated geological conditions, equipment failures and disruptions of rail infrastructure and ship loading facilities. Flinders' financial performance may also be adversely affected by long lead times, delays and price escalations in respect of required equipment, consumables and mining support services. Industrial disruptions may also result in lower than planned production or delays in delivery of the product.

Many of these risks are outside the control of Flinders management and may have a material adverse effect on Flinders' operations and future financial performance.

I Environmental Regulation

Flinders' exploration and development programs are subject to Australian laws and regulations regarding environmental matters which means there are potential liability risks requiring evaluation and approval by government authorities. Development of any future iron ore resources will be dependent on the project meeting environmental and safety legislation and gaining approvals from the relevant government authorities. These requirements may increase and place a heightened degree of responsibility on Flinders.

Regulatory change by the Australian Government in response to greenhouse gas emissions may have an effect on emissions intensive industries. Specifically, the recently introduced Carbon Pollution Reduction Scheme (**CPRS**) may result in increased costs to the mining industry via cap-and-trade carbon permitting and increased energy prices. The costs associated with obligations under the CPRS may impact Flinders' future profitability and hence the economic viability of its projects.

J Security of Tenements

All tenements in which Flinders may earn an interest are subject to renewal conditions or are yet to be granted, which will be at the discretion of the relevant Minister in Western Australia. Maintaining tenements, obtaining renewals, or getting tenements granted often depends on Flinders being successful in obtaining required statutory approvals for proposed activities. There is a risk that Flinders may lose title to mining tenements for non compliance with licence conditions or if conditions attached to licences are changed.

K Native Title and Land Access

The Native Title Act, any related State native title legislation, Aboriginal land rights and Aboriginal heritage legislation may affect Flinders' ability to gain access to prospective exploration areas or obtain production licences. Compensatory obligations may be necessary in settling native title claims if lodged over any tenements acquired by Flinders. The level of impact of these matters will depend, in part, on the location and status of the tenements acquired by Flinders. At this stage, it is not possible to quantify the impact (if any) which these matters may have on the operations of Flinders.

L General Economic Factors and Investment Risks

General economic conditions may affect inflation and interest rates, which in turn may impact upon Flinders' operating costs and financing. Other factors that may adversely affect Flinders' activities in Australia include changes in government policies, natural disasters, industrial disputes, and social unrest or war on a local or global scale.

M Mineral Resource Rent Tax

On 2 July 2010, the Australian Government announced the introduction of a new rent-based tax on certain resource companies, those being primarily involved in bulk commodities comprising iron ore and coal. The Mineral Resource Rent Tax Bill 2011 was passed by the House of Representatives on 24 November 2011 and will be debated in the Senate in 2012.

This new resource tax arrangement is to be known as the Mineral Resource Rent Tax (the **MRRT**) and, if passed by the Senate, is proposed to apply from 1 July 2012. The MRRT may have an impact on the economics of Flinders' development projects.

There is a risk that further regulatory changes will have a negative impact on the economics of Flinders' development projects.

N Human Resources Risk

Development of Flinders' projects is contingent on obtaining the requisite skilled labour across a number of specialised areas. There is a risk that the required skilled labour will not be available at the time of development or that in order to obtain the requisite skilled labour, higher than forecast compensation is required to be paid to employees, which affects the economic viability of the projects.

2.6 Implications if the Scheme Does Not Proceed

If the Scheme does not proceed (whether because the Scheme is not approved by the Requisite Majorities at the Scheme Meeting, is not approved by the Court or fails for some other reason):

- Flinders Shareholders will retain their Flinders Shares and will not receive the Scheme Consideration;
- Flinders will bear the transaction costs of the Scheme, including the costs of its advisers;
- the Directors consider it likely that the market value of your Flinders Shares will fall below current levels and the Scheme Consideration, subject to adjustment for market factors including the volatility of global commodity, foreign exchange and financial markets;
- while it is possible that Flinders Share price might improve to reach or exceed the amount of Scheme Consideration over time, this is uncertain and the Flinders Directors are unable to provide any assurance in that regard;
- Flinders will be subject to risks associated with the pursuit of development of the PIOP and the Canegrass Project including but not limited to the risks described in Section 2.5;
- Flinders will continue to seek to develop the PIOP and the Canegrass Project, although there is no guarantee that Flinders will be able to overcome any or all of the associated risks of development – in particular those in relation to rail and port access;
- Flinders Shares will remain listed on ASX;
- the advantages of the Scheme as described in Section 2.3 of this Scheme Booklet may not be realised (subject to a Superior Proposal emerging); and
- a break fee of A$5.5 million may be payable by Flinders to MMK in the circumstances described in Annexure 1.

3.1 Company Overview

Flinders is a S&P/ASX 300 iron ore exploration and development company which is targeting production from its flagship asset, the PIOP, by late in 2014, whilst also actively exploring its tenements which make up the separate Canegrass Project. Flinders was first listed on the ASX as Flinders Diamonds Limited in 2002 and was originally a diamond exploration company but moved into iron ore exploration and development following the discovery of iron ore prospects on its tenements and a successful initial drilling campaign in 2008.

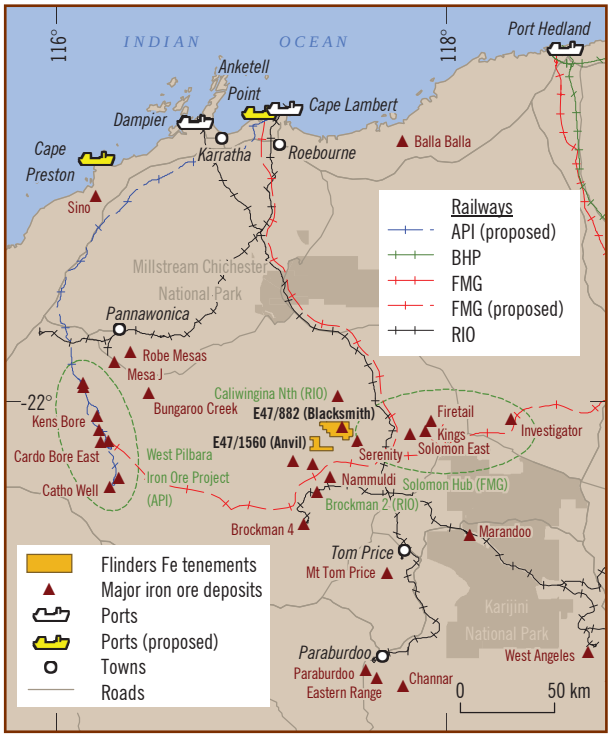
3.2 Overview of Projects

3.2.1 PIOP

A Location and Surrounds

The PIOP is located in the Pilbara region of Western Australia, approximately 60 km north-west of the town of Tom Price. The PIOP consists of the Blacksmith and Anvil tenements. The Blacksmith tenement which hosts the cornerstone Delta deposit (targeted for Flinders' maiden production) is located between a number of existing and proposed developments. To the north is Rio Tinto's Caliwingina iron ore resource, to the east is FMG's Solomon iron ore hub, to the west API's recently-approved West Pilbara Iron Ore Project and to the south, Rio Tinto's Brockman 2 operations. The Anvil tenement is located approximately 10 km to the south-west of Blacksmith.

Figure 5 – Location of Pilbara Iron Ore Project Tenements



Source: Flinders.

B History

The PIOP commenced in May 2003 as a joint venture between Flinders Diamonds Limited (now Flinders) and Prenti Exploration Pty Ltd (**Prenti**). In March 2005, Flinders and Prenti agreed with Fortescue Metals Group (**FMG**) to swap commodity rights on some of the PIOP tenements, with FMG taking the iron ore rights. One tenement, E47/882 (**Blacksmith**), was not included in this transaction. It is this tenement in which Flinders has a 100% ownership interest. In May 2007, Flinders decided to investigate the iron ore potential of Blacksmith following the announcement of FMG's Serenity deposit and Rio Tinto's Caliwingina deposit.

On 22 November 2007, an exploration target of 325 – 390 Mt of iron ore at a grade of 45 – 60% Fe was announced. On 30 June 2008, Flinders purchased tenement E47/1560 (**Anvil**) from Cazaly Iron Pty Ltd. The first drilling campaign on Blacksmith commenced in August 2008 leading to a maiden Inferred Resource of 476 Mt at 55.4% Fe, announced on 1 April 2009.

Further drilling in the 2009 campaign extended this resource to 511 Mt at 55.4% Fe, as announced in August 2009. In April 2010, Flinders announced its first Indicated Resource estimate at the Delta deposit of 157 Mt at 56.5% Fe and a new global Mineral Resource of 550 Mt at 55.6% Fe.

The global Mineral Resource was subsequently increased to 748 Mt in October 2010 and 917 Mt in November 2011.

During the exploration drilling phases Flinders earned a 100% stake in the tenements in the Prenti joint venture, with a residual 5% net royalty payable to Prenti. On 11 November 2011, Flinders announced that the royalty was acquired by Flinders from Prenti for a cash settlement and a 5% net profit production royalty in respect of non iron ore commodities in the tenements that were the subject of the JVA. As a result, Flinders now has an unencumbered 100% ownership of the iron ore in the PIOP tenure.

C Project Feasibility

In January 2011, Flinders announced positive results from a 13-month prefeasibility study (**PFS**) in respect of the PIOP that was managed by WorleyParsons. The PFS confirmed that the PIOP is economically robust and technically viable. The PFS confirmed a defined iron ore Mineral Resource and mineralised inventory at the PIOP. The PFS was conducted on the basis of an initial production rate of 5 Mtpa and then 15 Mtpa after year 5.

Upon completion of the PFS and with third-party infrastructure access and Native Title negotiations on foot, Flinders embarked on a series of value improvement studies in the lead-up to the commencement of the definitive feasibility study (**DFS**). Following the completion of a value

improvement study during the Q2 of 2011, Flinders announced that it would be targeting production of 15 Mtpa from start-up. A DFS is currently underway to evaluate Flinders proposed 15 Mtpa operation. Flinders capital expenditure estimate for the PIOP is A$1.1 billion.

D Mineral Resources

The PIOP currently hosts a Mineral Resource of 917.3Mt at 55.2% Fe, based on a 50% cut-off grade, which has been compiled in accordance with the JORC Code.

The Mineral Resource is comprised of 190.5 Mt of Brockman Iron Deposit (**BID**) at 56.3% Fe, 545.5 Mt of Detrital Iron Deposit (**DID**) @ 55.2% Fe and 181.3 Mt of Channel Iron Deposit (**CID**) at 54.0% Fe.

Table 2 – Mineral Resources

MINERAL RESOURCES

Cut-off at 50% Fe	Mt	Fe %	SiO_2 %	Al_2O_3 %	P %	LOI%
Measured	101.0	56.4	10.5	5.1	0.054	2.8
Indicated	343.7	55.5	8.9	4.5	0.083	6.2
Inferred	472.6	54.7	10.2	5.0	0.067	5.7
Total	**917.3**	**55.2**	**9.7**	**4.8**	**0.072**	**5.6**

Source: Flinders Announcement on 14 November 2011.
Note: See Section 7.8 for Competent Persons statement in relation to these Mineral Resources.

E Mineralised Inventory

The total mining inventory within the pit designs is summarised in Table 3. Final product tonnes and grades are quoted as tonnes of product after beneficiation. Overall, Flinders has 273 Mt of final product after beneficiation. This final product estimate was based on a Mineral Resource of 748 Mt. Flinders recently upgraded Mineral Resource of 917 Mt is being integrated into the DFS, currently being undertaken by WorleyParsons. The optimisation study is likely to convert some of the additional tonnage from Mineral Resource into the saleable inventory, increasing the existing tonnage of 273 Mt, thus providing for a greater production rate or increased life of mine.

Table 3 – Mineralised Inventory

FINAL PRODUCT TONNES AND GRADES

	Material Mt	Fe %	CaFe %	SiO_2 %	Al_2O_3 %	P %	LOI%
DID Product	104	60.6	62.5	6.0	3.5	0.06	2.9
BID Product	142	56.9	62.9	5.3	3.0	0.11	9.5
CID Product	27	57.9	64.6	5.4	3.0	0.10	10.4
Total Product	**273**	**58.4**	**62.9**	**5.6**	**3.2**	**0.09**	**7.1**

Source: Flinders Investor Presentation on 12 September 2011.
Note: See section 7.8 for Competent Persons Statement in relation to this Mineral Resource.

F Geology

Outcropping basement geology in the Blacksmith tenement comprises Brockman Iron Formation (**BIF**), which is known to host large BID deposits in other regions of the Hamersley Ranges. Incised into this bedrock geology are large channel systems, which can hold significant tonnages of CID and DID. Formed by cyclic weathering and erosion of BIF, these channels may host accumulations of iron-rich gravels distal from any obvious hard-rock iron mineralisation. These deposits represent excellent economic targets as they are near-surface and easy to mine.

The hematite-rich DID ore includes all mineralisation that has been deposited in channels from the surrounding banded iron formation, and is primarily composed of detrital material of either pisolithic or fragmental types. The BID ore is generally located beneath the DID deposits in the underlying Dales Gorge and Whaleback Shale Members of the Brockman Iron Formation, and is more prevalent in the margins and in the headwaters. In some parts of the lower reaches of Delta and Eagle, CID mineralisation occurs between the DID and BID material.

3.2.2 Canegrass Project

A History

In May 2009, Flinders reached an agreement with Maximus Resources Ltd (**Maximus**) to purchase the Canegrass Project, with Maximus retaining a 2% net smelter royalty.

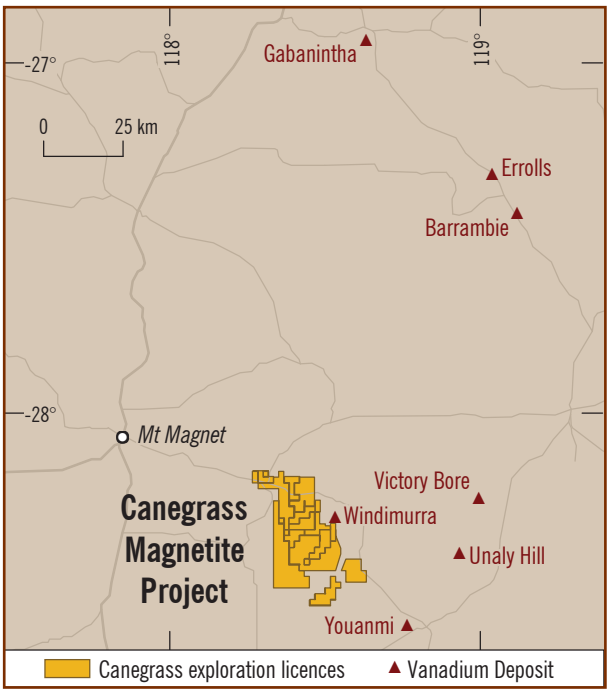
B Location and Surrounds

The tenement package is located approximately 60km southeast of Mt Magnet and 15km west-south-west of Atlantic Limited's Windimurra Vanadium Project in the emerging Mid-West Iron Ore Province of Western Australia. The tenement package includes 7 granted exploration licences, 37 prescribed prospecting licences and 2 exploration licence applications. Flinders carried out due diligence on the area and determined that it is prospective for gabbro hosted magnetite iron ore deposits.

C Mineral Resources

Flinders announced a maiden iron ore / vanadium resource at its Canegrass Project in August 2011. With only 5% of prospective stratigraphy explored, there is upside potential to increase the iron ore / vanadium resources.

Figure 6 – Location of Canegrass Tenements



Source: Flinders.

Table 4 – Mineral Resources

INFERRED MINERAL RESOURCES

	Mt	V_2O_5%	TiO_2%	Fe%	SiO_2%	Al_2O_3 %	P%
V_2O_5 > 0.5%	107	0.62	5.8	29.0	24.5	12.6	0.006

	Mt	Fe%	TiO_2%	V_2O_5%	SiO_2%	Al_2O_3 %	P%
Fe > 20%	216	25.4	5.0	0.52	28.1	14.0	0.007

Source: Flinders Announcement on 10 August 2011.
Note: See Section 7.8 for Competent Persons Statement in relation to these Mineral Resources.

D Geology

Drilling has identified a continuous layered stratigraphy of more than 1,100m vertical thickness – lower units contain elevated vanadium grades with lower titanium and produce an attractive iron and vanadium grade.

3.3 Board of Directors

Robert Kennedy ASAIT, Grad Dip (Systems Analysis), FCA, ACIS, Life Member AIM, FAICD.
Independent Non Executive Chairman.

Robert is a Chartered Accountant and a consultant to Kennedy & Co, Chartered Accountants, a firm he founded. Bob has been a Director since 14 December 2001. Bob is the Chairman of Beach Energy Limited (Director since 1991, Chairman since 1995), Somerton Energy Limited (since 2010), Ramelius Resources Limited (Director since 1995, Chairman since 2004), Maximus Resources Limited (since 2004), Monax Mining Limited (since 2004), Marmota Energy Limited (since 2007), ERO Mining Limited (since 2006) and Adelaide Energy Limited (since 2011).

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

Gary has spent 25 years in the resources industry. Over the past decade Gary has occupied senior leadership roles in both operations and greenfield / brownfield projects with BHP Billiton, WMC and Pasminco. He has worked across a range of commodities including iron ore, copper, lead, zinc, gold, silver and uranium.

John Cooper BSc (Building), FIE Aust, FAICD, FAIM.
Non Executive Director.

John is one of Australia's foremost major civil engineering, mining, energy and property constructors. A former Clough Engineering Deputy Chairman and CEO, John is currently a non-executive Director of ASX-listed Southern Cross Electrical Engineering Limited and NRW Holdings Limited. In a career spanning more than 35 years, John has held a range of very senior executive management and Board roles associated with development of major capital works throughout Australia and internationally.

Kevin Malaxos BEng (Mining Engineering).
Non Executive Director.

Kevin has 25 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. Kevin has managed surface and underground mining operations and brings a wealth of experience in project evaluation and development, project approval and Government liaison. Kevin is also Managing Director of ASX-listed Maximus Resources Ltd.

Ewan Vickery LLB.
Non Executive Director.

Ewan is a corporate and business lawyer with more than 30 years experience. Ewan is a partner at Minter Ellison and a Director of Maximus Resources Limited (since 2004) and 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, and the Australian Institute of Company Directors. Ewan is a past national president of the Australian Mining and Petroleum Law Association.

David Godfrey BCom (Fin), GradDipAcc, ASA, FFin, CFTP (Snr), MAICD.
Company Secretary and Chief Financial Officer.

David has spent 25 years in the resources and finance industries. He is a member of CPA Australia, Chartered Secretaries Australia and Australian Institute of Company Directors and a Fellow of the Financial Services Institute. David has held senior finance roles in major corporations and for the Treasury of New Zealand. David has previously been Secretary for many publicly listed and subsidiary companies for Normandy, Newmont and UXA.

3.4 Historical Financial Performance

The following selected financial data for Flinders is extracted from the audited consolidated financial statements of Flinders and its controlled entities for the year ended 30 June 2011. The financial information presented in the tables below does not represent the full financial statements and should therefore be read in conjunction with the relevant financial statements for the year ended 30 June 2011, including the description of accounting policies contained within those financial statements, notes to those financial statements and the independent audit report. The full financial statements are contained in Flinders Annual Report 2011, which is available on the company's website, *flindersmines.com*.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 June 2011

	Consolidated	
	30 June 2011 $	30 June 2010 $
Revenue from continuing operations	**2,909,225**	2,340,833
Loss on disposal of assets	**(23,502)**	-
Marketing expenses	**(1,043,293)**	(637,885)
Administrative expenses	**(4,437,695)**	(2,630,978)
Finance costs	**(20,281)**	(8,295)
Exploration expenditure impaired	**(6,017,328)**	(6,879,125)
(Loss) before income tax	**(8,632,874)**	(7,815,450)
Income tax benefit/(expense)	**668,618**	(913,465)
(Loss) for the year	**(7,964,256)**	(8,728,915)
Other comprehensive income		
Changes in the fair value of available for sale financial assets (net of tax)	**(24,014)**	(126,895)
Other comprehensive income for the year (net of tax)	**(24,014)**	(126,895)
Total comprehensive income for the year	**(7,988,270)**	(8,855,810)
(Loss) is attributable to:		
Owners of Flinders	**(7,964,256)**	(8,728,915)
	(7,964,256)	(8,728,915)
Total comprehensive income for the year is attributable to:		
Owners of Flinders	**(7,988,270)**	(8,855,810)
	(7,988,270)	(8,855,810)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2011

	Consolidated	
	30 June 2011 $	30 June 2010 $
ASSETS		
Current assets		
Cash and cash equivalents	**36,321,300**	54,807,269
Trade and other receivables	**1,748,263**	2,229,248
Other current assets	**45,545**	32,005
Total current assets	**38,115,108**	57,068,522
Non current assets		
Investments accounted for using the equity method	**-**	1
Available-for-sale financial assets	**239,667**	273,972
Plant and equipment	**1,670,970**	1,630,287
Exploration and evaluation	**43,278,950**	32,102,683
Other non-current assets	**27,000**	27,000
Total non-current assets	**45,216,587**	34,033,943
Total assets	**83,331,695**	91,102,465
LIABILITIES		
Current liabilities		
Trade and other payables	**1,720,061**	2,201,946
Provisions	**203,165**	135,495
Total current liabilities	**1,923,226**	2,337,441
Non-current liabilities		
Provisions	**96,516**	27,958
Total non-current liabilities	**96,516**	27,958
Total liabilities	**2,019,742**	2,365,399
Net assets	**81,311,953**	88,737,066
EQUITY		
Contributed equity	**105,266,776**	105,227,282
Reserves	**638,788**	139,139
Retained losses	**(24,593,611)**	(16,629,355)
Total equity	**81,311,953**	88,737,066

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 30 June 2011

	Consolidated	
	30 June 2011 $	30 June 2010 $
Cash flows from operating activities		
Receipts from customers (inclusive of goods and services tax)	**48,800**	-
Payments to suppliers and employees (inclusive of goods and services tax)	**(4,818,833)**	(2,802,511)
Interest received	**3,026,625**	1,095,971
Other revenue	**102,126**	162,645
Net cash (outflow) inflow from operating activities	**(1,641,282)**	(1,543,895)
Cash flows from investing activities		
Proceeds from purchase of subsidiary, net of cash acquired	**351,162**	-
Payments for property, plant and equipment	**(208,060)**	(968,259)
Payments for investments	**-**	(15,000)
Loans to related parties	**(150,000)**	(75,000)
Proceeds from sale of property, plant and equipment	**15,000**	-
Payments for exploration activities	**(16,894,639)**	(13,008,755)
Net cash (outflow) inflow from investing activities	**(16,886,537)**	(14,067,014)
Cash flows from financing activities		
Proceeds from issues of Shares and other equity securities	**41,850**	52,811,850
Share issue transaction costs	**-**	(2,916,277)
Net cash inflow (outflow) from financing activities	**41,850**	49,895,573
Net (decrease) increase in cash and cash equivalents	**(18,485,969)**	34,284,664
Cash and cash equivalents at the beginning of the financial year	**54,807,269**	20,522,605
Cash and cash equivalents at the end of the financial year	**36,321,300**	54,807,269

Material Changes to Flinders' Balance Sheet since 30 June 2011

Flinders had net cash outflows of A$12.7m during the half-year ended 31 December 2011. The cash outflow of $12.7m for the period was primarily as a result of exploration and evaluation expenditure of $6.0m, overhead costs and project management relating to the ongoing feasibility work of $8.8m, offset by interest and tax-related refunds and rebates received of $2.1m. Flinders' cash balance as at 31 December 2011 was A$23.67m.

3.5 Issued Securities

The table below sets out the current capital structure of Flinders.

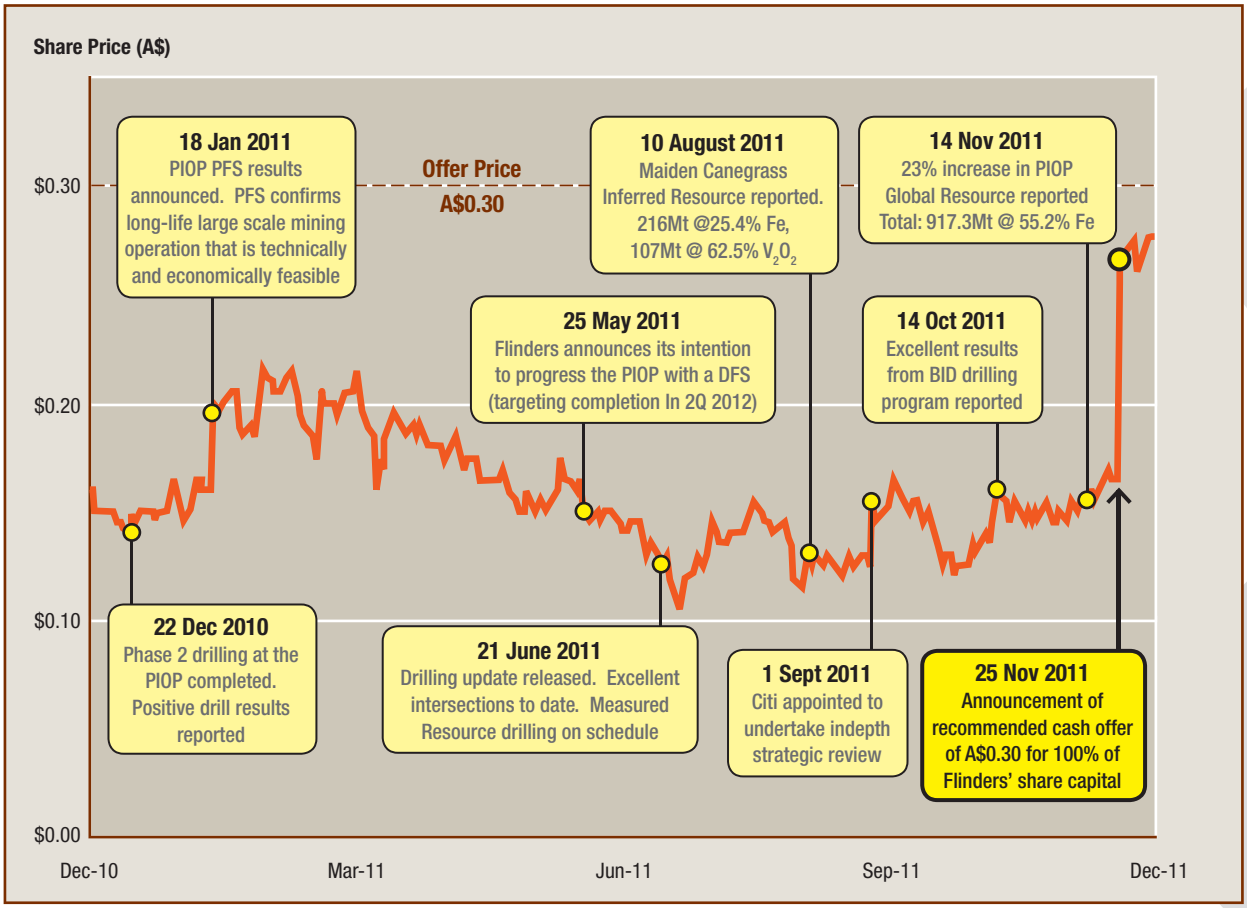
Table 5 – Capital Structure

Security	Number
Ordinary Shares	1,821,300,404
Unlisted Employee Options exercisable at A$0.084 each on or before 05/03/13	240,000
Unlisted Employee Options exercisable at A$0.045 each on or before 03/02/14	1,121,666
Unlisted Employee Options exercisable at A$0.055 each on or before 26/08/14	300,000
Unlisted Employee Options exercisable at A$0.085 each on or before 30/06/15	320,000
Employee Incentive Rights	23,072,700

Source: Flinders.

3.6 Recent Price History of Flinders Shares

Figure 7 – Annotated Share Price Chart



Source: IRESS and Flinders Announcements.

MMK has provided and is responsible for the MMK Information contained in Section 4 of the Scheme Booklet. Neither Flinders nor its Representatives assume any responsibility for the accuracy or completeness of the MMK Information in this Section 4.

4.1 Overview of MMK

MMK is incorporated in Russia with its head office located in Magnitogorsk, Russia. It is listed in Russia on Moscow Interbank Currency Exchange (MICEX ticker: MAGN). MMK's global depository receipts are also traded on the London Stock Exchange (LSE ticker: MMK). MMK's market capitalisation as at 1 January 2012 was approximately US$4.2 billion.

In 2010, MMK's revenue was approximately US$7.7 billion with EBITDA approximately US$1.6 billion and net profit approximately US$232 million.

The MMK Group has approximately 59,000 employees worldwide on a consolidated basis.

4.2 Major Operations and Activities

The MMK Group engages in the production and sale of steel products primarily in Russia. MMK has operated the largest steel mill in Russia for many years and has a wealth of experience in steel production.

MMK is one of Russia's leading manufacturers of steel and steel products and ranks among the world's largest steel producers. It is the largest enterprise in Russia's ferrous metals industry and produces one sixth of the steel products sold on the Russian market. It has the capacity to produce a broad range of steel products in compliance with international quality standards and certificates.

MMK is currently focused on continuing the modernisation of its production assets (including the adoption of state-of-the-art technology), developing existing and new projects and integrating into the global economy.

The operations of the MMK Group extend across the entire steel production chain from mining and preparation of coal and iron ore to downstream processing of rolled steel. MMK's primary market is Russia which accounts for approximately 69% of all steel product shipments. However, MMK's products are also exported to about 50 countries worldwide including countries in the Middle East, Asia, the Far East, Europe, Africa and the Americas.

MMK's primary operations involve:

- a fully integrated steel production complex located in Magnitogorsk, Russia;
- a fully integrated steel production complex located in Iskenderun, Turkey;
- a service centre and processing lines located in Istanbul, Turkey;
- OJSC MMK-METIZ, which is a major metalware producer in Russia;
- downstream metal processing and distribution undertaken by OJSC MMK-Profile-Moscow and CJSC Interkos-IV;
- steel distribution undertaken by a number of trading units in Russia and abroad;
- OJSC Belon, which produces coking coal utilised mostly in MMK's steel production activities;
- several iron ore mines located in Chelyabinsk region of Russia, which produces iron ore utilised in MMK's steel production activities;
- Prioskol iron ore development project located in Russia;
- scrap collection and processing activities undertaken by ZAO Profit; and
- production of technical services and auxiliary materials related to MMK's steel-making operations.

MMK maintains leading positions in the Russian rolled steel market. In 2010 MMK accounted for 17% of all rolled steel production in Russia. During 2010, MMK's commercial steel production grew 17%, with domestic shipments increasing 44% and surpassing the rate of growth of Russian steel consumption. This was possible largely due to the introduction of high-margin products that meet domestic demand, including products that replaced imports.

A Russian and CIS Markets

Historically, the bulk of MMK's products have been sold to customers in the Urals (37%) and the Volga regions (30%) of Russia which today account for two thirds of MMK's sales. This geographic focus is due to the concentration of major customers in these regions. Another major market for MMK is central Russia, which accounts for 10% of total domestic shipments, with another 7% of sales generated in Siberia. A significant portion of MMK's sales go to Belarus and other CIS countries: in 2010 they accounted for 680,000 tonnes of steel shipments (about 10% of MMK's total domestic shipments).

B Export Markets

In 2010, MMK exported its products to more than 50 countries which accounted for 31.2% of total shipments (44.1% in 2009). MMK's traditional key markets are the Middle East, Asia and Europe.

C Market Sectors

MMK's key domestic customers have traditionally been pipe makers (37% of 2010 domestic shipments), machine building plants (21%), construction sector companies (12%) and metalware plants (10%). Approximately 18% of MMK's domestic sales are sold through regional distribution channels.

D Investments

MMK is pursuing a strategy of investment in highly efficient steel and mining projects both in Russia and internationally. MMK's investments in Russia are aimed at satisfying the growing demand and requirements of the Russian customers and raising the level of production of value added goods.

The 5,000 mm Plate Mill

MMK's 5,000 mm Plate Mill is the key element of its plate production complex. The complex comprises the mill itself, a secondary steel treatment unit and Continuous Caster #6 in Magnitogorsk, Russia.

The mill has been designed to produce up to approximately 1.5 Mtpa of plate, including up to 300,000 tonnes of heat treated plate per year. The commissioning of the mill has provided MMK with the capability to produce premium quality hot-rolled products and plates using state-of-the-art metal forming techniques.

The 2,000 mm Cold Rolling Mill

Another large-scale investment project is the construction of a 2,000 mm cold rolling complex in Magnitogorsk, Russia. This two million tonnes per annum facility is currently in the ramp-up production phase and is designed to produce premium quality cold-rolled and galvanised steel.

The implementation of MMK's modernisation program (which has included construction of the 5,000 mm plate mill and 2,000 mm cold rolling mill) has enabled MMK to maintain its focus on raising production efficiency, cutting costs and improving product quality during the global economic crisis.

4.3 Rationale for MMK's Proposed Acquisition of Flinders

MMK's captive production of iron-containing materials covers up to 30% of MMK's total requirements. MMK has proposed the acquisition of Flinders because this is consistent with MMK's stated corporate objective of growing its investment into and economic exposure to upstream production of raw materials that are used in steel making (for example, iron ore and coking coal). If the Scheme is implemented, it will provide MMK with economic exposure to an Australian iron ore development project (PIOP) which will increase its iron ore Mineral Resources and the potential for future iron ore production (following project development). MMK's increased exposure to upstream iron ore production will provide a natural hedge for its existing steel making activities. MMK intends to sell all the iron ore produced by the PIOP to independent third parties. MMK has the technical capability and financial capacity to successfully and rapidly develop PIOP.

4.4 Information on the MMK Board

The directors of MMK as at the date of this Scheme Booklet are as follows:

Director	Position
Victor F. Rashnikov	*Chairman*
Vitaly V. Bakhmetyev	*Director*
Boris A. Dubrovsky	*CEO (General Director)*
Nikolai V. Lyadov	*Director*
Oleg V. Fedonin	*Director*
Sir David Logan	*Independent Director*
Zumrud K. Rustamova	*Independent Director*
Bernard Sucher	*Independent Director*
Peter Charow	*Independent Director*
David J. Herman	*Independent Director*

Additional information about MMK can be found on its website *eng.mmk.ru*.

4.5 Source of Funds

The Scheme Consideration will be satisfied wholly in cash. Section 4.5 sets out the means by which MMK will fund the Scheme Consideration.

A Total Cash Consideration

If the Scheme becomes Effective, MMK will pay each Scheme Participant or procure the payment of A$0.30 for each Flinders Share transferred to MMK or its nominee under the Scheme.

The consideration payable under the Scheme is 100% cash. If the Scheme becomes Effective, the maximum amount of cash required to be paid to Scheme Participants will be approximately A$553 million (excluding approximately A$500,000 in payments to be made by Flinders to cancel the outstanding Flinders Options and to make payments to Flinders Incentive Rights Holders in accordance with the Flinders Incentive Rights plan). Further information on the Flinders Options and Flinders Incentive Rights is set out in Sections 1.9 and 1.10.

B Overview of Funding Arrangements

The Scheme Consideration will be funded by MMK's immediately available cash reserves and new and/or existing funding facilities.

As at 31 December 2011, MMK had:

- cash reserves of approximately US$300 million; and
- an approved credit facility of approximately US$370 million, US$310 million of which will be available to it upon payment of a commitment fee and execution of lending documents.

In addition to these existing sources of funding, MMK has a Board-approved corporate commercial paper programme registered with the Moscow Interbank Currency exchange (MICEX) of approximately US$1,240 million which can be issued at any time.

In addition to its cash reserves, existing credit facility and corporate commercial paper programme, MMK holds a portfolio of publicly traded equity and debt securities against which it could raise funds and/or sell, the market value of which as at 31 December 2011 was approximately US$710 million.

4.6 The Intentions of MMK in Relation to the Business and Employees of Flinders

A General Approach

If the Scheme is implemented, MMK or its nominee will become the holder of all of Flinders Shares. This Section 4.6 sets out the current intentions of MMK in the event that the Scheme is implemented, in relation to:

- the continuation of the business of Flinders;
- any major changes to be made to the business of Flinders;
- the future employment of the present employees of Flinders;
- replacing the Flinders Board with their own nominees; and
- the removal of Flinders from the official list of ASX.

The intentions set out in this Section 4.6 represent the current intentions of MMK at the date of this Scheme Booklet. These intentions have been formed on the basis of facts and information concerning Flinders and its business which are known to MMK at the date of this Scheme Booklet. They are based on publicly available information and certain non-public information made available to MMK as part of its due diligence review. Therefore, the formulation of this Section 4.6 is necessarily limited by the extent of the information about Flinders available to MMK.

MMK will make final decisions regarding these matters in light of the information and circumstances at the relevant time including the general business environment. MMK's intentions may change as new information becomes available or circumstances change. Any changes in intentions will be disclosed to the extent and in the manner required by law.

MMK's intentions as set out in this Section 4.6 have been approved and reflect the current intentions of MMK.

B Flinders' Business

Following implementation of the Scheme, MMK will conduct a review of Flinders' operations to identify any improvements that can be made. The review will seek to measure performance and identify areas which may be improved or enhanced. However, the current intention of MMK is to carry on Flinders' business as it is currently conducted. In particular, MMK intends to continue the timely development of Flinders' PIOP and remain focused on funding and growing Flinders' exploration program in the Pilbara.

MMK also intends to enhance Flinders' existing operations through the introduction of new technology, methods and relationships that the MMK Group can offer.

C Employees

MMK looks forward to extending to Flinders employees the benefits of being part of MMK Group, including a strong health and safety focus. Given MMK's current limited operations in Australia, subject to the comments above, it is the intention of MMK for employees within Flinders operations to remain in their roles on the same or substantially similar conditions to those that they currently enjoy. MMK wishes to retain Flinders' existing senior management team. MMK is currently engaging with senior management to ascertain their intentions, with a view to offering senior management new contracts to retain their services. It will be necessary for MMK to grow the combined workforce as the PIOP is developed and brought into production.

D Flinders Board

MMK intends to reconstitute the Flinders Board with its own nominees. Replacement Board members have not yet been identified but are likely to be members of the MMK Group management team and may include existing MMK Directors.

E De-Listing from ASX

If the Scheme becomes Effective, MMK will require that Flinders applies to ASX for removal from the official list of ASX after the Implementation Date. For further information see Section 5.10.

4.7 Other material information

Other than as disclosed within the Scheme Booklet, there is no other information known to MMK material to the making of a decision in relation to the Scheme that has not previously been disclosed to Flinders Shareholders.

SECTION 5:
IMPLEMENTATION OF THE SCHEME

5.1 Scheme Implementation Agreement

On 25 November 2011, Flinders announced that it had signed a Scheme Implementation Agreement with MMK governing how the Scheme would proceed. The Scheme Implementation Agreement sets out each party's obligations in connection with the implementation of the Scheme. The key terms of the Scheme Implementation Agreement are summarised in Annexure 1 to this Scheme Booklet.

5.2 Overall Effect of the Scheme

Under the Scheme, Flinders will be authorised to transfer all of the Flinders Shares held by Scheme Participants to MMK or its nominee. This will result in Flinders becoming a wholly owned subsidiary of MMK or its nominee.

MMK has entered into the Deed Poll whereby it has agreed (subject to the satisfaction or waiver of certain conditions precedent) to pay each Flinders Shareholder or procure the payment of A$0.30 for each Flinders Share transferred to MMK or its nominee under the Scheme. A copy of the Deed Poll is set out in Annexure 3 to this Scheme Booklet.

5.3 Effect on Flinders Shareholders

As a result of the Scheme, Scheme Participants will cease to be shareholders in Flinders. Scheme Participants will be paid A$0.30 for each Flinders Share held by them at the Record Date that is transferred to MMK or its nominee under the Scheme.

5.4 Scheme Meeting

The Court has ordered that a meeting of Flinders Shareholders be convened at 10:00am on Friday, 30 March 2012 at Enterprise House, 136 Greenhill Road, Unley, South Australia to consider and if thought fit, approve the Scheme.

The order of the Court that the Scheme Meeting be convened is not, and should not be treated as an endorsement by the Court of, or any other expression of opinion by the Court on, the Scheme.

See Section 1.6 for information on the Requisite Majorities required to approve the Scheme.

5.5 Court Approval of the Scheme

Flinders will apply to the Court for an order approving the Scheme if:

- the Scheme is approved by the Requisite Majorities at the Scheme Meeting; and
- all other necessary approvals are obtained and conditions precedent satisfied or waived.

The date on which the Court hears Flinders' application is the Second Court Date.

The Court may refuse to grant the order referred to above even if the Scheme is approved by Flinders Shareholders.

If the Scheme is not approved by at least 75% of the votes of Flinders Shareholders voting in person or by proxy, attorney or corporate representative at the Scheme Meeting, the Scheme will not proceed and Flinders will not apply to the Court for any orders in connection with the Scheme.

The Federal Court Rules provide a procedure for Flinders Shareholders to oppose the approval by the Court of the Scheme or to make representations to the Court in relation to the Scheme. See the Important Information section of this Scheme Booklet for more information.

5.6 Actions by Flinders and MMK if Court Order Obtained

If the Court Order approving the Scheme is obtained:

- Flinders will lodge with ASIC copies of the Court Orders approving the Scheme under section 411 of the Corporations Act and the Scheme will become Effective;
- MMK will pay or procure the payment of the aggregate Scheme Consideration into a trust account operated by Flinders which will pay the Scheme Consideration to each Scheme Participant on the Implementation Date in accordance with the Scheme;
- the Shares will be transferred to MMK or its nominee on the Implementation Date; and
- if requested by MMK, the Flinders Directors will resign as directors of Flinders and will be replaced by any directors nominated by MMK.

5.7 Effective Date

The Scheme will become Effective on the date upon which the office copy of the order of the Court under section 411 of the Corporations Act approving the Scheme is lodged with ASIC. If the Scheme is approved by the Requisite Majorities at the Scheme Meeting and by the Court, the Scheme is currently expected to become Effective on Wednesday, 4 April 2012.

If the Scheme becomes Effective, Flinders will immediately give notice of the event to ASX.

Once the Scheme becomes Effective, Flinders and MMK will become bound to implement the Scheme in accordance with its terms.

5.8 Record Date

For the purpose of establishing the Scheme Participants, dealings in Flinders Shares will only be recognised if:

- in the case of dealings of the type to be affected using CHESS, the transferee is registered in the Flinders Share Register as the holder of the relevant Flinders Shares at 7:00pm (Sydney, NSW time) on the Record Date; and
- in all other cases, if registrable transmission applications or transfers in registrable form in respect of those dealings are received on or before 7:00pm (Sydney, NSW time) on the Record Date at the place where the Flinders Share Register is kept.

Flinders must register registrable transmission applications or transfers of the type referred to above by the Record Date, provided that nothing in this paragraph requires Flinders to register a transfer that would result in a Flinders Shareholder holding a parcel of Flinders Shares that is less than a Marketable Parcel.

Flinders will not accept for registration or recognise for any purpose any transmission application or transfer in respect of Flinders Shares received after 7:00pm (Sydney, NSW time) on the Record Date, other than a transfer to MMK or its nominee in accordance with the Scheme.

For the purpose of determining entitlements to the Scheme Consideration, Flinders will, until the Scheme Consideration has been provided, maintain the Flinders Share Register in accordance with the foregoing provisions of this Section 5.8 and the Flinders Share Register in this form will solely determine entitlements to the Scheme Consideration. As from the Record Date, each entry current on the Flinders Share Register will cease to be of any effect other than as evidence of entitlement to the Scheme Consideration in respect of the Flinders Shares relating to that entry.

5.9 Warranty by Scheme Participants

Each Scheme Participant is deemed to have warranted to Flinders, in its own right and for the benefit of MMK, that:

- all of their Flinders Shares (including any rights and entitlements attaching to those Shares) transferred to MMK or its nominee under the Scheme will, on the Implementation Date, be fully paid and free from all mortgages, charges, liens, encumbrances, pledges, security interests and other interests of third parties of any kind, whether legal or otherwise, and restrictions on transfer of any kind, whether legal or otherwise; and
- they have full power and capacity to sell and to transfer their Flinders Shares (including any rights and entitlements attaching to those Shares) to MMK or its nominee under the Scheme.

5.10 Suspension and De-Listing

If the Court approves the Scheme, Flinders will notify ASX of the Court approval on the day the Court approves the Scheme. A copy of the Court order will likely be lodged with ASIC on the business day after the Court approves the Scheme. Flinders Shares will be suspended from trading on the ASX from the close of business on the day the Court order is lodged with ASIC.

As noted in Section 4.6, MMK will require that Flinders applies to ASX for removal from the official list of ASX after the Implementation Date.

5.11 What Happens if the Scheme Does Not Proceed?

The implications for Flinders and Flinders Shareholders if the Scheme does not proceed are set out in Section 2.6.

5.12 Rights Attaching to Flinders Shares

Flinders Shares are held subject to the constitution of Flinders. A copy of the constitution is available for inspection at Flinders' registered office. In particular, Flinders Shareholders are entitled to receive notices of and attend and vote at general meetings where they have one vote on a show of hands and one vote per Flinders Share on a poll.

Subject to the constitution of Flinders, the Corporations Act and the ASX Listing Rules, Flinders Shares are freely transferable. Dividends may be paid to Flinders Shareholders at the discretion of Flinders Directors in accordance with the Corporations Act. In the event that Flinders is wound up, the liquidator may, with the sanction of a special resolution of Flinders Shareholders, divide the corporate assets of Flinders amongst the Flinders Shareholders and may determine how the division shall be carried out between them.

SECTION 6: TAXATION IMPLICATIONS FOR SCHEME PARTICIPANTS

6.1 Introduction

This Section 6 provides a broad summary of the Australian income tax, capital gains tax and GST consequences for the Flinders Shareholders if the Scheme proceeds. This summary is based on taxation law as at the date of this Scheme Booklet.

This Section 6 is general in nature and does not take into account the individual circumstances of each Flinders Shareholder and as such should not be relied upon by any individual Flinders Shareholder.

The Australian tax consequences of disposing of Flinders Shares will differ between Flinders Shareholders. Tax consequences will depend on whether or not a Flinders Shareholder is an Australian resident for tax purposes, whether the Flinders Shares are held on revenue or capital account, the date on which that shareholder acquired its Flinders Shares, and whether the Flinders Shareholder is an individual, a company, a trustee of a trust or a complying superannuation entity.

All Flinders Shareholders should consult their own taxation advisers regarding the taxation consequences of the proposed acquisition of Flinders by way of the Scheme.

Flinders Shareholders should refer to information below and obtain their own independent advice.

6.2 Flinders Shareholders Who Are Australian Tax Residents

The tax treatment of Flinders Shareholders who are Australian resident taxpayers depends on whether their Flinders Shares are held on revenue account or on capital account.

A Flinders Shares Held on Revenue Account

Flinders Shareholders may hold Flinders Shares on revenue account — either as trading stock (such as a share trader) or otherwise on revenue account (e.g. if the purpose of acquiring the Flinders Shares was to resell them for a profit).

- If Flinders Shares are held as trading stock, the Flinders Shareholder must treat the consideration received from disposal of the Flinders Shares (the Scheme Consideration) as ordinary assessable income.
- If the Flinders Shares are held on revenue account other than as trading stock, then any profit or loss from disposal of those shares (broadly the difference between the Scheme Consideration and the cost of the Flinders Shares) must be treated as either assessable income or an allowable deduction.

B Flinders Shares Held on Capital Account

Flinders Shareholders may hold Flinders Shares on capital account — that is, as capital assets.

In that case, the capital gains tax (CGT) provisions in the Australian tax legislation are relevant. The disposal by the Flinders Shareholder of its Flinders Shares as part of the Scheme will constitute a CGT event.

A capital gain will arise if the value of consideration received by the Flinders Shareholder from disposal of its Flinders Shares (the Scheme Consideration) exceeds the cost to the Flinders Shareholder of its Flinders Shares (including the amount paid to acquire and maintain those shares, and incidental costs). A capital loss will arise if the Scheme Consideration is less than the cost of the Flinders Shares.

A Flinders Shareholder who is an individual, a trustee of a trust or complying superannuation entity, and has owned its Flinders Shares for at least 12 months, may be able to reduce any capital gain under the CGT discount provisions (after offsetting available capital losses). The capital gain may be reduced by one-half for individuals and trustees, and by one-third for complying superannuation entities.

The CGT discount does not apply to capital gains made by companies in their own right.

A capital loss may be used to offset capital gains of the Flinders Shareholder made in the same or future years of income (subject to certain conditions). A capital loss cannot be offset against ordinary income.

6.3 Flinders Shareholders Who Are Not Australian Tax Residents

The tax treatment of Flinders Shareholders who are not residents of Australia for tax purposes depends on whether their Flinders Shares are held on revenue account or on capital account.

A Flinders Shares Held on Revenue Account

If a Flinders Shareholder is not a resident of Australia for tax purposes, the Australian tax treatment of the sale proceeds on disposal of its Flinders Shares on revenue account under the Scheme depends upon the following:

- Whether the sale proceeds are derived directly or indirectly from an Australian source;
- Whether a 'double taxation agreement' exists between Australia and the country of residence of the relevant Flinders Shareholder and, if so, whether the sale proceeds are deemed to be taxable in Australia because:

- the Flinders Shareholder has a 'permanent establishment' in Australia (including a fixed place of business such as an office) to which the sale proceeds from the Flinders Shares are 'effectively connected'; or
- the sale proceeds are otherwise taxable in Australia under the terms of that double taxation agreement.

B Flinders Shares Held on Capital Account

If a Flinders Shareholder is not a resident of Australia for tax purposes, any capital gain or capital loss made from disposal of Flinders Shares is disregarded unless:

- The Flinders Shareholder used its Flinders Shares at any time in carrying on a business through a permanent establishment in Australia; or
- The Flinders Shareholder (and/or associates) owned 10% or more of Flinders Shares at the time the Flinders Shares were sold, or for at least twelve months during the period of twenty four months before the Flinders Shares were sold, and more than 50% of the market value of Flinders' assets is represented by real property in Australia at that time including leases of land, mining, quarrying and prospecting rights (as at the date of this Scheme Booklet, more than 50% of the market value of Flinders' assets is represented by such property in Australia).

6.4 GST

Flinders Shareholders will not be liable for GST on the receipt of payment for disposal of their Flinders Shares.

SECTION 7:
ADDITIONAL INFORMATION

7.1 Introduction

This Section 7.1 sets out the statutory information required to be included in the Scheme Booklet by section 412(1)(a) of the Corporations Act and Part 3 of Schedule 8 to the Corporations Regulations, and any other additional information considered material on how to vote on the resolution to be considered at the Scheme Meeting.

7.2 Payment of Scheme Consideration

Pursuant to the terms of the Scheme and the Deed Poll, MMK must procure the deposit of the aggregate Scheme Consideration payable to Scheme Participants in a trust account operated by Flinders. On the Implementation Date, Flinders will pay each Scheme Participant the aggregate Scheme Consideration owing to them by cheque. In the case of joint holders of Flinders Shares, the Scheme Consideration will be forwarded to the holder whose name appears first on the Flinders Share Register on the Record Date.

7.3 Interests of Flinders Directors

Except as set out below, no Flinders Director has any material interest in relation to the Scheme:

A Flinders marketable securities

The number, description and amount of Flinders marketable securities held by or on behalf of each Flinders Director as at the date of this Scheme Booklet are:

Director	Ordinary Shares	Options [1]	Incentive Rights [2]
R M Kennedy	31,500,000	nil	nil
E J Vickery	4,700,000	nil	nil
J D Cooper	1,200,000	nil	nil
K J Malaxos	nil	nil	nil
G M May (Alt)	633,571	nil	nil
N J Smart (Alt)	838,095	nil	nil
G D Sutherland	115,000	300,000 exercisable at A$0.055 each, expiring 26/8/2014	8,403,700

(1) Subject to the Scheme becoming Effective, all Flinders Options will be cancelled on the Implementation Date. Refer to Section 1.9 for further details.

(2) Subject to the Scheme becoming Effective, the Flinders Incentive Rights will convert to Shares on the Effective Date. Refer to Section 1.10 for further details.

B MMK marketable securities

As at the date of this Scheme Booklet, no MMK securities are held by or on behalf of any Flinders Director.

C Payments or other benefits to Flinders Directors, secretaries or executive officers

No payment or other benefit is proposed to be made or given to any Flinders Director, secretary or executive officer of Flinders or of its Related Bodies Corporate as compensation for loss of, or as consideration for or in connection with their retirement from, office in Flinders or any Related Bodies Corporate.

D Agreements or arrangements with Flinders Directors in connection with or conditional upon the outcome of the Scheme

Mr Sutherland, Flinders' Managing Director, has signed an option cancellation deed with Flinders. Under the deed, the Flinders Options he holds will be cancelled for 24.5 cents each, if the Scheme becomes Effective. Refer to Section 1.9 for further details.

Mr Sutherland also holds Flinders Incentive Rights that will convert to Shares on the Effective Date, if the Scheme becomes Effective. Refer to Section 1.10 for further details.

If the Scheme becomes Effective, Mr Sutherland will receive $73,500 for the cancellation of his Flinders Options and $2,521,110 in respect of his Flinders Incentive Rights.

Otherwise, no Flinders Director has any agreement or arrangement in connection with or conditional upon the outcome of the Scheme.

E Interests of Flinders Directors in contracts entered into by MMK Group

No Flinders Director has any interest in a contract entered into by by a member of the MMK Group.

7.4 Intentions

If the Scheme is implemented, it will be a matter for MMK to formulate its intentions in relation to:

- the continuation of the business of Flinders;
- any major changes to be made to the business of Flinders; and
- the future employment of the present employees of Flinders.

The current intentions of MMK, as communicated to Flinders, are set out in Section 4.6 of this Scheme Booklet.

7.5 MMK's Relevant Interests in Flinders Shares

As at the date of this Scheme Booklet, MMK had no relevant interest or voting power in any Flinders Shares.

7.6 Acquisition by MMK of Flinders Shares During the Previous 4 Months

Except for the consideration to be provided under the Scheme, during the period of 4 months before the date of this Scheme Booklet, neither MMK, nor any associate of it has provided, or agreed to provide, consideration for any Flinders Shares.

7.7 Inducing Benefits Given by MMK During the Previous 4 Months

Except as set out in this Scheme Booklet, during the period of four months before the date of this Scheme Booklet, neither MMK, nor any associate of it, gave, or offered to give or agreed to give a benefit to another person that is not available to all Flinders Shareholders and was likely to induce the other person, or an associate of the other person, to vote in favour of the Scheme or dispose of Flinders Shares.

7.8 Transaction Costs

The total transaction costs of the Scheme are estimated to be approximately $15.3 million, of which approximately $14.5 million is only payable if the Scheme becomes Effective.

These costs relate to a range of activities associated with the Scheme including advisory, legal, accounting and administrative fees, as well as printing, advertising and other expenses.

7.9 Consents and Disclaimers

The following parties have given, and have not withdrawn before the time of registration of this Scheme Booklet with ASIC, their consent to be named in this Scheme Booklet in the form and context in which they are named:

- DMAW Lawyers as legal adviser to Flinders;
- Citi and Adelaide Equity Partners as financial advisers to Flinders;
- Ernst & Young as the Independent Expert and to the inclusion of the copy of the Independent Expert's Report set out in Annexure 5;
- Snowden as the Technical Expert and to the inclusion of the copy of the Technical Expert's Report set out in Annexure 5;
- Computershare as the Flinders Share Registry.

Each of these persons:

- has not authorised or caused the issue of this Scheme Booklet;
- does not make, or purport to make, any statement in this Scheme Booklet or any statement on which a statement in this Scheme Booklet is based, other than in respect of the Independent Expert's Report (for Ernst & Young) and the Technical Expert's Report (for Snowden); and
- to the maximum extent permitted by law expressly disclaims all liability in respect of, makes no representation regarding, and takes no responsibility for, any part of this Scheme Booklet other than a reference to its name and the statement (if any) included in this Scheme Booklet with the consent of that party.

MMK has given, and has not withdrawn before the time of registration of this Scheme Booklet with ASIC, its consent to be named in this Scheme Booklet in the form and context in which it is named, on the basis set out in the 'Responsibility for Contents' paragraph contained in the 'Important Notices' section at the start of this Scheme Booklet.

This Scheme Booklet includes or is accompanied by statements which are made in, or based on, statements made in documents lodged with ASIC or on Flinders announcement platform of ASX. If you would like to receive a copy of any of these documents please contact Flinders by email at *info@flindersmines.com* or by telephone on +61 8 8132 7950 and you will be sent copies free of charge.

Competent Persons Statement

The information that relates to the drilling data and geological interpretations is based on information compiled by Mr N Corlis (who is a Member of The Australian Institute of Geoscientists) and Dr G McDonald (who is a member of the Australasian Institute of Mining and Metallurgy). Mr Corlis and Dr McDonald are employees of Flinders. The information that relates to the Mineral Resource Estimate has been compiled by Mr Paul Blackney of Optiro Pty Ltd who is a Member of the Australasian Institute of Mining and Metallurgy. Mr Blackney, Mr Corlis and Dr McDonald have sufficient experience that is relevant to the style of mineralisation and type of deposit under consideration and to the activity that they are undertaking to qualify as Competent Persons as defined in the 2004 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Mr Blackney, Mr Corlis and Dr McDonald consent to the inclusion of matters based on their information in the form and context in which it appears.

7.10 Documents Available for Inspection

Copies of the following documents are available for inspection at the registered office of Flinders during normal business hours on any Business Day until the Record Date:

- Constitution of Flinders;
- Financial statements of Flinders for the financial year ending 30 June 2011; and
- Flinders' Annual Report 2011.

7.11 Information Disclosed to ASX

Flinders is a 'disclosing entity' under the Corporations Act and is subject to the regime of continuous disclosure and periodic reporting requirements. Specifically, as a listed company, Flinders is subject to the ASX Listing Rules which require continuous disclosure to the market of any information possessed by Flinders which a reasonable person would expect to have a material effect on the price or value of its Shares.

All announcements made by Flinders are publicly available and can be viewed on the ASX website (*asx.com.au*) or on Flinders' website (*flindersmines.com*).

7.12 Exemptions, Waivers and Modifications

ASX has granted to Flinders a waiver of ASX Listing Rule 6.23.2 to the extent necessary to allow the Flinders Options to be cancelled in exchange for consideration without Flinders Shareholder approval. Further information about the cancellation of Flinders Options is contained in Section 1.9.

Pursuant to clause 8305 of Schedule 8 of the Corporations Regulations, ASIC has granted its consent to allow the Independent Expert's Report to contain a statement that the market value of the assets of Flinders differ from an amount at which the value of those assets are shown in the books of Flinders.

7.13 Lodgment of this Scheme Booklet

This Scheme Booklet was given to ASIC on Wednesday, 15 February 2012 pursuant to section 411(2)(b) of the Corporations Act.

7.14 No Unacceptable Circumstances

The Flinders Directors believe that the Scheme does not involve any circumstances in relation to the affairs of any Flinders Shareholder that could reasonably be characterised as constituting 'unacceptable circumstances' for the purposes of section 657A of the Corporations Act.

7.15 Other Material Information

Other than as disclosed within this Scheme Booklet, there is no other information within the knowledge of any Flinders Director material to the making of a decision in relation to the Scheme that has not previously been disclosed to Flinders Shareholders.

7.16 New Material Information

Flinders will supplement the information in this Scheme Booklet if, before the Effective Date, it becomes aware of any material misstatement or omission or any new circumstance that would have been required to be included in this Scheme Booklet had it been known at the date of this Scheme Booklet. That supplementary information will be provided by publishing an advertisement in a national newspaper, publishing it on the Flinders website (*flindersmines.com*) or making an announcement to ASX (*asx.com.au*) (ASX code: FMS).

SECTION 8:
GLOSSARY

A

Announcement Date	means 25 November 2011 being the date that Flinders announced that Flinders and MMK had signed the Scheme Implementation Agreement.
ASIC	means the Australian Securities and Investments Commission.
ASX	means ASX Limited or the securities exchange it operates, as the context requires.
ASX Listing Rules	means the listing rules of ASX.
Australian Dollar	means the basic unit of money in Australia.

B

BID	means Brockman Iron Deposit.
BIF	means Brockman Iron Formation.
Business Day	has the meaning given in the ASX Listing Rules.

C

Canegrass Project	means the tenement package held by Flinders 60km south-east of Mt Magnet in the Mid West Iron Ore Province of Western Australia.
Capital Gains Tax	means the tax applied to profits made on the disposal of a capital asset that was acquired after 20 September 1985 as defined in the *Income Tax Assessment Act 1997* (Cth).
Change in Law	means the introduction into the Parliament of the Commonwealth of Australia or of any State or Territory of Australia of any law, or the making of any new regulation under any law, or the adoption by any Regulatory Authority of any policy, or the announcement by or on behalf of any Government of the Commonwealth of Australia or of any State or Territory of Australia or any Regulatory Authority that such a law or regulation will be introduced or such a policy adopted (as the case may be).
CID	means Channel Iron Deposit.
Citi	means Citigroup Global Markets Australia Pty Ltd ABN 64 003 114 832.
Commitment	means any contract, agreement, undertaking, deed or other form of legally enforceable arrangement whether in writing or not.
Control	has the meaning given to that term in the Corporations Act.
Controlled Entity	means in respect of an entity, another entity controlled by it for the purposes of section 50AA of the Corporations Act.
Corporations Act	means the *Corporations Act 2001* (Cth).
Corporations Regulations	means the *Corporations Regulations 2001* (Cth).
Counterproposal	means any offer by MMK to amend the terms of the Scheme, propose any other transaction or make an offer to Flinders in response to a Third Party Proposal.
Court	means the Federal Court of Australia or any other court of competent jurisdiction under the Corporations Act agreed in writing by Flinders and MMK.
Court Order	means the order of the Court made for the purposes of section 411(4)(b) of the Corporations Act in relation to the Scheme.
CPRS	means Carbon Pollution Reduction Scheme.

D

Deed Poll	means the deed in the form of Annexure 3 under which MMK covenants in favour of the Scheme Participants to procure the payment of the Scheme Consideration.
DFS	means Definitive Feasibility Study.
DID	means Detrital Iron Deposit.

E

Effective	means, when used in relation to the Scheme, the coming into effect, pursuant to section 411(10) of the Corporations Act, of the order of the Court made for the purposes of section 411(4)(b) in relation to the Scheme.
Effective Date	means the date on which a copy of the Court order approving the Scheme is lodged with ASIC and the Scheme becomes Effective, currently expected to be Wednesday, 4 April 2012.
Ernst & Young or Independent Expert	means Ernst and Young Transaction Advisory Services Limited ABN 87 003 599 844.
Excluded Share	means a Flinders share held by MMK or by any person on behalf or for the benefit of MMK.
Exclusivity Period	means the period from and including the date of the Scheme Implementation Agreement to and including the earlier of the date that agreement is terminated in accordance with its terms, the Implementation Date or the Quit Date.
Explanatory Statement	has the meaning given to it in Part 5.1 of the Corporations Act.

F

Fair Value	for Flinders Options means the values ascribed to those Flinders Options in Table 1.
FATA or Foreign Acquisitions and Takeovers Act	means *Foreign Acquisitions and Takeovers Act 1975* (Cth).
Federal Court Rules	means *Federal Court (Corporations) Rules 2000* (Cth).
Flinders	means Flinders Mines Limited ABN 46 091 118 044.
Flinders Break Fee	means A$5,500,000.
Flinders Director	means a director of Flinders at the date of this Scheme Booklet.
Flinders Group	means Flinders and its Controlled Entities.
Flinders Incentive Right	means an incentive right to acquire Flinders Shares issued by Flinders.
Flinders Incentive Right Holder	means each person who holds Flinders Incentive Rights.
Flinders Information	means information in this Scheme Booklet concerning Flinders and its Related Bodies Corporate.
Flinders Material Adverse Change	means a matter, event or circumstance, including: • a Change in Law or proposed or foreshadowed Change in Law; and • an adverse impact on the ability or potential ability of Flinders to exploit its mining tenements, where that matter, event or circumstance has, has had, or could reasonably expected to have, individually or when aggregated with all such matters, events or circumstances a material adverse effect on the business, assets, liabilities, financial or trading position, profitability or prospects of the Flinders Group taken as a whole or the ability of Flinders to operate and conduct its business as proposed or contemplated, but in all cases excluding any change in the market price for the sale of iron ore.
Flinders Option	means an option to acquire Flinders Shares issued by Flinders.
Flinders Optionholder	means each person who holds Flinders Options.

F *(cont.)*

Flinders Prescribed Occurrence means the occurrence of any of the following without the prior written consent of MMK:

- Flinders converting all or any of its shares into a larger or smaller number of shares;
- Flinders or any Related Entity of Flinders which is not a wholly owned subsidiary of Flinders resolving to or reducing its share capital in any way redeems, repurchases or reclassifies any of the Flinders Shares;
- Flinders resolving to or buying back any of its ordinary shares, including by: entering into a buy-back agreement; or resolving to approve the terms of a buyback agreement under the Corporations Act;
- Flinders making an allotment or issue of, or granting an option to subscribe for, any ordinary shares or securities or financial products convertible at the option of the holder into, or having the economic characteristics of, ordinary shares, or agreeing to make such an allotment or issue or to grant such an option, other than pursuant to any of Flinders' existing employee share plans but only if the securities issued under it have been disclosed to ASX before the date of this agreement;
- Flinders or any Related Entity of Flinders disposes or agrees to dispose, of the whole, or a substantial part, of its business or property (other than trading inventories and consumables in the ordinary and usual course of business);
- Flinders or any Related Entity of Flinders disposes or agrees to dispose of any of its interest in the PIOP;
- Flinders or any Related Entity of Flinders creating, or agreeing to create, any mortgage, charge, lien or other encumbrance over the whole, or a substantial part, of its business or property;
- Flinders resolving that it be wound up; a liquidator, provisional liquidator or administrator of Flinders being appointed;
- the making of an application to or order by a court for the winding up of Flinders;
- Flinders executing a deed of company arrangement; a receiver, or a receiver and manager, in relation to the whole, or a part, of the property of Flinders being appointed;
- Flinders pays or distributes any dividend, bonus or other share of its profits or assets or returns any capital to its members;
- Flinders amends or proposes to amend its constitution; Flinders ceases to carry on business or is deregistered under the Corporations Act;
- Flinders releases, discharges or modifies any obligation owed to it in excess of $10,000,000 of any person firm or body corporate or agrees to do so;

any member of the Flinders Group agrees or announces an intention to take out any of the actions referred to in the foregoing paragraphs or offers to do so.

Flinders Registered Office means Level 1, 136 Frome Street Adelaide, South Australia, 5000.

Flinders Share means a fully paid ordinary share in the capital of Flinders.

Flinders Shareholder means each person registered in the Flinders Share Register as the holder of Flinders Shares.

Flinders Share Register means the register of members of Flinders maintained by the Share Registry in accordance with the Corporations Act.

FIRB means Foreign Investment Review Board.

G

GST means goods and services tax as governed by the *A New Tax System (Goods and Services Tax) Act 1999* (Cth) and all associated legislation.

I

Implementation Date	means, if the Scheme becomes Effective, the date the Shares are transferred to MMK or its nominee and the Scheme Consideration is paid to Scheme Participants, currently expected to be Wednesday, 18 April 2012.
Independent Expert's Report	means the report prepared by the Independent Expert dated 4 January 2012 which is included in Annexure 5 to this Scheme Booklet.

J

JORC Code	means the *Australasian Code for the Reporting of Exploration Results, Mineral Resources and Ore Reserves* (JORC 2004 edition).

M

Marketable Parcel	means a parcel of equity securities with a value not less than A$500 based on the closing price of the security on the ASX.
MMK	means Magnitogorsk Iron and Steel Works OJSC.
MMK Break Fee	means A$2,750,000.
MMK Director	means a director of MMK from time to time.
MMK Group	means MMK and its Controlled Entities.
MMK Information	means information in this Scheme Booklet concerning MMK and its Related Bodies Corporate as set out in Section 4.
Mineral Resource	means a concentration or occurrence of material of intrinsic economic interest in or on the Earth's crust in such form, quality and quantity that there are reasonable prospects for eventual economic extraction (according to the JORC Code).
MRRT	means Mineral Resource Rent Tax as outlined in the Mineral Resource Rent Tax Bill 2011.
Mt	means million tonnes.
Mtpa	means million tonnes per annum.

N

Native Title Act	means *Native Title Act 1993* (Cth).
Notice of Meeting	refers to the notice relevant to the Scheme Meeting as set out in Annexure 4 to the Scheme Booklet.

O

Officer	has the meaning ascribed to the term in section 9 of the Corporations Act.

P

PFS	means Prefeasibility Study.
PIOP	means Pilbara Iron Ore Project.

R

Record Date	means the date used to determine the Flinders Shareholders who are Scheme Participants and are entitled to receive the Scheme Consideration, currently expected to be 7.00pm (Sydney, NSW time) on Friday, 13 April 2012.
Registered Address	means, in relation to a Scheme Participant, the address shown in the Flinders Share Register.

R *(cont.)*

Regulatory Authority	means: • any approval, consent, authorisation, registration, filing, lodgement, permit, franchise, agreement, notarisation, certificate, permission, licence, approval, direction, declaration, authority or exemption from, by or with a Regulatory Authority; or • in relation to anything that would be fully or partly prohibited or restricted by law if a Regulatory Authority intervened or acted in any way within a specified period after lodgement, filing, registration or notification, the expiry of that period without intervention or action.
Related Body Corporate	has the meaning given to that term in section 50 of the Corporations Act.
Representative	means, in relation to a party each of the party's Related Bodies Corporate and each of the Officers, employees and advisers of the party or any of its Related Bodies Corporate.
Requisite Majorities	means: • a majority in number (more than 50%) of those Flinders Shareholders present and voting at the Scheme Meeting in person, by proxy, by attorney or (in the case of a corporate Flinders Shareholder) by a corporate representative (unless a Court otherwise decides); and • at least 75% of the total number of votes cast on the resolution at the Scheme Meeting by Flinders Shareholders.
Rival Bidder	means a person or their Representative that makes any approach, attempted approach, inquiry or proposal (whether or not in writing) which may reasonably be expected to lead to a Third Party Proposal.

S

Scheme	means this scheme of arrangement between Flinders and Scheme Participants, subject to any alterations or conditions made or required by the Court under section 411(6) of the Corporations Act and approved in writing by MMK and Flinders.
Scheme Booklet	means this booklet.
Scheme Consideration	means thirty cents (A$0.30) cash for each Flinders Share held by a Scheme Participant on the Record Date.
Scheme Implementation Agreement	means the Scheme Implementation Agreement between Flinders and MMK dated on or about 25 November 2011, which is summarised in Annexure 1.
Scheme Meeting	means the meeting to be ordered by the Court to be convened pursuant to section 411(1) of the Corporations Act in respect of the Scheme.
Scheme Participant	means each person recorded in the Flinders Share Register as the holder of Flinders Shares as at the Record Date.
Second Court Date	means the first day on which an application made to the Court for an order approving the Scheme pursuant to section 411(4)(b) of the Corporations Act is heard or, if the application is adjourned for any reason, the first day on which the adjourned application is heard, currently expected to be Tuesday, 3 April 2012.
Shares	means the Flinders Shares on issue at the Record Date other than the Excluded Shares.
Share Registry	means the share registry which maintains the Flinders Share Register on behalf of Flinders.
Snowden	means Snowden Mining Industry Consultants Pty Ltd ABN 99 085 329 562.

Superior Proposal means a bona fide Third Party Proposal which the Flinders Directors, acting in good faith, in order to satisfy what they consider to be their fiduciary and statutory duties determine is:

- reasonably capable of being valued and completed on a timely basis, taking into account all aspects of the Third Party Proposal; and
- more favourable to Flinders Shareholders than the Scheme, taking into account all terms and conditions of the Third Party Proposal, after having taken advice from its legal and financial advisers.

T

Technical Expert means Snowden.

Technical Expert's Report means the report prepared by the Technical Expert dated 4 January 2012 which is included in Annexure 5 to this Scheme Booklet.

Third Party Proposal means any expression of interest, offer or proposal by a Third Party in respect of a transaction which, if completed, would mean a person would, directly or indirectly and whether alone or together with one or more associates:

- acquire all or a substantial part of the assets or business of Flinders or the Flinders Group;
- acquire any interest in the PIOP;
- acquire a relevant interest or a legal or equitable interest in 10% or more of Flinders Shares or of the share capital of any of its subsidiaries (including by way of issue of new Flinders Shares) or enter into any cash settled equity swap or other derivative contract arrangement in respect of 10% or more of Flinders Shares;
- acquire control of Flinders; and
- a takeover bid, scheme of arrangement, amalgamation, merger, capital reconstruction, consolidation, purchase of main undertaking or other business combination, involving Flinders and/or its related entities, in all cases, other than under the Scheme.

V

VWAP means the volume weighted average price calculated by taking the total value of Shares traded over the period divided by the total volume of Shares traded over the period.

KEY TERMS OF THE SCHEME IMPLEMENTATION AGREEMENT

Set out below is a summary of the key terms of the Scheme Implementation Agreement. A full copy of the Scheme Implementation Agreement may be obtained by contacting Flinders on +61 8 8132 7950 or by visiting Flinders' website, *flindersmines.com*.

Overview

Flinders and MMK entered into the Scheme Implementation Agreement on 25 November 2011. The Scheme Implementation Agreement sets out each party's obligations in connection with the implementation of the Scheme.

A summary of the key terms of the Scheme Implementation Agreement is set out below.

Structure of the Acquisition

The acquisition is proceeding by way of scheme of arrangement between Flinders and its shareholders.

Conditions

The obligations of Flinders and MMK to implement the Scheme are subject to the following conditions being satisfied or, where applicable, waived in accordance with the terms of the Scheme Implementation Agreement (conditions in the Scheme Implementation Agreement which have already been satisfied as at the date of this Scheme Booklet have been excluded from this list):

1. No Prohibitions for Scheme

No temporary restraining order, preliminary or permanent injunction or other order issued by any court of competent jurisdiction or other legal restraint or prohibition being in effect at 8:00am on the Second Court Date which prevents the consummation of any aspect of the Scheme.

2. No Transaction involving Flinders

As at 8:00am on the Second Court Date, Flinders has not entered into any agreement, arrangement or understanding with a third party in relation to a Third Party Proposal.

3. No Flinders Prescribed Occurrence

No Flinders Prescribed Occurrence occurs between the date of the Scheme Implementation Agreement and 8:00am on the Second Court Date.

4. No Flinders Material Adverse Change

No Flinders Material Adverse Change occurs between the date of the Scheme Implementation Agreement and 8:00am on the Second Court Date.

5. FIRB

Before 8:00am on the Second Court Date either:

(i) the Treasurer of Australia gives an approval, or indicates that it has no objection, to the acquisition by MMK of the Scheme Shares under the *Foreign Acquisitions and Takeovers Act 1975* (Cth) (**FATA**) (that approval to be subject to no conditions or only to those conditions that MMK considers to be acceptable, acting reasonably); or

(ii) the relevant period expires following the giving of notice relating to the acquisition by MMK of the Flinders Shares under section 26 of FATA without any permanent order of prohibition being made under the FATA.

6. Flinders Shareholder Approval of Scheme

Flinders Shareholders approve the Scheme at the Scheme Meeting (or any adjournment or postponement thereof) by the necessary majorities as may be modified by the Court in accordance with section 411(4)(a)(ii)(A) of the Corporations Act.

7. Court Approval of Scheme

The Court approving the Scheme under section 411(4)(b) of the Corporations Act and an office copy of the Court Orders approving the Scheme is lodged with ASIC as contemplated by section 411(10) of the Corporations Act.

8. Approvals and Consents

Before 8:00am on the Second Court Date, each of ASIC and ASX gives all approvals and consents, and takes such other steps, as are necessary or desirable to implement the Scheme.

9. Representations and Warranties

The representations and warranties given by Flinders in the Scheme Implementation Agreement are true and correct in all material respects as at the date of the Scheme Implementation Agreement and, unless otherwise expressly stated, also as at 8:00am on the Second Court Date, and no material breach of the warranties given by Flinders in the Scheme Implementation Agreement occurs between the date of the Scheme Implementation Agreement and 8:00am on the Second Court Date.

Recommendation of Scheme

Flinders undertakes to MMK to ensure that the Flinders Board (and each Flinders Director):

- will unanimously recommend in the Scheme Booklet that Flinders Shareholders vote in favour of the Scheme, in the absence of a Superior Proposal;
- state that they consider the Scheme to be in the best interests of Flinders Shareholders in the absence of a Superior Proposal;
- intends to vote in favour of the Scheme or procure that Flinders Shares are voted in favour of the Scheme in respect of all Flinders Shares held by each Flinders Director or in respect of which such Flinders Director has control of the voting right;
- will give reasons for that recommendation in the Scheme Booklet; and
- will not change or withdraw that recommendation and will not make any public statement which would suggest that the Scheme is no longer recommended.

The Flinders Board (and each Flinders Director) will be entitled to change or withdraw their recommendation if the Flinders Board has received a Superior Proposal and MMK has exhausted its right of last offer (described further below).

Exclusivity

Flinders and MMK have agreed to mutual exclusivity provisions in relation to any Third Party Proposals including the following:

- no current discussions / no solicitation restriction – Flinders must not participate in any discussions or negotiations in, or invite or encourage, a Third Party Proposal;
- no due diligence – Flinders must not solicit, facilitate or encourage any party to undertake due diligence investigations on either company;
- no talk restriction – Flinders must not negotiate or enter into any discussions with any other person in relation to a Third Party Proposal; and
- notification of any approaches – Flinders must promptly notify MMK of the key terms of any Third Party Proposal and the identity of the third party.

The provisions relating to no due diligence, no talk and notification of approaches do not apply to Third Party Proposals where the failure to respond or the notification would breach the fiduciary and statutory duties of the directors of Flinders.

Flinders Response to a Third Party Proposal

During the Exclusivity Period, if any member of the Flinders Group proposes or is considering entering into or any Flinders Director wishes to approve or publicly recommend entry into a Commitment relating to a Third Party Proposal, Flinders must ensure that they do not do so unless the Third Party Proposal is bona fide and is made in writing, and until each of the following events has happened:

- the Flinders Directors have determined in good faith that:
  - the Third Party Proposal is a Superior Proposal;
  - failing to respond to the Third Party Proposal would be likely to constitute a breach of its fiduciary or statutory duties; and
  - Flinders has given MMK notice in writing of its intention to enter into a Commitment in relation to that Third Party Proposal, subject to MMK's rights to make a Counterproposal, as well as full details of all material terms of the Third Party Proposal (including the identity of the Rival Bidder and details of the proposed consideration, conditions and break fee (if any)), together with any material information concerning Flinders' operations provided to the Rival Bidder or any person associated with the Third Party Proposal not previously provided to MMK;
- MMK's rights to make a Counterproposal have been exhausted; and
- the Flinders Directors has made the determination above after MMK's rights to make a Counterproposal have been exhausted and after evaluation of any Counterproposal.

Until MMK's rights to make a Counterproposal have been exhausted, Flinders must not enter into any legally binding agreement with respect to the Third Party Proposal or otherwise progress the Third Party Proposal, including by permitting the Rival Bidder to undertake due diligence investigations on the Flinders Group.

KEY TERMS OF THE SCHEME IMPLEMENTATION AGREEMENT *(cont.)*

MMK Right of Last Offer

If Flinders gives notice of a Third Party Proposal to MMK:

- MMK will have the right, but not the obligation, at any time during the period of 3 Business Days following receipt of such notice, to offer to amend the terms of the Scheme, propose any other transaction or make an offer to Flinders;
- if MMK makes a Counterproposal, Flinders and the Flinders Directors must consider it in good faith; and
- if the Flinders Directors, acting reasonably and after taking legal and financial advice considers that the Counterproposal would provide a benefit to Flinders Shareholders that is at least equal to that of the Third Party Proposal, then:
  - if the Counterproposal contemplates an amendment to the Scheme, the parties must use their best endeavours to negotiate in good faith the amendments to the Scheme documentation that are reasonably necessary to reflect the Counterproposal and to enter into one or more appropriate amended agreements to give effect to those amendments and to implement the Counterproposal, in each case as soon as practicable following the determination of the Flinders Directors;
  - if the Counterproposal contemplates any other transaction, Flinders must make an announcement to ASX as soon as reasonably practical which states that the Flinders Directors recommends the Counterproposal subject to reaching agreement on legally binding terms, and the parties must pursue negotiation of documentation and implementation of the Counterproposal in good faith;
  - Flinders must not, and must procure that the Flinders Directors do not, publically state that it intends to recommend, or enter into a Commitment, in relation to that Third Party Proposal; and
  - Flinders must use reasonable endeavours to agree to amendments to the Scheme Implementation Agreement that are reasonably necessary to reflect the Counterproposal and to enter into one or more amended agreements to give effect to those amendments and to implement the Counterproposal, in each case as soon as reasonably practicable.

Flinders Break Fee

Flinders must pay MMK the Flinders Break Fee if any of the following occur:

- any Flinders Director:
  - makes any public statement prior to the approval of the Scheme by the Court under section 411(4)(b) of the Corporations Act, to the effect that he or she does not support (or no longer supports) the Scheme; or
  - fails to recommend that Flinders Shareholders vote in favour of the Scheme and fails to state that they intend to vote the Shares they hold in favour of the Scheme, in each case in the absence of a Superior Proposal, or, having done so, any director of Flinders publicly withdraws or varies his or her recommendation (or any part of it) or makes a public statement indicating that they no longer support the Scheme prior to the approval of the Scheme by the Court under section 411(4)(b) of the Corporations Act,

  other than (in either such case) because the Independent Expert has concluded in the Independent Expert's Report that the Scheme is not in the best interests of Flinders Shareholders and the reasons for the Independent Expert's conclusion or amended conclusion do not include the existence of a Third Party Proposal;
- before the Scheme becomes Effective, any director of Flinders publicly recommends, promotes or otherwise endorses a Third Party Proposal in relation to Flinders;
- Flinders is in material breach of any of its obligations under the Scheme Implementation Agreement and (if capable of remedy) has failed to remedy the breach within three Business Days of receipt by it of written notice from MMK notifying Flinders of the breach;
- a Third Party Proposal is announced and, either before or within 12 months of the date the Third Party Proposal is announced:
  - the person making the Third Party Proposal (whether alone or together with one or more Associates), acquires a relevant interest in more than 10% of all Flinders Shares (including as a result of the issue of new Flinders Shares) pursuant to a scheme of arrangement, takeover bid, selective reduction of capital or dual listed or stapled company proposal;
  - a Commitment is entered into by Flinders under which a person or persons other than a member of the MMK Group will:
    - acquire a relevant interest in 10% or more of all Flinders Shares (including by way of issue of new Flinders Shares) unless that person publicly states that they intend to vote in favour of the Scheme;

- acquire the whole or a substantial part of the business or assets of Flinders or the Flinders Group;
- acquire any interest in its PIOP;
- acquire Control of Flinders; or
- otherwise acquire or merge with Flinders (including by reverse takeover bid or scheme, or by establishing a dual listed company structure or stapled security structure),

and completion of such Commitment takes place within 12 months of the date of the Commitment.

- Flinders breaches the exclusivity arrangements described above where the breach leads to a Third Party Proposal being announced; or
- MMK terminates the Scheme Implementation Agreement in circumstances where the prevention of the breach of the relevant obligation, representation or warranty under the Scheme Implementation Agreement was within the control of Flinders.

MMK Break Fee

MMK will pay Flinders the MMK Break Fee if MMK is in material breach of any of its obligations under the Scheme Implementation Agreement and (if capable of remedy) has failed to remedy the breach within three Business Days of receipt of it of written notice from Flinders notifying MMK of the breach.

Termination

The Scheme Implementation Agreement may be terminated in certain circumstances, including by either party giving notice to the other if:

- the Effective Date for the Scheme has not occurred on or before 30 June 2012 or such later date as MMK and Flinders may agree in writing;
- the Independent Expert (as amended or updated from time to time) concludes that the Scheme is not in the best interests of Flinders Shareholders;
- the other party is in material breach of its obligations under the Scheme Implementation Agreement at any time before the start of the Court hearing on the Second Court Date (including any material breach of a representation or warranty provided under the Scheme Implementation Agreement) and (if capable of remedy) has failed to remedy the breach within the earlier of three Business Days of receipt by it of written notice from the first party notifying the other party (or parties) of the breach and 8:00am on the Second Court Date;
- at the Scheme Meeting or any adjournment or postponement of it at which the Scheme is voted on, the Scheme is not approved by the necessary majorities of Flinders Shareholders, as may be modified by the Court in accordance with section 411(4)(a)(ii)(A) of the Corporations Act;
- any court or Regulatory Authority has issued any order, decree or ruling or taken any other action permanently enjoining, restraining or otherwise prohibiting the Scheme, or has refused to do anything necessary to permit the Scheme, and the parties fail to agree on conducting on appeal within five Business Days;
- any of the conditions to implementation of the Scheme are not satisfied, have become incapable of being satisfied or are not reasonably capable of being satisfied, and has not been waived by the party entitled to waive it, before 30 June 2012 or such later date as MMK and Flinders may agree in writing; or
- MMK makes a takeover bid under Chapter 6 of the Corporations Act for the Flinders Shares.

MMK may, by notice in writing to Flinders, terminate the Scheme Implementation Agreement with immediate effect before the start of the Court hearing on the Second Court Date if any of the circumstances giving rise to an obligation on Flinders to pay the Flinders Break Fee arise, or if Flinders is in breach of its obligations to ensure that the board of Flinders and each director of Flinders make recommendations to vote in favour of the Scheme.

Representations and Warranties

Each of Flinders and MMK have given representations and warranties to the other which are considered to be normal for an agreement of this kind, including in relation to capacity, title and solvency.

SCHEME OF ARRANGEMENT

pursuant to s 411 of the Corporations Act 2001

between

FLINDERS MINES LIMITED

(ABN 46 091 118 044)

and

EACH SCHEME PARTICIPANT

D | M | A | W
LAWYERS

Level 3, 80 King William Street
Adelaide South Australia 5000

Phone +61 8 8210 2222
Facsimile + 61 8 8210 2233
Email: dmaw@dmawlawyers.com.au

CONTENTS

SCHEME OF ARRANGEMENT

PARTIES

1. **FLINDERS MINES LIMITED** (ABN 46 091 118 044) of Level 1, 136 Frome Street, Adelaide, SA 5000.

2. The holders of fully paid ordinary shares in Flinders as at the Record Date.

INTRODUCTION

A Flinders is a public company limited by Shares. Flinders' fully paid ordinary Shares are quoted on the securities exchange operated by ASX.

B MMK and Flinders have entered into a Scheme Implementation Agreement which sets out the terms on which the parties have agreed to implement the Scheme.

C MMK has entered into the Deed Poll for the purpose of covenanting in favour of Scheme Participants to provide to each Scheme Participant the Scheme Consideration to which each Scheme Participant is entitled under the Scheme and to perform its obligations under the Scheme Implementation Agreement.

OPERATIVE PART

1. Conditions

Conditions Precedent

1.1 This Scheme is conditional on each of the following conditions precedent:

1.1.1 all of the conditions set out in schedule 2 of the Scheme Implementation Agreement (other than the seventh condition precedent listed in schedule 2 of that agreement), having been satisfied or waived in accordance with the terms of the Scheme Implementation Agreement before 8:00am on the Second Court Date;

1.1.2 as at 8:00am on the Second Court Date, neither the Scheme Implementation Agreement nor the Deed Poll have been terminated in accordance with their terms;

1.1.3 the Scheme having been approved at the Scheme Meeting, with or without modification, by the Requisite Majorities in accordance with section 411(4)(a) of the Corporations Act or, if the Scheme is not agreed to by the Requisite Majorities, the Court orders otherwise in accordance with section 411(4)(a) of the Corporations Act;

1.1.4 the Scheme being approved by the Court pursuant to section 411(4)(b) of the Corporations Act without modification or with modifications which are acceptable to MMK and Flinders; and

1.1.5 such other conditions that may be imposed by the Court under section 411(6) of the Corporations Act as are acceptable to MMK and Flinders.

Satisfaction of Conditions

1.2 Flinders and Scheme Participants will not have any rights or obligations under clauses 2, 3, 5, 6.3, 6.4 and 6.5 of this document unless and until the conditions precedent in clause 1.1 are satisfied.

Certificate

1.3 Flinders must provide, and must procure MMK to provide, to the Court on the Second Court Date a certificate confirming that the conditions precedent in clauses 1.1.1, 1.1.2, and 1.1.3 have been satisfied or waived (subject to the terms of the Scheme Implementation Agreement) as at 8:00am on the Second Court Date.

Conclusive Evidence

1.4 The giving of a certificate by each of Flinders and MMK in accordance with clause 1.3 will, in the absence of manifest error, be conclusive evidence of the matters referred to in each certificate.

Termination of Scheme Implementation Agreement

1.5 Without limiting rights under the Scheme Implementation Agreement, if the Scheme Implementation Agreement is terminated in accordance with its terms before 8:00am on the Second Court Date, Flinders and MMK are each released from:

1.5.1 any further obligation to take steps to implement the Scheme; and

1.5.2 any liability with respect to the Scheme,

provided that Flinders and MMK retain the rights they have against each other in respect of any prior breach of the Scheme Implementation Agreement.

Effective Date

1.6 This Scheme takes effect on the Effective Date.

SCHEME OF ARRANGEMENT *(cont.)*

Quit Date

1.7 The Scheme will lapse and be of no further force or effect:

1.7.1 if the Effective Date has not occurred on or before the Quit Date; or

1.7.2 the Scheme Implementation Agreement is terminated on or before the date upon which MMK provides, or procures the provision of, the Scheme Consideration to Scheme Participants.

2. Scheme

Lodgment of Court Order

2.1 On or before the second Business Day following approval of the Scheme by the Court in accordance with section 411(4)(b) of the Corporations Act, Flinders will lodge with ASIC an office copy of the Court Order under section 411(10) of the Corporations Act approving this Scheme.

Transfer of Flinders Shares held by Scheme Participants

2.2 On the Implementation Date and subject to the provision of the Scheme Consideration in accordance with the Deed Poll:

2.2.1 the Scheme Shares together with all rights and entitlements attaching to them as at that date, will be transferred to MMK without the need for any further acts by the Scheme Participants (other than acts performed by Flinders as attorney and agent for the Scheme Participants under clause 6.4);

2.2.2 Flinders will either effect a valid transfer or transfers of the Scheme Shares to MMK under section 1074D of the Corporations Act or deliver to MMK duly completed and executed share transfer forms (or a master transfer form) in accordance with section 1071B of the Corporations Act and MMK will execute and deliver those share transfer form(s) to Flinders; and

2.2.3 subject to execution and delivery of a share transfer form under clause 2.2.2 (if applicable), Flinders will enter the name of MMK in the Flinders Share Register as the holder of all the Scheme Shares.

Beneficial Entitlement by MMK

2.3 From the time of the provision of the Scheme Consideration to the Scheme Participants on the Implementation Date in accordance with clause 3, MMK will be beneficially entitled to the Scheme Shares (together with all rights and entitlements attached to the Scheme Shares) to be transferred to it under the Scheme pending registration of MMK in the Flinders Share Register as the holder of those Scheme Shares.

Enforcement of Deed Poll

2.4 Flinders undertakes in favour of each Scheme Participant to enforce the Deed Poll against MMK on behalf of and as agent for the Scheme Participants.

3. Scheme Consideration

Amount of Scheme Consideration

3.1 On the Implementation Date, in consideration for the transfer to MMK of the Scheme Shares, each Scheme Participant will be entitled to receive the Scheme Consideration in respect of each of their Scheme Shares in accordance with this Scheme subject to the terms of the Deed Poll.

Joint Holders

3.2 In the case of Scheme Shares held in joint names, any cheque required to be drawn in favour of Scheme Participants will be payable to the joint holders and must be forwarded to the holder whose name appears first in the Flinders Share Register at the Record Date.

Payment of Scheme Consideration

3.3 Subject to the conditions precedent in clause 1.1 being satisfied, on the Implementation Date, Flinders must procure that MMK deposits (or procures the deposit of) an amount equal to the aggregate amount of the Scheme Consideration payable to all Scheme Participants in cleared funds into an Australian dollar denominated trust account operated by the Trustee, to be held on trust for the Scheme Participants for the purpose of paying the Scheme Consideration to each Scheme Participant, except that any interest on the amount deposited (less bank fees and other charges) will be to MMK's account.

3.4 Subject to compliance with clause 3.3 on the Implementation Date, the Trustee must pay from the account referred to in clause 3.3 to each Scheme Participant such amount of cash as is due to that Scheme Participant under clause 3.1 as Scheme Consideration in respect of all that Scheme Participant's Scheme Shares.

3.5 The obligations under clause 3.4 will be satisfied by the Trustee taking the following actions on the Implementation Date:

3.5.1 sending (or procuring the Share Registry to send) to each Scheme Participant's Registered Address by pre-paid post a pre-printed cheque in the name of that Scheme Participant and for the relevant amount (denominated in Australian currency) drawn out of the trust account established under clause 3.3; or

3.5.2 if the Scheme Participant has a payment direction (that is currently used for the payment of dividends) for a bank account with any Australian authorised deposit-taking institution (as defined in the Corporations Act) recorded in the Flinders Share Register as at the Record Date, depositing (or procuring the Share Registry to deposit) the relevant amount into that account.

3.6 To the extent there is any surplus in the funds held by the Trustee in the trust account after the making of payments under clause 3.5, that surplus must be promptly paid by the Trustee to MMK.

4. Dealings in Flinders Shares

4.1 For the purpose of establishing who are Scheme Participants, dealings in Flinders Shares will only be recognised if:

4.1.1 in the case of dealings of the type to be effected using CHESS, the transferee is registered in the Flinders Share Register as the holder of the relevant Flinders Shares on the Record Date; and

4.1.2 in all other cases, if registrable transmission applications or transfers in registrable form in respect of those dealings are received on or before the Record Date at the place where the Flinders Share Register is kept.

4.2 Flinders must register registrable transmission applications or transfers of the type referred to in clause 4.1.2 by the Record Date, provided that nothing in this clause requires Flinders to register a transfer that would result in a Flinders Shareholder holding a parcel of Flinders Shares that is less than a Marketable Parcel.

4.3 Flinders will not accept for registration or recognise for any purpose any transmission application or transfer in respect of Flinders Shares received after the Record Date, other than a transfer to MMK in accordance with the Scheme and any subsequent transfer by MMK or its successors in title.

4.4 For the purpose of determining entitlements to the Scheme Consideration, Flinders will, until the Scheme Consideration has been provided, maintain the Flinders Share Register in accordance with the foregoing provisions of this clause 4 and the Flinders Share Register in this form will solely determine entitlements to the Scheme Consideration.

4.5 Flinders must procure that as soon as practicable after the Record Date, details of the names, Registered Addresses and holdings of Scheme Shares of every Scheme Participant as shown in the Flinders Share Register at the Record Date are made available to MMK in such form as MMK may reasonably require.

4.6 Subject to implementation occurring under this Scheme, as from the Record Date, all share certificates and holding statements for the Scheme Shares (other than statements of holding in favour of MMK) held at the Record Date will cease to have effect as documents of title in respect of those Scheme Shares, and each entry currently on the Flinders Share Register at that time in respect of Scheme Shares will cease to have any effect other than as evidence of entitlement to the Scheme Consideration in respect of the Scheme Shares relating to that entry.

5. Quotation of Shares

Suspension of trading in Flinders Shares

5.1 It is expected that suspension of trading on ASX in Flinders Shares will occur from the close of trading on the ASX on the Effective Date.

Termination from Official Quotation of Flinders Shares

5.2 Flinders will apply for termination of the official quotation of Flinders Shares on ASX and the removal of Flinders from the official list of ASX with effect from the Business Day after the date on which all transfers of the Scheme Shares to MMK have been duly registered by Flinders in accordance with this Scheme.

SCHEME OF ARRANGEMENT *(cont.)*

6. General

Alterations and Conditions

6.1 If the Court proposes to approve this Scheme subject to any alterations or conditions, Flinders may by its legal counsel, but subject to the prior approval of MMK (such approval not to be unreasonably withheld), consent on behalf of all persons concerned to those alterations or conditions.

Warranties by Scheme Participants

6.2 Each Scheme Participant is deemed to have warranted to Flinders, in its own right and for the benefit of MMK, that:

6.2.1 all their Scheme Shares (including any rights and entitlements attaching to those Shares) transferred to MMK under the Scheme will, on the Implementation Date, be fully paid and free from all mortgages, charges, liens, encumbrances, pledges, security interests and other interests of third parties of any kind, whether legal or otherwise, and restrictions on transfer of any kind, whether legal or otherwise (but acknowledging that a security interest holder may potentially have an interest in the Scheme Consideration in accordance with the terms of such security interest); and

6.2.2 they have full power and capacity to sell and to transfer their Scheme Shares (including any rights and entitlements attaching to those Shares) to MMK under the Scheme.

Covenants by Scheme Participants

6.3 Each Scheme Participant:

6.3.1 consents to Flinders doing all things necessary or incidental to the implementation of this Scheme including executing all deeds, instruments, transfers or other documents as may be necessary, incidental or expedient to the implementation and performance of the Scheme and Flinders, as agent of each Scheme Participant, may sub-delegate its functions under this clause 6.3.1 to any of its directors and officers, severally; and

6.3.2 agrees to the transfer of all of their Scheme Shares (together with all rights and entitlements attaching to those Shares) to MMK in accordance with the terms of this Scheme.

6.4 Each Scheme Participant, without the need for any further act, irrevocably appoints Flinders and all of its directors and officers (jointly and severally) as its attorney and agent for the purpose of:

6.4.1 enforcing the Deed Poll against MMK; and

6.4.2 executing any document necessary or expedient to give effect to the Scheme or doing any other act necessary or desirable to give full effect to the Scheme and the transactions contemplated by it.

6.5 From the Effective Date until Flinders registers MMK as the holder of all the Scheme Shares in the Flinders Share Register, each Scheme Participant:

6.5.1 is deemed to have irrevocably appointed MMK as its attorney and agent (and directed MMK in such capacity) to appoint such officer or agent nominated by MMK to be its sole proxy and, where applicable, corporate representative, to attend shareholders' meetings of Flinders, exercise the votes attaching to Scheme Shares registered in its name and sign any shareholders' resolution, whether in person, by proxy or by corporate representative, and no Scheme Participant may itself attend or vote at any of those meetings or sign any resolutions, whether in person, by proxy or by corporate representative (other than pursuant to this clause 6.5.1); and

6.5.2 must take all other actions in the capacity of the registered holder of Scheme Shares as MMK directs.

7. Communications

7.1 Where a notice, transfer, transmission application, direction or other communication referred to in this document is sent by post to Flinders, it will not be deemed to be received in the ordinary course of post or on a date other than the date (if any) on which it is actually received at Flinders' registered office or at its Share Registry.

7.2 The accidental omission to give notice of the Scheme Meeting or the non-receipt of such a notice by any Flinders Shareholder shall not, unless so ordered by the Court, invalidate the Scheme Meeting or the proceedings of the Scheme Meeting.

8. Further Action

8.1 Flinders must do all things reasonably necessary to give full effect to the Scheme, including:

8.1.1 executing documents; and

8.1.2 ensuring its employees and agents perform their obligations.

8.2 Flinders must not do anything that will prevent this document from being carried out.

9. Governing Law

9.1 This document is governed by the laws of South Australia.

9.2 The parties irrevocably submit to the non-exclusive jurisdiction of the courts of South Australia and the South Australian division of the Federal Court of Australia, and the courts of appeal from them.

9.3 No party may object to the jurisdiction of any of those courts on the ground that it is an inconvenient forum or that it does not have jurisdiction.

10. Costs

10.1 Any costs, and any stamp duty and any related fines, interest or penalties, which are payable on or in respect of this document or on any document referred to in this document will be paid as provided for in the Scheme Implementation Agreement. For the avoidance of doubt, the Scheme Participants do not have to pay any stamp duty, related fines, interest or penalties which are payable on or in respect of this document or any document referred to in this document.

11. Interpretation

In this document, unless the context otherwise requires:

11.1 headings do not affect interpretation;

11.2 singular includes plural and plural includes singular;

11.3 words of one gender include any gender;

11.4 unless otherwise stated, a reference to time is a reference to Adelaide, Australia time;

11.5 a reference to "dollars", "$A", "A$" or "$" is a reference to Australian currency;

11.6 a reference to a statute, ordinance, code or other law includes regulations and other instruments under it and consolidations, amendments, re enactments or replacements of any of them;

11.7 unless otherwise stated, a reference to a clause, paragraph, schedule or annexure is to a clause or paragraph of, or schedule or annexure to, this document, and a reference to this document includes any schedule or annexure;

11.8 reference to a person includes a corporation, body corporate, joint venture, association, government body, firm and any other entity;

11.9 a reference to a party is to a party to this document, and a reference to a party to an agreement includes the party's executors, administrators, successors and permitted assigns and substitutes;

11.10 reference to two or more people means each of them individually and all of them jointly;

11.11 if a party comprises two or more people:

11.11.1 a promise by that party binds each of them individually and all of them jointly;

11.11.2 a right given to that party is given to each of them individually;

11.11.3 a representation, warranty or undertaking by that party is made by each of them individually;

11.12 a provision must not be construed against a party only because that party prepared it;

11.13 a provision must be read down to the extent necessary to be valid. If it cannot be read down to that extent, it must be severed;

11.14 the meaning of general words or provisions shall not be limited by references to specific matters that follow them (for example, introduced by words such as "including" or "in particular") or precede them or are included elsewhere in this document;

11.15 if a thing is to be done on a day which is not a Business Day, it must be done on the next Business Day;

11.16 another grammatical form of a defined expression has a corresponding meaning;

11.17 an expression defined in the Corporations Act has the meaning given by that Act at the date of this document.

SCHEME OF ARRANGEMENT *(cont.)*

12. Definitions

The following definitions apply in this document:

ASIC
means the Australian Securities and Investments Commission.

ASX
means ASX Limited or the securities exchange it operates, as the context requires.

ASX Listing Rules
means the official listing rules of ASX.

ASX Market Rules
means the official market rules of ASX.

Business Day
has the meaning given in the ASX Listing Rules.

CHESS
means the Clearing House Electronic Subregister System, which facilitates electronic security transfer in Australia.

Corporations Act
means the Corporations Act 2001 (Cth).

Court
means the Federal Court of Australia or any other court of competent jurisdiction under the Corporations Act agreed in writing by Flinders and MMK.

Deed Poll
means the deed poll made by MMK under which MMK covenants in favour of Scheme Participants to perform its obligations under the Scheme Implementation Agreement.

Effective
means, when used in relation to the Scheme, the coming into effect, pursuant to section 411(10) of the Corporations Act, of the order of the Court made for the purposes of section 411(4)(b) in relation to the Scheme.

Effective Date
means, in relation to the Scheme, the date on which the Scheme becomes Effective.

Excluded Share
means a Flinders Share held by MMK or by any person on behalf of or for the benefit of MMK.

Flinders
means Flinders Mines Limited ABN 46 091 118 044.

Flinders Share
means a fully paid ordinary share in the capital of Flinders.

Flinders Shareholder
means each person registered in the Flinders Share Register as the holder of Flinders Shares.

Flinders Share Register
means the register of members of Flinders maintained by the Share Registry in accordance with the Corporations Act.

Implementation Date
means, in relation to the Scheme, the third Business Day after the Record Date, or such other date as MMK and Flinders agree in writing.

Marketable Parcel
has the meaning given to that term in the ASX Market Rules.

MMK
means Magnitogorsk Iron and Steel Works OJSC or its nominee.

Quit Date
means 30 June 2012 or such later date as MMK and Flinders may agree in writing.

Record Date
means, in relation to the Scheme, 7:00pm (Sydney time) on the fifth Business Day after the Second Court Date or such other date as MMK and Flinders agree in writing.

Registered Address
means, in relation to a Scheme Participant, the address shown in the Flinders Share Register.

Requisite Majorities
means:

- a majority in number (more than 50%) of those Flinders Shareholders present and voting at the Scheme Meeting in person, by proxy, by attorney or (in the case of a corporate Flinders Shareholder) by a corporate representative (unless a Court otherwise decides); and
- at least 75% of the total number of votes cast on the resolution at the Scheme Meeting by Flinders Shareholders.

Scheme

means this scheme of arrangement between Flinders and Scheme Participants, subject to any alterations or conditions made or required by the Court under section 411(6) of the Corporations Act and approved in writing by MMK and Flinders.

Scheme Booklet

means the information to be dispatched to Flinders Shareholders and approved by the Court, including the Scheme, explanatory statements in relation to the Scheme issued pursuant to section 412 of the Corporations Act and registered with ASIC, an independent expert's report prepared by the Independent Expert, summaries of each of the Scheme Implementation Agreement and the Deed Poll and notices convening the Scheme Meeting (together with proxy forms).

Scheme Consideration

means thirty cents (A$0.30) cash for each Scheme Share held by a Scheme Participant.

Scheme Implementation Agreement

means the Scheme Implementation Agreement between Flinders and MMK dated on or about 25 November 2011, a copy of which is annexed to the Scheme Booklet.

Scheme Meeting

means the meeting to be ordered by the Court to be convened pursuant to section 411(1) of the Corporations Act in respect of the Scheme.

Scheme Participant

means each person recorded in the Flinders Share Register as the holder of Scheme Shares as at the Record Date.

Scheme Shares

means the Flinders Shares on issue at the Record Date other than the Excluded Shares.

Second Court Date

means the first day on which an application made to the Court for an order approving the Scheme pursuant to section 411(4)(b) of the Corporations Act is heard or, if the application is adjourned for any reason, the first day on which the adjourned application is heard.

Share Registry

means the share registrar who maintains the Flinders Share Register on behalf of Flinders.

Trustee

means Flinders as trustee for the Scheme Participants.

SCHEME DEED POLL

MAGNITOGORSK IRON AND STEEL WORKS OJSC

IN FAVOUR OF EACH SCHEME PARTICIPANT

D | M | A | W
LAWYERS

Level 3, 80 King William Street
Adelaide South Australia 5000

Phone +61 8 8210 2222
Facsimile + 61 8 8210 2233
Email: dmaw@dmawlawyers.com.au

CONTENTS

DEED POLL dated **2012**

PARTIES

1. Magnitogorsk Iron and Steel Works OJSC of 93 U1.Kirova, Magnitogorsk, Chelyabinsk Region, 455002, Russia (MMK) in favour of each Scheme Participant

INTRODUCTION

A. The directors of Flinders Mines Limited (Flinders) consider that it is in the interests of Flinders and Flinders Shareholders that Flinders Shareholders consider the Scheme. The directors of Flinders have therefore resolved that Flinders propose the Scheme.

B. On or about 25 November 2011 Flinders and MMK entered into a Scheme Implementation Agreement (Scheme Implementation Agreement), under which MMK has agreed (subject to the satisfaction or waiver of certain conditions) to do all things necessary or desirable on its part to implement the Scheme, including providing the Scheme Consideration to Scheme Participants.

C. MMK is entering into this deed for the purpose of covenanting in favour of the Scheme Participants to perform certain of its obligations under the Scheme Implementation Agreement.

OPERATIVE PART

1. Preliminary

Definitions and interpretation

1.1 The following definitions apply in this deed:

Scheme means the scheme of arrangement pursuant to Part 5.1 of the Corporations Act between Flinders and the Scheme Participants.

Other capitalised words and phrases have the same meaning as given to them in the Scheme. Unless the context requires otherwise, clause 11 of the Scheme applies as if set out in full in this deed.

Nature of this deed poll

1.2 MMK acknowledges that:

1.2.1 this deed is a deed poll and may be relied on and enforced by any Scheme Participant in accordance with its terms, notwithstanding that each of the Scheme Participants is not party to this deed; and

1.2.2 under the Scheme, each Scheme Participant irrevocably appoints Flinders and any of Flinders' directors as its agent and attorney to, among other things, enforce this deed against MMK.

2. Condition precedent and termination

Condition

2.1 Each of MMK's obligations under this deed are subject to the Scheme becoming Effective.

Termination

2.2 If the Scheme Implementation Agreement is terminated in accordance with its terms, or the Scheme does not become Effective on or before the Quit Date, the obligations of MMK under this deed will automatically terminate, unless MMK and Flinders agree otherwise in writing.

Consequences of termination

2.3 If this deed is terminated under clause 2.2 then in addition and without prejudice to any other rights, powers or remedies available to Scheme Participants:

2.3.1 MMK is released from its obligations to further perform this deed, except those obligations contained in clause 5 and any other obligations which by their nature survive termination; and

2.3.2 the Scheme Participants retain the rights they have against MMK in respect of any breach of this deed which occurred before this deed is terminated.

3. Payment of Scheme Consideration

3.1 Subject to the condition precedent in clause 2.1 being satisfied, in consideration of the transfer to MMK of all of the Scheme Shares, MMK undertakes in favour of each Scheme Participant to pay or procure the payment of the Scheme Consideration to each Scheme Participant in accordance with the terms of the Scheme.

3.2 The obligation of MMK under clause 3.1 will be satisfied if, on or before the Business Day immediately prior to the Implementation Date, MMK pays or procures payment of an amount at least equal to the aggregate amount of the Scheme Consideration payable to all Scheme Participants to be deposited in cleared funds into an Australian dollar denominated trust account operated by the Trustee, to be held on trust for the Scheme Participants for the purpose of paying the Scheme Consideration to each Scheme Participant, except that any interest on the amount deposited (less bank fees and charges) will be to MMK's account.

SCHEME DEED POLL *(cont.)*

3.3 If Flinders proposes to effect the transfer of the Scheme Shares from Scheme Participants to MMK by way of share transfer forms (or a master transfer form) in accordance with section 1071B of the Corporations Act, on the Implementation Date MMK must execute (or procure the execution of) the transfer form(s) and deliver the executed transfer form(s) to Flinders for registration.

4. Representations and warranties

MMK represents and warrants that:

4.1 it is a corporation validly existing under the laws of its place of incorporation;

4.2 it has the corporate power to enter into and perform its obligations under this deed and to carry out the transactions contemplated by this deed;

4.3 it has taken all necessary corporate action to authorise the entry into this deed and has taken or will take all necessary corporate action to authorise the performance of this deed and to carry out the transactions contemplated by this deed;

4.4 this deed is valid and binding upon it.

5. Continuing obligations

This deed is irrevocable and subject to clause 2, remains in full force and effect until:

5.1 MMK has completely performed its obligations under this deed; or

5.2 the earlier termination of this deed under clause 2.

6. Stamp duty

6.1 MMK must pay all stamp duties, and any related fines, penalties and interest (if any) in respect of this deed, the performance of this deed or in respect of any instrument or other document executed to give effect to this deed.

6.2 MMK will indemnify each Scheme Participant against any liability arising from failure to comply with clause 6.1.

7. General

Exercise of rights

7.1 If a Scheme Participant does not exercise a right of remedy fully or at a given time, it may still exercise it later.

Waiver and variation

7.2 A provision or right under this deed may not be waived except in writing signed by the person granting the waiver.

7.3 A provision of this deed may not be varied unless the variation is agreed to by Flinders and the Court indicates that the variation would not in itself preclude approval of the Scheme in which event MMK will enter into a further deed poll in favour of the Scheme Participants giving effect to such variation.

Rights cumulative

7.4 Except as expressly stated otherwise in this deed, the rights of MMK and each of the Scheme Participants under this deed are cumulative and are in addition to any other rights of that party.

Governing law and jurisdiction

7.5 This deed is governed by the laws of South Australia.

7.6 The parties irrevocably submit to the non-exclusive jurisdiction of the courts of South Australia and the South Australian division of the Federal Court of Australia and any courts which have jurisdiction to hear appeals from any of those courts and waives any right to object to any proceedings being brought in those courts.

7.7 MMK irrevocably appoints Corrs Chambers Westgarth (Attention: Adam Handley/Stephanie Daveson) of Level 15, Woodside Plaza, 240 St Georges Terrace, Perth WA 6000 as its agent in Australia for service of process.

Assignment

7.8 The rights and obligations of a person under this deed are personal. They cannot be assigned, charged or otherwise dealt with at law or in equity, and no person must attempt or purport to do so.

Severability

7.9 If the whole or any part of a provision of this deed poll is void, unenforceable or illegal in a jurisdiction it is severed for that jurisdiction. The remainder of this deed has full force and effect and the validity or enforceability of that provision in any other jurisdiction is not affected. This clause 7.9 has no effect if the severance alters the basic nature of this deed or is contrary to public policy.

Further action

7.10 MMK will at its own expense promptly do all things and execute and deliver all further documents required by law or reasonably requested by any other party to give effect to this deed and the transactions contemplated by it.

Executed as a deed poll

Executed by **MAGNITOGORSK IRON AND STEEL WORKS OPEN JOINT STOCK COMPANY** by its duly appointed officer in the presence of:)

.....
Witness

.....
Name of Witness (print)

.....
Officer

.....
Name of Officer (print)

ANNEXURE 4:

NOTICE OF MEETING

Notice of Court ordered Scheme Meeting of Shareholders of Flinders Mines Limited
(ABN 46 091 118 044)

Flinders Mines Limited (**Flinders**) gives notice that, by an order of the Federal Court of Australia, a meeting of its shareholders will be held at Enterprise House, 136 Greenhill Road, Unley, South Australia on Friday, 30 March 2012 at 10:00am (Scheme Meeting).

Business

The purpose of the Scheme Meeting is to consider, and if thought fit, to agree to a Scheme of Arrangement (with or without modification) proposed to be made between Flinders and the holders of Shares in Flinders as at the Record Date (**Scheme**) pursuant to Part 5.1 of the *Corporations Act 2001* (Cth) (**Corporations Act**). The Scheme is proposed to be made in respect of the Flinders Shares held by Flinders Shareholders in the form of the scheme of arrangement contained in Annexure 2 to the Scheme Booklet which accompanies this Notice of Meeting.

To assist you in making an informed voting decision, further information on the Scheme is set out in the Scheme Booklet accompanying this Notice of Meeting.

Terms used in this Notice of Meeting, including in the resolution set out below, have the same meaning as set out in the Glossary of Terms in the Scheme Booklet which contains accompanies this Notice of Meeting.

Resolution

To consider and, if thought fit, to pass the following resolution:

"That, pursuant to and in accordance with section 411 of the Corporations Act , the Scheme of Arrangement proposed to be entered into between Flinders and the Scheme Participants under which Magnitogorsk Iron and Steel Works OJSC or its nominee (**MMK**) will acquire all of the issued ordinary Shares of Flinders not already held by MMK, as contained in and more particularly described in the Scheme Booklet of which the Notice of Meeting convening this meeting forms part, is agreed to (with or without such modifications or conditions as approved by the Federal Court of Australia)."

Majority Required

In accordance with section 411(4)(a) of the Corporations Act, for the Scheme to be Effective, the resolution must be passed by:

- unless the Court orders otherwise, a majority in number of holders of Flinders Shares present and voting (either in person or by proxy); and
- 75% of the votes cast on the resolution.

The vote will be conducted by poll.

Voting Entitlement

For the purposes of this Scheme Meeting, Flinders Shares will be taken to be held by the persons who are the registered holders at 7.00pm (Sydney time) on Wednesday, 28 March 2012. All holders of Flinders Shares as at that time are entitled to vote at the Scheme Meeting.

How to Vote

Flinders Shareholders entitled to vote at the Scheme Meeting can vote:

- by attending the meeting and voting in person; or
- by appointing an attorney to attend the meeting and vote on their behalf, or, in the case of corporate shareholders, a corporate representative to attend the meeting and vote on its behalf; or
- by appointing a proxy to attend and vote on their behalf, using the proxy form accompanying this Notice of Meeting.

Voting in Person (or by an Attorney or Corporate Representative)

Flinders Shareholders or their attorneys who plan to attend the meeting are requested to arrive at the venue at least 30 minutes prior to the time of the meeting so that shareholdings may be checked against the Flinders Share Register and attendances noted.

A person duly appointed as the attorney of a Flinders Shareholder under a power of attorney may attend and vote on behalf of the Flinders Shareholder if authorised to do so by the terms of the power of attorney provided the original power of attorney or a certified copy of the power of attorney has either been exhibited previously provided to Flinders, or is received by Flinders at least 48 hours before the meeting by being sent, delivered, faxed or emailed in the same manner as for the lodgment of proxies, details of which are provided below.

In order to vote in person at the meeting, a corporation which is a Flinders Shareholder may appoint an individual to act as its representative. The appointment must comply with the requirements of section 250D of the Corporations Act. The representative should bring to the meeting written evidence of their appointment, including the authority under which it is signed.

Voting by Proxy

- A proxy form is enclosed with this Notice of Meeting.
- A Flinders Shareholder has a right to appoint a proxy.
- The proxy need not be a Flinders Shareholder.
- A Flinders Shareholder who is entitled to cast 2 or more votes may appoint 2 proxies. If you want to appoint 2 proxies, an additional proxy form will be supplied by Flinders on request by contacting the Share Registry on 1300 556 161 (if calling from within Australia) or +61 3 9415 4000 (if calling from overseas) or writing to Computershare Investor Services Pty Ltd, Level 5, 115 Grenfell Street, Adelaide SA 5000 or GPO Box 1903, Adelaide SA 5001. Where 2 proxies are appointed, both forms should be completed with the nominated proportion or number of votes each proxy may exercise. Otherwise each proxy may exercise half of the votes.
- A proxy form must be signed by the Flinders Shareholder or that shareholder's attorney and need not be witnessed. If the Flinders Shareholder is a corporation, the proxy must be signed by 2 directors or by a director and a secretary, or if it is a proprietary company that has a sole director who is also the sole secretary (or has no secretary), by that director, or under hand of its attorney or duly authorised officer. If the proxy form is signed by a person who is not the registered holder of Flinders Shares (eg an attorney or authorised officer), then the relevant authority (for example, in the case of proxy forms signed by an attorney, the power of attorney or a certified copy of the power of attorney) must either have been exhibited previously to Flinders or be enclosed with the proxy form or otherwise be received by Flinders at least 48 hours before the meeting.
- Any one of two or more joint Flinders Shareholders may appoint a proxy but if more than one seeks to vote, only the vote of the Flinders Shareholder whose name appears first in the register will be counted.
- Please use the personalised proxy form sent to you with this Notice of Meeting. A replacement proxy form will be sent to you on request. The proxy form (and any authority under which it is signed on your behalf, if applicable) should be either posted in the reply paid envelope provided or sent, delivered or faxed as follows:

The proxy form and proxy appointment authority can be lodged as follows:

In Person:

- *Share Registry*
  Computershare Investor Services Pty Limited,
  Level 5, 115 Grenfell Street, Adelaide,
  South Australia, 5000, Australia; or
- *Flinders Registered Office*
  Level 1, 136 Frome Street, Adelaide,
  South Australia, 5000

By Mail:

- *Share Registry*
  Computershare Investor Services Pty Limited,
  GPO Box 242, Melbourne,
  Victoria, 3001, Australia; or
- *Flinders Registered Office*
  PO Box 3065, Rundle Mall,
  South Australia, 5000, Australia.

By Facsimile:

- Fax to 1800 783 447 (within Australia) or
  +61 3 9473 2555 (outside Australia)

Vote Online:

- Flinders Shareholders can also cast their votes online by going to *investorvote.com.au* and following the prompts. To use this facility, Flinders Shareholders will need their holder number (SRN or HIN), postcode and control number as shown on the proxy form. Flinders Shareholders will have been taken to have signed the proxy form if it is lodged in accordance with the instructions on the website.

Custodian Voting:

- Intermediary Online Subscribers only (Custodians) can cast their vote by visiting *intermediaryonline.com*

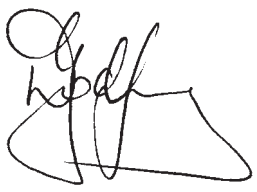
Proxy forms must be received by the Share Registry by 10:00am on Wednesday, 28 March 2012 to be valid. If you return your proxy form by post you should allow sufficient time for it to be received by the Share Registry before 10:00am on Wednesday, 28 March 2012.

Court approval

The Scheme (with or without modification or conditions) is subject to the approval of the Court.

Dated: Wednesday, 15 February 2012.

By order of the Board



David Godfrey
Company Secretary

Independent Expert's Report and Financial Services Guide

Flinders Mines Limited

Offer from Magnitogorsk Iron and Steel OJSC

4 January 2012

ERNST & YOUNG

Ernst & Young Transaction
Advisory Services Limited
Ernst & Young Building
11 Mounts Bay Road
Perth WA 6000 Australia
GPO Box M939 Perth WA 6843

Tel: +61 8 9429 2222
Fax: +61 8 9429 2192
www.ey.com/au

PART 1 – INDEPENDENT EXPERT'S REPORT

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

4 January 2012

Dear Sirs

Scheme of Arrangement – Offer from Magnitogorsk Iron and Steel OJSC

On 25 November 2011, Flinders Mines Limited ("Flinders" or the "Company") announced that it had received an offer from Magnitogorsk Iron and Steel Works OJSC ("MMK") whereby its wholly-owned subsidiary MMK Mining Australia Pty Ltd would acquire all of the Company's issued shares for a cash consideration of $0.30 per share via a scheme of arrangement (the "Proposed Scheme").

The Proposed Scheme is to be implemented under section 411 of the Corporations Act (the "Act"). Under sections 411(3)(b) and 412(1)(a)(ii) of the Act, explanatory statements prepared for schemes of arrangement are required to contain the information prescribed by regulation 5.1.01 and Schedule 8 of the Corporations Regulations 2001 (the "Regulations").

Flinders shareholders are to consider a resolution seeking approval of the Proposed Scheme at a general meeting of the Company that is to be held on or about 1 March 2012 (the "Scheme Meeting"). In the absence of a superior proposal, the Directors of Flinders have unanimously recommended that shareholders of Flinders ("Flinders Shareholders") vote in favour of the Proposed Scheme.

Under clause 8303 of Schedule 8 of the Regulations, if the other party to the scheme of arrangement has a 30% or more interest in the company the subject of the scheme or if the parties to the scheme have a common director then the documents sent to shareholders must be accompanied by a report prepared by an independent expert in which that person provides an opinion as to whether or not the proposed scheme is in the best interests of shareholders and sets out the reasons for that opinion.

With MMK not owning any shares in Flinders and there being no common directors an independent expert's report is not specifically required in relation to the Proposed Scheme. However, for reasons of good corporate governance the Directors of Flinders have engaged Ernst & Young Transaction Advisory Services Limited ("Ernst & Young Transaction Advisory Services") to prepare an independent expert's report in relation to the Proposed Scheme as if such a report was required under the Regulations.

Accordingly, we have prepared this independent expert's report for the purpose of stating, in our opinion, whether or not the Proposed Scheme is in the best interests of Flinders Shareholders and to set out the reasons for that opinion. Our report is being included in the Notice of Meeting and Scheme Booklet being sent to Flinders Shareholders in respect to the Scheme Meeting.

Neither the Act nor the Regulations define the term '*in the best interests*'. In stating this, Australian Securities and Investment Commission has issued Regulatory Guide 111: *Content of expert reports* ("RG 111") which provides some guidance as to what matters an independent expert should consider when determining whether or not a particular transaction is in the best interests of shareholders.

In the circumstance of a scheme that achieves the same outcome as a takeover offer, RG 111 suggests that the form of analysis undertaken by the independent expert should be substantially the same as for a takeover. With MMK intending to acquire all of the issued shares in Flinders, the anticipated outcome of the Proposed Scheme is the same as if MMK was making a takeover offer. Accordingly, in determining whether the Proposed Scheme is in the best interest of Flinders Shareholders we have assessed the Proposed Scheme as if it was a takeover offer.

Independent expert reports required under the Act in the circumstance of a takeover are required to provide an opinion as to whether or not the takeover offer is 'fair and reasonable'. While there is no definition of 'fair and reasonable', RG 111 provides some guidance as to how the term should be interpreted with respect to a takeover offer:

- an offer is 'fair' if the value of the offer price or consideration is equal to or greater than the value of the securities that are the subject of the offer. The comparison is to be made assuming 100% ownership of the target and it is "inappropriate to apply a discount on the basis that the shares being acquired represent a minority or portfolio parcel of shares"; and

- an offer is 'reasonable' if it is fair. It might also be 'reasonable' if, despite being 'not fair', the expert believes that there are sufficient reasons for security holders to accept the offer in the absence of any higher bid before the close of the offer.

RG 111 indicates that where an independent expert would conclude that a proposal was "fair and reasonable" if it was in the form of a takeover offer, then the expert would be able to conclude that the scheme was "in the best interests" of shareholders. On this basis, if the value of the consideration being offered by MMK is equal to or greater than the value assessed for a Flinders share then the Proposed Scheme would be in the best interests of Flinders Shareholders.

Summary of Opinion

In Section 8.2 we set out our valuation conclusions, which show the cash consideration being offered by MMK under the Proposed Scheme is at a premium of between 7.1% and 100.0% to our assessed value of a Flinders share determined on a 100% interest basis.

In Section 8.3, we set out the commercial and qualitative factors relevant to the consideration of the Proposed Scheme. While individual shareholders may interpret these factors differently depending on their own individual circumstances, in Ernst & Young Transaction Advisory Services' opinion the potential advantages outweigh the potential disadvantages to the shareholders as a whole.

Based on the results of the analysis undertaken and taking into consideration the matters detailed in our report, in the opinion of Ernst & Young Transaction Advisory Services the Proposed Scheme is fair and reasonable and therefore is in the best interests of Flinders Shareholders.

Having regard to the nature of the Proposed Scheme and the advantages and disadvantages, it is the opinion of Ernst & Young Transaction Advisory Services, that Flinders Shareholders are likely to be better off if the Proposed Scheme proceeds.

Other Matters

This independent expert's report has been prepared specifically for Flinders Shareholders. Neither Ernst & Young Transaction Advisory Services, Ernst & Young nor any employee thereof undertakes responsibility to any person, other than Flinders Shareholders, in respect of this report, including any errors or omissions howsoever caused.

This independent expert's report constitutes general financial product advice only and has been prepared without taking into consideration the individual circumstances of Flinders Shareholders. The decision as to whether to approve or not approve the Proposed Scheme is a matter for individual Flinders Shareholders. Flinders Shareholders should have regard to the Notice of Meeting and Scheme Booklet prepared by the Directors and management of the Company in relation to the Proposed Scheme. Flinders Shareholders who are in doubt as to the action they should take in relation to the Proposed Scheme should consult their own professional adviser.

Our opinion is made as at the date of this letter and reflects circumstances and conditions as at that date. This letter must be read in conjunction with the full independent expert's report as attached.

Ernst & Young Transaction Advisory Services has prepared a Financial Services Guide in accordance with the Act. The Financial Services Guide is included as Part 2 of this report.

Yours faithfully
Ernst & Young Transaction Advisory Services Limited

Ken Pendergast
Director and Representative

Gary Nicholson
Director and Representative

Contents

1. Details of the Proposed Scheme

1.1 Overview

On 25 November 2011, Flinders Mines Limited ("Flinders" or the "Company") announced that it had received an offer from Magnitogorsk Iron and Steel Works OJSC ("MMK") whereby its wholly-owned subsidiary MMK Mining Australia Pty Ltd would acquire all of the Company's issued shares for a cash consideration of $0.30 per share via a scheme of arrangement (the "Proposed Scheme").

To manage the Proposed Scheme and to enable the offer from MMK to be put to Flinders Shareholders, Flinders and MMK have entered into a Scheme Implementation Agreement (the "SIA").

Flinders' major asset is its 100% interest in the Pilbara Iron Ore Project (the "PIOP"), an advanced stage iron ore development project located in the Hamersley Ranges in the Pilbara region of Western Australia, approximately 70 km northwest of Tom Price and 175 km south of the coastal town of Dampier.

If the Proposed Scheme is implemented, Flinders Shareholders will receive cash consideration of $0.30 for each Flinders share held and Flinders will become a wholly-owned subsidiary of MMK. MMK will be the sole owner of the PIOP.

At the date of the announcement, Flinders had on issue the following securities:

Flinders - Securities on Issue	
Shares on issue	1,821,300,404
Exployee options (exercisable at various prices and by various dates)	1,981,666
Incentive rights (subject to certain perfomance hurdles)	23,072,700

Source: EY analysis

As a condition precedent to the Proposed Scheme, Flinders is required to enter into an agreement with the holders of the employee options for the cancellation of the options (the "Flinders Options") should the Proposed Scheme become effective. The cash consideration payable for the cancellation of the Flinders Options equates to the difference between the $0.30 being offered by MMK for each share less the exercise price. The total amount payable for the cancellation of the Flinders Options is approximately $480,000.

If the Proposed Scheme becomes effective, the incentive rights (the "Flinders Incentive Rights") will vest. As a condition precedent, Flinders is required to enter into an agreement under which it will pay the holders of the Flinders Incentive Rights $1,000 cash for each tranche of incentive rights held and will issue them with shares equal to the total value of their Flinders Incentive Rights less the cash paid. Essentially, the holder of the Flinders Incentive Rights will be paid $0.30 for each right held. The total amount payable to the holders of the Flinders Incentive Rights will be approximately $6.92 million. Under the terms of the Flinders Incentive Rights, shares are issued at no cost to the holder.

Based on the number of shares Flinders has on issue, the cash consideration payable by MMK for the issued shares in Flinders under the Proposed Scheme will equate to approximately $546.4 million (the "Scheme Consideration"), determined as follows:

Flinders - Cash Consideration Payable by MMK for Flinders' Shares	
Total shares on issue	1,821,300,404
MMK's offer price per Flinders' share	$0.30
Total consideration for Flinders shares	$546,390,121

Source: EY analysis

On a fully diluted basis including the amounts to be paid to the holders of the Flinders Options and the Flinders Incentive Rights, the offer from MMK values Flinders at an amount of approximately $553.79 million.

Flinders Shareholders are to consider a resolution seeking approval of the Proposed Scheme at a general meeting of the Company that is to be held on or about 1 March 2012 (the "Scheme Meeting"). The resolution needs to be passed by greater than 50% of the number of Flinders Shareholders present and voting at the Meeting (in person or by proxy) and by at least 75% of the votes cast. In the absence of a superior proposal, the Directors of Flinders have unanimously recommended that shareholders of Flinders ("Flinders Shareholders") vote in favour of the Proposed Scheme.

1.2 Conditions precedent

In addition to the agreements with the holders of the Flinders Options and the Flinders Incentive Rights, implementation of the Proposed Scheme is subject to a number of conditions (some of which may be waived by agreement between Flinders and MMK) including, amongst other matters:

- Approval of the Federal Court of Australia (the "Court");
- Approval from the Treasurer of the Commonwealth of Australia under the Foreign Acquisitions and Takeovers Act 1975;
- Required regulatory approvals from Australian Securities and Investments Commission ("ASIC") and the Australian Securities Exchange ("ASX");
- An independent expert issuing a report that concludes that the Proposed Scheme is in the best interests of Flinders Shareholders;
- Approval from Flinders Shareholders;
- Flinders not entering into any significant transaction with another party in relation to its shares or a substantial part of its assets or business;
- No material adverse change to Flinders and no occurrence of certain predetermined prescribed incidences; and
- No order is in existence that would prevent the implementation of the Proposed Scheme.

Under the SIA, in certain circumstances which causes Flinders not to be able to complete the Proposed Scheme, Flinders will be required to pay to MMK a break fee of $5.5 million (the "Flinders Break Fee"). Similarly, in certain circumstances which cause MMK not to be able to complete the Proposed Scheme, MMK will be required to pay to Flinders a break fee of $2.75 million (the "MMK Break Fee").

Details of the conditions precedent to the Proposed Scheme and the Flinders and MMK Break Fees are included in the Scheme Booklet.

2. Scope of the report

2.1 Purpose of the report

The Proposed Scheme is a scheme of arrangement being conducted under the provisions of Section 411 of the Corporations Act (the "Act"). Under clause 8303 of Schedule 8 of the Corporations Regulations 2001 (the "Regulations"), if the other party to the scheme holds at least 30% of the company the subject of the scheme or if the parties have a common director then the documents sent to shareholders must be accompanied by a report prepared by an independent expert in which that entity provides an opinion as to whether or not the proposed scheme is in the best interest of shareholders and sets out the reasons for that opinion.

With MMK not holding any shares in Flinders and there being no common directors, an independent expert's report is not specifically required in relation to the Proposed Scheme. However, for reasons of good corporate governance the Directors of Flinders have engaged Ernst & Young Transaction Advisory Services Limited ("Ernst & Young Transaction Advisory Services") to prepare an independent expert's report in relation to the Proposed Scheme as if such a report was required under the Regulations.

Accordingly, we have prepared this independent expert's report for the purpose of stating, in our opinion, whether or not the Proposed Scheme is in the best interests of Flinders Shareholders and to set out the reasons for that opinion.

Our report is being included in the Notice of Meeting and Scheme Booklet being sent to Flinders Shareholders in respect to the Scheme Meeting.

This independent expert's report considers the interests of the Flinders Shareholders as a whole and not individually.

2.2 Basis of assessment

Neither the Act nor the Regulations define the term '*in the best interest*'. In stating this, ASIC has issued Regulatory Guide 111: *Content of expert reports* ("RG 111") which provides some guidance as to what matters an independent expert should consider when determining whether or not a particular transaction is in the best interests of shareholders.

RG 111 notes that where a scheme of arrangement has the same outcome as a takeover, the analysis used by the expert should be substantially the same as for a takeover offer. With MMK intending to acquire all of the issued shares in Flinders, the Proposed Scheme has the same anticipated outcome as a takeover.

Independent expert reports required under the Act in the circumstance of a takeover are required to provide an opinion as to whether or not the takeover bid is 'fair and reasonable'. In this regard:

- Clause 17 of RG 111 indicates that where an independent expert would conclude that a proposal is "fair and reasonable" if it was in the form of a takeover bid, then the expert would also be able to conclude that the scheme is "in the best interests" of shareholders;

- Clause 18 of RG 111 indicates that where an independent expert would conclude that a proposal is "not fair but reasonable" if it was in the form of a takeover bid, then it is still open to the expert to also conclude that the scheme is "in the best interests" of shareholders; and

- Clause 19 of RG 111 indicates that where an independent expert would conclude that a proposal is "not fair and not reasonable" if it was in the form of a takeover bid, then the expert would also conclude that the scheme is "not in the best interests" of shareholders.

While there is no definition of 'fair and reasonable' contained in the Act or Regulations, RG 111 provides some guidance as to how the term should be interpreted in a range of circumstances. With respect to a takeover offer:

- an offer is 'fair' if the value of the offer price or consideration is equal to or greater than the value of the securities that are the subject of the offer. The comparison is to be made assuming 100% ownership of the target and it is "inappropriate to apply a discount on the basis that the shares being acquired represent a minority or portfolio parcel of shares"; and

- an offer is 'reasonable' if it is fair. It might also be 'reasonable' if, despite being 'not fair', the expert believes that there are sufficient reasons for security holders to accept the offer in the absence of any higher bid before the close of the offer.

Consistent with the provisions of RG 111, in assessing whether or not the Proposed Scheme is 'fair' to Flinders Shareholders we have compared the fair value of the cash consideration being offered by MMK with the fair value of a Flinders share.

'Fair value' in this context is considered to be 'the amount at which an asset could be exchanged between a knowledgeable and willing but not anxious seller and a knowledgeable and willing but not anxious buyer both acting at arm's length.

The other factors considered in assessing the Proposed Scheme include the following matters:

- whether the fair value of a Flinders share is higher or lower than the cash consideration being offered by MMK under the Proposed Scheme;

- the price at which the shares are proposed to be acquired relative to the listed market price of Flinders shares prior to the Announcement;

- the existence of any premium for control;

- the advantages and disadvantages relevant to the Flinders Shareholders;

- alternatives to the Proposed Scheme, including the likelihood of an alternative superior proposal being received;

- other qualitative factors which we believe represent either advantages or disadvantages to Flinders Shareholders; and

- the consideration of other significant factors.

In considering the fair value of Flinders and a Flinders share we have relied on the independent report prepared by Snowden Mining Industry Consultants Pty Ltd ("Snowden") (the "Snowden Report"), who was appointed as the Independent Technical Expert to undertake a technical assessment and valuation of certain mineral assets of the Company. A copy of the Snowden Report is attached in full at Appendix F and should be read in conjunction with our report.

In placing reliance on the Snowden Report we have satisfied ourselves as to Snowden's competence and expertise. We are also satisfied that the assumptions, methodologies and source data used by Snowden were reasonable and appropriate and that the report contains sufficient information to support the conclusions drawn.

Our fair value assessment of Flinders is detailed in Section 7.

All amounts in this report are expressed in Australian dollars ($) unless otherwise stated.

In undertaking our analysis and preparing this report, we have had access to management information in relation to the Company. A list of the sources of information used and relied on is contained in Appendix D.

A glossary detailing the abbreviations we have used in this report is contained in Appendix E.

2.3 Shareholders' decisions

This independent expert's report has been prepared specifically for Flinders Shareholders at the request of the Directors of the Company with respect to the Proposed Scheme. As such, Ernst & Young Transaction Advisory Services, Ernst & Young and any member or employee thereof, take no responsibility to any entity other than Flinders Shareholders, in respect of this report, including any errors or omissions howsoever caused.

This report constitutes general financial product advice only and has been prepared without taking into consideration the individual circumstances of Flinders Shareholders. The decision to approve or not approve the Proposed Scheme is a matter for individual shareholders. Flinders Shareholders should consider the advice in the context of their own circumstances, preferences and risk profiles. Flinders Shareholders should have regard to the Notice of Meeting and Scheme Booklet prepared by the Directors and management of the Company. Flinders Shareholders who are in doubt as to the action they should take in relation to the Proposed Scheme should consult their own professional adviser.

Ernst & Young Transaction Advisory Services has prepared a Financial Services Guide in accordance with the Act. The Financial Services Guide is included as Part 2 of this report.

2.4 Limitations and reliance on information

In the preparation of this independent expert's report, Ernst & Young Transaction Advisory Services was provided with information in respect of Flinders and obtained additional information from public sources, as set out in Appendix D.

We have had discussions with the management of Flinders in relation to the Proposed Scheme, operations, financial position, operating results and outlook of Flinders.

Ernst & Young Transaction Advisory Services' opinion is based on economic, market and other external conditions prevailing at the date of this report. These conditions can change significantly over relatively short periods of time.

This independent expert's report is also based upon financial and other information provided by Flinders in relation to the Proposed Scheme. Ernst & Young Transaction Advisory Services has considered and relied upon this information.

The information provided to Ernst & Young Transaction Advisory Services has been evaluated through analysis, enquiry and review for the purposes of forming an opinion as to whether the Proposed Scheme is in the best interest of Flinders Shareholders. However, Ernst & Young Transaction Advisory Services does not warrant that its enquiries have identified all of the matters that an audit, an extensive examination or 'due diligence' and/or tax investigation might disclose.

Preparation of this report does not imply that we have, in any way, audited the accounts or records of Flinders. It is understood that the accounting information that was provided was prepared in accordance with generally accepted accounting principles including the Australian equivalents to International Financial Reporting Standards, as applicable.

In forming our opinion we have also assumed that:

- matters such as title, compliance with laws and regulations and contracts in place are in good standing and will remain so and that there are no material legal proceedings, other than as publicly disclosed;
- the information set out in the Notice of Meeting and Scheme Booklet to be sent by Flinders to shareholders is complete, accurate and fairly presented in all material respects; and
- the publicly available information relied upon by Ernst & Young Transaction Advisory Services in its analysis was accurate and not misleading.

To the extent that there are legal issues relating to assets, properties, or business interests or issues relating to compliance with applicable laws, regulations and policies, we assume no responsibility and offer no legal opinion or interpretation on any issue.

The statements and opinions given in this independent expert's report are given in good faith and in the belief that such statements and opinions are not false or misleading.

Ernst & Young Transaction Advisory Services provided draft copies of this report to the Directors and management of Flinders for their comments as to factual accuracy, as opposed to opinions, which are the responsibility of Ernst & Young Transaction Advisory Services alone. Amendments made to this report as a result of this review have not changed the methodology or conclusions reached by Ernst & Young Transaction Advisory Services.

This report should be read in the context of the full qualifications, limitations and consents set out in Appendix A of this independent expert's report.

This report has been prepared in accordance with APES 225: *Valuation Services* issued by the Accounting Professional & Ethical Standards Board Limited in July 2008.

3. Overview of Flinders

3.1 Company background

Incorporated in January 2000 as "Flinders Diamonds Limited" and listed on the ASX in February 2002 via an initial public offering ("IPO"), the Company's initial focus was on diamond exploration.

In May 2003, Flinders and Prenti Exploration Pty Ltd ("Prenti") formed a 50/50 joint venture ("Prenti JV") for the Hamersley Project, consisting of exploration tenements in the Hamersley Ranges including Blacksmith (E47/882), Bold Cliff, Mulga Downs, Hamersley and Hamersley West.

In April 2005, Flinders announced it had reached an agreement with Fortescue Metals Group Limited ("FMG") for the Prenti JV to have exploration access for diamonds on eight FMG tenements in exchange for granting FMG the exploration access for iron ore on four tenements held by the Prenti JV, with Flinders receiving a 1% freight-on-board royalty on any iron ore ultimately mined, capped at 8 million tonnes. The four tenements included Bold Cliff, Mulga Downs, Hamersley and Hamersley West. The Prenti JV continued to have the right to iron ore from the Blacksmith tenement. Under the terms of the Prenti JV, Flinders increased its interest in the Blacksmith tenement by funding $2 million of exploration within the Hamersley Project.

In late 2005, Flinders assigned its non-diamond rights in its South Australian and Northern Territory projects (being the Adelaide Hills Project, G2 Project and Strangways Project) to Maximus Resources Limited ("MXR") as part of that company's listing on the ASX. Flinders received 7 million shares and 3.5 million options in MXR as consideration for the assignment. The projects showed potential for a variety of minerals including gold, copper and uranium. In March 2007, Flinders agreed to sell to Copper Range Limited ("CRL") 90% of its base metal and gold rights in the Jamestown and Springfield projects in South Australia. In consideration, Flinders received $100,000 cash and 1 million CRL shares.

In May 2007, Flinders commenced investigation into the iron ore potential of the Blacksmith tenement, which resulted in Flinders identifying an exploration target of 325 Mt to 390 Mt at 45% to 60% iron ("Fe"). Around the same time FMG and Rio Tinto Limited ("Rio Tinto") announced the identification of iron ore resources in areas adjacent to or in the vicinity of the Company's Blacksmith tenement. The Company considered that these discoveries increased the prospectivity of Blacksmith.

To reflect the wider exploration strategy and its changing focus towards iron ore, in March 2008, Flinders announced the intention to change its name to 'Flinders Mines Limited' and commenced a capital raising of approximately $15 million to help fund a maiden drilling campaign at Blacksmith. Diamond exploration continued as a secondary activity.

In June 2008, Flinders acquired from Cazaly Iron Pty Ltd an exploration licence E47/1560, known as the "Anvil" tenement, located 15 km south west of the Blacksmith tenement, for cash consideration of $750,000 plus $750,000 worth of Flinders shares.

The Blacksmith and Anvil tenements form the basis of Flinders' Pilbara Iron Ore Project (i.e. the PIOP). Flinders announced a maiden JORC compliant Inferred Mineral Resource for the PIOP of 476 Mt at 55.4% Fe in April 2009 and at the same time confirmed that the PIOP would become Flinders' priority focus.

Further confirming Flinders' iron ore strategy in May 2009 the Company purchased the exploration and prospecting licences associated with the Canegrass Magnetite Project for a consideration of $200,000 cash plus $1.1 million of Flinders shares. MXR was also granted a 2% net smelter royalty from any ore mined.

In October 2009, Flinders raised $52.8 million to further develop the PIOP, with $23.2 million being raised by a placement to institutional investors at $0.145 per share and a fully underwritten 1 for 7 rights issue at $0.13 per share. In that month, Flinders also announced it had reached an agreement to sell mineral rights in relation to tenement EL3244 within the Jamestown Project to Phoenix Copper Ltd ("Phoenix"), with Flinders retaining rights to diamonds, barium, talc and phosphate. In consideration, Flinders received 250,000 Phoenix shares, $50,000 cash and 0.75% net smelter royalty.

Following a decision by Flinders to focus entirely on the development of its iron ore interests, in September 2010, a joint venture was proposed with Flinders Exploration Limited ("FEX"), under which that company could earn up to a 51% interest in Flinders' non-iron ore related projects by spending $3.5 million on exploration within two years. FEX issued a prospectus to raise up to $7.0 million by way of an IPO, however due to the low level of subscription acceptances the listing did not proceed and the joint venture with Flinders was terminated.

Flinders' mineral projects are represented in the picture below and described in more detail in the remainder of this section.

Flinders' iron ore, diamond and phosphate projects

Source: Flinders' Annual General Meeting 2009

The Pilbara Iron Ore Project – 100% interest

Flinders' primary asset is the PIOP which is located in the Pilbara region of Western Australia between a number of existing and proposed iron ore developments, including Rio Tinto's Caliwingina and Brockman 2 iron ore projects, FMG's Solomon iron ore project and Australian Premium Iron's ("API") West Pilbara Iron Ore Project.

A pre-feasibility study ("PFS") of the PIOP was successfully completed in January 2011. Based on the results of the PFS, the PIOP was confirmed as being "*economically viable*". A definitive feasibility study ("DFS") commenced in May 2011 and is expected to be completed in the first half of 2012.

The PFS estimated that production at the PIOP would commence in the last quarter of 2014 at an initial rate of 5 million tonnes per annum ("Mtpa"), increasing to 15 Mtpa within five years, resulting in a life of mine of 20 years based on a mineralised inventory of 229 Mt of final fines product at an average grade of 60.7% Fe for the Detrital Iron Deposit ("DID") ore and 57.0% Fe for the Brockman Iron Deposit ("BID") ore. All of the production included in the PFS is to be sourced from the Blacksmith tenement. The mineralised inventory is contained within a combined Inferred and Indicated Mineral Resource of 748 Mt, defined at a nominal 50% iron cut-off grade.

The development of the PIOP is highly dependent on rail and port access to allow ore to be transported to market. Flinders is considering several infrastructure options, with a number of these options requiring negotiation of acceptable arrangements with third parties. The option considered in the PFS was based on Flinders being able to negotiate an arrangement with Rio Tinto for the transport of ore to the Cape Lambert Port and shipment from that port. This option would include the construction of a rail spur line and loop of approximately 20 km to Rio Tinto's existing rail lines to the Dampier and Cape Lambert Ports. The PFS estimates that the capital expenditure required under this option would be $1.1 billion with operating costs at $35/t.

Outside of the PFS, Flinders has considered other options in respect to rail and port infrastructure, including:

- Flinders constructing 240 km of rail line from the PIOP to the yet to be constructed Anketell Port, with ore being shipped from that port. The Anketell Port is to be located approximately 30 km east of Karratha near Cape Lambert. The capital expenditure estimated under this option totals $2.6 billion, with expected operating costs at $27/t;

- Negotiating an arrangement with FMG for the transport of ore to the Anketell Port and shipment from that port. This option would include the construction of a rail spur line and loop of approximately 20 km to FMG's proposed rail line from the company's Solomon project to the Anketell Port. The capital expenditure estimated under this option totals $1.3 billion with expected operating costs at $34/t; and

- Negotiating an arrangement with API for the transport of ore to the Anketell Port and shipment from that port. This option would include the construction of a rail spur line of approximately 135 km to API's proposed rail line from its West Pilbara project to the Anketell Port. The capital expenditure estimated under this option totals $1.8 billion with expected operating costs at $35/t.

Reflecting the continued investigation of alternative rail solutions, in November 2011, Flinders announced that it had entered into a heads of agreement with an independent rail provider who has significant experience in large, bulk commodity transport in Australia. With Flinders, the rail provider will investigate the establishment of a multi-user rail line in the Pilbara for the transportation of iron ore to port.

The economic modelling completed under the PFS returned a net present value for the PIOP of $2.2 billion on an 'unrisked' basis under a base case which assumed capital expenditure of $1.1 billion required for 5 Mtpa of production increasing to 15 Mtpa and operating costs at $35/t, using a post-tax real discount rate of 10%.

During the second quarter of 2011, Flinders completed value improvement studies which targeted production of 15 Mtpa from the commencement of the project. A focus of the DFS is to confirm the proposed planned production of 15 Mtpa from start-up considered under the value improvement studies. Other key aspects of the DFS will be the further examination of the infrastructure options around the transportation and shipment of ore from the PIOP together with investigation of potential off take agreements with customers.

On 14 November 2011, Flinders announced that the Measured, Indicated and Inferred Resources at the PIOP had increased to 917 Mt at an average grade of 55.2% Fe (based on a cut-off grade of 50% Fe), consisting of a combination of BID, DID and Direct Shipping Ore ("DSO"), as detailed in the table below:

The PIOP - JORC Compliant Measured, Indicated and Inferred Resources

	Mt	Fe %	SiO_2 %	Al_2O_3	P %	LIO %
Measured Resource						
Delta	101.0	56.4	10.5	5.1	0.054	2.8
	101.0	56.4	10.5	5.1	0.054	2.8
Indicated Resource						
Champion	112.4	55.2	9.6	4.9	0.075	5.5
Delta	111.8	56.3	7.9	3.9	0.100	6.8
Eagle	119.5	55.0	9.3	4.8	0.074	6.4
	343.7	55.5	8.9	4.5	0.083	6.2
Inferred Resource						
Champion	61.1	55.6	10.1	4.6	0.069	4.7
Delta	12.1	56.0	8.2	4.6	0.085	6.2
Eagle	173.4	54.0	9.5	5.0	0.076	7.7
Ajax	68.5	55.2	10.6	5.1	0.060	4.5
Blackjack	44.7	55.3	12.8	4.6	0.057	2.7
Badger	8.7	57.5	6.3	3.4	0.092	7.3
Paragon	21.7	58.0	6.6	3.9	0.080	5.5
Anvil	82.4	53.6	11.4	5.8	0.050	4.9
	472.6	54.7	10.2	5.0	0.067	5.7
Total Resources	917.3	55.2	9.7	4.8	0.072	5.6

Source: Flinders Mineral Resource Update, 14 November 2011

The Delta, Champion and Eagle deposits are located within the Blacksmith tenement which is dominated by BID formation. The PIOP area also has large channel systems which host DID ore and channel iron deposit ("CID") ore. The table below summarises the resource by deposit type.

The PIOP - JORC Resource by Deposit Type

Deposit type	Measured Mt	Indicated Mt	Inferred Mt	Total Mt	Measured as a %	Indicated as a %	Inferred as a %
BID (i.e. Brockman)	-	91.4	99.1	190.5	0%	48%	52%
DID (i.e. Detrital)	101.0	156.7	287.8	545.5	19%	29%	53%
CID (i.e. Channel)	-	95.6	85.7	181.3	0%	53%	47%
Total	101.0	343.7	472.6	917.3	11%	37%	52%

Source: Flinders Mineral Resource Update, 14 November 2011

Other key milestones in relation to the development of the PIOP are as follows:

- Flinders negotiating a Native Title Agreement with the Eastern Guruma people (expected in early 2012); and
- Obtaining the required State and Federal Government environmental approvals (expected by late 2012).

In addition to the successful completion of the PFS, the aspects of the PIOP that Flinders management consider to be of benefit to the future development of the project include:

- Flinders believes that the location of the PIOP between a number of existing and proposed developments owned by different parties provides it with a number of options and alternatives with respect to negotiating infrastructure access with third parties;
- The PIOP's deposits are within a single location, are near surface and wide, with 95% of the mining to take place above the water table. As such strip ratios are considered favourable, being estimated to be 2:5:1, in the early stages of the project;
- Flinders management team has considerable iron ore and project development experience; and
- Marketing studies indicate that the ore quality is such that Flinders could attract an off take partner for the PIOP that may be willing to contribute debt or equity funding.

Contrasting these perceived benefits are a number of risks, including:

- Based on the PFS, the development of the PIOP will require estimated capital expenditures of over $1.1 billion and up to $2.6 billion, which means that Flinders will need to source significant funding over the short to medium term. With a market capitalisation of approximately $300 million prior to the announcement of the offer from MMK, securing this level of funding may be difficult;
- Potential time delays in the commissioning and construction of the Anketell Port could delay when Flinders can sell ore from the PIOP. In addition, depending on the development of other nearby iron ore developments, there is a risk of PIOP being "crowded out" or required to pay a higher port charge to have access to the port;
- Should Flinders be unable to secure an agreement with a rail and port provider on a timely basis, the PIOP could be delayed;
- Successful development of the PIOP is predicated on a Native Title Agreement being reached with the Eastern Guruma people. Should the agreement not be reached on a timely basis, the PIOP could be delayed; and
- An alternative to the Company constructing its own rail line, forecast ore production from the PIOP is predicated on Flinders being able to negotiate acceptable arrangements with third parties for access to infrastructure. Should such arrangements not be agreed there could be a considerable delay on the development of the PIOP.

Exploration Assets

Canegrass Project

The Canegrass Project is an area of approximately 700 km^2 located in the Midwest of Western Australia approximately 60 km southeast of Mount Magnet and approximately 15 km from Atlantic Ltd's Windimurra Vanadium Project.

As a result of a drilling campaign undertaken at Canegrass between September and December 2010 both magnetite iron mineralisation and high grade vanadium mineralisation were identified, with a JORC compliant inferred iron magnetite resource of 216 Mt at 25.4% Fe (at a cut-off grade of 20% Fe) being defined and a vanadium inferred resource of 107 Mt at 0.62% vanadium pentoxide ("V_2O_5") (at a cut-off grade of 0.5% V_2O_5) being defined, as follows:

Canegrass - Iron Ore Inferred Resources

Area	Mt	V_2O_5 %	TiO_2 %	Fe %	SiO_2 %	Al_2O_3	P %
Fold nose	87.0	0.6	5.9	29.3	24.1	12.6	0.005
Kinks	20.0	0.6	5.5	27.4	25.9	13.0	0.009
	107.0	0.6	5.8	29.0	24.5	12.6	0.006

Source: Flinders 2011 Annual Report

Canegrass - Vanadium Inferred Resources

Area	Mt	V_2O_5 %	TiO_2 %	Fe %	SiO_2 %	Al_2O_3	P %
Fold nose	157.0	26.0	5.1	0.5	27.6	13.8	0.005
Kinks	59.0	23.8	4.8	0.5	29.3	14.7	0.013
	216.0	25.4	5.0	0.5	28.1	14.0	0.007

Source: Flinders 2011 Annual Report

Additional marketing research is to occur before any decision is made to further explore or develop the Canegrass Project.

Jamestown and Springfield Projects

The Jamestown and Springfield projects cover an area of approximately 8,585 km^2 in the Flinders Ranges region of South Australia. The Jamestown Project consists of three regions of phosphate mineralisation, with one region extending south from Orroroo, a second region near Tarcowie and a third extending in an arc eastwards from Kapunda. Following a soil sampling program in 2010, an analysis of the results was undertaken. The Springfield Project was Flinders' principal area of interest during its initial IPO, with activities focused on the Springfield and Boolcunda Basins and on the Eurelia diamondiferous kimberlite dyke swarm. An exploration program aiming to assess the project's barite potential commenced in 2010 with a soil sampling survey around the Yanyarrie Barite Prospect, which is located approximately 15 km north of Carrieton, South Australia.

Strangways Project

The Strangways Project is located in the Northern Territory, of which Flinders owns 100% of the diamond rights. The Strangways Project is comprised of two joint venture titles with MXR and a total tenement area of 1,849 km^2. Diamond exploration on the project has provided inconclusive results, with Flinders stating that a breakthrough in understanding or development of new techniques is necessary prior to continuing diamond exploration.

Adelaide Hills Project

The Adelaide Hills Project is located in South Australia, and is comprised of seven exploration licences covering an area of 3,419 km^2. Flinders holds the diamond rights. The project area is considered prospective due to a significant number of high quality microdiamonds found in one of the Adelaide Hills tenements (Echunga). Analysis involving bulk sampling is considered necessary for any further development of the project.

Central and Southern Gawler Craton Projects

The Central and Southern Gawler Craton Projects are covered under the Tasman and Tawana joint venture agreements executed in April 2007, whereby under each agreement Flinders can earn a 70% interest in the diamond rights. Drilling work and aerial surveys of the projects showed inconclusive results, with better understanding of sub-surface geology required of certain areas within the projects.

G2 Project

The G2 Project consists of five exploration licences totalling 4,084 km^2 located south of Lake Eyre in the centre of South Australia. The licences were acquired to search for the source of diamonds recovered from the Peak and Denison Ranges in South Australia. Results from drilling and reconnaissance programs have to date produced contradictory results.

Nackara Project

As part of its regional airborne magnetic assessment, Flinders first recognised a number of inferred kimberlite dykes in the Nackara Arc area in 2004; however, title for diamonds for most of this area was held under three exploration licences by an individual and his associates. In July 2004, Flinders secured an Option to Purchase agreement with the owner, which enables the Company to purchase 100% of the diamond rights in the event of an economic discovery.

Further detailed descriptions of Flinders' mineral assets are contained in the Snowden Report.

3.2 Financial information

3.2.1 Flinders' financial performance

Included below is a summary of Flinders' trading performance for the three financial years ended 30 June 2009, 2010 and 2011 ("FY09A", "FY10A" and "FY11A") and the five months ended 30 November 2011 ("YTDFY12"), based on the Company's audited financial statements and management accounts.

Flinders - Summary of Income Statement $000's	FY09	FY10	FY11	YTD FY12
Revenue				
- Other revenue from ordinary activities	792	2,341	2,908	842
	792	2,341	2,908	842
Other Income	-	-	1	-
Expense				
- Marketing costs	(255)	(638)	(1,043)	-
- Administrative costs	(1,962)	(2,631)	(4,438)	(2,155)
- Finance costs	(5)	(8)	(20)	-
- Exploration expenditure written off	(358)	(6,879)	(6,017)	-
- Impairment loss/ change in fair value of available-for-sale financial assets	(2,119)	(127)	(24)	-
- Loss on disposal of assets	(15)	-	(24)	(23)
Profit/(Loss) before income tax	(3,922)	(7,942)	(8,657)	(1,336)
Income tax benefit / (expense)	(14)	(913)	669	-
Profit/(Loss) for the period	(3,935)	(8,856)	(7,988)	(1,336)

Source: Flinders annual reports and management accounts

The trading performance of Flinders reflects the nature of its principal activities as a mineral exploration company. Other revenue pertains primarily to interest received by the Company from cash balances on hand from equity raisings. The write off of exploration expenditure relates to exploration and evaluation expenditure which is not expected to be recouped through the successful development or sale. The impairment loss in FY09, related to the impairment of shares held in MXR and CRL.

3.2.2 Flinders' financial position

A summary of Flinders' balance sheets as at 30 June 2009, 2010 and 2011 and 30 November 2011 ("30Jun09", "30June10", "30June11" and "30Nov11") is presented in the table below. The amounts have been extracted from the Company's audited financial statements for 30Jun09, 30Jun10 and 30Jun11 and management accounts for 30Nov11.

Flinders - Summary Balance Sheet (Assets and Liabilities)				
$000's	30Jun09	30Jun10	30Jun11	30Nov11
Current assets				
Cash and cash equivalents	20,523	54,807	36,321	25,354
Trade and other receivables	1,025	2,229	1,748	923
Other current assets	-	32	46	549
	21,547	57,069	38,115	26,826
Non-current assets				
Property, plant and equipment	890	1,630	1,671	1,576
Available-for-sale financial assets	394	274	240	240
Exploration and evaluation expenditure	24,937	32,103	43,279	53,251
Other non-current assets	27	27	27	27
	26,248	34,034	45,217	55,094
Total assets	47,795	91,102	83,332	81,920
Current liabilities				
Trade and other payables	754	2,202	1,720	1,613
Provisions	75	135	203	245
	829	2,337	1,923	1,858
Non-current liabilities				
Provisions	-	28	97	75
	-	28	97	75
Total liabilities	829	2,365	2,020	1,934
Net assets	**46,966**	**88,737**	**81,312**	**79,986**

Source: Flinders annual reports and management accounts

Similar to the income statement, Flinders' balance sheet position reflects its nature as a mineral exploration company, with the major balances at 30 June 2011 being cash and the capitalised exploration and evaluation expenditure.

The available for sale financial assets are represented by Flinders' investment in MXR, CRL and Phoenix, with the balance at 30Jun11 being comprised of the following amounts:

Flinders - Investment in ASX Listed Companies as at 30Jun11 $000's	
MXR	196
CRL	19
Phoenix	25
	240

Source: Flinders 2011 annual report

Included below is a summary of Flinders' cash flow statement for the three financial years FY09A, FY10A and FY11A and for the three month period ended 30 September 2011 ("YTDSep11"). For FY09, FY10 and FY11 the amounts have been extracted from the Company's audited financial statements and the YTDSep11 amounts from the quarterly report.

Flinders - Summary Cash Flow Statement $000's	FY09	FY10	FY11	YTDSep11
Cash flow from operating activities				
Receipts from customers	-	-	49	-
Payments to suppliers and employees	(1,754)	(2,803)	(4,819)	(1,433)
Interest received	896	1,096	3,027	805
Other income	-	163	102	682
Net cash from operating activities	(859)	(1,544)	(1,641)	54
Cash flows from investing activities				
Proceeds from purchase of subsidiary, net of cash	-	-	351	-
Payments for investments	(263)	(15)	-	-
Purchase of property, plant and equipment	(492)	(968)	(208)	(87)
Proceeds from disposal of property, plant and equipment	25	-	15	-
Payment of exploration and evaluation	(12,958)	(13,009)	(16,895)	(4,941)
Loans to related entities	(275)	(75)	(150)	-
Net cash from investing activities	(13,962)	(14,067)	(16,887)	(5,028)
Cash flow from financing activities				
Proceeds from issue of shares	22,007	52,812	42	3
Transaction costs	(588)	(2,916)	-	-
Net cash from financing activities	21,419	49,896	42	3
Net increase / (decrease) in cash held	6,598	34,285	(18,486)	(4,971)
Cash at beginning of period	13,925	20,523	54,807	36,321
Cash at end of period	20,523	54,807	36,321	31,350

Source: Flinders annual reports and quarterly report

A review of Flinders' cash flow statements shows that the Company's activities have been funded from the cash raised through the issue of shares, with major expenditures being incurred on exploration and evaluation activities.

3.3 Capital structure and major shareholders

As at 22 November 2011 Flinders had the following securities on issue:

- 1,821,300,404 fully paid ordinary shares;
- 240,000 options exercisable at $0.084 on or before 5 March 2013;
- 1,121,666 options exercisable at $0.045 on or before 3 February 2014;
- 300,000 options exercisable at $0.055 on or before 26 August 2014;
- 320,000 options exercisable at $0.085 on or before 30 June 2015;
- 17,768,000 incentive rights entitling holders one share each in the Company, subject to the achievement of certain performance hurdles, exercisable on or before 30 June 2013; and
- 5,304,700 incentive rights entitling holders one share each in the Company, subject to the achievement of certain performance hurdles, exercisable on or before 30 June 2014.

As at 22 November 2011, the Company's top 10 shareholders held 20.2% of the shares on issue. Flinders has approximately 14,000 shareholders. A profile of Flinders' top 10 shareholders is as follows:

Flinders - Shareholder Profile as at 22 November 2011

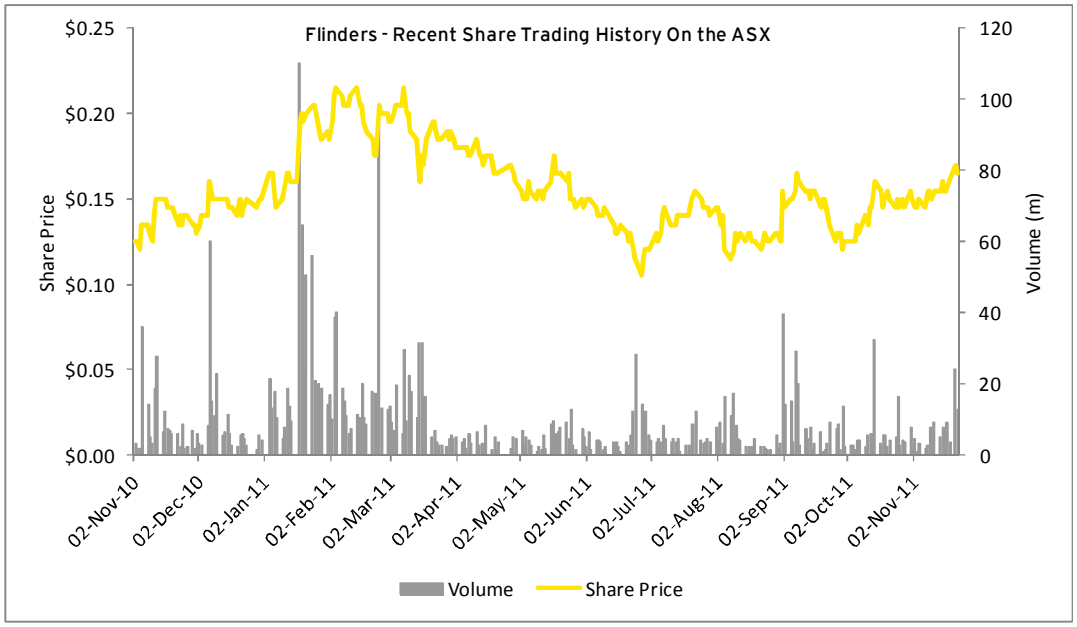
		No. of shares	%
1	Acorn Capital Ltd	127,623,286	7.0%
2	Westoz Funds Management Pty Ltd	34,000,000	1.9%
3	SNS Securities N. V.	33,485,500	1.8%
4	Robert Michael Kennedy	31,500,000	1.7%
5	Colonial First State Global Asset Management	31,033,136	1.7%
6	Huang Tiung Sii	27,000,000	1.5%
7	DBS Bank Private Banking	25,000,000	1.4%
8	Shuohang Wang	21,410,162	1.2%
9	DFA Australia Ltd	20,057,063	1.1%
10	Thomey Investment Group	17,225,000	0.9%
Total - Top 10		368,334,147	20.2%
Other Flinders Shareholders		1,452,966,257	79.8%
Total shares on issue		1,821,300,404	100.0%

Source: Flinders

The options and incentive rights noted above are the Flinders Options and Flinders Incentive Rights that will be cancelled and vested should the Proposed Scheme proceed.

3.4 Share price performance

The chart below shows the daily share price and trading volumes for Flinders between 1 November 2010 and 22 November 2011, the last trading day prior to the announcement of the Proposed Scheme.



Source: Capital IQ, Company announcements

The table below summarises the monthly trading in Flinders shares up to and including 22 November 2011. Over the past 12 months, Flinders' share price traded up from $0.115 in November 2010 to a high of $0.225 in February 2011, down to low of $0.10 in June 2011 and up to close on 22 November 2011 at $0.165. The total volume of shares traded over the past 12 months was 2,347 million shares, representing 129% of the average number of shares outstanding over this period.

Flinders - Monthly Share Trading Summary				Monthly	Liquidity
Date	High	Low	Close	Vol (000s)	%
Nov-10	0.155	0.115	0.135	182,818	10%
Dec-10	0.160	0.130	0.150	193,112	11%
Jan-11	0.215	0.145	0.190	495,344	27%
Feb-11	0.225	0.165	0.200	397,840	22%
Mar-11	0.215	0.150	0.185	279,101	15%
Apr-11	0.185	0.160	0.160	68,856	4%
May-11	0.175	0.145	0.145	114,566	6%
Jun-11	0.155	0.100	0.120	130,529	7%
Jul-11	0.160	0.120	0.140	93,941	5%
Aug-11	0.145	0.105	0.125	116,360	6%
Sep-11	0.165	0.120	0.125	202,833	11%
Oct-11	0.170	0.120	0.155	125,812	7%
up to 22 Nov-11	0.175	0.145	0.165	105,588	6%

Source: Capital IQ, Company announcements

The monthly liquidity of a Flinders share over the period has generally been greater than 5% of the shares on issue, with the monthly volumes trading ranging between 4% and 27% of the shares on issue. Liquidity was highest when the share price was at or above $0.20.

In addition to the regular quarterly, interim and annual reporting announcements, the material announcements made by Flinders across the above period that may have had an impact on the Company's share price are summarised below:

- 18 January 2011 – The PFS results were released, with the Company announcing that the ore resources supported a production of more than 229 Mt of fines product, with the BID product being suitable for direct shipping operations and DID product requiring minor beneficiation. Mine production was planned to commence at 5 Mtpa, increasing to 15 Mtpa after five years.

- 25 May 2011 – The Company announced that it would engage WorleyParsons to prepare a DFS for the PIOP. Completion of the DFS was scheduled for the second quarter of 2012. The study would be based on an annual production rate of 15 Mtpa from start-up.

- 21 June 2011 - Drilling results from PIOP were released, with 83% of the drilling work (over 50 km of drilling) having been completed that showed a number of significant intersections which was consistent with the distribution of known mineralisation.

- 29 July 2011 – The June 2011 Quarterly Report was released, highlighting continuation of infrastructure access negotiations with a number of parties with whom Flinders has confidentiality agreements in place and completion of a marketing study.

- 10 August 2011 – A maiden inferred mineral resource was announced for the Canegrass Project.

- 1 September 2011 – Flinders engaged the Global Banking division of Citi to undertake an in-depth review of the strategic options open to the Company in finalising its future partners for the PIOP. Under the appointment, Citi was to assess expressions of interest from third parties, as well as reviewing other value enhancing business strategies on behalf of the Flinders Board.

- 14 October 2011 – Further drilling results from the PIOP were released, with favourable results from the follow up drilling program targeted at defining further BID at the PIOP.

- 31 October 2011 – Further drilling results were released in relation to the BID mineralisation at the PIOP. The results were positive and highlighted new zones with significant BID intersections.

- 11 November 2011 – Agreement was reached to terminate the iron ore component of the Prenti JV for a cash consideration plus a 5% net profit production royalty in respect of any non-iron ore commodities.

- 14 November 2011 – Flinders announced that its global mineral resources for PIOP had increased by 23% to 917 Mt at a grade of 55.2% Fe. The increase announced was based on updated resource estimates for the Champion, Delta and Eagle deposits.

- 22 November 2011 – An exploration target within BID mineralisation within the PIOP had the potential for 110 Mt to 160 Mt in addition to the 917 Mt of JORC resources already defined for PIOP.

4. Overview of MMK

MMK is a long established Russian steel production company that was converted to an open joint stock company in 1992 as part of the business being privatised from State ownership. Based in the city of Magnitogorsk in the south of the Chelyabinsk region approximately 1,600 km east of Moscow, MMK is one of Russia's largest steel producers and manufacturers of steel products, which in turn makes it one of the world's largest steel companies.

Listed on the Russian Trading System and the Moscow Interbank Currency Exchange, MMK underwent an IPO and listed on the London Stock Exchange ("LSE") in 2007. Based on the closing price of its global depository receipts at 30 November 2011, MMK had a market capitalisation of approximately US$5.5 billion.

MMK's operations have a high degree of vertical integration as it sources its iron ore and coal from its own mines, produces crude steel and performs downstream processing of crude steel into a range of steel products from its own facilities and markets its own products.

MMK has a current annual crude steel capacity of 14 Mt, which has benefited in recent years from significant investment made by the company in modernising existing facilities and constructing new facilities. Included in this last category is a new facility being constructed in Iskenderun, Turkey, which when fully operational is to have a crude steel production capacity of 2.3 Mt, increasing MMK's total capacity to over 16 Mt per annum.

MMK has an approximate 18% share of the steel market in Russia and has a leading position in the hot-rolled sheet, galvanized flat products, cold-rolled narrow strip and tin plate segments. Approximately 70% of MMK's production is sold into the domestic market with the remaining 30% being exported, primarily to Europe and the Middle East. Over 80% of MMK's exports are in hot-rolled steel products.

In the financial year ended 31 December 2010, MMK crude steel production totalled over 11.4 Mt, with revenues of in excess of US$7.7 billion and earnings before interest, tax, depreciation and amortisation ("EBITDA") of US$1.6 billion. In the nine months to 30 September 2011, production totalled approximately 5.5 Mt of crude steel, revenues of approximately US$4.6 billion and EBITDA of US$780 million.

MMK's cash balance as at 30 September 2011 was US$418 million, down from US$515 million at 31 December 2010.

MMK's Board of Directors consists of 10 members, five of which are independent. The chairman of the Board of Directors is Victor F. Rashnikov. MMK's two major shareholders are Mintha Holding Limited and Fulnek Enterprises Limited, who hold a combined shareholding of over 85%. Both companies' are beneficially owned by Victor F. Rashnikov.

MMK's undertaking of the proposed acquisition of Flinders is consistent with its stated corporate objective of growing its investment into and economic exposure to upstream production of raw materials that are used in steel making including iron ore. MMK has a 4.99% interest in FMG.

Additional detail in relation to MMK is contained in the Scheme Booklet.

5. Iron ore industry profile

5.1 Iron ore overview

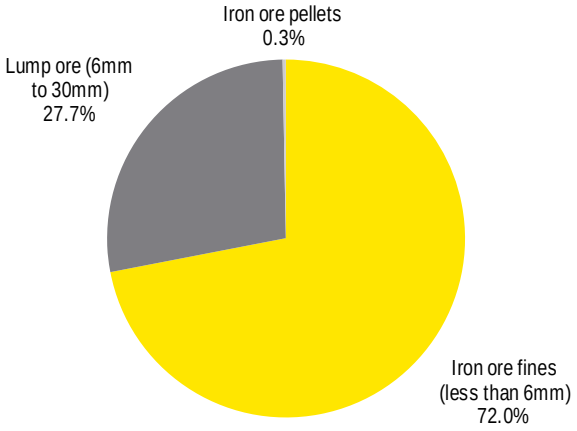
Iron ore makes up around 5% of the Earth's crust. It is almost exclusively used in the production of iron and steel. The vast majority of iron ore is bound in silicate and carbonate minerals, with energy-intensive processes required to separate pure iron from the other minerals. As a result, industries exploit comparatively rarer higher grade iron oxide minerals, magnetite and hematite.

Although iron in cast form has many specific uses (e.g. pipes, fittings, engine blocks) its main use is to make steel. Steel is strong, durable and extremely versatile. Steel's desirable properties and relatively low cost make it the main structural metal used in engineering and building projects, accounting for about 90% of all metal used each year. Steel is seen as essential to maintain a strong industrial base. About 60% of iron and steel products are used in transportation and construction, 20% in machinery manufacture and most of the remaining 20% in cans and containers.

Consequently, the demand for iron ore is closely related to the level of steel production, and indirectly related to trends in economic growth that drive the global demand for steel. Geographically, iron ore is broadly distributed across various regions of the world, with over 80% of current known reserves being located in the Ukraine, Russia, Brazil, China, Australia, India and Kazakhstan[1]. In Australia the iron ore mining sector is comprised of two of the world's largest diversified resource companies, Rio Tinto and BHP Billiton Limited ("BHPB"), as well as several mid-tier producers and junior miners.

Products and services

The iron ore mining industry produces lump, fines and pellet products, as shown in the chart below.



Lump ore attracts the highest prices as it requires less processing by steel makers before use. Steel manufacturers typically put fines through a sintering process in order to agglomerate the ore into a more appropriate size for processing.

[1] IBISWorld. Global Iron Ore Mining: B0611-GL

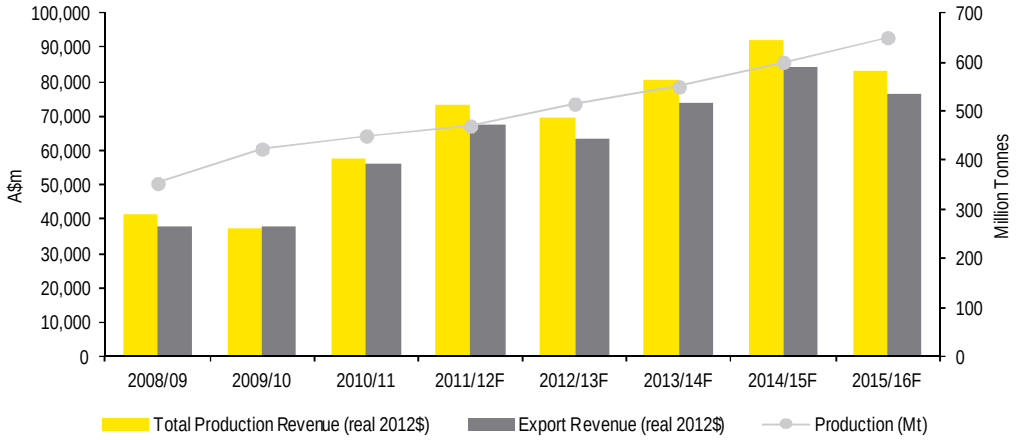
5.2 Supply of iron ore

The three major iron ore producers in the world are Companhia Vale do Rio Doce ("Vale"), Rio Tinto and BHPB. These three companies controlled approximately 30% of the world's iron ore production in 2010 and account for the majority of the world's seaborne iron ore.

Australia's production and exports of iron ore are expected to continue to rise over the next five years. By 2016/17, Australia's iron ore production and exports are forecast to total 700 Mt and 672 Mt respectively[2]. The increased output is expected to be sourced from both new operations and expansion of existing mines.

Among brokers, there is general consensus that there will be a worldwide shortage of iron ore in the short term. Australia, Brazil and India together account for 80% to 85% of global seaborne exports. In 2011, Australian iron ore supplies were impacted by delays in expansion projects and projects operated by junior miners. Iron ore production in Brazil was affected by severe flooding in January 2011, which delayed expansion plans.

The outlook for Australian iron ore production and exports are shown in the table below:



Within Australia 96.8% of iron ore is produced in Western Australia, followed by 2.5% in South Australia and 0.7% in Tasmania[3]. Exports typically amount to 90% by volume.

5.3 Demand for iron ore

Strong economic growth in large emerging nations, such as China and India, has been the main contributor to the increase in demand for iron ore over the last 10 years. Australia's iron ore exports to China which totalled approximately 100 Mt in the 2005 financial year, reached 280 Mt in 2011[4].

China's significant involvement in iron ore trade worldwide has meant that recent events, such as Chinese steel mills decreasing stockpiles in the wake of the Chinese government conserving energy and slowing the pace of private investment growth, have caused various analysts to reduce iron ore demand forecasts in the short term. Softening steel prices and China's resolve to slow economic growth is a result of the weak sentiment and concerns over the current state of the global economy.

A number of Chinese steel mills have recently announced production cuts due to lower steel prices and weaker demand. Some mills have placed a number of their blast furnaces on care and maintenance, with others expected to follow. Based on official announcements to date, it is estimated that two months of output could be impacted by the closures, which will result

[2] IBISWorld – Iron Ore Mining in Australia November 2011
[3] Ibid
[4] Ibid

in a reduction of iron ore demand. In early November 2011 the China Iron and Steel Association reported that the production rate of steel had declined.

In the long term general consensus is that urbanisation and infrastructure spending will remain a key focus of China, which will ensure that iron ore demand from China will remain strong, however, the rapid demand growth experienced by iron ore producers over the past decade is unlikely to continue indefinitely[5] .

In addition to the recovery of Chinese demand, the demand for iron ore going forward will also be dependent on the continued development of India, the timing of the recovery in European steel demand and an overall improvement in the global economy.

5.4 Iron ore pricing

Iron ore prices have traditionally been set via direct negotiation between the producer and the customer. Historically, most iron ore has been sold through annually negotiated supply contracts that set the price and volume of iron ore sold. Negotiations between the major producers and steel mills in Japan, China and Western Europe begin in and around November and last for several months. The negotiated prices are set for the following year commencing 1 April. Once an agreement is reached, the price for other types of iron ore and other market segments is usually settled with reference to this benchmark price.

In 2010, BHPB, Rio Tinto and Vale negotiated with their customers to supply iron ore through contracts with more frequent pricing changes. In addition to negotiated supply contracts, spot sales can also occur once a short term agreement has been reached between the parties. The movement towards spot market pricing has lead to increased volatility in iron ore pricing which in turn increased hedging through both derivatives and backward integration by steel companies.

The benchmark price has traditionally been based on iron ore fines on a FOB basis. However the rapid growth of China's steel industry over the past decade has changed the dynamics of global steel and iron ore markets, with Chinese steel producers attempting to negotiate different methods of pricing iron ore over recent times.

In 2009, the negotiated price of iron ore decreased by 28%[6], with the lower price reflecting the downturn in global economies brought about by the onset of the global financial crisis. However, based on contracts negotiated in 2010, the price of iron ore increased due to renewed demand from China and Japan coupled with the market power of Vale, Rio Tinto and BHPB.

Iron ore prices throughout the latter half of 2011 have been volatile largely due to a weakened global economy. Iron ore prices declined by 31% in a span of three weeks in October 2011, and then recovered by approximately 26%[7]. Iron ore prices also faced downward pressure due to Chinese steel mills drawing down from iron ore stockpiles.

Given the weakened demand for iron ore from China over October and November 2011, a number of analysts have downgraded calendar year 2012 iron ore price forecasts by 10% to 15%. Some analysts are reporting that steel makers may begin pushing iron ore suppliers to delay shipments or move their pricing over to the lower spot market. In stating this, most analysts have largely kept their long term, iron ore price forecasts unchanged.

Included below is a summary of broker consensus estimates of forecast iron ore prices. In presenting them we have restated from a nominal to a real basis. Lump prices are generally at a 20% to 30% premium to the fines price.

[5] J.P. Morgan Australian Resources 22 November 2011
[6] IBISWorld – World Price – Metals – Iron Ore: A5221
[7] J.P. Morgan Australian Resources 22 November 2011

USc/dmtu	2011	2012	2013	2014	2015	Long term
Fines	260.8	236.3	211.8	174.9	143.1	111.5

Source: Consensus analyst forecasts and EY analysis

5.5 Infrastructure

In recent years a group of junior iron ore miners lodged a submission to the Australian Competition and Consumer Commission ("ACCC") to require BHPB and Rio Tinto to allow third party access to their rail networks in the Pilbara. Separately, FMG appealed to the Australian Competition Tribunal to have BHPB's and Rio Tinto's railways declared open access under the Trade Practices Act. In May 2011 the Full Court ruled that neither of Rio Tinto's two main Pilbara rail lines were required to be open to third party access, which in conjunction with a previous ruling, meant that of all the major Pilbara rail lines that haul iron ore from mines to ports, only BHPB's Goldsworthy rail line was required to allow third party access[8].

5.6 Emissions Trading Scheme in Australia

The Labor Party and the Greens have been working towards implementing an Emissions Trading Scheme ("ETS") in recent years. In November 2011 the Federal Parliament passed legislation to establish an Australia carbon pricing scheme, which will be introduced across two phases. Initially a three-year, fixed price phase from 1 July 2012 to 30 June 2015, moving to a floating price phase on 1 July 2015.

In both phases, liable entities will be required to acquire and surrender carbon units equivalent to their annual emissions from activities covered by the scheme. In the fixed price phase, the carbon price will commence at $23 per tonne of carbon dioxide equivalent ("tCO2-e") (for 2012/13), increasing to $24.15/tCO2-e (for 2013/14) and $25.40/tCO2-e (for 2014/15). In the floating price phase, the Government will set annual caps on the number of carbon units to be issued in each year and the price of those units will be determined by the market.

5.7 Minerals Resource Rent Tax

On 2 July 2010, the Federal Government of Australia announced the introduction of the Minerals Resource Rent Tax ("MRRT") which is proposed to apply to coal and iron ore projects from 1 July 2012. In addition, the Federal Government has announced a change in the corporate tax rate from 30% to 28% from FY13 onwards. In November 2011 the MRRT was passed through the lower house of the Federal Parliament.

[8] Mallesons Stephen Jaques – Pilbara Rail access dispute: Federal Court derails Fortescue's application for declaration 20 May 2011

6. Valuation methodology and approach

6.1 Definition of fair value

In forming our opinion as to whether or not the Proposed Scheme is in the best interests of Flinders Shareholders, we have assessed the fair value of a Flinders share in order to compare that amount with the Scheme Consideration being offered by MMK of $0.30 per share. Fair value is generally defined as:

"the price at which an asset could be exchanged between a knowledgeable and willing but not anxious seller and a knowledgeable and willing but not anxious buyer both acting at arm's length"

Our assessment of the fair value of Flinders has been done on a basis consistent with this definition. As MMK intends to acquire all of the shares in Flinders, the Proposed Scheme should be assessed on a basis consistent with a takeover bid. Consequently, in assessing the fair value of a Flinders share we have valued Flinders assuming 100% ownership, which implicitly includes a control premium.

6.2 Valuation methodology and approach

RG 111 provides guidance on the valuation methods that an independent expert should consider when valuing a company. These methods include the:

- Discounted cash flow ("DCF") method and the estimated realisable value of any surplus assets;
- Application of earnings multiples (appropriate to the business or industry in which the entity operates) to the estimated future maintainable earnings or cash flows of the entity, added to the estimated realisable value of any surplus assets;
- Amount that would be available for distribution to security holders on an orderly realisation of assets;
- Quoted price for listed securities, when there is a liquid and active market and allowing for the fact that the quoted price may not reflect their value, should 100% of the securities be available for sale;
- Recent genuine offers, if any, received by the target for any business units or assets as a basis for valuation of those business units or assets; and
- Amount that any alternative acquirer might be willing to offer if all the securities in the target were available for purchase.

Each methodology is appropriate in certain circumstances. The decision as to which methodology to apply generally depends on the nature of the asset being valued, the methodology most commonly adopted in valuing such an asset and the availability of appropriate information.

The DCF methodology involves calculating the net present value of cash flows that are expected to be derived from future activities. The forecast cash flows are discounted by a discount rate that reflects the time value of money and the risk inherent in the cash flows. This methodology is particularly appropriate in valuing projects, businesses and companies that are in a start up phase and are expecting considerable volatility and/or growth in earnings during the growth phase, as well as businesses with a finite life (such as mining projects). The utilisation of this methodology generally requires that the asset be sufficiently advanced to enable management to provide long term cash flows with some degree of robustness.

The capitalisation of earnings methodology involves capitalising the earnings of a project, a business or a company at an appropriate multiple, which reflects the risks underlying the earnings together with growth prospects. This methodology is theoretically most appropriate where a company or business is expected to generate a relatively stable level of earnings but in practice, is also frequently used in a range of other circumstances.

The net asset backing methodology involves consideration of the net realisable value of the assets of a business or company on a going concern basis, assuming an orderly realisation of those assets. This value includes a discount to allow for the time value of money and for reasonable costs of undertaking the realisation. It is not a valuation on the basis of a forced sale, where assets may be sold at values materially different to their fair value. This methodology is appropriate where a project, a business or company is not making an adequate return on its assets or where there are surplus non-operational assets. This method is also appropriate for companies that are holding assets that are not sufficiently advanced to enable the preparation of long term cash flow forecasts.

Market based assessments relate to the valuation of companies, the shares of which are traded on a stock exchange. While the relevant share price would, prima facie, constitute the market value of the shares, such market prices usually reflect the prices paid for small parcels of shares and as such do not include a control premium relevant to a significant parcel of shares.

6.3 Valuation methodology adopted

Given the nature of Flinders as a minerals exploration company, we have assessed the value of the Company on a net asset backing basis after considering the underlying value of its assets and liabilities on a going concern basis. In adopting this approach, a key component of the valuation is the assessment of the value of Flinders' mineral assets. The methodologies applied in valuing the Company's mineral assets were primarily selected based on the stage of development of each asset. Details of the methods adopted by us in valuing Flinders' mineral assets are summarised in the remainder of this section.

Prior to finalising our valuation conclusion we considered the reasonableness of our overall valuation range in comparison to the prices at which Flinders' shares traded at on the ASX prior to the announcement of the offer from MMK and the Proposed Scheme.

6.3.1 PIOP

Mining projects in later stages of development or in production are typically valued using a DCF approach as reliable cash flows are typically available for these projects. In relation to the PIOP, a PFS has been completed and Flinders is in the process of undertaking a DFS to support the project's future development.

While the results of the PFS were positive, there are a number of uncertainties surrounding the development of the PIOP, in terms of both the timing and cost. In determining the most appropriate valuation method to use in valuing the PIOP, we considered the following matters:

- The development of the PIOP requires Flinders to be able to access existing rail and port infrastructure or to incur significant capital expenditures in constructing its own rail and port facilities. With the recent ACCC ruling that other than on BHPB's Goldsworthy line, BHPB and Rio Tinto are not required to give third party access to their Pilbara rail networks, Flinders ability to negotiate access to rail and port infrastructure is uncertain. If Flinders is able to negotiate third party rail access, the terms of such an arrangement, including the cost, are unknown. If Flinders is required to construct its own logistics infrastructure significant funding will be required. The Company's ability to do this remains untested.

- With regard to port infrastructure, Flinders has identified the Anketell Port as the most likely option from which ore from the PIOP will be exported. At the date of this report, the development of the Anketell Port remains at an early stage. No entity has yet been granted approval from the Western Australian State Government to commence construction of the port. Aquila, as part joint venture partner of API, and FMG are looking to lead the development of the Anketell Port with an annual capacity of 100 Mt. While the State Government has confirmed that Anketell will be a multi-user port, no allocation of capacity has yet been made across the numerous parties wanting access. Accordingly, Flinders ability to negotiate the shipping of some or all of its intended production of 15 Mtpa through Anketell remains untested.

- The financial analysis completed under the PFS, which was prepared assuming a third party infrastructure agreement with Rio Tinto, resulted in an 'unrisked' value for the PIOP of $2.2 billion. In considering this, in determining the most appropriate method by which to value the PIOP, we make the following observations with regard to the value assessed in the PFS:

  - The estimates of the capital costs and operating costs included in the PFS had a stated accuracy level of between +/- 30% to 50%. As a result, the actual cost of the project could vary considerably from the costs adopted in the PFS.

  - The long term iron ore fines price adopted in the PFS was a real price of $1.97/dmtu. In our consideration of iron ore prices, we sourced iron ore fines forecasts by various brokers. The long term forecast from brokers ranged from $1.00/dmtu to $1.935/dmtu with an average and median of $1.295/dmtu and $1.115/dmtu, respectively. It should be noted that any decrease in the long term realisable iron ore price would have a significant impact on the fair value of the PIOP.

  - The PFS value does not take into account the potential risk that the PIOP could be delayed due to various external influences such as negotiations with third party infrastructure providers, obtaining necessary environmental, Native Title and other approvals, the inability to reach an agreement for off-tenement infrastructure, etc. Any delay will result in a lower perceived value of the PIOP.

In addition, there are a number of milestones that must be achieved before the development of the PIOP can proceed. If any of these are not met in the timeframe anticipated, it would be expected that the PIOP would be delayed, possibly significantly. Such milestones include:

- Negotiating Native Title Agreement with all of the necessary Traditional Owner groups;
- Successful completion of the DFS;
- Obtaining the required State and Federal Government environmental approvals;
- Converting the Blacksmith tenement into a mining lease; and
- Securing off-tenement infrastructure agreements.

Because of these risks and uncertainties, we have applied a market approach, as opposed to a DCF approach, to value the PIOP. The market approach involved assessing a value based on trading and transaction multiples that refer to relative JORC-compliant resources for broadly comparable companies which operate in the iron ore industry.

6.3.2 Exploration Projects

The Canegrass Project and Flinders' other exploration interests (collectively, the "Exploration Projects") have been valued by Snowden as the independent mineral specialist. Consistent with the requirements of the VALMIN Code, Snowden has assessed the 'fair value' of the Exploration Projects, on a basis representing "*estimates of the amount of money, or cash equivalent, which would be likely to change hands between a willing buyer and a willing seller in an arm's length transaction, wherein each party had acted knowledgeably, prudently and without compulsion*". This is consistent with the definition noted in Section 6.1. The Snowden Report is contained in Appendix F.

6.3.3 Other assets and liabilities

We assessed the value of other assets and liabilities of the Company as follows:

- listed securities were valued using a market assessment based on quoted prices; and
- other assets and liabilities, cash, property, plant and equipment and net debt, have been valued at their book values.

With respect to the cash consideration to be paid to the holders of the Flinders Options and Incentive Rights for the cancellation and vesting of those securities, no adjustment is required on the basis that these amounts are only payable if the Proposed Scheme becomes effective. Accordingly, the value of Flinders in the absence of the Proposed Scheme is not impacted.

7. Valuation of Flinders

7.1 Valuation of the PIOP

In assessing the fair value of the PIOP we applied a market based approach based on publicly-traded companies and comparable transactions. Under this approach we have considered the resource multiples at which comparable companies have traded at on the ASX and the resource multiples implied from values at which comparable transactions have taken place in order to determine a resource multiple range appropriate to the PIOP. The range of multiples is applied to the resources attributable to the PIOP in order to assess the fair value of the project.

While we have considered resources multiples on a per tonne basis, to take into consideration the variations in the relative grade of iron contained between projects held by different companies, our resource multiple assessment is primarily based on a per tonne of contained Fe basis.

7.1.1 Trading Multiple Analysis

In applying a trading multiple analysis to value the PIOP, we considered ASX listed iron ore companies that have projects broadly comparable to the PIOP. In developing our set of comparable companies, we excluded companies without JORC compliant resources and those with operations primarily outside of Australia. Since the PIOP is still in pre-development stage, we also excluded companies with producing assets as we do not consider their operations to be comparable to the PIOP. As such, our analysis has focused on companies without any producing assets. In addition, as the characteristic of PIOP's ore is hematite, we have excluded companies with only magnetite resources.

The multiples were calculated based on each company's implied trading value per tonne of resource and per tonne of contained Fe. Some of the comparable companies identified have entered into agreements for the sale of some of their tenements. The resources applicable to the tenements to be sold have been excluded from our calculations. The implied value per tonne was calculated as follows:

- obtained the market capitalisation for each company as at 22 November 2011 to calculate an equity value for the company;
- added back net debt or subtracted net cash as reported at the latest available reporting date prior to 22 November 2011, to obtain an enterprise value ("EV") for the company; and
- divided the EV by the number of resource tonnes ("EV/t of resource") and the number of tonnes of contained Fe ("EV/t of contained Fe") to obtain an implied enterprise value per tonne of resource. The number of tonnes and number of tonnes of contained Fe is based on the latest reported resources disclosed by the company as at 22 November 2011.

It is of note that market prices usually reflect the prices paid for small parcels of shares representing minority interests and as such do not include a control premium relevant to a significant parcel of shares. It is generally accepted that in order to acquire a 100% controlling interest in a company, the acquirer must pay a premium over and above the prices at which the shares in the target are trading at prior to the announcement of the takeover bid. Takeover transactions in Australia are typically completed with an implied premium to the pre-bid trading price in the order of 20% to 40%. As a result, we have applied a control premium of 30% to the market capitalisation when determining the EV of each of the comparable companies. The application of a control premium is consistent with the RG 111 requirement to assess the fair value of Flinders on a 100% whole of company basis.

While this valuation method does not explicitly allow for the individual characteristics of the mineral asset being valued or the specific aspects of the proposed development plans, it is a method that is used in practice to assess the fair value of pre-development assets for transactions and other purposes due to the level of risk and uncertainty associated with the assets and the level of information available.

A summary of the implied trading multiples on a per tonne of resource basis and on a per tonne of contained Fe basis is included below. A summary description of the comparable companies is contained in Appendix B.

Trading Multiples	Implied EV (A$m)	Total resources (Mt)	Total contained Fe (Mt)	A$ per resource tonne	A$ per contained Fe tonne	Average Fe grade	Stage of development
Rico Resources Ltd	73	78	44	0.94	1.65	57%	Scoping study completed
Iron Ore Holdings Ltd*	200	569	324	0.35	0.62	57%	PFS completed
Cazaly Resources Ltd	37	118	64	0.31	0.57	54%	Feasibility study completed
Red Hill Iron Ltd	129	189	105	0.69	1.23	56%	Stage 1 DFS due early 2012
Brockman Resources Ltd	300	480	284	0.63	1.06	59%	BFS at advanced stage
Low	37	78	44	0.31	0.57	54%	
Mean	148	287	164	0.58	1.03	57%	
Median	129	189	105	0.63	1.06	57%	
High	300	569	324	0.94	1.65	59%	

* - Resources for Iron Ore Holdings do not include 310 mt of magnetite resource
Source: Annual reports, ASX announcements and CapitalIQ

We note that the calculation of Brockman Resources Ltd's ("Brockman") resources include its DSO resources and its beneficiated detrital ore resources at an average grade of 61.0%.

The analysis of EV/t of resource shows the trading multiples of iron ore exploration companies with projects at a stage of development not dissimilar to the PIOP have a median of $0.63/t and average of $0.58/t, with a range of $0.31/t to $0.94/t. The EV/t of contained Fe shows a median of $1.06/t and an average of $1.03, with a range of $0.57/t to $1.65/t.

We note that there have been no significant changes to the trading multiples from 22 November 2011 to the date of this report.

The mix of classification of Measured and Indicated Resources for each of the comparable companies, together with Flinders, is shown in the table below. Those resources not in Measured and Indicated are in Inferred.

Resource Classification	Total Resources	Measured as a % of Total Resources	Measured + Indicated as a % of Total Resources	Reserves as a % of Resources
Rico Resources Ltd	78	0%	0%	0%
Iron Ore Holdings Ltd	569	0%	46%	0%
Cazaly Resources Ltd	118	0%	0%	0%
Red Hill Iron Ltd	189	22%	56%	40%
Brockman Resources Ltd	480	9%	86%	62%
Low		0%	0%	0%
Mean		6%	38%	20%
Median		0%	46%	0%
High		22%	86%	62%
Flinders	917	11%	48%	0%

Source: Comparable company annual reports, ASX announcements and CapitalIQ

As Brockman's beneficiated detrital reserves and resources are not classified by resource category (i.e. Measured, Indicated or Inferred), we estimated the various categories by prorating the beneficiated resources by the percentages of each resource classification for the non-beneficiated resources of 1.5 billion tonnes.

The following table summarises the average Fe content and various impurities of each of the comparable company's and Flinders resources.

Ore Grades	Fe Content	SiO_2 %	Al_2O_3	P %	LIO %
Rico Resources Ltd	56.0%	6.6%	3.6%	0.08%	9.2%
Iron Ore Holdings Ltd1	56.8%	6.1%	3.1%	0.14%	7.3%
Cazaly Resources Ltd	54.5%	11.1%	4.1%	0.04%	6.0%
Red Hill Iron Ltd	56.5%	4.3%	5.8%	0.07%	0.0%
Brockman Resources Ltd	59.9%	6.0%	3.0%	0.08%	4.0%
Flinders	55.2%	9.7%	4.8%	0.07%	5.6%

Source: Comparable company annual reports and ASX announcements

7.1.2 Transaction Multiple Analysis

We have also considered prices achieved in more recent transactions that involve the purchase of iron ore exploration and development companies and in some instances, the purchase of iron ore assets. We have only considered companies with assets containing hematite mineralisation and have limited our search to transactions involving consideration less than A$1 billion. These multiples are generally on a control basis. A summary description of the transactions is contained in Appendix C.

Transaction Multiples				
Target	Acquirer	Date	A$ per resource tonne	A$ per contained Fe tonne
United Minerals Corporation	BHP Billiton Ltd	16-Oct-09	1.21	2.09
Polaris Metals NL	Mineral Resources	20-Aug-09	2.49	4.29
Warwick Resources Limited	Atlas Iron Limited	8-Sep-09	2.30	4.13
Talisman Mining	Rico Resources Ltd	1-Oct-10	0.53	0.95
Giralia Resources NL	Atlas Iron Limited	21-Dec-10	1.30	2.71
FerrAus Ltd	Atlas Iron Limited	27-Jun-11	0.69	1.23
Iron Ore Holdings Ltd (assets)	Rio Tinto Group	27-Sep-11	0.30	0.51
Iron Ore Holdings Ltd (assets)	Mineral Resources	13-Oct-11	0.77	1.35
Cazaly Resources Ltd (assets)	Undisclosed	4-Aug-11	1.14	2.03
Low			0.30	0.51
Average			1.19	2.14
Median			1.14	2.03
High			2.49	4.29

Source: Mergermarket, DatAnalysis, Company announcements, Press articles

The analysis shows an EV/t of resource transaction multiple range of $0.30/t to $2.49/t, with a median of $1.14/t and an average of $1.19/t. The EV/t of contained Fe shows a range of $0.51/t to $4.29/t, with a median of $2.03/t and an average of $2.14/t.

In considering the transactions for the purpose of determining an appropriate multiple to apply to the PIOP, we considered the following:

- The nature of the asset acquired (hematite or magnetite), its stage of development and its location;
- The extent to which the companies have secured third party access arrangements;
- The relative size of the transaction or the comparable companies; and
- The timing of the transaction.

It is possible that the transactions identified may involve an element of 'special' value which reflects additional benefits such as the ability to combine assets with infrastructure solutions or the increase in project optimisation through the combination of complimentary deposits. The extent to which this special value is reflected in the transaction price may depend on the level of synergies expected to be created as well as the alternatives available to the acquirer and the target.

7.1.3 Valuation based on resource multiples

In determining an appropriate range of resource multiples to apply in valuing the PIOP, we considered the data compiled for both the trading multiples and the transaction multiples.

Based on our analysis of the stage of development of each of the comparable companies' most advanced project, the mix of resource classification (i.e. Measured, Indicated and Inferred), the quality of the resource, the size of the resource and discussions with Snowden, we assessed an appropriate EV/t of contained Fe multiple range to be as follows:

Selected Resource Multiples	Low	High	Midpoint
EV / t contained Fe multiple ($)	0.50	0.90	0.70

Source: EY analysis

In relation to selection of this range of resource multiples, after consideration of the matters referred to above, we note the following:

- While the PIOP PFS was completed in January 2011, reflecting the early stage nature of the project, Snowden commented in its report that based on a preliminary review of the PIOP "*some of the assumptions associated with metal prices, mining costs and mass recovery used in the study* (i.e. the PFS) *do not align with values that Snowden would consider to be indicative of industry standards*".
- Some of the transactions considered in Section 7.1.2 are quite dated while others involved the sale of assets rather than sale of companies as a whole;
- Prices paid for successful takeover transactions by their nature generally include payment for 'special' value that only can be derived by the acquirer; and

- The transaction that involves a company which features projects with geology most comparable to the PIOP is the takeover of FerrAus Limited ("FerrAus") by Atlas Iron Limited ("Atlas"). In saying this, FerrAus' Pilbara projects are more advanced than Flinders, with the company having port access through it being a founding member of the North West Iron Ore Alliance, which has port entitlements to the yet to be constructed 50 Mtpa South West Creek facility at Port Hedland (with Atlas and Brockman being the other members). It is of note that based on the five day volume weighted average price ("VWAP") price of a FerrAus share prior to the announcement of the Atlas takeover in June 2011, adjusted for a 30% control premium, the EV/t of contained Fe multiple for FerrAus was $0.68/t.

While being on the lower half of the trading multiple range of $0.57/t to $1.65/t of contained Fe, the assessed resource multiple range of $0.50/t to $0.90/t of contained Fe is reflective of these matters.

The PIOP has a stated JORC resource of 917 Mt, at an average grade of 55.2% Fe, for total contained Fe of 506 Mt. Production across the life of mine assumed for the PIOP in the PFS totalled 246 Mt of DID and BID.

By applying the selected multiples to PIOP's resources on a per tonne of contained Fe basis, we have assessed the following range of values.

Valuation of the PIOP

	Low	High	Midpoint
Contained Fe tonnes (000's)	506	506	506
EV / t contained Fe multiple ($)	0.50	0.90	0.70
Fair value of the PIOP ($000's)	253,175	455,715	354,445

Source: EY analysis

Based on the analysis above, we valued the PIOP in the range of $253.175 million to $455.715 million with a midpoint value of $354.445 million.

7.2 Valuation of the Exploration Projects

The value of the Exploration Projects has been included at the values assessed by Snowden. The Exploration Projects consist of the exploration potential in the iron ore and diamond tenements of the PIOP which were not included in the PIOP resource valuation, the Canegrass magnetite and vanadium resource and exploration and various diamond and base metals exploration tenements. The valuation of the Exploration Projects is detailed in Section 16 of the Snowden Report.

An overview of the PIOP and its related tenements is included in Section 3 of the Snowden Report, a description of the Canegrass resource and exploration potential is included in Section 4 and details of the other diamond and base metals exploration tenements are included in Sections 5 to 14.

For the tenements related to the PIOP, Snowden assessed the exploration potential of those areas that had no JORC defined resources using the 'Kilburn' method. This method involves specifying and ranking various aspects associated with a particular tenement and considering whether that aspect either enhances or downgrades the intrinsic value of the property. The method considers the exploration work completed to date, the results of that work, the location of the tenement and other relevant information. Details of the valuation assumptions and methodology adopted by Snowden are contained in section 16.1 of the Snowden Report.

For the Canegrass resource, Snowden applied a market based method using publically available information for transactions involving vanadium companies to determine a value of mineral resource on a contained V_2O_5 basis. Details of the transaction value per resource lb methodology adopted by Snowden are contained in section 16.2 of the Snowden Report.

For the early stage diamond and base metal exploration projects Snowden the 'Kilburn' method. Details of their assumptions and methodology are contained in Section 16.3 to 16.12 of the Snowden Report.

Snowden's valuation of the Exploration Projects is summarised in the table below:

Flinders - Value of Exploration Projects			
$000's	Low	High	Midpoint
Canegrass resource	7,370	20,630	14,000
PIOP exploration - hematite iron	52	541	296
PIOP exploration - diamond	43	216	130
Canegrass exploration	237	602	420
Strangways	93	149	121
Adelaide Hills	105	168	136
Billa Kalina	132	210	171
Central Gawlor Craton	24	38	31
Flinders Ranges Mn	15	23	19
Jamestown	99	158	129
Lake Torrens	81	131	106
Nackara	11	18	14
Southern Gawlor Craton	15	25	20
Springfield	59	103	81
	966	2,382	1,674
Total Value of the Exploration Projects	8,336	23,012	15,674

Source: Snowden Report

Snowden valued Flinders Exploration Projects in a range of $8.336 million to $23.012 million, with a preferred (i.e. midpoint) value of $15.674 million.

7.3 Valuation of Investments

Flinders holds shares in ASX listed companies, MXR, CRJ and Phoenix. In valuing the respective interest in each company we reviewed share trading data for each of the companies up to and including 22 November 2011. We note that all three companies have low levels of liquidity.

In valuing Flinders' investments in MXR, CRJ and Phoenix we have taken the closing price of the shares on 22 November 2011. Accordingly, our assessment of the value of the Company's financial assets is summarised as follows:

Flinders - Value of Investments	MXR	CRJ	Phoenix
Number of shares owned by Flinders (000's)	16,306	1,000	250
Market price per share on 22 November 2011 ($)	0.007	0.016	0.050
Fair value of Flinders' investment ($000's)	114	16	13
Total ($000's)	143		

Source: Capital IQ and EY analysis

On the basis of materiality, in valuing the shares we have not specifically considered the liquidity of each company's shares in comparison to the size of Flinders' holding in each company to determine whether or not a marketability discount is appropriate. Neither have we considered the capital gains tax implications, if any, of our valuation on the basis that any gain on the disposal of the shares would be offset by capital losses Flinders has available.

There has been no material change in respective share prices since 22 November 2011 and the date of this report.

7.4 Corporate Costs

Flinders incurs corporate costs that have not been included in the valuation of the Company's mineral assets. Corporate costs include administration costs, head office costs, finance team salaries and listing fees and are estimated by Flinders at $4 million per year. We determined a multiple of five to six times to be appropriate in assessing a corporate cost allowance of between $20.0 million to $24.0 million which has been included in the valuation for the capitalised value of the residual overhead costs. The value for corporate costs assessed is not inconsistent with the present value determined on a DCF basis using the $4 million increased by 2.0% per annum across a 10 year period discounted back using a before tax discount rate range of 15% to 20%. In considering corporate costs it is of note that a significant percentage of the expenses are of a discretionary nature in that they can be scaled back should the Company's activities reduce.

7.5 Valuation Summary

Our valuation of Flinders on a net asset backing basis after considering the underlying value of the Company's assets and liabilities on a going concern basis is summarised in the following table. Our assessment is primarily based on Flinders' balance sheet as at 30 November 2011, which Flinders management have confirmed has not significantly changed subsequent to that date and adjusted for the values assessed for the Company's mineral assets, property plant and equipment, capitalised corporate costs, and other assets and liabilities.

We summarise our fair market valuation of 100% of the issued shares in Flinders and the fair value per share as follows:

Flinders - Valuation Summary			
$000's	**Low**	**High**	**Midpoint**
Mineral assets:			
- the PIOP	253,175	455,715	354,445
- Exploration Projects	8,336	23,012	15,674
	261,511	478,727	370,119
Other assets and liabilities:			
- Cash	25,354	25,354	25,354
- Trade and other receivables	923	923	923
- Other current assets	549	549	549
- Property, plant and equipment	1,576	1,576	1,576
- Investments	143	143	143
- Other non-current assets	27	27	27
- Trade and other payables	(1,613)	(1,613)	(1,613)
- Provisions	(321)	(321)	(321)
- Corporate overheads	(20,000)	(24,000)	(22,000)
	6,638	26,638	26,638
Fair value of Flinders	268,149	505,365	396,757
Number of shares on issue (millions)	1,821	1,821	1,821
Fair value assessed per Flinders share ($)	0.15	0.28	0.22

Source: EY analysis

Based on this assessment we have determined the fair value of a Flinders share on a 100% basis to be in the range of between $0.15 and $0.28, with a midpoint value of $0.22.

7.6 Valuation Cross Check

As a cross check to our valuation of Flinders we have considered the resource multiples implied by Flinders recent trading prices on the ASX.

The table below summarises Flinders' share price over various periods leading up to the date of the announcement of the Proposed Scheme. The implied enterprise values per tonne of JORC compliant resource and per tonne of contained Fe are also included. Flinders' enterprise value has been calculated based on the corresponding share price, grossed up for a 30% control premium, net of Flinders' cash balance as at 30 November 2011.

Flinders Resource Multiples	Flinders share price $	Flinders share price with control premium $	$ EV / resource tonne	$ EV / contained Fe tonne
Close	0.17	0.21	0.40	0.72
1 Day VWAP	0.17	0.22	0.41	0.74
5 day VWAP	0.16	0.21	0.39	0.70
20 day VWAP	0.16	0.20	0.37	0.68
30 day VWAP	0.15	0.20	0.36	0.66
60 day VWAP	0.15	0.19	0.35	0.64

*VWAPs inlcude trading days only

Source: Capital IQ

The EV/t of contained Fe implied by Flinders' recent trading prices, including a 30% control premium ranges from $0.64/t to $0.74/t. While appearing reasonable when compared to the multiple range of Flinders of $0.48/t to $0.95/t implied by our valuation of the Company, we note that the range implied by Flinders trading price is within the second quartile of our range.

8. Evaluation of the Proposed Scheme

8.1 Approach

In forming our opinion as to whether the Proposed Scheme is fair and reasonable, and therefore in the best interests of Flinders Shareholders, we have considered:

- whether the Scheme Consideration is fair;
- whether the Scheme Consideration includes a premium for control;
- the advantages and disadvantages relevant to Flinders Shareholders; and
- alternatives to the Proposed Scheme.

8.2 Valuation conclusion

In determining whether the Proposed Scheme is in the best interests of Flinders Shareholders we have compared the fair value assessed for a Flinders share with the Scheme Consideration, being $0.30 for each Flinders share held.

The comparison of values, based on the values assessed in Section 7.4, is summarised in the following table:

Comparison of Values - 100% interest basis

	Low	High	Midpoint
Fair value of a Flinders share - 100% basis ($)	0.15	0.28	0.22
Cash consideration per share ($)	0.30	0.30	0.30
Premium of Consideration over value of Flinders share ($)	0.15	0.02	0.08
Premium of Consideration over value of Flinders share (%)	100.0%	7.1%	36.4%

Source: EY analysis

On this basis, Flinders Shareholders are receiving a premium in the range of 7.1% and 100.0%, with a premium at the midpoint of 36.4%.

Based on this analysis the fair value of the consideration being offered by MMK under the Proposed Scheme is greater than the value assessed for a Flinders share. On this basis, consistent with the approach detailed in RG 111, in our opinion, the Proposed Scheme is fair to the Flinders Shareholders.

Consideration of the prices at which Flinders' shares have traded on the ASX is contained in Section 8.3.

8.3 Commercial and qualitative factors

In accordance with RG 111 a takeover offer is reasonable if it is fair. On this basis, given we have assessed the Proposed Scheme as being fair; in our opinion the Proposed Scheme is also reasonable. However, as part of assessing the Proposed Scheme we also considered the potential advantages and disadvantages to the Flinders Shareholders of the Proposed Scheme and considered whether the advantages outweigh the disadvantages only in the context of the Proposed Scheme.

We consider that the advantages and disadvantages of rejecting the Proposed Scheme are in the inverse of accepting the Proposed Scheme.

In considering the commercial and qualitative factors relating to the Proposed Scheme, Ernst & Young Transaction Advisory Services considered factors relating to the Proposed Scheme. These factors are summarized below. We note that individual Flinders Shareholders may interpret these factors differently depending on their individual circumstances.

8.3.1 Advantages

Premium for control

The analysis in Section 8.2 shows that MMK is paying a premium to our assessed value of a Flinders share. The payment of a premium is to the benefit of Flinders Shareholders.

If Flinders Shareholders do not approve the Proposed Scheme and there is no superior alternative offer for Flinders shares, Flinders Shareholders will lose this premium in that it would be expected that Flinders shares would trade at levels below the offer from MMK and our assessed value range.

Scheme Consideration will be paid in Cash

With the Scheme Consideration to be paid as cash, the Proposed Scheme allows Flinders Shareholders to immediately realise their investment in Flinders at a premium to the assessed value of a Flinders share. If Flinders Shareholders reject the Proposed Scheme and retain their investment in Flinders, they will face risks associated with the further development of the PIOP.

8.3.2 Disadvantages

No participation in the future growth of Flinders' mineral assets

By accepting the Proposed Scheme, Flinders Shareholders are giving up the right to participate in the future upside, if any, associated with Flinders' mineral assets (including the PIOP, Canegrass and Flinders' exploration assets). While each of these projects is at a different stage of early development, any future exploration success would likely have a positive valuation impact.

One-off transaction costs

Flinders management has estimated that incremental costs associated with the Proposed Scheme, excluding any success fees, will be approximately $1 million. These incremental costs include legal, accounting and advisory fees, costs for the preparation of the Scheme Booklet, professional fees and costs associated with the dispatch of documents. We understand that these costs will be borne by Flinders regardless of whether the Proposed Scheme is approved.

8.3.3 Other factors

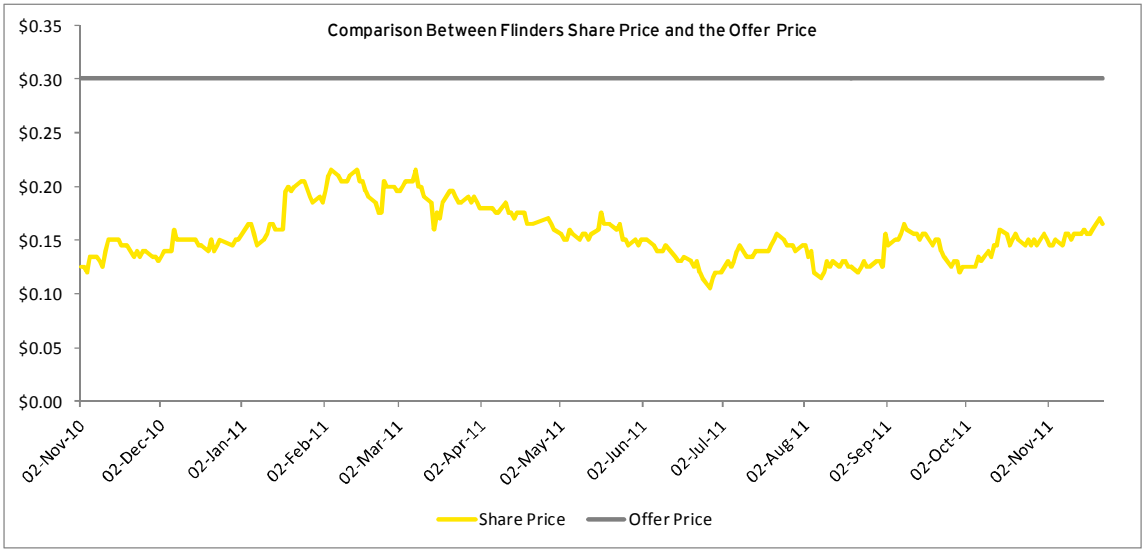
Implied premium based on market price

As part of our analysis we considered the historical share price of Flinders over the 12 months up until 22 November 2011, being the last day the shares were traded prior to the announcement of the Proposed Scheme, and compared this to the offer price over this period. The results of this analysis are summarised in the following table and chart:

Flinders - Share Price $'s	Flinders share price	Offer price	Premium
Close	0.17	0.30	81.8%
1 day VWAP*	0.17	0.30	78.6%
5 day VWAP	0.16	0.30	87.2%
20 day VWAP	0.16	0.30	93.4%
30 day VWAP	0.15	0.30	98.2%
60 day VWAP	0.15	0.30	104.3%

*VWAPs inlcude trading days only

Source: Capital IQ



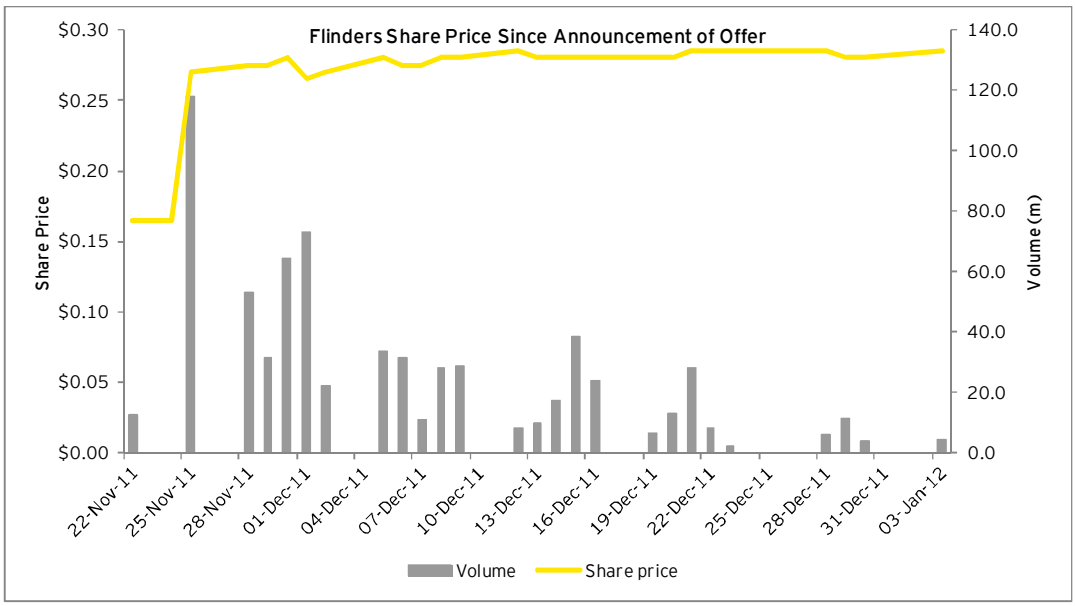
Source: Capital IQ

The Scheme Consideration of $0.30 per share being offered by MMK to Flinders Shareholders represents a significant premium to the share price of Flinders prior to the announcement of the Proposed Scheme. The consideration represents an 81.8% premium to the closing price of $0.165 per share on 22 November 2011. This premium range is significantly higher than the level of the premium typically paid in a takeover (i.e. 20% to 40%).

Accordingly, the Proposed Scheme provides Flinders Shareholders with the opportunity to realise value for their shares in excess of the price at which they traded prior to the announcement of the Proposed Scheme on 25 November 2011.

Market reaction post the announcement of the Proposed Scheme

The last trading price of Flinders' shares on the ASX on 22 November 2011, being the last trading day prior to the announcement of the Proposed Scheme, was $0.165. The following chart illustrates the prices and volumes at which the Company's shares traded over the period 22 November 2011 and 3 January 2012.



Source: Capital IQ, EY analysis

Since the announcement of the Proposed Scheme to 3 January 2012, Flinders' share price has traded from a low of $0.265 to a high of $0.285, averaging $0.279 with the average daily volume of 27.2 million shares. The last trading price on 3 January 2012 was $0.285.

Directors' view

We note that the Directors of Flinders have unanimously recommended the Proposed Scheme to Flinders Shareholders in the absence of a superior proposal. The support of the Directors should provide additional comfort to Flinders Shareholders.

No alternative offers

We have discussed with the Directors of Flinders the likelihood of alternative offers emerging for Flinders if the Proposed Scheme is successful. The Directors of Flinders have advised that they have not received an alternative or superior offer as at the date of this report.

Tax

Ernst & Young Transaction Advisory Services has not considered the specific taxation implications for individual Flinders Shareholders. If the Proposed Scheme is approved, Flinders Shareholders may be liable to pay tax on the disposal of their Flinders shares. The specific tax consequences of the Proposed Scheme will vary depending on the circumstances of each individual Flinders Shareholder. Flinders Shareholders should consider the information contained in the Scheme Booklet in relation to taxation implications. These specific tax consequences need to be borne in mind by each Flinders Shareholder in weighing up the merits of the Proposed Scheme. Flinders Shareholders who are in doubt as to the action they should take in relation to the Proposed Scheme should consult their own professional advisers.

8.3.4 Other considerations

This independent expert's report only provides general information. It does not take into account a shareholder's individual situation, objectives and needs. It is not intended to replace professional advice obtained by Flinders Shareholders. Flinders Shareholders should consider whether this report is appropriate for their circumstances, having regard to their own situation, objectives and needs before relying on or taking action based on this report. Flinders Shareholders should seek their own professional advice.

This report has been prepared to assist Flinders' Shareholders in assessing the merits of the Proposed Scheme.

Whether individual shareholders should vote to accept or not accept the Proposed Scheme depends upon their individual situation, objectives and needs, as well as each shareholder's views as to the reasonableness factors associated with either accepting or not accepting the Proposed Scheme.

8.4 Conclusion on the Proposed Scheme

In the absence of a superior proposal, Ernst & Young Transaction Advisory Services considers the Proposed Scheme to be fair and reasonable to Flinders Shareholders, and is therefore in the best interests of Flinders Shareholders.

Appendix A Statement of qualifications and declarations

Ernst & Young Transaction Advisory Services, which is wholly owned by Ernst & Young, holds an Australian Financial Services Licence under the Corporations Act and its representatives are qualified to provide this report. The directors of Ernst & Young Transaction Advisory Services responsible for this report have not provided financial advice to Flinders.

Prior to accepting this engagement, Ernst & Young Transaction Advisory Services considered its independence with respect to Flinders with reference to Regulatory Guide 112, *Independence of experts*.

This report has been prepared specifically for the Shareholders of Flinders in relation to the Proposed Scheme. Neither Ernst & Young Transaction Advisory Services, Ernst & Young and any employee thereof undertakes responsibility to any person, other than the Flinders Shareholders, in respect of this report, including any errors or omissions howsoever caused.

The statements and opinions given in this report are given in good faith and the belief that such statements and opinions are not false or misleading. In the preparation of this report Ernst & Young Transaction Advisory Services has relied upon and considered information believed after due inquiry to be reliable and accurate. Ernst & Young Transaction Advisory Services has no reason to believe that any information supplied to it was false or that any material information has been withheld from it. Ernst & Young Transaction Advisory Services has evaluated the information provided to it by Flinders, its advisors, as well as other parties, through inquiry, analysis and review, and nothing has come to its attention to indicate the information provided was materially mis-stated or would not afford reasonable grounds upon which to base its report. Ernst & Young Transaction Advisory Services does not imply and it should not be construed that it has audited or in any way verified any of the information provided to it, or that its inquiries could have verified any matter which a more extensive examination might disclose.

The information relied upon in the preparation of this report is set out in Appendix D to this report.

Flinders has provided an indemnity to Ernst & Young Transaction Advisory Services for any claims arising out of any mis-statement or omission in any material or information provided to it in the preparation of this report.

Ernst & Young Transaction Advisory Services provided draft copies of this report to the directors and management of Flinders for their comments as to factual accuracy, as opposed to opinions, which are the responsibility of Ernst & Young Transaction Advisory Services alone. Changes made to this report as a result of this review by the directors and management have not changed the methodology or conclusions reached by Ernst & Young Transaction Advisory Services.

Ernst & Young Transaction Advisory Services will receive a professional fee based on time spent in the preparation of this report estimated at approximately $120,000 (exclusive of GST). Ernst & Young Transaction Advisory Services will not be entitled to any other pecuniary or other benefit whether direct or indirect, in connection with the making of this report.

Mr Ken Pendergast, a director and representative of Ernst & Young Transaction Advisory Services and a partner of Ernst & Young and Mr Gary Nicholson, a director and representative of Ernst & Young Transaction Advisory Services and a partner of Ernst & Young have assumed overall responsibility for this report. Both have the necessary experience and professional qualifications appropriate to the advice being offered. Other Ernst & Young Transaction Advisory Services staff have been consulted in the preparation of this report where appropriate.

It is not intended that the report should be used for any other purpose other than to be included in the Notice of Meeting and Scheme Booklet to be sent to Flinders shareholders with respect to the Proposed Scheme. In particular, it is not intended that this report should be used for any other purpose other than as an expression of its opinion as to whether or not the Proposed Scheme is in the best interests of Flinders Shareholders.

Ernst & Young Transaction Advisory Services consents to the issue of this report in the form and context in which it is included in the Notice of Meeting and Scheme Booklet.

Appendix B Description of comparable companies

Rico Resources Ltd

Rico Resources Ltd ("Rico") is an iron ore exploration company with its main asset being the Wonmunna Iron Ore Project, which is a hematite asset that contains an inferred mineral resource of 78.3 Mt. The project is located within a 25km radius of various operating iron ore mines in the South Eastern Pilbara region of Western Australia. Rico has completed a scoping study for the Wonmunna Iron Ore Project based on a 2 Mtpa production rate aimed at producing a total of 23 Mt of material over 12 years. Rico expects to commence a feasibility study in January 2012. Rico also has various other iron ore exploration assets, including Uaroo, located 370km north east of Carnarvon, Western Australia, and the Cliffs Pilbara Tenements that add 385 square kilometres of greenfield exploration.

Iron Ore Holdings Ltd

Iron Ore Holdings Ltd ("Iron Ore Holdings") is an iron ore exploration company that holds hematite, channel iron and magnetite assets based in the Pilbara region of Western Australia. Iron Ore Holdings' projects include Iron Valley, South Marillana, Bungaroo South and Maitland River, with Iron Ore Holdings having sold its Koodaideri South deposit to Rio Tinto Group in September 2011 for $32 million plus a royalty. Pre feasibility study phase 1 activities have been completed at the Iron Valley project, with results supporting technical viability of a potential 12-15Mtpa operation for approximately 12-15 years. All pre feasibility study level activities are targeted for completion by mid-2012 and long lead definitive feasibility study level activities are expected to commence in early 2012. A full definitive engineering study was completed in 2009 for South Marillana, with the project being fully costed from deposit to point of sale and applications for environmental permits were commenced. Native Title Land Access Agreements have been signed with the two Traditional Owner groups who have native title claims over the area, and a Mining Lease has been secured for the project. A concept study has been completed for Bungaroo South, with a pre feasibility study to commence in 2012. The Maitland River project has a JORC inferred resource and Iron Ore Holdings is currently scoping a concept study and metallurgical program.

Cazaly Resources Ltd

Cazaly Resources Ltd ("Cazaly") is an iron ore exploration company with hematite assets located in the Yilgarn and Pilbara regions of Western Australia. Cazaly's major iron ore projects include the Parker Range Iron Ore Project (currently 100% owned), Hamersley Iron Ore Project (Cazaly is reducing its ownership to 49%, with Winmar Resources Ltd earning a 51% interest) and Earaheedy Iron Ore Project (Cazaly has a 50% interest and Vector Resources Limited owns the remained 50%). A feasibility study has been completed for the Parker Range Iron Ore Project, based on 30 Mt of iron ore production at 4Mtpa, and Cazaly has recently announced the agreement of commercial terms and signing of a Heads of Agreement for the sale of its Parker Range Iron Ore Project to a major South East Asian diversified investment group. The Hamersley Iron Ore Project is located near existing infrastructure and lies immediately south of Fortescue Metal Group's Solomon project. An Order of Magnitude study has commenced to investigate the development options available to the Hamersley Iron Ore Project. Cazaly granted Winmar Resources Ltd an option to purchase a 100% interest in the Hamersley Iron Ore Project for an exercise price of $35 million and the grant of a royalty however this option has now lapsed. Exploration drilling continues at the Earaheedy Iron Ore Project.

Red Hill Iron Ltd

Red Hill Iron Ltd ("Red Hill") is an iron ore exploration company that was formed in 2005 and is based in the Pilbara region of Western Australia. Red Hill's primary assets is the Red Hill Iron Ore Joint Venture ("RHIOJV"), of which Red Hill currently holds a 40% interest and API Management Pty Ltd ("API") holds the remaining 60% interest. Red Hill's interest is set to reduce to 20% when first product delivery is achieved, at which point Red Hill will be required to repay its 20% share of the costs incurred by API in earning its additional 20% interest (together with interest) out of 80% of its share of project net cash flow. Up to the point of first product delivery Red Hill has the right to elect to exchange its project interest for a 2% FOB royalty over total project production which would cancel the requirement to repay debt. First product delivery in expected to be achieved in 2014 through the Anketell Port, with a planned production rate of 30 Mtpa. Stage 1 of the RHIOJV definitive feasibility study is due to commence in December 2011. It is anticipated that Red Hill will be entitled to over five million tonnes per annum of ore. Red Hill also holds the tenements that form the Pannawonica Project, which were purchased in 2009 and cover 150 square kilometres. This project is contiguous to the RHIOJV area and approximately 15 kilometres from the mining operations of the Robe River Associates.

Brockman Resources Limited

Brockman Resources Limited ("Brockman") is an iron ore exploration company with its principal project being the 100% owned Marillana Iron Ore Project, located 100 kilometres north-west of the Newman in the Pilbara region of Western Australia. The Marillana Iron Ore Project is a hematite asset and is scheduled to commence production in 2014 at a rate of 17-20 Mtpa over a 25 year LOM. The definitive feasibility study was completed in September 2010 and the bankable feasibility study is at an advanced stage. Brockman also holds various other iron ore exploration assets such as Duck Creek, West Hamersley, Mt Stuart, Mt Florance and Ophthalmia.

Appendix C Description of comparable transactions

United Minerals Corporation / BHPB

On 16 October 2009, United Minerals Corporation ("UMC") announced that it had received a conditional offer, under which a subsidiary of BHPB proposed to acquire all of the issued shares in UMC via a board recommended scheme of arrangement. BHPB offered UMC shareholders consideration of $1.30 cash for each UMC share they owned. UMC owned the Railway hematite iron ore deposit in the Pilbara region of Western Australia.

Polaris Metals NL / Mineral Resources Limited

On 20 August 2009 Mineral Resources Limited ("Mineral Resources") announced its intention to make off-market takeover bids to acquire all of the issued shares and unlisted share options in Polaris Metals NL ("Polaris"). On 12 November 2009 Mineral Resources increased consideration offered, announcing Polaris shareholders would receive one Mineral Resources share for every 10 Polaris shares held, and on 24 November increased the offer again by adding 10 cents for every Polaris share held. Polaris owned the Yilgarn Iron Ore Project, which is a goethite, hematite and magnetite asset located in the Pilbara region of Western Australia.

Warwick Resources Limited / Atlas Iron Limited

On 8 September 2009 Atlas Iron Limited ("Atlas Iron") announced its proposal to merge with Warwick Resources Limited ("Warwick"), which was to be implemented by two schemes of arrangements, one in relation to Warwick shares and one in relation to Warwick options. Under the share scheme Warwick shareholders were to receive one Atlas Iron share for every Warwick share held. Warwick owned the Jimblebar and Caramulla iron ore projects, which was goethite and hematite mineralisation and were located in the Pilbara region of Western Australia.

Talisman Mining Ltd / Rico Resources Ltd

On 1 October 2010 Rico Resources Ltd (formally known as E-Com Lulti Ltd) announced that the company has entered into an option agreement with Talisman Mining Ltd ("Talisman") to purchase 100% of the Wonmunna and Uaroo Iron Ore projects. Total consideration paid for this transaction included an option fee of $2 million, $32.25 million payable at settlement, $7.1 million worth of Rico shares issued to Talisman and a 1% gross royalty payment on all commodities produced and sold from Wonmunna and Uaroo. The Wonmunna and Uaroo assets are hematite deposits located in the Pilbara region of Western Australia.

FerrAus Ltd / Atlas Iron Limited

On 27 June 2011 Atlas Iron and FerrAus Ltd ("FerrAus") executed a Bid Implementation Agreement pursuant to which Atlas Iron agreed to make an off-market takeover bid for 100% of FerrAus' ordinary shares on the basis of one Atlas share for every four FerrAus shares. FerrAus owned the Pilbara Project and South East Pilbara Project, which are hematite assets located in the Pilbara region of Western Australia.

Giralia Resources Limited / Atlas Iron Limited

On 21 December 2010 Atlas Iron and Giralia Resources Limited ("Giralia") announced that they had signed a Bid Implementation Agreement ("BIA") for an off-market takeover bid by Atlas for all of the shares in Giralia. The consideration involved every Giralia shareholder receiving 1.5 Atlas Iron shares for each Giralia share held. Giralia owned the McPhee Creek, Daltons joint venture and Yerecoin iron ore assets amongst other exploration assets. These iron ore tenements contained goethite, hematite and magnetite mineralisation and were located in the Pilbara and Mid West regions of Western Australia.

Iron Ore Holdings Ltd / Rio Tinto Group

On 27 September 2011, Iron Ore Holdings Ltd ("Iron Ore Holdings") announced the proposed sale of its Koodaideri South tenements to Rio Tinto Group. Koodaideri South has inferred resources of 107 Mt at an average grade of 58.6% Fe and contains both hematite and magnetite mineralisation. The transaction involved a payment of $32 million plus a 2% FOB royalty on ore mined from the tenements.

Iron Ore Holdings Ltd / Mineral Resources Limited

On 13 October 2011, Iron Ore Holdings announced its sale of three Central Pilbara tenements to Mineral Resources for $42 million. The tenements have a total of 54.8 Mt of combined Inferred and Indicated Resource at an average grade of 56.7% Fe. The Central Pilbara tenements contain hematite and magnetite mineralisation and are comprised of the Phils Creek, Lamb Creek and Yandicoogina Creek assets.

Cazaly Resources Limited / Undisclosed purchaser

On 4 August 2011 Cazaly Resources Limited ("Cazaly") entered into a conditional sale and ongoing alliance agreement with an undisclosed purchaser in relation to Cazaly's Parker Range Iron Ore Project. The project has stated resources of 35 mt of resources. The Agreement allows for the payment of an initial $40 million within six months of the execution of a formal Sale and Purchase Agreement ("SPA") (which may be extended by mutual agreement) and a further payment of $55 million upon the earlier of first iron ore being exported or 24 months from signing of the SPA. In addition, a royalty of $2.50 per tonne is payable on all ore produced. The per tonne royalty rate is capped at a maximum of 10% of the gross profit margin should that calculation be lower than $2.50 per tonne.

Appendix D Sources of information

In preparing this report, Ernst & Young Transaction Advisory Services had regard to the following sources of information:

- Flinders' annual reports for FY09, FY10, FY11 and management accounts for the period YTD November 2011;
- Flinders' Q1 2012 Quarterly report;
- Flinders' Australian Investor Presentation dated 11 August 2011;
- Flinders' Annual General Meeting Presentation dated 22 November 2011;
- Scheme of Arrangement between MMK and Flinders Shareholders;
- The Flinders and MMK Scheme Implementation Agreement;
- Flinders shareholder information at various dates, as provided by the Company's share registry;
- final draft Notice of Meeting and Scheme Booklet prepared by Flinders for the Meeting;
- Flinders' PFS for the PIOP dated December 2010;
- Flinders' LOM model for the PIOP prepared by Citi;
- The information memorandum prepared for the PIOP dated September 2011;
- The Snowden Report;
- discussions with Flinders management;
- details on Flinders' ownership interests in ASX listed entities;
- various public disclosure documents lodged by Flinders with the ASX, including public announcements in relation to the Proposed Scheme;
- information from Flinders' website, *flindersmines.com*;
- ASIC Regulatory Guides;
- Reuters;
- Capital IQ;
- IBISWorld;
- Various broker reports for Flinders;
- Thompson Research;
- the Act and the Regulations;
- DatAnalysis; and
- other publicly available information.

Appendix E Glossary

Abbreviation	Full Title / Description
A$	Australian dollar
Act	The Corporations Act
ACCC	Australian Competition and Consumer Commission
API	Australian Premium Iron
ASIC	Australian Securities and Investments Commission
ASX	Australian Securities Exchange
Atlas	Atlas Iron Limited
BHPB	BHP Billiton Limited
BID	Brockman iron deposits
Brockman	Brockman Resources Limited
Cazaly	Cazaly Iron Pty Ltd
CID	Channel iron deposits
Company	Flinders Mines Limited
Court	The Federal Court of Australia
CRL	Copper Range Limited
DCF	Discounted cash flow
DFS	Definitive feasibility study
DID	Detrital iron deposits
DSO	Direct Shipped Ore
EBITDA	Earnings before interest, tax, depreciation and amortisation
Ernst & Young Transaction Advisory Services	Ernst & Young Transaction Advisory Services Limited
ETS	Emissions Trading Scheme
EV	Enterprise value
Exploration Projects	The Canegrass project and Flinders' other exploration licences
Fe	Iron
FerrAus	FerrAus Limited
FEX	Flinders Exploration Limited
Flinders	Flinders Mines Limited
Flinders Break Fee	The $5.5 million break fee payable by Flinders to MMK under certain circumstances
Flinders Incentive Rights	Incentive rights held by Flinders employees
Flinders Options	Options held by Flinders employees
Flinders Shareholders	The shareholders of Flinders Mines Limited
FMG	Fortescue Metals Group Limited
FSG	Financial Services Guide
FYxx	Financial year ended 30 June 20xx
IOH	Iron Ore Holdings Ltd
IPO	Initial Public Offering
JORC Code	Code for Reporting of Mineral Resources and Ore Reserves as prescribed by the Australasian Joint Ore Reserves Committee
JV	Joint venture
m	Million
MXR	Maximus Resources Limited
Mineral Resources	Mineral Resources Limited
MMK	Magnitogorsk Iron & Steel Works OJSC

Abbreviation	Full Title / Description
MMK Break Fee	The $2.75 million break fee payable by MMK to Flinders under certain circumstances
MRRT	Minerals Resource Rent Tax
Mt	Million tonnes
Mtpa	Million tonnes per annum
NPAT	Net profit after tax
PFS	Pre-feasibility study
Phoenix	Phoenix Copper Ltd
PIOP	Pilbara Iron Ore Project
Prenti	Prenti Exploration Pty Ltd
Prenti JV	50/50 joint venture between Prenti Exploration Pty Ltd and Flinders Mines Limited
Proposed Scheme	MMK to acquire all of Flinders' issued shares for a cash consideration of $0.30 per share
Red Hill	Red Hill Iron Ltd
Regulations	Corporations Regulations 2001
Report	Independent Expert's Report
RG 111	ASIC Regulatory Guide 111: Content of expert reports
RHIOJV	Red Hill Iron Ore Joint Venture
Rico	Rico Resources Ltd
Rio	Rio Tinto Limited
Scheme Booklet	The booklet that is to be sent to Flinders Shareholders in relation to the Proposed Scheme
Scheme Meeting	A general meeting of the Company that is to be held on or about 1 March 2012.
Section 411	Section 411 of the Act
SIA	Scheme Implementation Agreement
Snowden	Snowden Mining Industry Consultants Pty Ltd
Snowden Report	Independent report prepared by Snowden Mining Industry Consultants Pty Ltd
t	Tonnes
tCO2e	Per tonne of carbon dioxide equivalent
US$	United States dollars
V_2O_5	Vanadium pentoxide
Vale	Companhia Vale do Rio Doce
VWAP	Volume weighted average price
WACC	Weighted average cost of capital
YTD	Year to date
YTDSep11	Year to date financial year ended to 30 September 2011
30Junxx	30 June 20xx

Appendix F Snowden Report

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25 January 2012

Ken Pendergast
Director
Ernst & Young Transaction Advisory Services
The Ernst & Young Building
11 Mounts Bay Road
PERTH WA 6000

Dear Sirs

INDEPENDENT VALUATION OF THE MINERAL ASSETS OF FLINDERS MINES LIMITED

Snowden Mining Industry Consultants ("Snowden") understand that Ernst & Young Transaction Advisory Services Limited ("E&Y") has been appointed to prepare an Independent Expert Report ("IER") by the Directors of Flinders Mines Limited ("FML") in relation to an offer from Magnitogorsk Iron and Steel Works OJSC "(MMK") to acquire all of the issued shares in FML for a cash consideration of $0.30 per share. As the Independent Expert, E&Y has engaged Snowden (28 November 2011) to act as the Mineral Specialist and to assess the fair value of FML's underlying mineral assets.The Scope of Work ("SoW")provided by E&Y states that Snowden is required to provide:

- a technical summary of the PIOP
- a summary of mineral resources
- identification and valuation of any resource and/or mineral asset not included in the assessment of the Project (i.e. Canegrass and the exploration licences in South Australia and Northern Territory).

Snowden understands that its Independent Valuation Report ("IVR") is required to assist FML shareholders in forming an opinion in relation to the proposed acquisition by MMK.

Snowden conducted apreliminary review of the PIOP project including the Pre-feasibility study and notes that some of the assumptions associated with metal prices, mining costs and mass recovery used in the study do not align with values that Snowden would considerto be indicative of industry standards.

However, Snowden recognises that the Pre-feasibility study has been conducted by reputable independent consulting organisations. Furthermore, Snowden is aware that a definitive feasibility study is currently planned and expects that this work will result in further definition of these details and a closing of the gaps Snowden identified in its desk top review.

Summary of the Valuation

FML's mineral assets, excluding those represented within the mineral inventory at the PIOP project, consist of a number of exploration projects and resources located within Western Australia, the Northern Territory and South Australia. Snowden's estimate of the market value for FML's interests in the various projects is summarised in the tables below:

FML Market Value of Exploration properties asderived by the Kilburn geo-scientificmethod

Project	Commodity	Minimum	Maximum	Preferred
PIOP Exploration	Hematite Iron Exploration	$ 52,000	$ 541,000	$ 296,000
	Diamond Exploration	$ 43,000	$ 216,000	$ 130,000
Canegrass Exploration	Magnetite Vanadium Exploration	$ 237,000	$ 602,000	$ 420,000
Strangways	Diamond Vermiculite Base Metals	$ 93,000	$ 149,000	$ 121,000
Adelaide Hills	Diamond Base Metals	$ 105,000	$ 168,000	$ 136,000
Billa Kalina	Diamond	$ 132,000	$ 210,000	$ 171,000
Central Gawler Craton	Diamond	$ 24,000	$ 38,000	$ 31,000
Flinders Ranges Mn	Diamond	$ 15,000	$ 23,000	$ 19,000
Jamestown	Diamond Phosphate Iron	$ 99,000	$ 158,000	$ 129,000
Lake Torrens	Diamond	$ 81,000	$ 131,000	$ 106,000
Nackara	Diamond	$ 11,000	$ 18,000	$ 14,000
Southern Gawler Craton	Diamond	$ 15,000	$ 25,000	$ 20,000
Springfield	Diamond	$ 59,000	$ 103,000	$ 81,000
Subtotal		**$ 966,000**	**$ 2,382,000**	**$ 1,674,000**

FML Market Value Canegrass Magnetite Vanadium Resource

Project	Commodity	Minimum	Maximum	Preferred
Canegrass Resource	Vanadium Magnetite	$7.37 M	$20.63 M	$14.00M

Fair Market Value FML Mineral Assets Excluding PIOP Resources

Project	Commodity	Minimum	Maximum	Preferred
Exploration Value FML	All	$0.97 M	$2.38 M	$1.67 M
Canegrass Vanadium Resource	Vanadium Magnetite	$7.37 M	$20.63 M	$14.00M
Total		**$8.34 M**	**$23.01 M**	**$15.67 M**

This report is provided subject to the following assumptions and qualifications:

a) FML, Citi Bank and E&Y have made available to Snowden all material information in their possession or known to them in relation to the technical, development, mining and financial aspects of the project areas, that they have not withheld any material information and that the information provided is accurate and up to date in all material respects;

b) all reports and other technical documents provided by FML, Citi Bank and E&Y correctly and accurately record the results of all geological and other technical activities and test work conducted to date in relation to the project areas and accurately record advice from any relevant technical experts

c) in assessing FML's Mineral Resources, Snowden has relied on the information provided by E&Y, Citi Bank and FML and has not undertaken independent audits of the data used to prepare the Mineral Resource estimates

d) FML has good and valid title to all tenements or other land tenure required to explore, develop, mine and operate within the project areas in the manner proposed

e) all necessary governmental consents and approvals (including those regarding environmental issues) required to manage mineral production from the project areas have been obtained or will be forthcoming without any material delay and on terms which will not cause any material change to any mining, exploration or other activities proposed and will not cause any material change to the costs of such activities

f) all of the information provided by FML pertaining to project areas or its history or future intentions, financial forecasting or the effect of relevant agreements is correct and accurate in all material respects.

Snowden has relied on the accuracy and completeness of the technical documentation supplied to it by FML, Citi Bank and E&Y and has made all reasonable enquiries into the material aspects of the project and makes no warranty or representation as to the accuracy or completeness of the information provided. Furthermore, Snowden accepts no responsibility for the information or statements, opinions, or matters expressed or implied arising out of, contained in, or derived from information contained in this report, unless specifically disclosed by Snowden.

In relation to the above qualifications, Snowden did not undertake any independent enquiries or audits to verify that the assumptions are correct and gives no representation that they are correct. Snowden has not carried out any type of audit of FML's records to verify that all material documentation has been provided. Snowden has however endeavoured, by making reasonable enquiry of FML, Citi Bank and E&Y, to ensure that all material information in the possession of FML has been fully disclosed to Snowden. FML has agreed to indemnify Snowden from any liability arising from Snowden's reliance upon information provided or not provided to it.

Snowden is an independent consulting company providing specialist mining industry consultancy services in the fields of geology, exploration, resource estimation, mining engineering, geotechnical engineering, risk assessment, mining information technology and corporate services. The company, with its principal office at 87 Colin Street, West Perth, Western Australia, also operates from offices in Brisbane, Johannesburg, Vancouver and Oxfordand has prepared CPRs, independent technical reports and valuations on a variety of mineral assets in many countries.

This report has been prepared by Mr Trevor Bradley (Divisional Manager – Corporate Services) who visited the PIOP project site on 9 December 2011. Mr Craig Morley (Senior Principal Consultant and CEO of Snowden) under took the task of peer review on the report to ensure it complies with the guidelines as laid down by both the Code for the Technical Assessment and Valuation of Mineral and Petroleum Assets and Securities for Independent Experts Reports (Valmin 2005) and The Australasian Code for Reporting of Exploration results, Mineral resources and Ore Reserves (JORC 2004).

Neither Snowden nor those involved in the preparation of this report have any material interest in FMLor in the operations considered in this report. Snowden is remunerated for the report by way of professional fees determined according to a standard schedule of rates which is not contingent on the outcome of this report.

Yours faithfully

Trevor Bradley
B(app)Sc(Hons),LLM (Dist.) MAIG
Divisional Manager - Corporate Services

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1. INTRODUCTION

1.1 PURPOSE OF REPORT

Ernst & Young Transaction Advisory Services Limited ("E&Y") has been appointed to prepare an Independent Expert Report ("IER") by the Directors of Flinders Mines Limited ("FML") in relation to an offer from Magnitogorsk Iron and Steel Works OJSC "(MMK") to acquire all of the issued shares in FML for a cash consideration of $0.30 per share. As the Independent Expert, E&Y engaged Snowden Mining Industry Consultants ("Snowden") via a letter of engagement (28 November 2011) to act as the Mineral Specialist and to assess the fair value of FML's underlying mineral assets.

Snowden understands that its Independent Valuation Report ("IVR") is required to assist FML shareholders in forming an opinion in relation to the proposed acquisition by MMK. The Valuation report is to include the Pilbara Iron Ore Project ('PIOP'), the Canegrass Project ("Canegrass") and FML's other mineral assets in South Australia and the Northern Territory.

Snowden further understands that a copy of its IVRor parts of its IVRwill be included in, or appended to, E&Y's IER and that as such it will comprise part of a public document. Use of the IVR is subject to Snowden providing its formal written consent, and having first satisfied itself that the work reproduced in part or in whole within the IER is presented in its original form and context. The report may not be used for any other purpose without the explicit and prior written approval of Snowden.

1.1.1 Scope of Work

The Scope of Work ("SoW")provided by E&Y states that Snowden is required to provide;

- a technical summary of thePIOP
- a summary of mineral resources
- identification and valuation of any resource and/or mineral asset not included in the assessment of the PIOP (i.e. Canegrass and the exploration licences in South Australia and Northern Territory).

1.2 DISCLAIMER

Snowden has relied on the accuracy and completeness of the technical documentation supplied to it by FML, Citi Bank and E&Y and has made all reasonable enquiries into the material aspects of the project and makes no warranty or representation as to the accuracy or completeness of the information provided. Furthermore, Snowden accepts no responsibility for the information or statements, opinions, or matters expressed or implied arising out of, contained in, or derived from information contained in this report, unless specifically disclosed by Snowden.

This report is provided subject to the following assumptions and qualifications:

a) FML, Citi Bank and E&Y have made available to Snowden all material information in their possession or known to them in relation to the technical, development, mining and financial aspects of the project areas, that they have not withheld any material information and that the information provided is accurate and up to date in all material respects;

b) all reports and other technical documents provided by FML, Citi Bank and E&Y correctly and accurately record the results of all geological and other technical activities and test work conducted to date in relation to the project areas and accurately record advice from any relevant technical experts

c) in assessing FML's Mineral Resources, Snowden has relied on the information provided by E&Y, Citi Bank and FML and has not undertaken independent audits of the data used to prepare the Mineral Resource estimates

d) FML has good and valid title to all tenements or other land tenure required to explore, develop, mine and operate within the project areas in the manner proposed

e) all necessary governmental consents and approvals (including those regarding environmental issues) required to manage mineral production from the project areas have been obtained or will be forthcoming without any material delay and on terms which will not cause any material change to any mining, exploration or other activities proposed and will not cause any material change to the costs of such activities

f) all of the information provided by FML pertaining to project areas or its history or future intentions, financial forecasting or the effect of relevant agreements is correct and accurate in all material respects

In relation to the above qualifications, Snowden did not undertake any independent enquiries or audits to verify that the assumptions are correct and gives no representation that they are correct. Snowden has not carried out any type of audit of FML's records to verify that all material documentation has been provided. Snowden has however endeavoured, by making reasonable enquiry of FML, Citi Bank and E&Y, to ensure that all material information in the possession of FML has been fully disclosed to Snowden. FML has agreed to indemnify Snowden from any liability arising from Snowden's reliance upon information provided or not provided to it.

1.3 VALMIN CODE 2005

This valuation has been prepared in accordance with the "Code for the Technical Assessment and Valuation of Mineral and Petroleum Assets and Securities for Independent Expert Reports" (The VALMIN Code 2005). Compliance with the Code is obligatory to all members of the Australasian Institute of Mining and Metallurgy, the Mineral Industry Consultants Association ("MICA") and the Australian Institute of Geoscientists ("A.I.G.") who are involved in independent technical and valuation reports.

1.4 RESPONSIBILITY

The Snowden personnel responsible for the preparation and review of this report are Mr Trevor Bradley (Divisional Manager – Corporate Services) who is the principal author of this report. Mr Bradley is a geologist with over 25 years relevant experience in mining and exploration geological roles and a member of the A.I.G. He has the appropriate qualifications, expertise and experience to undertake this valuation, as required by the Code for the Technical Assessment and Valuation of Mineral and Petroleum Assets and Securities, 2005("VALMIN Code"). Mr Craig Morley (Senior Principal Consultant and CEO of Snowden) undertook the task of peer review on the report to ensure it complies with the guidelines as laid down by both the Valmin Code and The Australasian Code for Reporting of Exploration results, Mineral resources and Ore Reserves (JORC 2004).

The opinions expressed and conclusions drawn with respect to this valuation are appropriate at the valuation date of 22 December 2011. The valuation is only valid for this date and may change with time in response to variations in economic, market, legal or political conditions in addition to ongoing exploration results.

1.5 INDEPENDENCE

At the date of valuation Mr Bradley, Mr Morley, andSnowden hadnoassociation with FML, or its individual employees, or any interest in the securities of FML, which could be regarded as affecting the ability to give an independent unbiased valuation. Snowden will be paid a fee for its valuation based on a standard schedule of rates for professional services, plus any expenses incurred. The fee is not contingent on the results of the valuation.

1.6 SITE VISIT

Mr Trevor Bradley of Snowden visited the PIOP site on 9 December 2011. The initial part of the journey, of approximately 27 kilometres ("km") from the township of Tom Price to the Pilbara Iron Access Road ("PIAR"), is along sealed all weather road which is in good condition. The PIAR is a wide well maintained unsealed gravel service road suitable for heavy vehicles and runs parallel to the rail line that links Rio Tinto's operations at Tom Price to the coast. The second stage of access to site is achieved by travelling approximately 28 km along the PIAR to the Mount Sheila turn off then along the Mt Shelia road for approximately 2km then onto the Brockman Rd which is traversed for some 27 km to what is locally referred to as the "power line road" which runs a further 20 km to FML's Blacksmith camp. All these minor roads are maintained in excellent condition, well signposted, and the various companies operating in the area share radio communications in a co-operative and concerted effort to maximise road safety. The unsealed roads are all subject to localised flooding events during periods of bad weather and can remain closed for periods of time to allow the running surfaces to dry out as is the usual situation when operating in these remote locations.

Whilst onsite Mr Bradley was afforded the opportunity to talk to members of the FML team and to observe representative diamond drill hole cores which had been cut, sampled and logged with the half cores preserved on site. A copy of the sample Quality Assurance / Quality Control report pertaining to the assaying of samples from project was provided to Snowden for use in this report.

The main mineralised units are observed to be visually distinctive in drill core, and where any ambiguity may exist, sample geochemistry is effective in differentiating the units. The task of visually differentiating the mineralised units in Reverse Circulation ("RC") drilling samples is more challenging than in the case of diamond core, however, good quality geological control is in place and the distinct sample geochemistry is used in order to achieve good quality sample logging.

Drilling locations are well delineated, completed holes are staked, labelled and capped, access tracks are well organised andcare seems to have been taken to minimise the exploration footprint on the landscape.

2. MINERAL ASSETS

Snowden is not qualified to make legal representations in regard to the ownership and legal standing of the mineral tenements that arethe subject of this valuation. Snowden has not attempted to confirm the legal status of the tenements with respect to joint venture agreements, Native Title or potential environmental and land access restrictions. Snowden understands that these issues will be dealt with by other experts as part of E&Y's IER.

2.1 FML TENEMENTS

The PIOP in Western Australia ("WA") is FML's principal mineral asset.A pre-feasibility / scoping study level report on this project has been completed and it is reported to Snowden that a Definitive Feasibility Study ("DFS") is currently underway.

FML have a number of other projects besides the PIOP Project including;

- Canegrass Project in WA
- Strangways Project in the Northern Territory ("NT")
- Adelaide Hills Project in South Australia ("SA")
- Billa Kalina Project in SA
- Central Gawler Craton Project in SA
- Southern Gawler Craton Project in SA
- Flinders Ranges Manganese Project in SA
- Jamestown Project in SA
- Lake Torrens Project in SA
- Nackara Project in SA
- Springfield Project in SA

In terms of Exploration, Prospecting and Mining Leases either granted, or under application, FML's mineral assets comprise 116 leases divided between 12 projects and subject to 13 agreements.The full list of tenements is presented in Appendix Ain this report.

2.2 JOINT VENTURE AGREEMENTS

A number of joint venture agreements reported in FML's 2011 Annual Report have now been terminated through either expiry or relinquishment (Brayne, 2011a):

- FEX Agreement- expired 13 October 2011
- Kelaray Agreement- relinquished
- Filsell Agreement- expired 4 September 2011
- Simnovec Agreement- expired 27 July 2011

As a result of the termination of the above agreements FML no longer has an interest in a number of tenements listed in the 2011 Annual Report. When Snowden considers the value of FML's tenement holdings, the expiration or relinquishment of a JV agreement is taken into account and can affect the value of a number of projects.

2.3 NATIVE TITLE

Snowden is not qualified to make legal representations in regardto Native Title and has not attempted to re-establish the legal status of the tenements with respect to Native Title or land access restrictions. The information provided in this section is provided as general background and is for information purposes only.

FML's tenements fall on land which is variously:

- subject to a registered native title claim under the Native Title Act (Cth) 1993 (the "Native Title Act")
- not subject to a registered native title claim but where native title may well be claimed
- subject to a determination that native title exists
- not subject to a registered native title claim, but where an Indigenous Land Use Agreement ("ILUA") under the Native Title Act has previously been negotiated in respect of that land.

2.3.1 Pilbara Tenements

FML (and related FMG) Pilbara tenements are variously subject to the following:

- The Eastern Guruma native title determination (Hughes on behalf of the Eastern Guruma People v State of Western Australia – Federal Court of Australia determination WAD 6208/98 of 1 March 2007). The determination covers 6000 hectares of land in and around Tom Price, and grants non-exclusive native title rights in the area;
- The Yindjibarndi #1 claim WAD 6005/03 registered 8 August 2003
- The Banjima claim WAD 6096/98 registered 5 August 2011.

Land subject to a number of tenements is also subject to ILUAs.

These include:

- A 2002 ILUA with Hamersley Iron Pty Limited and Rio Tinto Exploration Pty Limited that covers land subject to E47/882, 1011, 1306, 1333, 1334, 1352, 1372, 1523, 1524, 1560, and M47/1407, M47/1451, P47/1291;
- A 2007 ILUA with the Coolawanyah Pastoral Co Pty Limited that covers areas that are part of the Coolawanyah Station lease and that fall within the Eastern Guruma determination area. This ILUA also impacts land subject to E47/882, 1372, M47/1451
- A 2008 ILUA covering the entirety of the Eastern Guruma determination area to the benefit of Hamersley Iron Pty Limited and Robe River Mining Company Pty Limited (Rio Tinto subsidiaries). Impacts land subject to E47/882, 1011, 1306, 1333, 1334, 1352, 1372, 1523, 1524, 1560 and M47/1407, M47/1451 and P47/1291
- A 2010 ILUA with FMG Pilbara Pty Limited for four tenement applications covering 68 square kilometres 180 km south east of Karratha between Mt Margaret and Hamersley homestead. This ILUA covers land subject to E47/1011 (Bold Cliff), 1333 (Satellite Spring) and 1334 (Satellite Spring East).

Tenements with Native Title Claims

E47/1398 (Fortescue Valley) and E47/1399 (Range Bore) are FMG Pilbara Pty Limited tenements. Both tenements, together with FMG's Solomon's Hub tenements have been subject to disputes between the individual native title claimants, and between FMG and the native title claimants.

E47/1398 falls entirely within the Yindjibarndi #1 claim. E47/1399 falls on the non-overlapping but adjacent boundaries of the Yindjibarndi #1 and Banjima claims. The Banjima claim was formerly the Martu Idja Banyjima ("MIB") claim (WC98/62 registered 9 September 1998) which has now been consolidated with other claims on behalf of the Banjima and replaced with the single Banjima claim. The tenement falls 71.2% within the former MIB claim and 28.8% within the Yindjibarndi # 1 claim.

On 25 August 2010 Yindjibarndi claimants filed an objection to the expedited procedure applying to both tenements. An objection to the grant of M47/1371 was also filed, such mineral lease application falls entirely within the Yindjibarndi #1 claim area. MIB did not file any objection, having reached agreement with FMG about the grant of the tenement.

Yindjibarndi claimed that FMG were seeking a whole of country land access agreement under which FMG can manage cultural heritage through a cultural heritage management regime based on mitigating damage to sacred sites, but ultimately having the ability to obtain consent under section 18 of the Aboriginal Heritage Act (WA) 1972. Yindjibarndi also claimed the compensation package that FMG offered was significantly below the value of equivalent deals entered with other companies on Yindjibarndi country. Evidence provided to the NNTT suggests that the compensation package included a fixed annual payment plus a VTEC allowance to train local people to work in mining but no royalty.

The Yindjibarndi group rejected the offer outright, and later a split developed within the Yindjibarndi group. Negotiations were led by Yindjibarndi Aboriginal Corporation, but a breakaway group of Yindjibarndi who are supportive of FMG developed the Wirlu Murra Yindjibarndi Aboriginal Corporation to receive the $500,000 payment on execution of the agreement, as well as annual payments. The dispute, both between FMG and the group, and within the group, has been documented through media coverage.

On 17 June 2011 NNTT member Daniel O'Dea recommended that E47/1398 and E47/1399 could be granted, subject to additional conditions. It is clear that this has occurred in contested circumstances. Since then the dispute appears to have deteriorated and remains unresolved.

Satellite Spring

E47/1333 and 1334 is subject to the Eastern Guruma determination and the adjacent Yindjibarndi #1 claim.

An objection to the expedited procedure applying to the grant of E47/1333 was filed on behalf of Yindjibarndi claimants on 20 April 2007 and an objection to the expedited procedure applying to the grant of E47/1334 was filed on behalf of Yindjibarndi on 8 March 2007 and Eastern Guruma claimants (as they then were) on 14 November 2006. Objections were later withdrawn by agreement. The 2010 ILUA with FMG Pilbara Pty Limited covers the land subject to E47/1011 (Bold Cliff), 1333 (Satellite Spring) and 1334 (Satellite Spring East). The ILUA causes the right to negotiate provisions of the Native Title Act to cease to apply in respect of certain tenements. Public records do not indicate if E47/1333 or 1334 are tenements to which the ILUA applies. The ILUA has been executed by the entity holding native title to the Guruma determination area in trust and has not been executed by Yindjibarndi #1 claimants.

Other Tenements

Malay Well

E47/1436 is subject to the Banjima claim. No objections were filed objecting to the expedited procedure applying.

Blacksmith

M47/1451 is a mineral lease application that falls entirely within E47/882. Right to negotiate provisions have been triggered. On 14 March 2011 FML entered a negotiation protocol for future acts including M47/1451 and other tenure required to support iron ore processing facilities in the area.

Bold Cliff

E47/1011 is subject to the Eastern Guruma determination. On 7 March 2000 an objection to the expedited procedure applying was filed by the then native title claimants. Agreement was later reached.

Mulga Downs

E47/1016 falls within the Banjima claim. An objection to the expedited procedure was filed on 17 August 2001. Agreement was later reached.

Hamersley West

M47/1407 is a mineral lease application that falls entirely within E47/1306 and is subject to the Eastern Guruma claim area.

NNTT documents reveal that FML appointed FMG as an agent in relation to negotiations required to ground the grant of the tenement. On 23 June 2009 the matter was heard by NNTT member Daniel O'Dea, who held that the NNTT had jurisdiction (given that good faith negotiations had occurred). A decision was made on 8 July 2009 that M47/1407 should be granted, subject to conditions (See WF08/32 and WF08/33). The decision is not currently reported by the NNTT.

E47/1306 is subject to the Eastern Guruma determination. On 28 April 2005 an objection to the expedited procedure applying was filed on behalf of the then native title claimants. The objection was later withdrawn by agreement.

Hamersley Station West and Hamersley Range

E47/1352 and E47/1372 fall squarely within the Eastern Guruma determination and searches reveal no objection to the expedited procedure applying was made.

Mount Brockman

E47/1523 (Mt Brockman West) and E47/1524 (Mt Brockman North) are subject to the Eastern Guruma determination. Neither tenement has been subject to any objection to the expedited procedure applying.

Anvil

E47/1560 falls entirely within the Eastern Guruma determination. On 5 August 2006 an objection was filed by the then native title claimants. The objections were dismissed on 21 August 2007 by Deputy President Sumner on the basis that the native title parties had failed to submit statements of contention and supporting evidence, despite having been afforded additional time to do so.

Mulga Downs

Mineral lease applications 47/663, 664, 665, 666 667, 668, 669, 670, 671 and 672 are all tenements subject to the Banjima native title claim. There are no overlapping claims.

Gap Area

P47/1291 falls in the narrow gap area between E47/882 and 1306. P47/1291 is subject to the Eastern Guruma determination. An objection to the expedited procedure applying to the grant of the tenement was filed on 14 November 2006 by the then native title claimants.

The NNTT decision reveals that the Guruma claimants (as they then were) had sought to protect a number of sacred sites in the area. Although the company had entered into a standard heritage agreement with the Native Title Representative Body for the area (the Yamatji Regional Standard Heritage Agreement) the company did not wish to enter the standard Guruma Heritage Agreement for the tenement. The argument between Guruma and the company centred on a difference of opinion regarding financial terms in the Guruma Heritage Agreement, rather than any substantive issue concerning a sacred site or area of particular significance.

Deputy President CJ Sumner ordered that the grant attracted the expedited procedure on 16 July 2007.

2.3.2 Canegrass tenements

The majority of Canegrass tenements are subject to the Badimia native title claim registered 4 October 1996 (Albert Little and others on behalf of the Badimia people - WC96/98).

A single tenement (E58/359 – Bundy Well) partly falls on the Badimia native title claim, and partly falls on an area subject to the Wutha native title claim registered on 15 June 1999 (June Ashwin and others on behalf of the Wutha people - WC99/10). The tenement is not subject to any overlap.

Tenement E58/235 (Canegrass Well) was previously subject to an overlapping claim with the Wutha native title claim, but that issue is now resolved.

E58/232 (Boulder Well) and E58/235 (Canegrass Well) were previously subject to the Badimia native title claim and overlapping Koara native title claim (Richard Guy Evans on behalf of the Koara people – WC95/1), and in the case of E58/235 the Wutha native title claim. The tenements are no longer subject to any overlap and are presently subject only to the Badimia claim.

There are no ILUAs covering the area subject to the Canegrass tenements.

The NNTT is unable to provide any data regarding whether the following tenements are subject to any native title claims, determinations or ILUAs: P58/1300/1301/1353/1405/1406/1429/1430/1431/1432/1433/1434 /1435/1437. However, it is clear that all of these except for P58/1353, 1405, 1406 are claimed by the Badimia people. That is because such tenements have been subject to future act objections filed on behalf of the Badimia people. For tenements P58/1353, 1405 and 1406 the NNTT retains no records.

Boulder Well and Canegrass Well

E58/232 (Boulder Well) and E58/235 (Canegrass Well) are exploration licences that were granted on 29 July 2002.

At the time of grant, E58/232 was subject to overlapping native title claims. The tenement was 100% covered by the Badimia native title claim, but it was also 42.3% covered by the Koara claim.

Similarly for E58/235, 52.6% of the proposed tenement area was subject to the Koara claim, 4.4% was subject to the Wutha claim and 95.6% was subject to the Badimia claim.

A consent determination that the expedited procedure does not apply to the claims (WO00/130 per Deputy President Sumner) was made with the consent of the Badimia on 19 July 2000. This meant that the parties were then required to negotiate under s 31(1)(b) of the Native Title Act.

Negotiations occurred and a further consent determination that the exploration licence may be granted was made dated 20 March 2002 (per Deputy President Sumner). For E58/232 the determination was made with the consent of the Koara claimants (WF02/13) and the Badimia claimants (WF02/15) and for E58/235 the determination was made with the consent of the Koara and Wutha claimants (WF02/12) and Badimia claimants (WF02/15).

NNTT records indicate that the overlaps have now been resolved and the tenements are only subject to the Badimia native title claim.

For E58/232 further future act objections have been filed with the NNTT by Badimia native title claimants on 6 January 2003 (WO03/62), 13 October 2010 (WO10/1573) and 24 January 2011 (WO11/50). The first two of these were withdrawn by agreement, and the latter application was withdrawn before it was accepted by the NNTT.

Similarly, further future act objections for E58/235 have been filed with the NNTT by Badimia native title claimants on 6 January 2003 (WO03/63) and 13 December 2010 (WO10/1574). In both case these were withdrawn by agreement.

Challa

E58/236 is an exploration licence that was granted on 22 March 2002. On 13 January 2000 the Badimia native title claimants filed an objection to the expedited procedure applying to the proposed grant. A consent determination was made on 19 July 2000 that the expedited procedure does not apply, and the parties entered negotiations under s 31(1)(b) of the Native Title Act. (See decision WO00/130 per Deputy President Sumner dated 19 July 2000).

Negotiations resulted in agreement and on 14 March 2000 the native title parties made an application under s 35 of the Native Title Act for a future act determination by consent that the exploration licence be granted.

Gingier Pool

Gingier Pool (E58/271) is an exploration licence that is subject to the Badimia native title claim. An objection to the expedited procedure applying to the grant was filed on 20 June 2002. The objection was withdrawn by agreement.

Pipeline

Pipeline (E58/358) was granted 22 March 2010 and is subject to the Badimia native title claim. An objection to the expedited procedure applying was filed on 12 December 2008, but was withdrawn by agreement. A further objection was filed on 24 January 2011 but was withdrawn prior to the objection being accepted by the NNTT.

Bundy Well

E58/359 is subject to the adjacent Badimia and Wutha native title claims. The tenement was subject to an objection (WO08/937) filed on 16 August 2010. The objection was withdrawn by agreement.

Challa South and Honey Pot

Challa South (E58/308) and Honey Pot (E58/282) are subject to the Badimia native title claim.No objection was made to the expedited procedure applying to their grant.

Challa H10, Bullock Well North and Bullock Well Prospecting Licences

Challa H10 (P58/1353), Bullock Well North (P58/1405) and Bullock Well (P58/1406) are tenements where the NNTT reports that no data is found in respect of native title. They are also tenements where no objections have been made to the expedited procedure applying.

Other Prospecting Licences

P58/1425, 1426, 1427, 1428, 1429, 1430, 1431, 1432, 1433, 1434, 1435, 1436, 1437, 1438, 1439, are a series of prospecting licences that were granted in February, April and June 2010. All were subject to objection to the expedited procedure applying filed by Badimia claimants on 3 April 2008. Objection was withdrawn with agreement of the native title parties.

Objections to the expedited procedure applying were filed on behalf of Badimia native title claimants for P58/1440 on 16 October 2008 and for P58/1445 and P59/1851 2 October 2008. All were withdrawn by agreement. P58/1440 and 1445 were granted on 4 March 2010 and P59/1851 was granted on 21 April 2010.

P58/1403 (Challa A) and P58/1404 were objected to on 2 October 2008 by the Badimia claimants. Objections were withdrawn by agreement and the tenements were granted on 3 March 2010.

Objection to the expedited procedure applying to the grant of the Windimurra prospecting licences P58/1174, 1175 and 1176 was made on behalf of the Badimia claimants on 3 October 2003. The objections were withdrawn by agreement. The three tenements were granted on 3 April 2007.

Challa 1-3 licences P58/1300, 1301 and 1302 were objected to on 28 June 2006. All objections were placed by Albert Little and others on behalf of the Badimia claim group. All were withdrawn by agreement and the tenements were granted.

P59/1865 and P59/1866 were subject to an objection by Badimia filed 16 October 2008. The objections were withdrawn by agreement, and the tenements were granted on 7 March 2010.

Challa 4 – 9 licences P58/1327, 1328, 1329, 1330, 1331, 1352 are subject to the Badimia native title claim. They were not subject to any objection to the expedited procedure applying.

2.3.3 South Australia Tenements

FML's South Australian tenements are variously subject to the following registered claims:

- Kaurna native title claim (SC00/1) registered 22 August 2001
- Kokatha Uwankara native title claim (SC10/3) registered 21 August 2009
- Arabunna native title claim (SC98/2) registered 21 January 1998
- Barngala native title claim (SC96/4) registered 4 April 1996
- Nukunu native title claim (SC96/5) registered 10 April 1996
- Adnyamathanha #1 native title claim (SC99/1) registered 3 March 1999
- Wirangu #2 native title claim (SC97/6) registered 28 August 1997.

FML's South Australian tenements are also variously subject to the following claims that have not been accepted for registration. As the claims are not registered, statutory rights to negotiate in respect of the claims are not invoked:

- the Adnyamathanha #4 native title claim (SC11/1)
- the Ramindjeri native title claim (SC10/3)
- the Ngadjuri Nation native title claim (SC10/2).

The following claim also applies to eight tenements. This claim is not registered and no decision has yet been made as to whether it passes the registration test. However, the SA Mines Department (per Melissa Muller, A/Principal Advisor, Land Access, Minerals Energy and Resources) has advised that the claim has been subject to pre-registration test compliance checking with the NNTT, and the Department expects it to be registered.

- the Ngadjuri #2 native title claim (SC11/2).

The following determination of native title also applies to three tenements:

- the Antakirinja Matu-Yankunytjatjara native title determination - Lennon on behalf of the Antakirinja Matu-Yankunytjatjara Native Title Claim Group v the State of South Australia – Federal Court of Australia proceeding SAD6007/98 dated 11 May 2001.

In addition there are three ILUAs that variously apply to certain tenements. These ILUAs provide that the right to negotiate procedures do not apply to the grant of exploration tenements in the area. These are the:

- Antakirinja ILUA of 2004 (SI2003/007)
- Antakirinja ILUA of 2005 (SI2004/003) which supersedes the Antakirinja ILUA of 2004
- Arabunna ILUA of 2004 (SI2003/008).

Tenements with Native Title Claims

EL4709 is subject to the Barngala native title claim and the Nukunu native title claim (overlap 149.24 km^2 out of a total 212 km^2. That is, some 70% of the tenement is subject to overlapping, registered claims.

EL4366 is also subject to the Barngala native title claim and the Nukunu native title claim, both of which cover 100% of the tenement.

EL4710 is subject to the Barngala native title claim and the Nukunu native title claim, both of which cover 100% of the tenement, and the Ngadjuri #2 claim which overlaps part of the area. Although the Ngadjuri #2 claim is not yet registered, the SA Mines Department have advised that the claim has satisfied pre-registration compliance checking, and they expect it to be registered.

EL4371 is subject to the overlapping registered Barngala native title claim and registered Nukunu native title claim which cover 53% of the tenement or 58.34 km^2out of 110 km^2. The registered Adnyamathanha #1 claim is adjacent to both.

The tenement is also subject to the unregistered Ngadjuri Nation and Adnyamathanha #4 claims, and the Ngadjuri #2 claim which is still subject to a decision as to whether it will be registered (the proportion of overlap for unregistered claims is not available).

EL4372 is subject to the Barngala claim and the Nukunu claim, both of which overlap for 57.49% or 187.41 km^2out of 326 km^2within the tenement. The tenement is also subject to the unregistered Adnyamathanha #4 claim, and the Ngajuri #2 claim that is still subject to the registration test.

EL3741 is subject to the registered Adnyamathanha #1 native title claim and the unregistered Ngadjuri Nation claim. These overlap for 149.08 $km^2$of total 274 km^2 or some 54.41% of the tenement area. The Ngadjuri #2 claim (subject to registration testing) is adjacent to both.

EL3692 is subject to the registered Adnyamathanha #1 native title claim and the unregistered Ngadjuri Nation claim. These overlap for 10.16% or 38.11 $km^2$of a total 375 km^2. The Ngadjuri #2 claim (subject to registration testing) is adjacent to both.

EL4593 is subject to the registered Adnyamathanha #1 native title claim and the unregistered Ngadjuri Nation claim which overlap for 53.63% or 102.44 km^2 of a total 191 km^2. The Ngadjuri #2 claim (subject to registration testing) is adjacent to both.

EL4374 is subject to the registered Barngala and Nukunu claims, and the unregistered Adnyamathanha #4 claim which all overlap for 120.83 km^2 of a total 142 km^2 (total overlap 85.09%). Additionally, the Adnyamathanha #1 claim and the unregistered Ngadjuri Nation claim overlap for 20.92 km^2 (14.73%) in an area adjacent to the other applications.

EL4404 and EL3693 are subject to the registered Barngala and Nukunu claims. For EL4404 these overlap 221.12 of 297 km^2(74.45%) and for EL3693 these overlap 128.21 of 206 km^2 (62.24%). The registered Adnyamathanha #1 claim is adjacent to areas of overlap in each tenement. The unregistered Adnyamathanha #4 claim also covers part of each tenement.

EL3919/4184/4209/4606 are subject to three claims that all 100% overlap the tenement. These are the registered Barngala and Nukunu claims and the unregistered Adnyamathanha #4 claim.

Other Tenements

TenementsSubject to Overlapping Claims

EL4303 is subject to the Nukunu and Ramindjeri claims. These overlap for 8.18 km^2in a total tenement area of 333 km^2 (2.46%).

EL4367 is subject to the Barngala native title claim and Nukunu native title claim, but the overlap is relatively small, just 1.91 km^2(less than 1% of the tenement area). EL4367 is also subject to the Ngadjuri #2 claim which lies adjacent to the other claims and is still subject to registration testing.

EL4410 is subject to the registered Adnyamathanha #1 claim and the unregistered Ngadjuri Nation claim, which overlap by a small area – some 1.34 km^2 out of a total tenement area of 176 km^2 (0.76% of total tenement area). The Ngadjuri #2 claim is adjacent to both.

Tenements Subject to a Single Claim

EL4641, 4091, are subject to the Kaurna native title claim.

EL4131, 4638, 3832, 4369, 4373, 4294 are subject to the Ngadjuri #2 claim that is awaiting application of the registration test.

EL4760 is subject to the Arabunna native title claim which covers 100% of the tenement area. Some 184.82 $km^2$of the tenement is also subject to the Arabunna ILUA which provides that exploration tenements in the area can be granted without recourse to the right to negotiate provisions of Part 9B of the SA Mining Act.

EL4757, 4300, and ELA436/08 are subject to the single Kokatha Uwankara native title claim.

EL4206 is subject to the Arabunna native title claim.

EL3928 and ELA95/01 are subject to the Wirangu #2 native title claim.

Tenements Wholly Covered by ILUAs

ELA59/10 is subject to the Antakirinja Matu-Yankunytjatjara determination (100% of tenement area). The entire tenement is also subject to the Antakirinja ILUA of 2005 (100%) and part of the tenement is subject to the Antakirinja ILUA of 2004 (42.01 $km^2$of a total 322 km^2) which has been superseded.

ELA233/10 is subject to the Antakirinja Matu-Yankunytjatjara determination and Antakirinja ILUA of 2005 which covers the entirety of the tenement area. The Antakirinja ILUA of 2004 (now superseded) applies to an overlap area 105.95 km^2 out of a total 215 km^2. ELA6/11 is subject to the Antakirinja Matu-Yankunytjatjara determination and Antakirinja ILUA of 2005, both of which cover 100% of the tenement area, and the now superseded Antakirinja ILUA of 2004 which overlaps 80.91 $km^2$of the 295 km^2tenement.

Tenements Subject to Adjacent Claims or Determinations

EL4712 and EL 4464 are subject to the adjacent Kaurna and Ngadjuri # 2 claims.

EL4463 is subject to the adjacent Arabunna native title claim, and Antakirinja Matu-Yankunytjatjara native title determination.

ELA33/10 is subject to the adjacent Barngala and Arabunna native title claims. Similarly, ELA 78/10 is subject to the adjacent Barngala and Arabunna claims and the Antakirinja Matu-Yankunytjatjara determination.

EL4368, EL4370 are subject to the adjacent Nukunu and Ngadjuri #2 native title claims.

EL4322 is subject to the Barngala, Kokatha Uwankara and Arabunna claims that are all adjacent.

Tenements not subject to claim

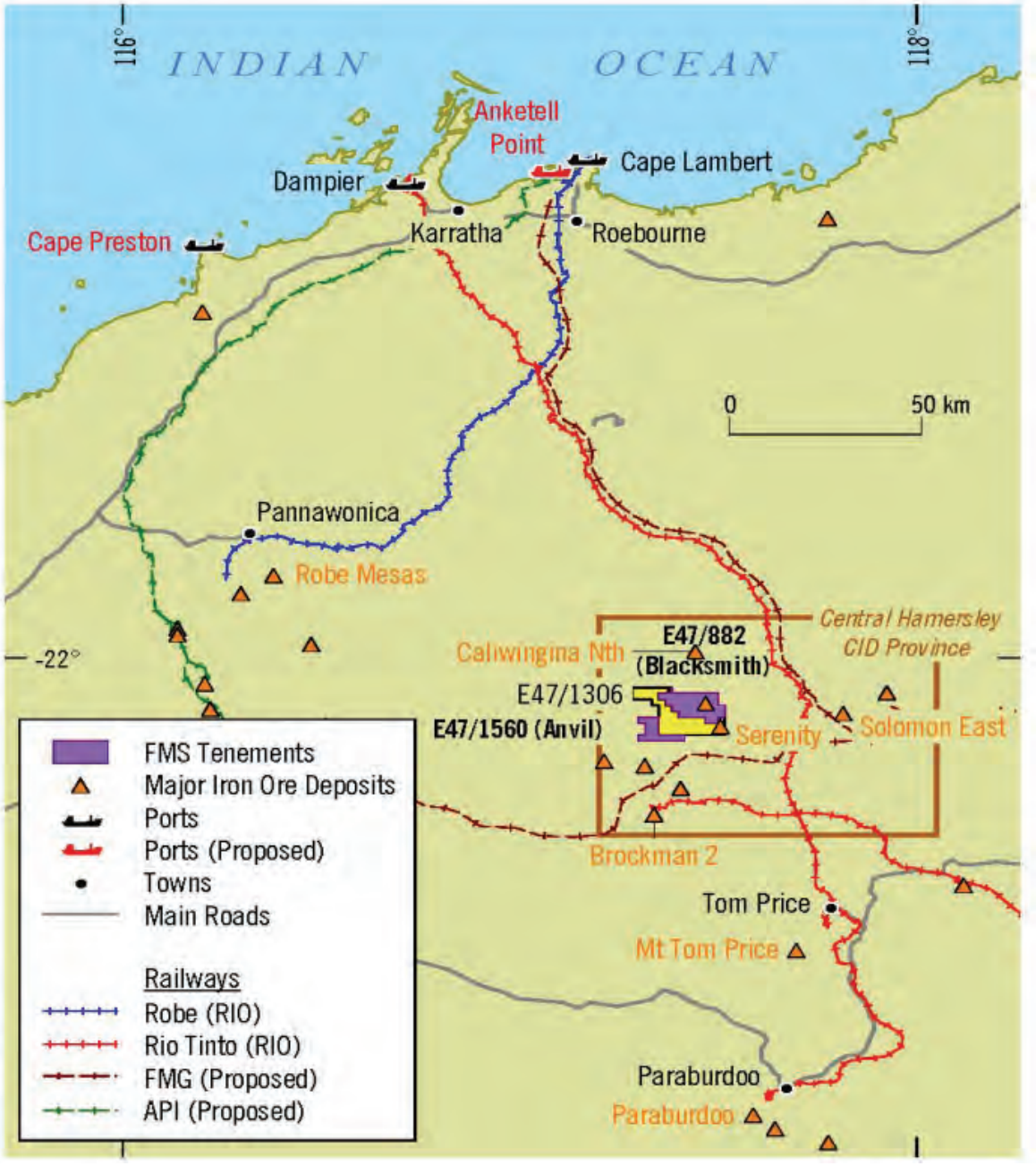
EL4401, 4227, 4290 4183, and ELA85/00 are not subject to any registered claims, determinations or ILUAs.

3. PILBARA IRON ORE PROJECT (PIOP)

3.1 LOCATION AND ACCESS

FML's Pilbara Iron Ore Project is located in the Hamersley Ranges approximately 70km northwest of Tom Price in the Pilbara region (Figure 3.1). The project comprises two 100% owned tenements, E47/882 (Blacksmith) and E47/1560 (Anvil). The key tenement (E47/882) is located approximately 20 km west of Rio Tinto's Paraburdoo to Dampier rail track.

Figure 3.1 PIOP Location



Source: FML

3.2 TENEMENT HOLDINGS

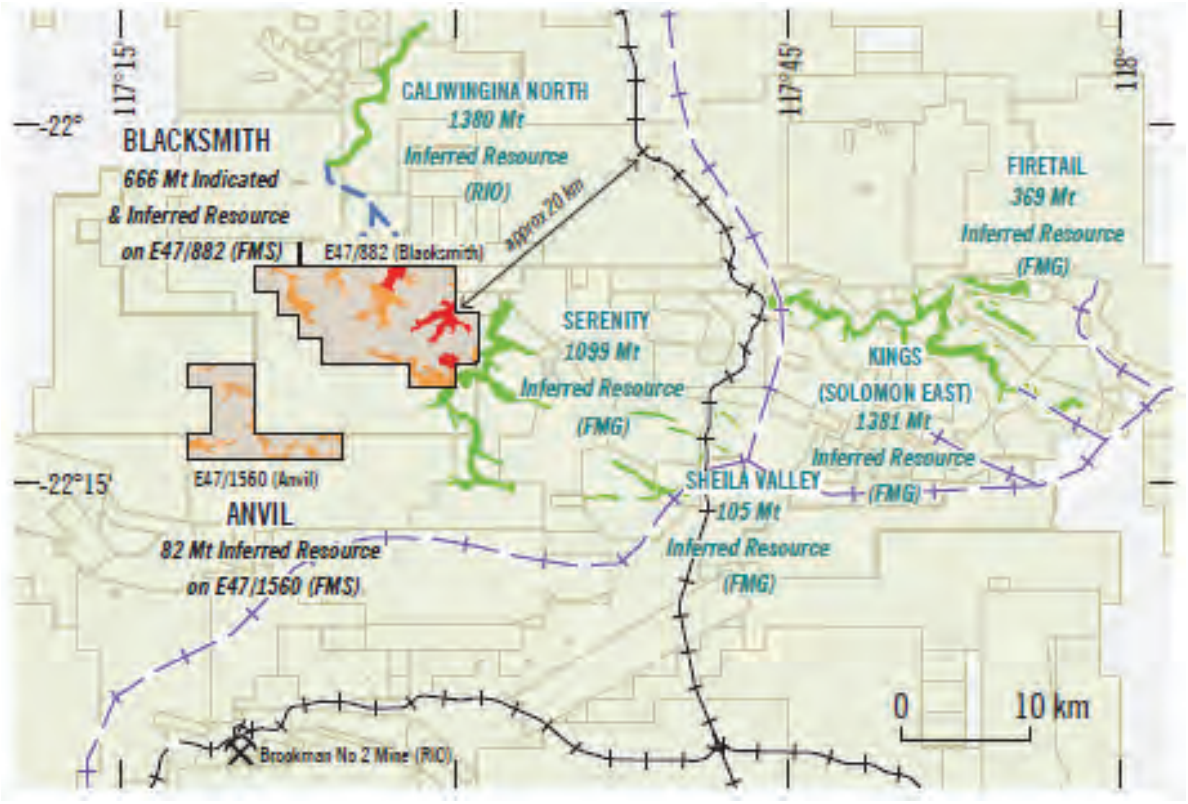
The project is comprised of 14 exploration licences, 12 mining leases and one prospecting licence. This includes the PIOP tenements E47/882 (Blacksmith) and E47/1560 (Anvil) and mining lease application M47/1451.

Table 3.1 Pilbara Iron Ore Project tenements

Tenement	Name	Area km^2	Area ha	Expiry Date	Agreements
E47/882-I	Blacksmith	108		30/10/2012	Prenti
M47/1451	Blacksmith ML		11,156	Pending	Prenti
E47/1011-I	Bold Cliff	11		18/06/2012	Prenti and Fortescue
E47/1016-I	Mulga Downs	127		18/07/2012	Prenti and Fortescue
E47/1306-I	Hamersley West	126		16/11/2012	Prenti and Fortescue
E47/1333-I	Satellite Spring	174		27/07/2012	Prenti and Fortescue
E47/1334-I	Satellite Spring East	176		1/06/2012	Prenti and Fortescue
E47/1352-I	Hamersley Station West	31		15/02/2013	Prenti and Fortescue
E47/1372-I	Hamersley Range	190		15/05/2012	Prenti and Fortescue
E47/1398	Fortescue Valley	196		Pending	Prenti and Fortescue
E47/1399	Range Bore	190		Pending	Prenti and Fortescue
E47/1436-I	Malay Well	98		30/03/2013	Prenti and Fortescue
E47/1523-I	Mt Brockman West	70		15/02/2013	Prenti and Fortescue
E47/1524-I	Mt Brockman North	148		14/06/2012	Prenti and Fortescue
E47/1560-I	Anvil	44		5/09/2012	Prenti Agreement
M47/663	Mulga Downs FMG		760	Pending	Prenti and Fortescue
M47/664	Mulga Downs FMG		781	Pending	Prenti and Fortescue
M47/665	Mulga Downs FMG		899	Pending	Prenti and Fortescue
M47/666	Mulga Downs FMG		973	Pending	Prenti and Fortescue
M47/667	Mulga Downs FMG		703	Pending	Prenti and Fortescue
M47/668	Mulga Downs FMG		860	Pending	Prenti and Fortescue
M47/669	Mulga Downs FMG		726	Pending	Prenti and Fortescue
M47/670	Mulga Downs FMG		587	Pending	Prenti and Fortescue
M47/671	Mulga Downs FMG		883	Pending	Prenti and Fortescue
M47/672	Mulga Downs FMG		867	Pending	Prenti and Fortescue
P47/1291-I	Gap Area E47/882 & 1306	0.2		26/06/2015	Prenti
M47/1407	Hamersley West FMG		1776	Pending	Prenti and Fortescue

Figure 3.2 is a map showing E47/882 (Blacksmith) and E47/1560 (Anvil) tenements together with other iron ore projects owned by Fortescue Metal Group (FMG) and Rio Tinto. Iron mineralisation onE47/882 is laterally associated with both Rio Tinto's Caliwingina North deposit and FMG's Serenity deposit.

Figure 3.2 PIOP location and tenements (Blacksmith and Anvil)



Source: FML

3.2.1 Joint venture agreements

Fortescue Agreement

Under the Fortescue Agreement,Flinders Diamonds Limited ("FDL") and Prenti Exploration Pty Limited agreed to grant FMG Pilbara Pty Limited ("FMG") rights to explore and mine iron ore on FML's tenements, and FMG agreed to grant FML rights to explore and mine diamonds on FMG tenements in the Hamersley Ranges. If FMG proceeds to mine iron ore on FML's tenements, FMG shall pay FML a 1% royalty on iron ore production for the first 8 million tonnes mined.

Companytenement lists state that the Fortescue Agreement affects all Pilbara Iron Ore Project tenements except E47/882, M47/1451, E47/1560 and P47/1291(Brayne, 2011a).

Prenti Agreement

The Prenti Agreementsbetween FML and Prenti Exploration Pty Limited applies to all Pilbara Iron Ore Project tenements. Prenti retains the right to a 5% net profit production royalty in respect of minerals produced by FML on the tenements (Brayne, 2011a).

3.3 GEOLOGY

3.3.1 Regional geology

The regional geology is characterised by late Achaean- Lower Proterozoic age (2,800 to 2,300 Ma) sediments of the Mount Bruce Supergroup which form part of the Hamersley Province. The rocks at the project are the upper parts of the Hamersley Group, a Precambrian sequence dominated by Banded Iron Formation ("BIF"), shales and chert. The outcropping geology is dominated by members of the Brockman Iron Formation, namely the Whaleback Shale Member, and the Dales Gorge and Joffre BIF Members. Localised folding and faulting is common within these Brockman Iron Formation BIFs. This stratigraphy is ubiquitous in the Pilbara and hosts many of the region's world class iron ore bodies.

Overall, the Hamersley Group meta-sediments, including the BIF units, are described as moderately flat dipping along the northern boundary outcrops with increasing complexity at the southern boundary. The BIFs hosted by the Hamersley group are the most widespread rock types and are known to contain the highest iron content in the stratigraphic sequence. The flat dipping BIF units of the Dales Gorge Member and the McRae Shale or Mount Sylvia Formation form the valley floor systems within the Hamersley Ranges.

FML's exploration focus is in the cover material of the youngest (Mesozoic to Recent) units of the Tertiary sediments overlying the Hamersley Group within the Marillana Formation which is dominated by fluvial sediments occupying the meandering palaeo-channels. The recent sediments comprise colluvial fan, colluvial sheet flood, alluvial fan and depositional plain sediments within the highlands, and alluvial flood plain sediments within the valley systems.

3.3.2 Local geology

Within the Blacksmith tenement there are seven major valleys, or channels, incised into the bedrock geology; Ajax, Blackjack, Champion, Delta, Eagle, Paragon and Badger. Exploration by FML has focused on exploring these channel systems for Channel Iron Deposit ("CID") mineralisation and the Brockman Iron Formation for Brockman Iron Deposits (BID), both beneath and on the margins of the channels. Drilling results show that the mineralisation is dominated by BID and Detrital Iron Deposits ("DID") similar to that identified at Rio Tinto's Brockman 2. These DIDs are found where weathering has eroded BID and deposited the fragments in natural traps formed by topography.

The important Eagle, Champion and Delta deposits are all located within tenement E47/882 which is dominated by the Brockman Iron formation, which hosts large Bedded Iron deposits (BID) in other regions of the Hamersley Ranges. The project area consists of large channel systems which contain significant tonnages of DID and CID. The channels may host accumulations of iron rich gravels distal from any hard-rock iron mineralisation.

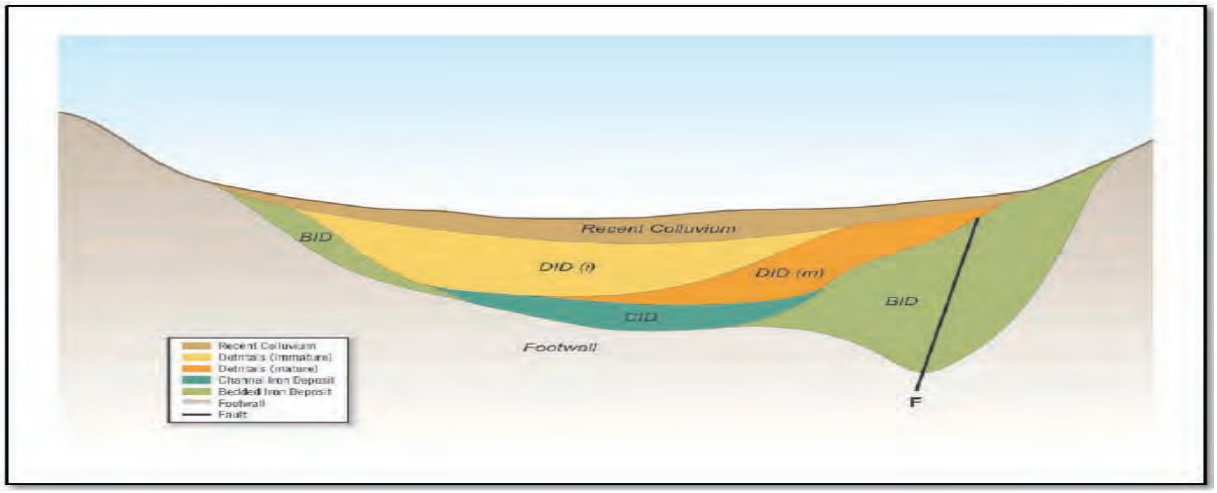
The DID is characterised by hematite rich mineralisation that has been eroded from surrounding BIF's. It is mainly composed of detrital material of pisolithic or fragmental types. Underneath the DID units lies the BID of the Dales Gorge Member of the Brockman Iron Formation. The CID mineralisation has been identified between the DID and BID mineralisation in some parts of the Delta, Eagle and Champion deposits.

Some general observations about the local geology are;

- the DID is comprised of four units (DID1 to DID4)
- the iron grade increases with depth while the contaminant concentrations decrease with depth
- the DID can be subdivided into upper (DID1&2) and lower (DID3&4) units based on physical and chemical characteristics
- silica and alumina levels are typically lower within the BID when compared to the CID and DID and vary according to which member they have been derived from Joffre or the Dales Gorge Members of the Brockman Iron Formation. The BID Loss on ignition ("LOI") is at moderately high levels (6% to 9%), which is typical of goethite mineralisation (Flinders 2011a).

Figure 3.3 is an exaggerated schematic diagram depicting typical mineralisation styles within channels. In general, the four DID units form a stratigraphic sequence, passing from DID1 to DID4, with the iron grade increasing and the contaminant concentrations decreasing with depth. CID mineralisation is present but restricted to the deeper and more distal regions of the larger channels in Eagle, Delta and Champion. High quality BID has been identified both beneath and on the margins of all channels and more recently outcropping on the slopes and hills between the channels.

Figure 3.3 Schematic diagram depicting typical mineralisation styles within channels



Source: FML

3.3.3 Mineralogy

The mineralogy of the mineralisation found at the PIOP is closely related to the weathering of certain stratigraphic units and can be described as follows:

- Detrital Iron Deposits (DID) - Hematite-rich detrital colluvial/alluvial sediments found within the Tertiary palaeochannels that have been hardened by iron
- Channel Iron Deposits (CID) - Tertiary deposits contained within the palaeo-alluvial systems which are hematite rich with some goethitic zones at the base of the unit
- Bedded Iron Deposits (BID) – in situ BIF which has been supergene enriched and enhanced by later burial. Goethite is the dominant iron oxide mineral.

3.4 EXPLORATION

3.4.1 Drilling Campaigns

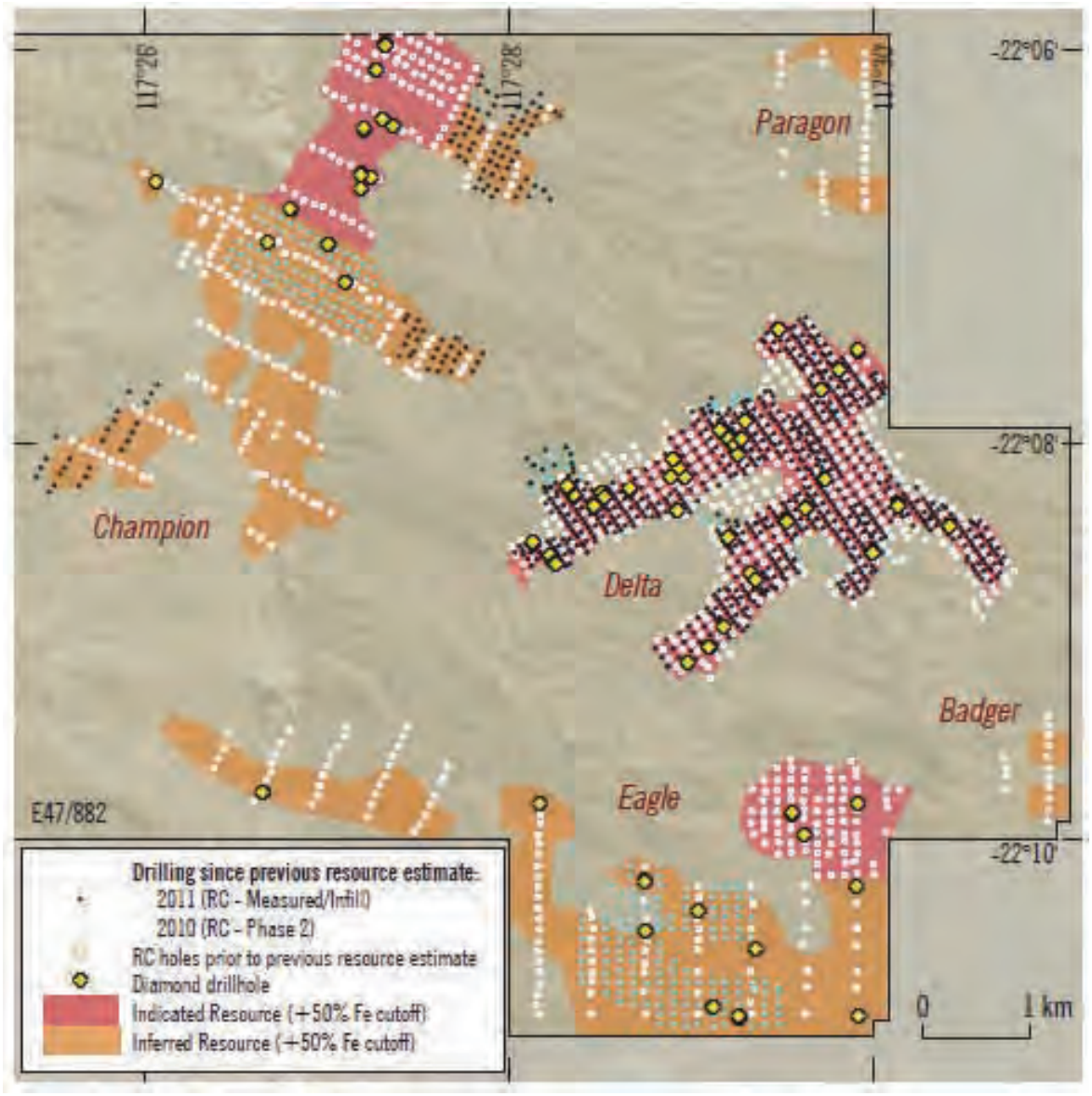
Drilling at the project commenced in July 2008. FML completed a second phase ofRC drilling in early December 2010 completing 232 drill holes for 14,738 m. The two primary objectives of the 'Phase Two' drilling program were to:

1. Convert the resource from Inferred to Indicated status in the Eagle Central and Champion Central deposits through closer spaced infill drilling
2. Test potential Bedded Iron Deposit targets on the flanks of the known DID and CID mineralisation in the Delta Deposit.

During the first half of 2011 drilling concentrated on the Delta deposit to convert the Indicated Resource to a Measured Resource and to provide sufficient resource for a DFS. This was completed with 876 RC holes drilled for 44,191 m. In addition diamond drilling (DD) was carried out for the Phase 3 geometallurgical test work which completed 64 holes in the Eagle, Delta and Champion deposits for a total of 2,472 m.

Since August 2008, until the end of June 2011 FML completed 2,705 RC and DD for a total of 135,657 m, at the Blacksmith and Anvil tenements. Figure 3.4 is a plan of Blacksmith showing RC and DD holes completed in 2010 and the first half of 2011.

Figure 3.4 Plan of Blacksmith showing RC and DD holes completed since July 2010



Source: FML

More than 57,000 m of additional drilling was carried out at the project since the Resource Estimate in October 2010, consisting predominantly of Measured Resource infill drilling at Delta, but also additional Indicated Resource drilling at Eagle and Champion and BID extensional drilling at Delta.

3.5 EXPLORATION POTENTIAL

3.5.1 Regional

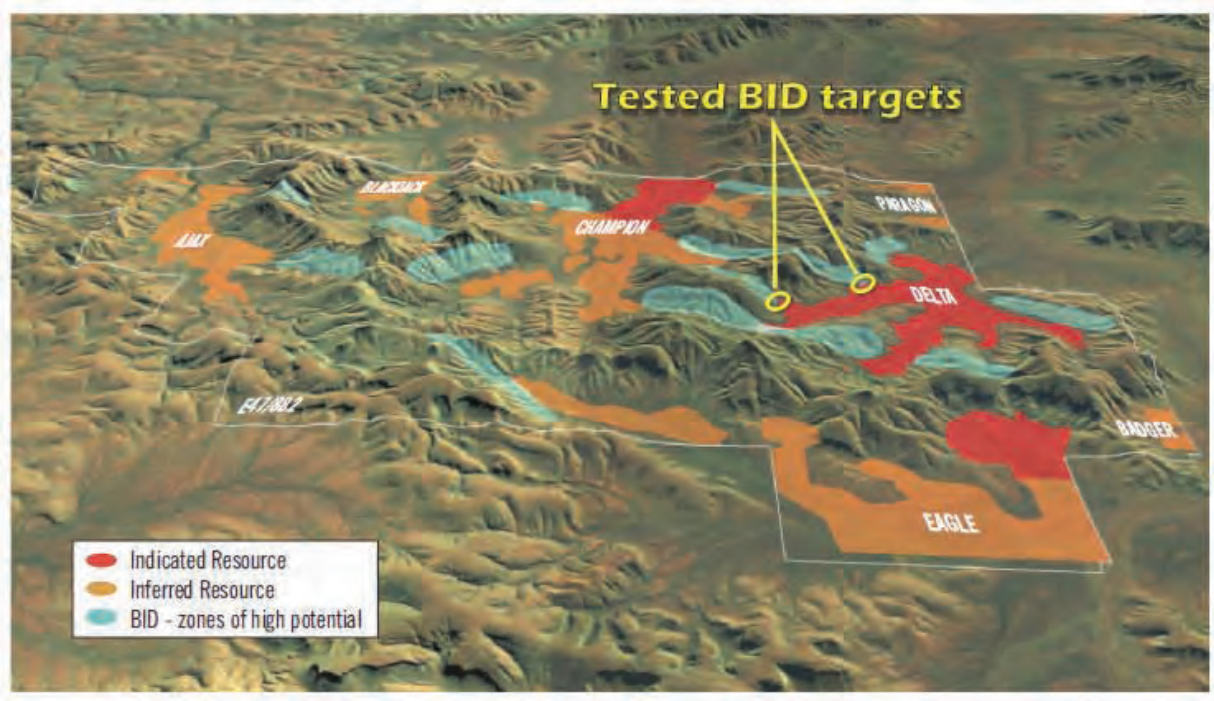
The current mineral resource identified by FML is at Blacksmith (E47/882) whichconsists of 748 Million tonnes ("Mt") of Indicated and Inferred Resources. Additional iron ore mineralisation has been identified at E47/1560 (Anvil) to the south west.

Other iron ore resources in the vicinity include Calingwingina North (Inferred Resource of 1,540 Mt) owned by Rio Tinto and Serenity (Inferred Resource of 1,100 Mt) owned by FMG. These deposits appear to be low grade and have low priority for mine development. Nevertheless they indicate the area has potential for iron ore deposits.

3.5.2 Iron Ore Projects

Flinders Mines is currently investigating a range of potential targets on the flanks of known iron ore mineralisation, based on proximity to known BID mineralisation beneath the valleys, the relationship with known structural zones and anomalous geophysical signatures. Mapping in the hills has identified areas of BID mineralisation, which require drilling. Figure 3.5 shows a Google Earth image of Blacksmith (E47/882) with Mineral Resource areas and zones of high potential for BID.

Figure 3.5 Google Earth image (E47/882) showing Mineral Resource and high BID potential areas



Source: FML

FML has identified mineral resources at Blacksmith (E47/882). There is potential to increase the size of the Measured and Indicated Resources by infill drilling. Additional iron ore mineralisation has been identified at E47/1560 (Anvil) to the south west. Snowden considers that there is potential to discover additional iron ore mineralisation and deposits on both these tenements.

Other iron ore resources in the vicinity include Calingwingina North (Inferred Resource of 1,540 Mt) owned by Rio Tinto and Serenity (Inferred Resource of 1,100 Mt) owned by Fortescue Metal Group (FMG). These deposits appear to be low grade and have currently low priority for mine development. However, there may be synergies in developing these deposits together.

3.5.3 Diamond Projects (JV)

Snowden considers that none of the licences including those under joint venture have any exploration potential for diamonds.

3.6 RESOURCE ESTIMATION – PIOP

Snowden has been provided with two separate grade-tonnage estimates for PIOP. These are:

- The estimates prepared by Golder Associates Pty Ltd (“Golder”) in December 2010. These estimates include the Ajax, Blackjack, Champion, Delta, Eagle, Badger, Paragon, Anvil-F, Anvil-G, Anvil-H, and Anvil-J deposits
- The estimates prepared by Optiro Pty Ltd (“Optiro”) in December 2011. These estimates include the Delta, Eagle and Champion deposits.

Snowden has reviewed only the Golder estimates for Ajax, Badger, and Paragon and Snowden accepts these as having been competently prepared by Golder.The estimates for Blackjack and Anvil have not been reviewed.

Snowden has reviewed the Optiro estimates for Champion, Delta and Eagle deposits and accepts them as having been competently prepared by Optiro.

3.6.1 PIOP estimates – Badger, Paragon and Ajax

Generally, the drillhole information and geological interpretation provided appears reasonable and suitable to support the confidence levels applied in the resource classification. The geological interpretation appears consistent with the information provided and includes four detrital iron domains (DID), one channel iron domain (CID), Recent Cover (RC), and bedded iron deposit (BID). These domains and the data provided are consistent with Snowden's knowledge of other Channel Iron Deposits in the area.

Samples were composited to 2m lengths, being the dominant sample length. Block models were compiled using parent cells sizes of between 100 m to 250 m (in the X and Y directions) by 6 m (in the Z direction), depending on the drill spacing. Variogram parameters were based on experimental correlogram results and appear reasonable.

Grade estimation was undertaken using customised ordinary kriging. Customisation of the kriging algorithm by Golder includes the restriction of anomalous grades, as well as kriging separately the high grade (>50% Fe) and low grade (<50% Fe) values. The search ellipse was aligned with the overall geometry of the bedding and was sufficiently large to collect all the samples needed for kriging. In the first pass a minimum of 2, 4 or 8 composite samples (depending on domain and area) was required, with a maximum number of 30 or 32 composite samples used.

Density values were prescribed according to domain based on density information supplied by Flinders. These ranged from 2.43 t/m^{3}for BID to 3.23 t/m^{3}for the BID unit at Delta North.

Resource validation

Visually and statistically, the grade-tonnage estimates (Badger, Paragon and Ajax) represent the composite sample data reasonably well. Any differences are within the expected tolerance for the Inferred Mineral Resource classification of these deposits.

Resource classification and reporting

Golder has classified the Badger, Paragon and Ajax grade-tonnage estimates as an Inferred Resources using the guidelines of the JORC Code (2004, "the JORC Code"). Snowden agrees that this level of confidence in the estimates is warranted and that the classification is appropriate, on the assumption that there is sufficient confidence in the exploration and assay data.

Snowden's opinion is that the Inferred Resource classification is appropriate for the estimates presented (Table 3.2).

Table 3.2 Summary of Ajax, Badger, Paragon and Blackjack Mineral Resources for Fe >50%

Project	Mineral Resource for Fe >50% (Golder, December 2010)					
	Mt	Fe%	Al_2O_3%	SiO_2%	P%	LOI
Ajax	68.5	55.2	5.05	10.62	0.057	4.51
Badger	8.7	57.5	3.43	6.32	0.092	7.30
Paragon	21.7	58	3.93	6.56	0.080	5.48
Blackjack	44.8	55.3	4.56	12.78	0.057	2.73
Subtotal	**143.7**	**55.8**	**4.63**	**10.42**	**0.063**	**4.27**

The grade-tonnage estimates for Anvil, as reported by Golder (Table 3.3), have not been evaluated by Snowden.

Table 3.3 Golder December 2010Anvil Mineral Resource (50% Fe cut-off)

Deposit/Strat	Tonnes	Fe%	Al2O3	LOI	P	SiO2	S	TiO2
F_Anvil								
DID1	7,732,125	51.63	6.66	2.85	0.035	15.45	0.02	0.78
DID2	16,341,750	52.31	7.05	3.1	0.034	13.76	0.02	0.79
DID3	4,212,750	59.7	4.38	2.5	0.047	6.33	0.02	0.8
DID4	0	-	-	-	-	-	-	-
BID	8,859,800	54.7	3.63	8.99	0.089	8.15	0.03	0.49
Total	**37,146,425**	**53.58**	**5.85**	**4.39**	**0.049**	**11.93**	**0.02**	**0.72**
G_Anvil								
DID1	0	-	-	-	-	-	-	-
DID2	9,990,000	52.51	7.09	2.99	0.03	13.67	0.02	0.72
DID3	4,962,825	58.48	5.02	3.07	0.048	6.91	0.02	0.93
BID	6,565,800	55.94	1.94	9.96	0.114	6.94	0.03	0.52
Total	**21,518,625**	**54.94**	**5.04**	**5.14**	**0.06**	**10.06**	**0.02**	**0.71**
H_Anvil								
DID1	4,897,125	50.15	6.46	2.51	0.032	18.39	0.01	0.82
DID2	6,010,875	51.67	8.34	3.72	0.033	12.02	0.02	1.57
DID3	3,055,100	55.42	6.44	5.36	0.049	6.72	0.02	1.84
BID	7,281,900	53.83	4.08	8.94	0.074	9.15	0.03	0.52
Total	**21,245,000**	**52.6**	**6.17**	**5.46**	**0.049**	**11.74**	**0.02**	**1.08**
J_Anvil								
DID1	661,500	52.07	6.41	9.07	0.048	7.94	0.03	1.58
DID2	1,694,250	51.73	8.05	4.99	0.036	11.66	0.02	0.92
BID	96,100	53.38	4.14	8.85	0.092	9.56	0.02	0.78
Total	**2,451,850**	**51.89**	**7.46**	**6.24**	**0.042**	**10.58**	**0.02**	**1.09**

3.6.2 PIOP estimates – Champion, Delta and Eagle

Grade-tonnage estimates for the PIOP Champion, Delta and Eagle areas were prepared by Optiro.

Generally, the drillhole information (reverse circulation and diamond core drilling) reasonably supports the level of confidence in the geological interpretation and classifications applied to the resource model.

The nominal drill spacing at Eagle and Champion is 100 m by 125 m, while 50 m by 50 m was achieved over a large proportion of Delta. Samples were composited to 2 m lengths, being the dominant sample length. The geological interpretation appears consistent with the information provided and includes four detrital iron domains (DID), one channel iron domain (CID), Recent Cover or Colluvium (RC), and bedded iron deposit (BID). The domains and the data provided are consistent with Snowden's knowledge of other Channel Iron Deposits in the area.

Block models were compiled using parent cells sizes of between 50 m (Delta) to 100 m (in the X and Y directions) by 6 m (in the Z direction), dependent upon the drill spacing. Variogram parameters were based on experimental variogram results and appear reasonable.

Grade estimation was undertaken using ordinary kriging, with the search ellipse being aligned with the overall geometry of the bedding and sufficiently large to collect all samples needed for kriging. In the first pass a minimum of 4 or 12 composite samples (depending on area) was required with a maximum number of 32 or 40 composite samples used.

Density values were prescribed according to domain and density information supplied by Flinders. These ranged from 2.2 t/m^{3}for clay horizons to 3.13 t/m^{3}for the detrital DID4 horizon.

Resource validation

Visually and statistically, the grade-tonnage estimates represent the composite sample data reasonably well.

Resource classification and reporting

Optiro has classified these grade-tonnage estimates as Measured, Indicated and Inferred Resources using the guidelines of the JORC Code. Snowden agrees that the assigned level of confidence in these estimates (Table 3.4) is warranted and that the classification is appropriate, on the assumption that there is sufficient confidence in the exploration and assay data.

Table 3.4 Summary of Champion, Delta and EagleMineral Resources for Fe >50%

Classification	Deposit	Mt	Fe	Al_2O_3	SiO_2	P	LOI
Measured	Delta	101.0	56.4	5.10	10.50	0.05	2.79
	Eagle	0.0					
	Champion	0.0					
	Subtotal	**101.0**	**56.4**	**5.10**	**10.50**	**0.05**	**2.79**
Indicated	Delta	111.8	56.3	3.87	7.89	0.10	6.81
	Eagle	119.5	55.0	4.82	9.26	0.07	6.41
	Champion	112.4	55.2	4.91	9.65	0.08	5.48
	Subtotal	**343.8**	**55.5**	**4.54**	**8.94**	**0.08**	**6.23**
Inferred	Delta	12.1	56.0	4.64	8.16	0.09	6.25
	Eagle	173.4	54.0	5.01	9.53	0.08	7.68
	Champion	61.1	55.6	4.61	10.10	0.07	4.70
	Subtotal	**246.6**	**54.5**	**4.89**	**9.60**	**0.08**	**6.87**
Grand total		**691.3**	**55.3**	**4.75**	**9.40**	**0.08**	**5.96**

3.7 PIOP PROJECT

Snowden conducted apreliminary review of the PIOP project including the Pre-feasibility study and notes that some of the assumptions associated with metal prices, mining costs and mass recovery used in the study do not align with values that Snowden would considerto be indicative of industry standards.

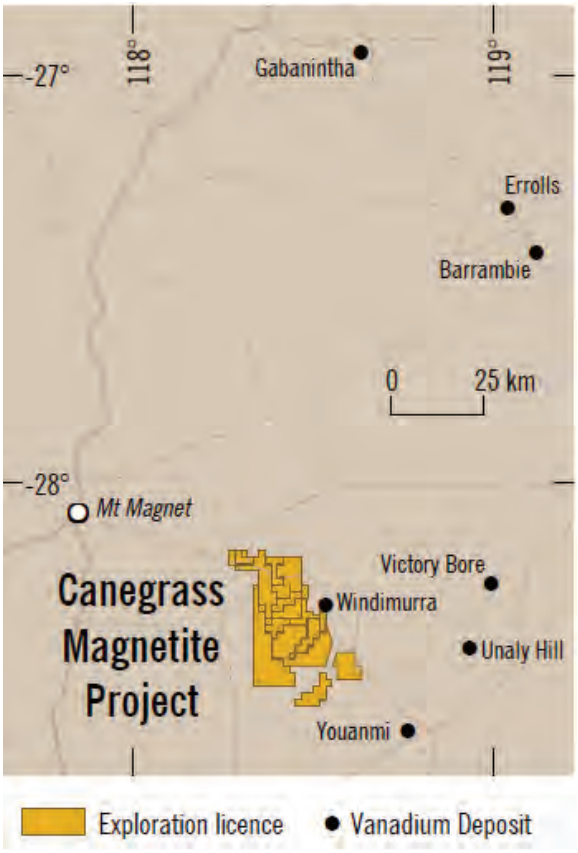
However, Snowden recognises that the study has been conducted by reputable independent consulting organisations. Furthermore, Snowden is aware that a definitive feasibility study is currently planned and expects that this work will result in further definition of these details and a closing of the gaps Snowden identified in its desk top review.

4. CANEGRASS

4.1 LOCATION, ACCESS, TOPOGRAPHY AND CLIMATE

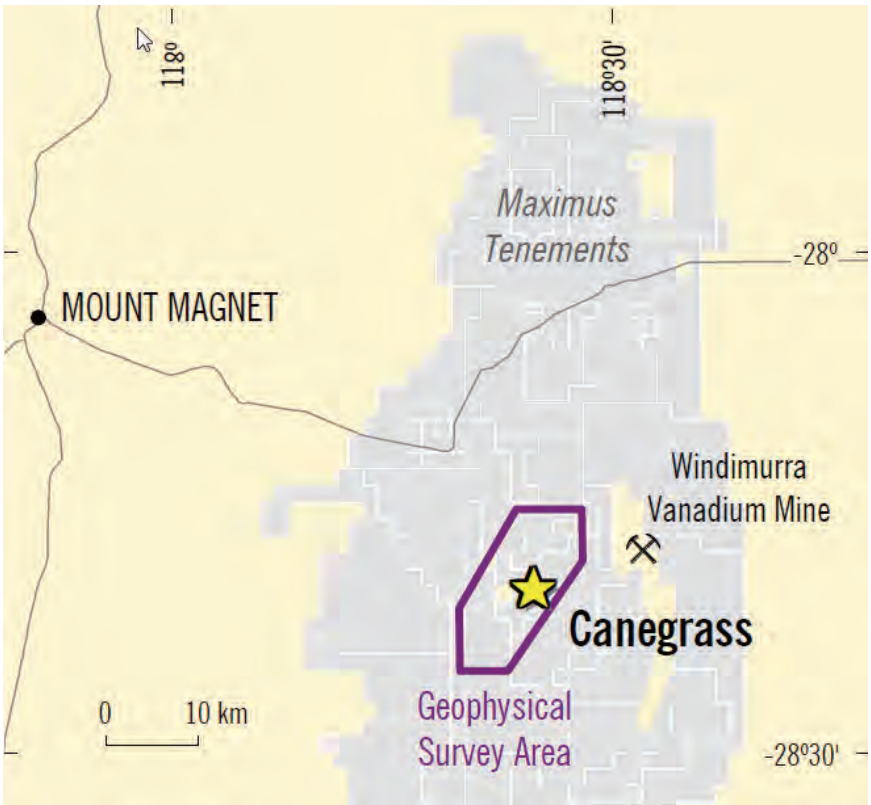
The Canegrass tenements are located approximately 60 km southeast of Mt Magnet and 15 km WSW of the Windimurra vanadium project in the mid-west of Western Australia.The Canegrass Project covers an area of approximately 700 km^2(Figure 4.1 and Figure 4.2)

Figure 4.1 Canegrass project location map



Source: FML

Figure 4.2 Canegrass Project location and tenements



Source: FML

4.2 TENEMENT HOLDING

The Project is comprised of nine exploration licences and 36 prospecting licences in Western Australia (Table 4.1).

Table 4.1 Canegrass Project tenements

Tenement	Name	Area km2	Expiry Date	Agreements
E58/232-I	Boulder Well	50	28-07-12	Maximus Canegrass
E58/235-I	Canegrass Well	50	28-07-12	Maximus Canegrass
E58/236-I	Challa	50	21-03-12	Maximus Canegrass
E58/271-I	Gingier Pool	132	06-11-12	Maximus Canegrass
E58/282-I	Honeypot	25	02-05-12	Maximus Canegrass
E58/307-I	Challa Homestead	3	06-02-12	Maximus Canegrass
E58/308-I	Challa South	3	06-02-12	Maximus Canegrass
E58/358-I	Pipeline	157	21-03-15	Maximus Canegrass and Corporate Group
E58/359-I	Bundy Well	211	25-02-15	Maximus Canegrass and Corporate Group
P58/1174	Windimurra W4	1.5	02-04-11	Maximus Canegrass
P58/1175	Windimurra W5	1	02-04-11	Maximus Canegrass
P58/1176	Windimurra W6	1.5	02-04-11	Maximus Canegrass
P58/1300	Challa H1	0.4	Expired	Maximus Canegrass
P58/1301	Challa H2	0.4	Expired	Maximus Canegrass
P58/1302	Challa H3	1	17-09-10	Maximus Canegrass
P58/1327	Challa H4	1.2	31-10-10	Maximus Canegrass
P58/1328	Challa H5	1.8	31-10-10	Maximus Canegrass
P58/1329	Challa H6	0.5	31-10-10	Maximus Canegrass
P58/1330-I	Challa H7	0.5	31-10-10	Maximus Canegrass
P58/1331	Challa H8	0.2	31-10-10	Maximus Canegrass
P58/1352	Challa H9	0.2	04-10-13	Maximus Canegrass
P58/1353	Challa H10	0.3	Expired	Maximus Canegrass
P58/1403	Challa A	1.4	02-03-14	Maximus Canegrass
P58/1404		0.5	02-03-14	Maximus Canegrass
P58/1405	Bullock Well North	0.2	Expired	Maximus Canegrass
P58/1406	Bullock Well	0.2	Expired	Maximus Canegrass
P58/1425		0.5	24-06-14	Maximus Canegrass
P58/1426		0.2	27-06-14	Maximus Canegrass
P58/1427		0.4	27-06-14	Maximus Canegrass
P58/1428		0.2	27-06-14	Maximus Canegrass
P58/1429		0.2	Expired	Maximus Canegrass
P58/1430		0.3	Expired	Maximus Canegrass
P58/1431		0.2	Expired	Maximus Canegrass
P58/1432		0.2	Expired	Maximus Canegrass
P58/1433		0.4	Expired	Maximus Canegrass
P58/1434		0.2	Expired	Maximus Canegrass
P58/1435		0.2	Expired	Maximus Canegrass
P58/1436		0.2	25-02-14	Maximus Canegrass
P58/1437		0.5	Expired	Maximus Canegrass
P58/1438		0.5	25-02-14	Maximus Canegrass
P58/1439		0.2	25-02-14	Maximus Canegrass
P58/1440		0.2	03-03-14	Maximus Canegrass
P58/1445		0.2	03-03-14	Maximus Canegrass
P59/1851		0.2	20-04-14	Maximus Canegrass
P59/1865		0.2	07-03-14	Maximus Canegrass
P59/1866		0.2	07-03-14	Maximus Canegrass

4.2.1 Joint Venture Agreement

Maximus (Canegrass) Agreements

The Maximus Canegrass Agreements are between FML and Maximus Resources("MXR"). Under the Maximus Canegrass AgreementsFML purchased 100% of the mineral rights to the Canegrass Project for a cash plus share consideration of $1.3 million. FML must pay MXR a 2% net smelter royalty on any future mineral production from Canegrass tenements (Brayne, 2011a).

The Corporate group retains a 10% free carried interest to specified graticular blocks withinE58/358 and E58/359.

Company tenement lists state the Maximus (Canegrass) Agreements applies to all South Australian tenements, and the corporate group agreement applies to E58/358 and E58/359 (Brayne, 2011a).

4.2.2 Native Title

Refer Section2.3.2 this report.

4.3 GEOLOGY

The Windimurra Complex is a large differentiated layered ultramafic to mafic intrusion emplaced within the Yilgarn craton of Western Australia. It is a conical to sheet like body intruded into the Archaean granite-greenstone terrain of the Murchison Province which outcrops over an area of approximately 2,500 $km^2$and has an age of approximately 2,800 Ma. The complex is dominantly comprised of basic cumulate rocks that can broadly be classified as gabbroic in composition. Magmatic layering dips inwards at the margins and flattens in the center. It is dissected by large scale, strike slip shear zones so that the original extent of the complex is unknown. The Windimurra Complex is part of a much larger suite of similarly layered ultramafic to mafic bodies emplaced between 2,700 Ma and 2,800 Ma across the Murchison Province.

The Windimurra Complex has potential for basal nickel-copper sulphides as well as cumulate related chromite and platinum group element mineralization. Laterally extensive vanadiferous magnetite and ilmenite horizons are identifiable and are of interest for concentrations of iron, titanium and vanadium mineralisation.

Historical drilling has identified a continuous layered stratigraphy of over 1,100 m vertical thickness of the layered intrusion. Within this stratigraphy there are discrete mapable magnetic units that can be correlated across the region. The upper units are iron and titanium rich and have been the focus of previous explorers due to the high iron concentrations. The lower units contain elevated vanadium grades with lower titanium and produce an iron vanadium target.

Regionally, these units are readily identifiable in magnetic datasets and combine to form approximately 48 $km^2$of prospective vanadium rich horizons. A number of other areas remain to be drill tested.

Gabbro-hosted magnetite deposits are a significant source of vanadium. Within the Mid-West region of Western Australia there are a number of other similar gabbro-hosted layered vanadium rich resources and deposits. They include the Windimurra Vanadium Project of Atlantic Ltd with a resource of 210 Mt at 0.47% V_2O_5, at a 0.28% cut-off and Reed Resources Ltd's Barrambie Deposit of 65.2 Mt at 0.82% V_2O_5,at a 0.5% cut-off.

4.4 PREVIOUS EXPLORATION

Exploration Targets of 1.7 to 3.0 billion tonnes of magnetite rich gabbro containing 20% to 35% magnetite have been defined in the past based on magnetic and gravity surveys combined with a number of reverse circulation drilling traverses and a small number of diamond drillholes.

Over the last 3 to 4 years reverse circulation and diamond drilling by Maximus Resources and FML has targeted the magnetic iron/titanium/vanadium rich horizons. The aim of the drilling was to better define the regional distribution of the mineralization, better understand the stratigraphic nature of the magmatic layering and ultimately to define a mineral resource.

The previous owner of the Canegrass project conducted an extensive Airborne Electromagnetic Magnetic (AEM) survey over the tenure targeting Ni, Cu, Au and PGE mineralization. Work has commenced on assessing AEM data to derive a series of targets to be verified with ground EM.

4.5 RECENT EXPLORATION (2008-2010)

4.5.1 Drilling Campaign

FML drilled 39 (8,048 m) RC holes at the Canegrass Project in 2010 which targeted four discrete magnetic features that represent several stratigraphic units with differing geochemical and geo-metallurgical properties. The drilling identified thinner intersections richer in vanadium and iron in the lower part of the sequence. Drill hole FCRC10 intersected mineralisation from 104 m with an apparent thickness of 40 m assaying 36.8% Fe, 7.7% Ti and 0.80% V. The upper part of the sequence is characterized by thicker intersections with lower vanadium grades where drill hole FCRC2 returned an intersection from 78 m of 136 m apparent width at 32.7% Fe, 6.3% Ti and 0.02% V.

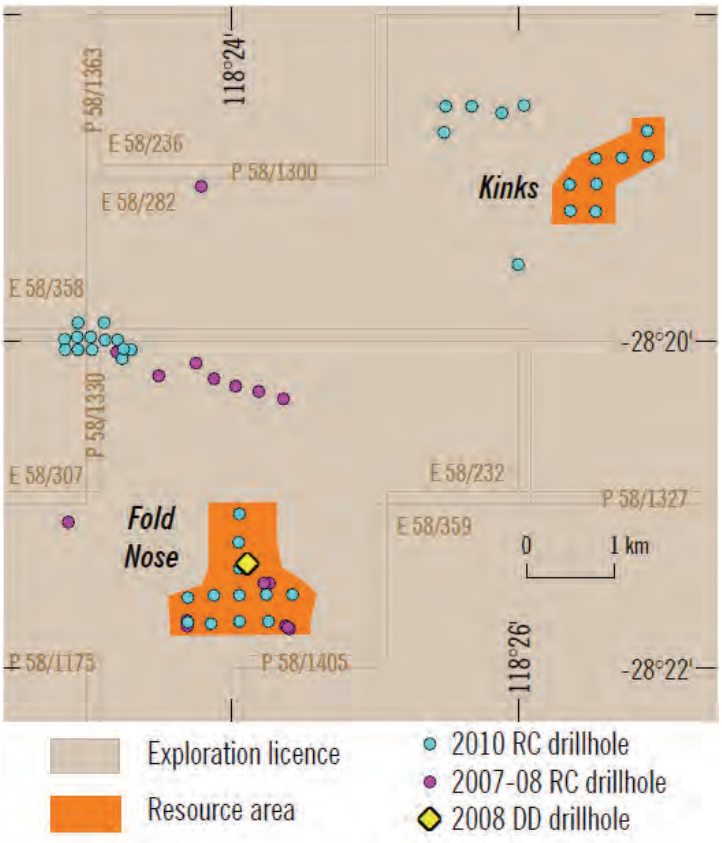
The vanadium potential of the Canegrass area is the primary focus of the current exploration work after recent metallurgical testing of the magnetite is reported to have produced disappointing results.

4.5.2 Resource drilling

The drill testing of the four regions was only sufficient to support Mineral Resource estimates in two of the four prospects (Fold Nose and Kinks). Initial drilling at the other two regions and aeromagnetic surveys of the overall area are sufficient to support the concept that they contain a similar stratigraphic sequence hosting the vanadium and magnetite mineralization. The nominal drillhole spacing was 300 mE by 300 mN. Fold Nose was tested by two cross section drilling lines and one long section line. Kinks was tested by three cross section lines and one long section line but has less holes on each section.

The resource estimates are based on the results of 27 RC holes (4,814 m) and one diamond hole drilled at the project between December 2007 and December 2010. (Figure 4.3). Average in situdensities were derived from the diamond drill core.

Figure 4.3 Drill hole locations at Kinks and Fold Nose prospects

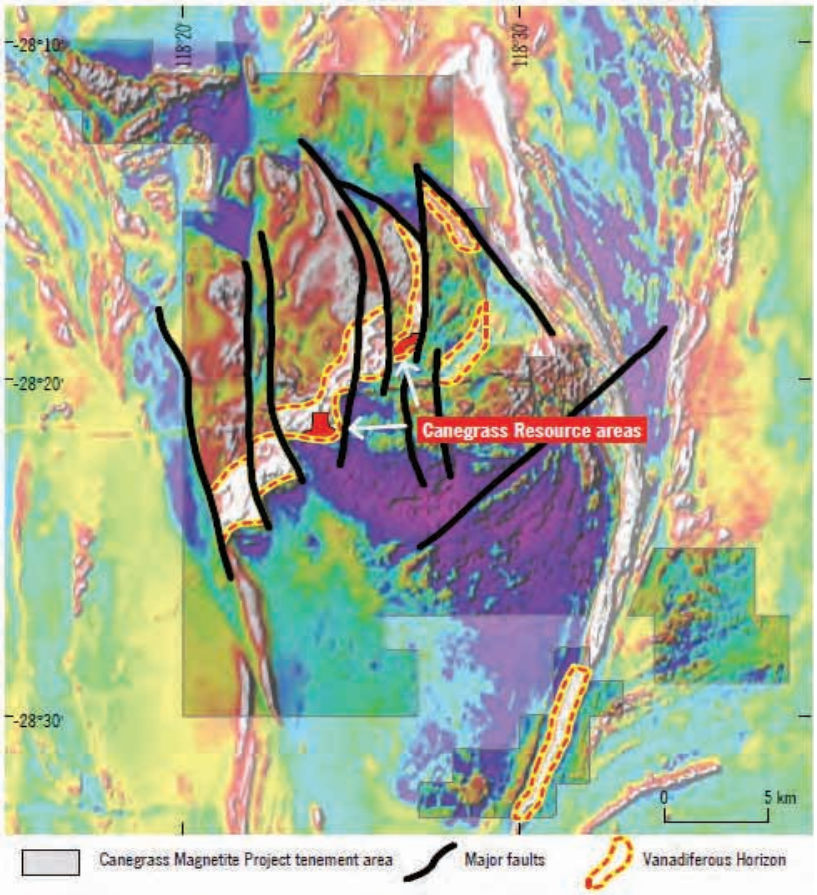


Source: FML

Correlation of downhole magnetic signatures in drill holes suggests a continuous layered stratigraphy of over 1,100 m in vertical thickness. Individual magnetite bands can vary from a few centimeters to several meters in thickness. They are often contained within packages of more disseminated magnetite bearing gabbro with zones of magnetite poor leucogabbro. In total, 16 major magnetic units have been identified (Alpha through Papa). Alpha is the lower most unit and Papa represents the top of the sequence. The units vary from 10m (Lima and Mike) up to 150m (Papa) in thickness. Six units, namely Alpha, Charlie, Foxtrot, India, November and Papa have the strongest magnetic signatures. The remaining ten zones have weak or discontinuous magnetic signatures.

Detailed geochemistry has also identified a systematic variation in the TiO_2/V_2O_5 ratio. This ratio increases up through the sequence from approximately 7 in the Alpha unit up to in excess of 100 for Papa, primarily due to lower vanadium concentrations in the upper units. Thus, the TiO_2/V_2O_5 ratio can be used as a tool to characterize particular magnetic units.

Figure 4.4 Canegrass project vanadium resource areas and ground magnetics



Source: FML

4.5.1 Metallurgy

A series of RC samples representing the whole range of titaniferous and vanadiferous magnetic horizons across the stratigraphic sequence were compiled into composites for metallurgical testwork. The testwork included Davis Tube Recovery (DTR), grind size optimization and magnetic separation techniques such as Low Intensity Magnetic Separation (LIMS) and Wet High Intensity Magnetic Separation (WHIMS). Grind size is the single most important factor for magnetite recovery and product quality. A saleable product can be achieved from a relatively coarse liberation of 80% passing 45 microns. Mass recoveries of up to 42% were achieved in the concentrates with Fe grades up to 58%, TiO_2 between 9.9% and 15.6% and SiO_2 <3%. This work also highlighted high V_2O_5 concentrations from the more vanadiferous units. Of these units, V_2O_5 grades varied between 1.1 – 1.4 % in the concentrates. This testwork was undertaken with a view to forming an iron concentrate and has not been optimized for maximizing the V_2O_5 concentrations.

4.6 EXPLORATION LICENCES

4.6.1 E58/232 I

This exploration licence contains the Fold Nose Prospect Inferred Mineral Resource. It also contains the important vanadiferous horizon shown inFigure 4.4.

4.6.2 E58/235 I

This exploration licence contains the important southern vanadiferous horizon shown inFigure 4.4.

4.6.3 E58/236 I

This northern exploration licence occurs to the north and west of the two prospects and the northern vanadiferous horizon as shown in Figure 4.4. As such it is considered to have a lower exploration potential.

4.6.4 E58/271 I

This large western exploration licence contains the important northern vanadiferous horizon extending into the lease shown Figure 4.4.

4.6.5 E58/282 I

This exploration licence contains the Kinks Prospect Inferred Mineral Resource. It also contains the important vanadiferous horizon shown inFigure 4.4.

4.6.6 E58/307 I

This small exploration licence occurs to the west of Fold Nose. RC drilling was undertaken at the tenement in 2010 on the border with E58/232 and E58/358 but has not identified a resource.

4.6.7 E58/308 I

This small exploration licence occurs to the north west of Fold Nose but does not appear to be in a favourable location.

4.6.8 E58/358 I

This large exploration licence occurs to the north of the Project area. RC drilling was undertaken at the tenement in 2010 on the border with E58/307 and E58/232 but has not identified a resource. The tenement covers the magnetic zones within the Windimurra Complex but not the prospective vanadiferous horizon. As such it has less economic potential.

4.6.9 E58/359 I

This large tenement abuts E58/232 which contains the Fold Nose prospect and the northern prospective vanadiferous unit. However, the majority of the tenement covers low magnetic intensity Windimurra Complex rocks and is considered to have low potential.

4.7 EXPLORATION POTENTIAL

Both the Fold Nose and Kinks deposits are at an early stage of their development cycle. The drilling data on which the Mineral Resources are based is sparse and closer spaced drilling will be required to support a resource estimate based on a smaller selective mining unit size.

The Alpha horizon as a source of mineralisation hosting elevated vanadium grades and future exploration should focus on this horizon. There are some indications that elevated vanadium grades occur proximal to the current surface topography and further drilling could test this potential relationship. The Alpha, Charlie, Foxtrot and India units have potential for iron/vanadium mineralisation and the November and Papa units for iron/titanium mineralisation.

In terms of regional exploration FML plans to commence ground EM surveys in late 2011 which may provide drilling targets.

4.8 AUSTRALIAN VANADIUM PROJECTS

Table 4.2 shows the Vanadium projects in Australia, primarily in Western Australia but also in and Northern Territory. The table shows the relative sizes and grades of the vanadium deposits.

Table 4.2 Australian Vanadium projects

Company	Project	Resources	Mt	V_2O_5%	TiO_2%	Fe%
Atlas Iron	Balla Balla, WA	Resources	456	0.66	14.0	45.0
Atlantic Limited	Windimurra (WA)	Measured, Indicated and Inferred	210	0.47	n/a	n/a
Quest Minerals	Victory Bore (WA)	Inferred	151	0.44	6.7	25.0
Reed Resources	Barrambie (WA)	Indicated and Inferred	65.2	0.82	17.3	49.2
Speewah Minerals	Kimberley (WA)	Measured, Indicated and Inferred	3,566	0.30	2.0	14.7
Yellow Rock	Gabanintha (WA)	Indicated	37.7	0.75	8.9	n/a
TNG	Mount Peake (NT)	Inferred	139.1	0.29	5.3	23.7

n/a not available

4.9 RESOURCE ESTIMATION – CANEGRASS

Grade-tonnage estimates for the Canegrass project Kinks and Fold Nose areas were prepared by Optiro.

Both the Kinks and Fold Nose Mineral Resource estimates are based on limited data; being eight RC drillholes for the Kinks deposit; and nineteen RC drillholes as well as one diamond drillhole for the Fold Nose deposit. All drillholes were vertical, with samplingintervals of 1 m, 2 m, and 4 m, with 2 m being the dominant sample length. The drillhole spacing is approximately 300 m between holes.

Optiro reported that the magnetite related sample and assay precision and accuracy quality control data provided in the Flinders report suggests that this is adequate for the normal iron ore suite of assays. However, there is no QAQC data for the V_2O_5 assays and Snowden expresses concerns with respect to the accuracy of the assays.

Snowden's conclusion is that the accuracy of the V_2O_5 estimates cannot be confirmed with this data.

Block models have been compiled using parent cells sizes of 75 m by 75 m by 10 m (in the X, Y and Z directions, respectively) for both models. Grade estimation was undertaken using ordinary kriging for parent cell estimates and then sub-domained using hard boundaries on the basis of TiO_2/V_2O_5 ratios, magnetics, and geology. The search ellipse was aligned with the overall geometry of the bedding and set at 600 m along strike by 400 m down dip by 120 m across the dip plane. This was completed as a first pass process, with four expanding search volumes. In the first pass, a minimum of 15 samples was required (with a maximum of 25), and a maximum of three samples was used from each drillhole.

Density values were prescribed according to information supplied by Flinders. These were 3.6 $t/m^3$for V_2O_5>0.5, 3.1 $t/m^3$for V_2O_5<0.5, and 2.8 $t/m^3$for Oxide material.

Snowden considers that Optiro's estimation methodology is reasonable, with the exception of the maximum number of samples per drillhole. This effectively creates a significant local bias in the estimates, as the mineralisation is interpreted to dip by as much as 30°; the blocks are large (75 m horizontal by 10 m thick); and the composites are only 2 m long (totalling 6 m of sample per drillhole). Therefore the area of influence of the drillhole is only the few samples closest to the centre of the block and Snowden considers that the estimated block grade cannot be a good representation of local grade.

In addition to the maximum sample issue, there is no confirmed grade connectivity for the higher grades in the model and Snowden considers that the assumptions used to build the grade-tonnage model are flawed. The grade continuity of the high grades has been assumed, in order to produce block estimates that resemble the local drillhole grades. Snowden considers that this estimate may only be used to estimate volume and average grade, assuming that the average grade in an individual drillhole composite reflects that of the model. Furthermore, Snowden considers that cut-off grades should not be applied for evaluation of the grade potential.

4.9.1 Resource validation

Snowdencompared the average drillhole composite grades with the average block model grades, as well as the statistics for the entire model and its entire domains. On average, there is between 3% and 25% difference between the grades in the composites and the estimated grades of the model, by domain.

Snowden considers that this difference reflects the sparse drilling information available to create the estimate. The difference indicates that further work is required with respect to the framework of the mineralisation, especially in relation to the continuity of the higher grade mineralisation.

4.9.2 Resource classification and reporting

Optiro has classified the Canegrass grade-tonnage estimates as Inferred Resources using the guidelines of the JORC Code.

Snowden questions whether or not this grade-tonnage estimate can be classified as a Mineral Resource. The JORC Code definition of a Mineral Resource requires "reasonable prospects for eventual economic extraction" before a grade tonnage estimate can be classified as a Mineral Resource. Snowden contemplates several challenges to the classification for Canegrass. These include:

- the assumption of high grade V_2O_5 continuity, Snowden cannot support this assumption as it considers that there is poor understanding of that part of the mineralisation
- the question of whether a saleable magnetite concentrate can be produced arises, as within FML's internal reports there are statements to the effect that results have been disappointing.

If "reasonable prospects" were to be assumed, then the question is whether or not the grade-tonnage estimate meets the requirements of an Inferred Resource.

The JORC Code (2004) states: "*An 'Inferred Mineral Resource' is that part of a Mineral Resource for which tonnage, grade and mineral content can be estimated with a low level of confidence. It is inferred from geological evidence and assumed but not verified geological and/or grade continuity.*"

Snowden's opinion is that the Canegrass tonnage, grade and mineral content estimationsattract a low level of confidence. Snowden's qualified opinion is that the Inferred Resource classification is appropriate for the estimates presented (Table 4.3 and Table 4.4), with the proviso that "reasonable prospects for eventual economic extraction" is assumed.

Table 4.3 Canegrass Mineral Resource by project area for V_2O_5 ≥ 0.5%.

Project	July 2011 Mineral Resource for V_2O_5 >= 0.5%							
	Mt	V_2O_5%	TiO_2%	Fe%	Al_2O_3%	P%	SiO_2%	LOI%
Fold Nose	87	0.63	5.91	29.34	12.56	0.005	24.14	2.67
Kinks	20	0.57	5.49	27.35	12.99	0.009	25.93	3.09
Global	107	0.62	5.83	28.98	12.64	0.006	24.47	2.74

Table 4.4 July 2011 Canegrass Mineral Resource by project area for Fe ≥ 20%.

Project	July 2011 Mineral Resource for Fe >= 20%							
	Mt	Fe%	TiO_2%	V_2O_5%	Al_2O_3%	P%	SiO_2%	LOI%
Fold Nose	157	25.95	5.11	0.53	13.77	0.005	27.60	2.61
Kinks	59	23.79	4.81	0.48	14.73	0.013	29.28	2.99
Global	216	25.36	5.03	0.52	14.03	0.007	28.06	2.72

Snowden's view, based on experience with other comparable projects, is that, from a mining point of view, an unclassified resource of 200 Mt is too small for a magnetite iron deposit. Snowden's experience indicates that a resource in the order of 2 to 3 billion tonnes is be necessary to justify capital expenditure.

Snowden further opines that, as a vanadium deposit, the grades are probably too low to be economic.Snowden consequently attributes no value to the Canegrass deposit at a PFS level, from a mining point of view.

5. STRANGWAYS PROJECT

Snowden has examined the following exploration reports provided by FML; Strangways Project Northern Territory Final Combined Report May 2006, Fourth Combined Annual Report April 2006, in relation to exploration and geology.

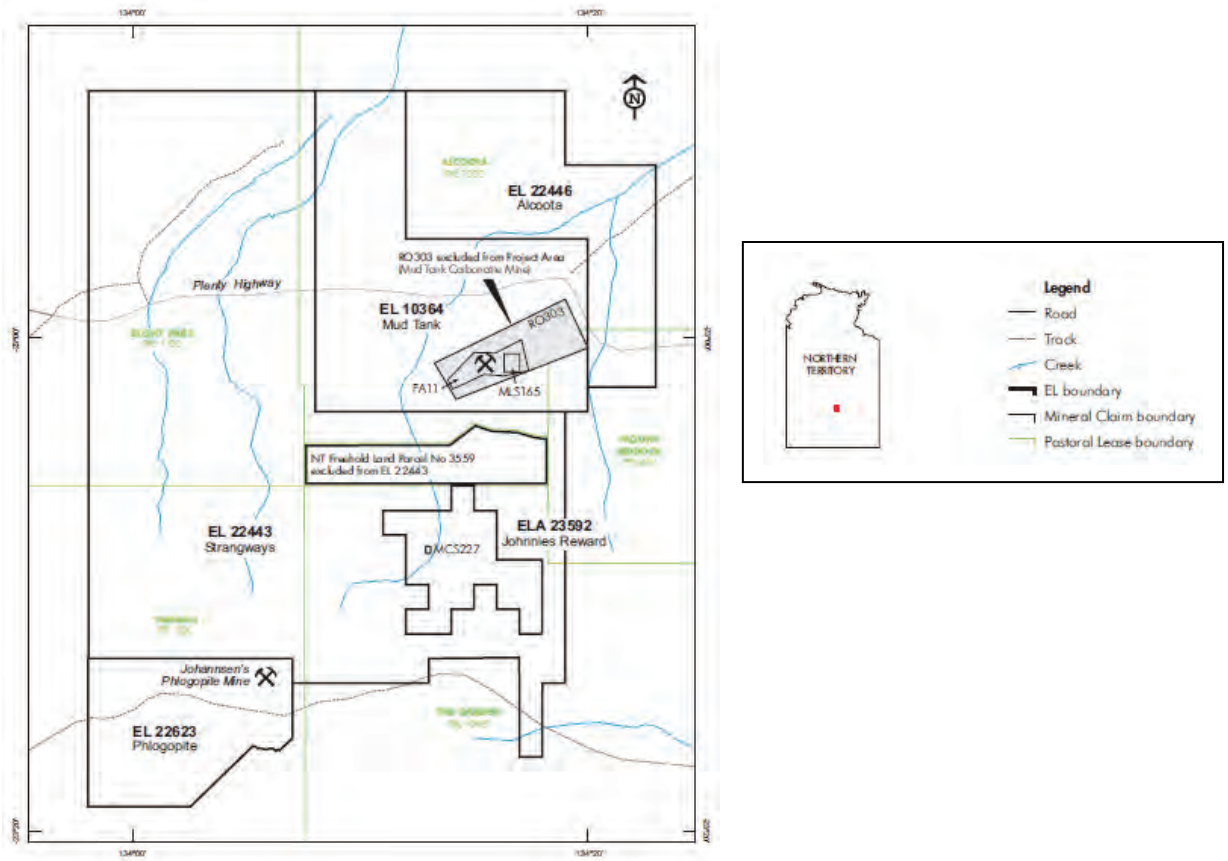
5.1 LOCATION, ACCESS AND TOPOGRAPHY

The Strangways Project area is located about 100 km northeast of Alice Springs. Access is good, particularly to the northeast tenements, (Mudtank and Alcoota), via the Stuart Highway north of Alice Springs for 70 km, then east along the Plenty Highway, which bisects the northern half of the project area, for 70 km (Figure 5.1).

Access to the south-western area is via the Stuart Highway north of Alice Springs for 45 km, and then east along the Arltunga Tourist Road until the southern part of the project area is reached, commencing 40 km east of the Stuart Highway turnoff. The Pinnacles Bore turnoff is another 15 km further east along the Arltunga Tourist Road. From there it is possible to access the Plenty Highway 25 km to the north via The Pinnacles – Mud Tank beef road.

The project area covers parts of five pastoral leases - Bushy Park, Alcoota, Mt Riddock, The Garden and Yambah. The southern part of the project area is particularly rugged with only limited vehicular access while the northern area (north of the Plenty Highway) is relatively flat-lying with good vehicular (4WD) access, apart from the central Mt Bleechmore massif. The recently completed Alice Springs to Darwin railway passes only 50 km west of the project area. This will impact significantly on the future economic development of the area.

Figure 5.1 Strangways Project area



Source: FML

5.2 TENEMENT HOLDING

The Project is comprised of two substitution licence (SEL) applications, SEL 25055 and SEL 25056. These cover the combined areas of EL 10364 (Mudtank) plus EL 22446 (Alcoota) and EL22443 (Strangways) plus EL 22623 (Phlogopite) respectively, which were originally granted in December 2001.

Table 5.1 Strangways Project tenements (NT)

Tenement	Name	Area km^2	Expiry Date	Agreements
SEL25055	Strangways	1118	12-6-2010*	Maximus
SEL25056	Mud Tank Alcoota	520	12-6-2010*	Maximus

**pending renewal*

5.2.1 Joint Venture Agreements

The Maximus Agreements include a July 2005 Agreement and amending deeds between FML and MXR. Under the Maximus Agreements, MXR through the issue of shares and options has 100% of non-diamond rights to Strangways.The Maximus Agreement applies to its twoNT tenements being EL25055 and 25056, as well as 12 SA tenements being EL4303, 4641, 4712, 4091, 4131, 4227, 4464, 4760, 4757, 4463, ELA33/10, 78/10 (Brayne, 2011a).

5.3 GEOLOGY

The Alcoota 1:100,000 map sheet area is underlain by Paleoproterozoic Strangways Metamorphic Complex rocks assigned to the eastern Arunta Inlier of central Australia. The granulite complex includes Mt Bleechmore Granulite, which forms rugged terrain, with a relief of up to 200 m in the centre of the outcropping area, before merging with the surrounding peneplain along its margins. The Bleechmore carbonatite dykes intrude the Mt Bleechmore Granulite and are therefore considerably younger. The Mud Tank carbonatite lens 19 km to the south-southeast has been dated at 735 +/-5 Ma. It is assumed the Bleechmore dykes are the same age, i.e. intruded during the same alkaline magmatic event as Mud Tank.

The most abundant rock type is migmatitic gneiss, typically composed of alternating coarse to medium grained biotite-rich and felsic layers. In places the biotite-rich layers contain sillimanite; garnet is abundant in the felsic gneiss (up to 20%) and also in the pelitic gneiss (up to 10%). The lenticular layering is generally 1 - 4 cm thick. The unit is cut in places by zones of retrograde metamorphism, indicated by biotite clots that have pseudomorphed garnet and the presence of narrow biotite schist zones. The occurrence of numerous pelitic, quartzose and rare calcareous layers suggest a sedimentary origin. The high feldspar content, typical of the main rock type, suggests immature sediments (Shaw, Warren, Senior and Yeates, 1975).

5.4 PREVIOUS EXPLORATION (2002 – 2005)

FDL initially applied for exploration licences in the Strangways Range area to investigate discrete regional dipolar magnetic anomalies which might be indicative of kimberlitic or lamproitic diamondiferous intrusive pipes.

Diamond exploration comprised regional interpretation and regolith map compilation, ground magnetic traverses over selected features, a 48 hole RAB drilling program over 4 areas totalling 1,021 metres and heavy mineral sampling. Results of the drilling were not highly significant.

In the course of investigation of the Bleechmore dykes the vermiculite potential of this area became apparent and FDL subsequently undertook a detailed evaluation of the dykes. The program comprised ground magnetic and gravity traverses, a 135 hole, vacuum drilling program (to bedrock), a 39 hole RAB/aircore drilling program totalling 1773 metres, a 2 hole diamond drilling program of 162 metres and excavation of 5 costeans over a total width of 441 metres.

The investigation led to definition of a zone of vermiculite mineralization over an area of 400 m by 50 m to a depth of around 42 m. Vermiculite processing testwork was undertaken by Amdel and Palabora Mining Company.

Teck Cominco and BHP Billiton who were in an alliance entered into a joint venture with FDL to evaluate the base metal potential of the project tenements. The exploration target model was a polymetallic metamorphosed massive sulphide deposit developed at or near the contact of major bimodal volcanic sequences and overlying sediments.

During 2002 the alliance's exploration activities comprised a review of previous exploration, 23 ground magnetic traverses, collection and analyses of 242 rock chip samples from 18 traverses together with geological observations. With the exception of known base metal occurrences the sampling did not define any base metal anomalies that warranted follow-up.

In 2005 FDL sold the non-diamond rights in the project tenements to Maximus Resources Limited (MXR) (see section 6.3.1 this report). It is reported that MXR planned to undertake investigations of the base metal potential on licences SEL 25055 and SEL 25056.

5.4.1 2002 EXPLORATION

Diamond Exploration

The following work was undertaken in 2002:

- Regional residual regolith interpretation of 1:50,000 scale aerial photographs
- Interpretation of NTGS Alcoota aeromagnetic and radiometric 400 m line space digital survey data to estimate magnetic depth of prospective dipolar or spot anomalies considered at the time to be possibly indicative of kimberlitic intrusives
- A total of 23 magnetic anomalies were selected from the regional aeromagnetic data, all of which were north of the Strangways Ranges. Ground magnetic traversing was carried out over all of the anomalies to accurately locate them in the field. Eleven were considered viable drill targets and were subsequently RAB drill tested. No kimberlite was intersected
- A 48 hole (1021 m) reconnaissance RAB drilling program was completed over the following areas:
    - Bleechmore dykes 35 holes ELs10364, 22446
    - Quartz monzonite 6 holes EL 22446
    - Bleechmore ring structure 3 holes EL 10364
    - Mud Tank West 4 holes EL 103646
- A total of 23 one metre samples of core from Johannsen drill hole PDD4 and 14 from drill hole SSD1 were analysed for 61 elements by ALS. Thin section sample SSD1-73m and a sample of quartz monzonite were petrologically examined by Pontifex. No significant results appear to have been later reported
- A regolith map over the area was complied with the aid of aerial photography and Landsat 7 thematic mapping data. A four-sample heavy mineral sampling program conducted north of the Plenty Highway was undertaken. All samples returned negative results.

Base metal exploration

The following work was undertaken in 2002:

- Evaluation of previous base metal exploration in the Strangways Range
- Ground magnetic surveys on 23 regional traverses, principally to define contact zones
- Geological mapping and geochemical sampling along 18 regional traverses with a total 242 rock chip and 147 soil geochemical values.

5.4.2 2003 EXPLORATION

Exploration during 2003 was mainly focussed on the vermiculite potential of the Bleechmore dykes with limited heavy mineral and drainage sampling for diamonds. The following work was undertaken:

- Reinterpretation of ground magnetic data over the Bleechmore dykes (EL10364/EL 22446)
- Ground gravity and magnetic survey over 1200 m x 500 m Bleechmore dykes geophysical grid (EL10364/EL 22446)
- 135 hole vacuum drill bedrock geochemistry sampling program over the Bleechmore dykes geophysical grid area (EL10364/EL22446)
- Establishment of 480 m x 120 m local grid orientated at 025° over Dykes North prospect, followed by 441 m, 5 costean program over the length of the above grid (EL 22446)
- 1773 m, aircore (22) RAB (17) drilling program completed over local grid on 9 sections. (EL 22446)
- Determination of flake size distribution of crude vermiculite by screening into +0.5 mm, +1 mm, +2 mm size fractions of 235, 2 kg composite drill samples completed (EL 22446)
- Two coreholes (162 m - twinning BAC008 and BAB32), BD01 (80.7) and BD02 (81.3), were completed (EL 22446)

- Two hyperspectral TM traverses were flown over Bleechmore (7.4 km) and Mud Tank (9.6 km) (EL 10364/EL 22446)
- 13 Geo-discovery heavy mineral samples were processed and observed for kimberlitic indicator minerals and diamonds by IDL Perth. A three drainage sample follow up program was completed (EL 22443)

5.4.3 2004 EXPLORATION

Exploration during 2004 primarily focussed on evaluation of the Bleechmore vermiculite deposits. A staged exploration program of ground geophysical surveying, costeaning, vacuum, aircore, RAB and limited diamond drilling delineated a potential vermiculite body within an area about 400 m long by 50 m wide and persisting to a vertical depth of around 42 m.

Testwork was reportedly undertaken by Amdel and the Palabora Mining Company on disaggregated core samples of 70% – 90% mineralised vermiculite schist from one diamond drill hole (BD01 - EL 22446). Evaluation work reportedly defined a deposit with similar characteristics to that mined at Mud Tank about 19 km south-southeast of the Bleechmore vermiculite prospect. Given that no further work has been undertaken since the testing Snowden assumes that either technical or commercial considerations discourage further investigation.

5.4.4 Recent Exploration (2005-2011)

No field work was undertaken in 2005 and no exploration work has been reported since that time.

5.5 EXPLORATION POTENTIAL

In the four years from 2002 to 2005 inclusive FDL and its joint venture partners spent approximately $550,000 on exploration for diamonds, vermiculite and base metals within the project tenements.

Diamond exploration results were negative with few kimberlitic indicator minerals recovered from target areas defined by discrete magnetic anomalies. Some historical low count indicator mineral anomalies identified by previous workers were reportedly also followed up with airborne geophysics and stream and soil sampling but also yielded negative results. Snowden considers that the results achieved from the programs of work undertaken indicate a low economic potential for diamonds.

A limited regional evaluation of the base metal potential of the project areas failed to locate significant base metal anomalies other than those associated with known occurrences. However given the presence of the known anomalies and the recent initiative undertaken by the Northern Territory Geological Survey (NTGS) in regard of geology and mineralisation and, depending upon the outcomes of the studies, it may be warranted to reconsider the prospectivity in the light of any new geological understanding that may be forthcoming.

6. ADELAIDE HILLS PROJECT SA

Snowden reviewed the following exploration reports Adelaide Hills Project Annual Technical Report For the period 28 April 2008 to 27 April 2009 for Exploration Licences EL 4131 Kapunda 2010, Adelaide Hills Third Combined Annual Technical Report for the year ending 15 May 2005 for exploration and geology.

6.1 LOCATION AND ACCESS

The tenements are located in the Adelaide Hills and include most of the area of high relief between Kapunda in the north and Strathalbyn in the south, excluding the Hills Face Zone. Access from Adelaide is provided by the Southeastern Freeway in the south, and the Sturt Highway in the north with major bitumen and well-formed dirt roads leading to most other parts of the area, as shown on Figure 6.1. The tenement EL 4466 (Tarlee) is located in the Adelaide Hills southeast and northeast of the city of Gawler.

EL 4131 (Kapunda) is located approximately 65 km northeast of Adelaide. Access from Adelaide is provided by the Southeastern Freeway in the south, and the Sturt Highway in the north with major bitumen and well-formed dirt roads leading to most other parts of the area.

6.2 TENEMENTS

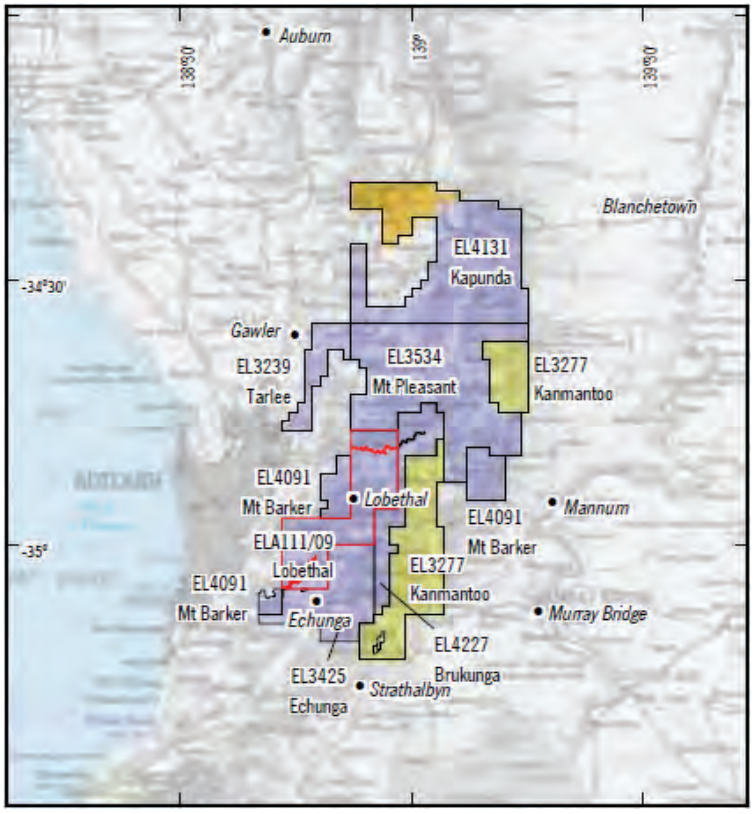
The Project consists of eight exploration licences shown in Table 6.1. Figure 6.1shows the location of the tenements.

Table 6.1 Adelaide Hills Project tenements

Tenement	Name	Area km^2	Expiry Date	Agreements
EL 4303	Lobethal	333	31-08-2011*	Maximus
EL 4401	Kanmantoo	489	16-12-12	Kelaray
EL 4641	Echunga	253	6-01-2012*	Maximus
EL 4712	Mt Pleasant	690	29-03-12	Maximus
EL 4091	Mt Barker	162	24-02-12	Maximus
EL 4131	Kapunda	641	27-04-12	Maximus
EL 4227	Brukunga	176	24-02-12	Maximus
EL 4464	Tarlee	105	12-04-12	Maximus

**extension or renewal pending*

Figure 6.1 Project Location



Source: FML

6.3 JOINT VENTURES

6.3.1 Maximus Agreement

The Maximus Agreements include a July 2005 Agreement and amending deeds between FML and MXR. Under the Maximus Agreements, MXR through the issue of shares and options has 100% of non-diamond rights to the EL4303 which is part of the Adelaide Hills Project, and has 100% metalliferrous mineral rights to the other Adelaide Hills Project tenements.

The Maximus Agreement applies to its two NT tenements being EL25055 and 25056, as well as 12 SA tenements being EL4303, 4641, 4712, 4091, 4131, 4227, 4464, 4760, 4757, 4463, ELA33/10, 78/10 (Brayne, 2011a).

6.3.2 Kelaray Agreement

Company reports state that FML 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 FML.These have now been relinquished by FML.

6.4 REGIONAL GEOLOGY

The Mount Lofty Ranges comprise a north-south trending range of tightly folded and faulted rocks which lie within the southern part of the Adelaide Geosyncline. Where a thick sequence of Late Proterozoic to Middle Cambrian sedimentary rocks was deposited in a large subsiding trough, which was intruded by granite, folded and uplifted during the Delamerian Orogeny which began about 515 million years ago. Subsequently extensive erosion occurred which was interrupted by a period of uplifting in the Tertiary (65 Ma) and again about 2 million years ago.

The western portion of the project area includes the oldest rocks, represented by Middle Proterozoic gneiss and schists of the Barossa Complex. These are surrounded by Late Proterozoic sedimentary rocks consisting of sandstones, siltstones, shales, dolomite, slate, and quartzites. Overlying the Proterozoic sequence to the east, are Cambro-Ordovician sedimentary rocks of the Kanmantoo Group, a clastic sequence dominated by sandstone and siltstones. Gold and base metal mineralization associated with quartz veining occurs throughout the area and throughout the stratigraphic sequence.

6.5 DIAMOND EXPLORATION

A diamond exploration program undertaken between 2004 to 2005 included an ultra-high resolution airborne geophysical survey, soil sampling, trenching and drilling.

- An ultra-high resolution, gradiometer enhanced, aeromagnetic and radiometric survey, covering an area of 800 km^2, with 100 m north south line spacing and 60 m mean terrane clearance, with one km tie lines, was completed by Fugro Airborne Services Pty Ltd in the Barossa Ranges. Two smaller areas, at Hutton Vale and Echunga (20 km^2 and 70 km^2 respectively), were covered at 50 m line spacing.
- The number of targets was reduced to 50 from the initial selection of 176. Which were soil sampled and assayed for Nb, Ni, Cr and Ce or Zr by XRF. In addition, soil sample grids were placed over positive diamond indicator mineral (DIM) catchments which had no magnetic anomalism.
- Trenches were dug at thirteen sites which were anomalous in Nb, Ni and Cr when compared with the Angaston kimberlite. Two small satellite kimberlites were found near the Angaston kimberlite; however, they contained no micro-diamonds.
- Four drill holes targeting topographic features at Bunyara failed to intersect kimberlite.

6.5.1 Diamond Exploration Potential

The Adelaide Hills Project has involved exploration for diamondiferous kimberlites in the vicinity of the source area for the Echunga Diamonds, found by prospectors in the latter part of the 19th Century. Exploration by Rio Tinto led to the discovery of the barren Angaston 1 kimberlite and it was felt that additional kimberlites might occur in the area under cover of more recent sediments. Airborne geophysics identified more than 150 anomalies and 50 of these were followed up on the ground by drilling and sampling. Two new small kimberlites were discovered but both were barren. Snowden considers that it seems unlikely that further work will prove the presence of significantly diamondiferous kimberlites.

6.6 KAPUNDA COPPER MINE

6.6.1 Previous exploration

The Kapunda Mine (EL 4131) was the first copper mine in Australia. The mine originally yielded 14,500 tonnes of copper metal between 1844 and 1879. Mineralization occurs as stratiform and vein-types in dolomitic siltstones of the upper Tapley Hill Formation. A review of historical data showed the Kapunda Mine area was held variously under MLs, RLs or ELs for much of the previous 40 years and the most recent title (Retention Lease 44) lapsed in 2004.

The area was previously explored in the 1960's and 1970's by Broken Hill South, Northland Minerals and Utah Development Company. The work focused primarily on the Kapunda copper deposit. Northland and Broken Hill South pursued a shallow copper oxide exploration model in proximity to the historical workings. Utah Development Corporation entered in into a JV with Northland and pursued an African Copper Belt, stratiform copper style mineralisation model.

Adelaide Chemical Company Ltd. (ACC) held a retention lease over the deposit from 1987 until 1999. ACC had entered the project with the intention of opening a mining operation to supply feed for their Burra Cu oxide plant. However, no new drilling or sampling was undertaken.

In 1996 Stuart Metals undertook a Joint Venture agreement with ACC and submitted a development proposal for reopening the Kapunda Copper Mine based on the assumption of an exploration target of between 3.5 Mt to 3.9 Mt in the range of 1.0 % Cu to 1.4% Cu around the historic Kapunda Mine. BHS, Northland, ACC and Stuart Metals invoked exploration targets for the remnant, low-grade copper mineralisation surrounding the historic workings at Kapunda based on drilling undertaken by BHS, Northland and Utah (Table 6.2).

Table 6.2 Kapunda Exploration targets (historical estimates)

Company	Mt	% Cu
BHS 1995	5.3 – 5.7	0.72 - 0.76
Northland 1978	6.1 - 6.5	1.30 - 1.70
ACC 1989	7.0 - 7.4	0.80 - 0.86
Stuart Metals 1996	4.1 - 4.5	1.00 - 1.30

6.6.2 Recent exploration

There are three main mineralised vein sets visible in the Kapunda old mine workings. Drill Hole KD005 drilled by Utah in 1974 targeted copper mineralisation beneath the Main Open Cu, which intersected disseminated copper mineralisation (chalcocite + malachite) +/- quartz-pyrite veining. The best intersection was 31 m at 1.1% Cu between 45 m and 76 m.

Re analysis of the core in 1974 showed a good correlation with Utah results.

- CRJ (2007) 45 m to 72 m, 27 m @ 1.18% Cu
- Utah (1974) 45 m to 72 m, 27 m @ 1.20% Cu

Drilling

During 2008 to 2009, Copper Range completed five RC drill holes in the Kapunda South – Stephen's mine area. Selected intervals were sampled from all five drill holes and submitted for Ag, As, Co, Cu, Zn and Au assay. A maximum of 3.9% Cu was recorded from hole SK02 in the near surface with an average grade over 80 m of 0.2% Cu, but no other significant results were recorded.

Geophysics

Three IP lines were placed across the limbs of a fold structure covering the stratigraphic package of the Tarcowie Siltstone- Cox sandstone – Tapleys Hill Formation to investigate possible extensions of copper mineralization south of the old Kapunda workings and to investigate the Stephens Mines area on the opposite fold limb. The survey lines were several hundred meters in length and were surveyed using a dipole – dipole (DP-DP) array with a 50 m separation and readings every 25m.

6.6.3 Exploration Potential

CRJ considered there to be significant exploration potential within the Kapunda-Burra region as there has been limited "modern-age" exploration applied to the region. Snowden notes that the Kapunda Mine area contains low grade copper mineralisation. The elevated copper results in drill hole SK02 suggests that mineralisation extends to the south on the edge of an IP anomaly which may be worth further investigation.

7. BILLA KALINA PROJECT (SA)

Snowden reviewed the following exploration report, 'Billa Kalina Project Annual Technical Report for the period 19 May 2005 to 18 May 2010 Company Report', November 2010for exploration and geology.

7.1 LOCATION, ACCESS, TOPOGRAPHY AND CLIMATE

The Billa Kalina Project is approximately 750 kilometers north of Adelaide. Access is via Roxby Downs or Marree to the Oodnadatta Track then to William Creek. The G2 Project lies immediately south of William Creek and southwest of the Oodnadatta Track. Good access is available within the project area via a network of station tracks linking dams, bores or trucking yards.

Most of the tenement consists of gently undulating plains between major creeks. The plains are covered by a dense surface lag of silcrete and quartzite gibbers formed during the breakdown and gradual recession of the Tertiary land surface. These plains are treeless and characterized by a gilgai micro-relief of low mounds and hollows covered by sparse low vegetation. Unconsolidated, but essentially vegetation-fixed, longitudinal sand dunes fringe the southern margin of the tenement. Individual dunes, trending north-east/south-west, may be up to 15 m high and 20 km long, separated by interdunal corridors containing numerous claypans.

Margaret Creek drains across the north of the tenement from west to east into Lake Eyre South and consists of a well-braided sand-choked system with wide flood channels. It is fed by three large tributaries, namely North Creek, Mudla Wantamarran Creek and Emu Creek.

The climate for the area is typical for Central Australia, with a low annual rainfall of 150 mm, occurring mainly during the summer months and associated thunderstorm activity. Temperature ranges from mean maximum for January of 35°C to 20°C in July.

7.2 MINERAL TENEMENTS

The Billa Kalina project comprises of five exploration licences, two of which are pending renewal.

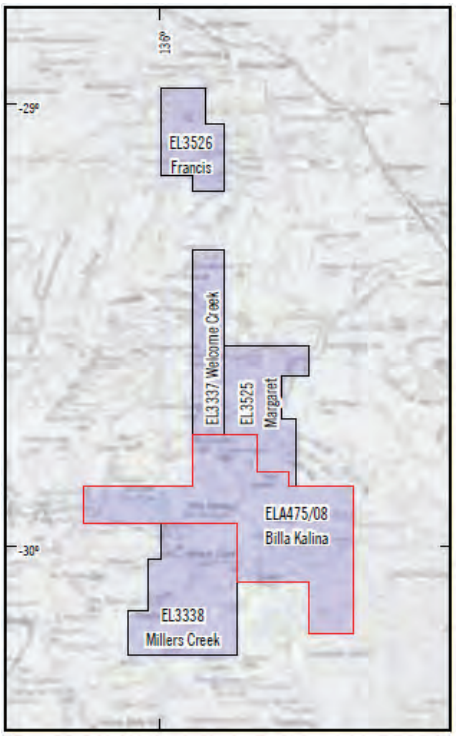
Table 7.1 Billa Kalina Project Tenements

Tenement	Name	Area km2	Expiry Date	Agreements
EL 4760	Francis	345	21-06-12	Maximus
EL 4759	Margaret	477	21-06-12	Maximus
EL 4463	Billa Kalina	1023	12-04-12	Maximus
EL 3170 (ELA 33/10)	Bamboo Lagoon	412	Pending	Maximus
EL 3338 (ELA 78/10)	Millers Creek	771	Pending	Maximus

EL4760 lies in the north-eastern part of the Billa Kalina 1:250 000 scale map sheet (SH53-7) and the southern part of the Warrina 1:250 000 scale map sheet (SH53-3) while EL4759 lies in the north-eastern part of the Billa Kalina 1:250 000 scale map sheet (SH53-7) and the western part of the Curdimurka 1:250 000 scale map sheet (SH53-8).

The G2 Project consists of two exploration licences, namely EL 2758 Francis and EL 2759 Margaret. FDL was active within the licence areas over the period 13October 2000 to 12 October 2003. The project area covered the northeast margin of the Gawler Craton, within the Adelaide Geosyncline FDL's exploration program used undercover drill sampling through the cover rock in a search for trails of indicator minerals with the objective of following the indicator vectors toward concealed diamond-bearing rocks.

Figure 7.1 Billa Kalina location map



Source: FML

7.3 JOINT VENTURE AGREEMENT

7.3.1 Maximus Agreement

The Maximus Agreements include a July 2005 Agreement and amending deeds between FML and MXR. Under the Maximus Agreements, MXR through the issue of shares and options has 100% of non-diamond rights to the Billa Kalina Project tenements.

The Maximus Agreement applies to its two NT tenements being EL25055 and 25056, as well as 12 SA tenements being EL4303, 4641, 4712, 4091, 4131, 4227, 4464, 4760, 4757, 4463, ELA33/10, 78/10 (Brayne, 2011a).

7.4 REGIONAL GEOLOGY

The project area covers the north-east margin of the Gawler Craton, south of the Peake and Denison Inlier. It lies to the north of the plunging/faulted margin of the Stuart Shelf in an area intersected by the north-north-westerly trending G2 gravity corridor.

The area is known to host abundant kimberlitic indicator minerals derived from a Jurassic age secondary source, which sourced the minerals from a Permian land surface. The Gawler Craton has a history of Archaean and early Proterozoic orogenic evolution terminating during the Carpentarian with a relatively stable platform. Deposition on the Stuart Shelf commenced around 1400 Ma ago (Adelaidean System) with continental siltstones and shales accompanied by flood basalts, followed by shallow water sedimentation until Cambrian times.

Reactivation of faults initiated during the Devonian formed the Boorthanna Trough, a north-south half-graben structure, which represents the southerly extension of the Arckaringa Basin. Glaciation in the upland areas flanking the basin and contemporaneous subsidence during the Upper Carboniferous/Lower Permian accounted for the deposition of the Boorthanna Formation.

Later tectonic stability in the Permian produced a low energy, marine environment during which the Stuart Range Formation was deposited, followed by regression and deposition of the freshwater Mount Toondina Beds. Major tectonic movements during the Late Jurassic/Early Cretaceous period caused uplift of the Gawler Platform in faulted blocks and marked the start of the Cretaceous transgressions. The Algebuckina Sandstone comprises fluvial sandstone and gravels, mineralogically mature but with a kaolinitic matrix in the lower part reflecting the derivation from a deeply weathered peneplain surface. The fluvial-deltaic Mount Anna Sandstone Member comprises the greater part of the Neocomian Cadna-owie Formation that disconformably overlies the Algebuckina Sandstone.

The Cadna-owie Formation represents the onset of a marine transgression with lithologies ranging from conglomeratic sandstone containing abundant clasts of porphyritic acid volcanics derived from the south-west, through to silty and clayey, very fine to medium quartz sandstone with thin interbeds of claystone and siltstone. The Bulldog Shale conformably overlies the Cadna-owie Formation but locally onlaps the underlying Mesozoic units directly overlying basement and comprises medium to dark grey clayey and silty mudstone with thin lenses and laminae of pale grey to yellow grey micaceous silt to very fine sand. The lower part of the formation is characterized by numerous well-rounded clasts, dominantly of Adelaidean quartzite. The Bulldog Shale blankets the gibber plain area.

The post Cretaceous period has mainly been one of erosion, deep weathering and formation of duricrust. Silcrete, dominantly pedogenic in character, caps units of Adelaidean to Tertiary age and occurs as clasts in younger sediments. Artesian mound springs related to faulting are present along the eastern margin of the tenements.

7.5 PREVIOUS EXPLORATION

Several major companies, including CRAE (“Conzinc Rio Tinto Australia Exploration”) and Stockdale Prospecting Limited, conducted similar style exploration programs over the tenements. Stream or loam samples were collected and screened on site to remove the plus 2 mm material. The retained finer fractions were treated and examined by specialist laboratories to recover indicator minerals or diamonds from heavy mineral concentrates.

Diamond indicator minerals were recovered from many samples, but despite intensive exploration, no exposed kimberlitic rock was located. Eventually it was proved that the Jurassic Algebuckina Sandstone, representing the first sedimentation to occur following the period of uplift and cessation of the Permian marine basin development, was shedding the indicator minerals. These sediments were eroded from the Permian land surface, which featured sedimentary marine basin rocks of Permian age surrounded by Proterozoic basement. Source kimberlites were exposed on this Permian land surface, and were subject to erosion that occurred in the Late Jurassic, leading to incorporation of their component minerals in the Algebuckina Sandstone.

The exploration strategy adopted by FDLwas based on undercover drilling, a technique used at their Springfield Project (South Australia). The technique involves tracking down kimberlite intrusions by drilling into palaeo-drainages to sample secondary indicator minerals. This sampling method eliminates tertiary current-day drainage concentrations and instead relies on sampling concentrations of indicator minerals at the base of the Mesozoic cover.

7.6 RECENT EXPLORATION (FDL) 2002 - 2003

Exploration activity was undertaken by FDL within EL 2758 (“Francis”) and EL 2759 (“Margaret”) between 13October 2000 to 12October 2003.

A first pass sampling program was completed to drill to Permian basement on a grid basis with one hole approximately every 25 km^2. Samples of material immediately overlying the Permian basement were observed for indicator minerals and diamonds.

Drilling at G2 was completed inOctober 2002. Initially the drilling was planned to be RAB but proved difficult due to loss of air circulation. Consequently a total of 65 aircore holes were drilled for an aggregate of 1,690.1 m, and 29 samples were collected for diamond and indicator mineral examination. Samples were collected at 3 m intervals, with each interval logged lithologically and heavy mineral samples collected from the appropriate basal horizon.

Ten holes (AC02GT01-AC02GT10) were drilled on EL 2758 with 9 holes intersecting Algebuckina Sandstone. Most samples collected weighed approximately 20 kg, derived from good quality basal cobble horizons. The remaining 55 holes (AC02GT11 – AC02GT65) were drilled on EL 2759 but only 20 of these holes were sampled due to the following limitations:

- Absence of Algebuckina/Mt Anna Formation material.
- Silicified rock unable to be drilled by aircore method.

Most holes sampled were located on the western side of the tenement, with sample weights on EL 2759 ranging from 10 kg to 40 kg.

The samples were processed and examined by Independent Diamond Laboratories in Perth WA. Concentrate weights for the –2.0 mm +0.3 mm fraction post TBE were low, ranging from 1 g to 107 g, with most about 5 g to 10 g. The –0.3 mm fraction post TBE ranged from 3 g to 33 g. The samples were examined in two phases. A total of 29 samples in the –2.0 + 0.3 mm fractions were examined first, and then 25 of the 29 samples in the –0.3 mm fraction were examined in phase two. Numerous indicator minerals were recovered from the samples, with 23 of the 29 samples yielding a minimum of 2 grains, up to plus 100 grains.

Numerous indicator minerals were recovered from the first pass undercover drilling program in the G2 Project area. Most positive samples were multigrain, with grains up to 0.8 mm recovered. The number of grains recovered per sample and number of positive samples is highly significant, because the sampling technique using an offset drill pattern did not target trap sites as would occur in a conventional drainage survey. This suggests there is a high background of indicator minerals in the G2 Project area, especially in the south west. Wear characteristics of many grains suggest short transport distances.

Three interpretations are possible to explain the number of grains recovered:

- The drill holes were proximal to a kimberlite field shedding numerous grains
- The area drilled reflected some form of palaeo-concentration in the Mesozoic, not necessarily proximal to a kimberlite field
- Permian ice flows may have deposited large numbers of grains with low wear characteristics, not necessarily proximal to a kimberlite field.

7.7 EXPLORATION POTENTIAL

FDL considered the project prospective for kimberlites and diamonds because:

- previously recovered indicator minerals from the area were fresh, suggesting primary source rocks in the general region
- the interpreted palaeo-current direction indicated fluviatile flow towards the north, passing through the G2 Project area
- post-Permian cover is relatively shallow in the G2 Project area, so undercover sampling could be done in a cost effective manner
- the G2 Project area falls on the G2 lineament

Follow-up drilling was recommended in EL 2758, south of the October 2002 drilling, and to the southwest of EL 2759.

This project entailed follow up drilling of airborne magnetic anomalies in an area where widespread indicator mineral anomalies had been identified from previous work. Snowden considers that the mineral anomalies are derived by erosion from sediments overlying the underlying crystalline basement and that none of the work carried out suggests that diamondiferous kimberlites are present in the area. As such the area has little potential for diamonds.

8. CENTRAL GAWLER PROJECT (SA)

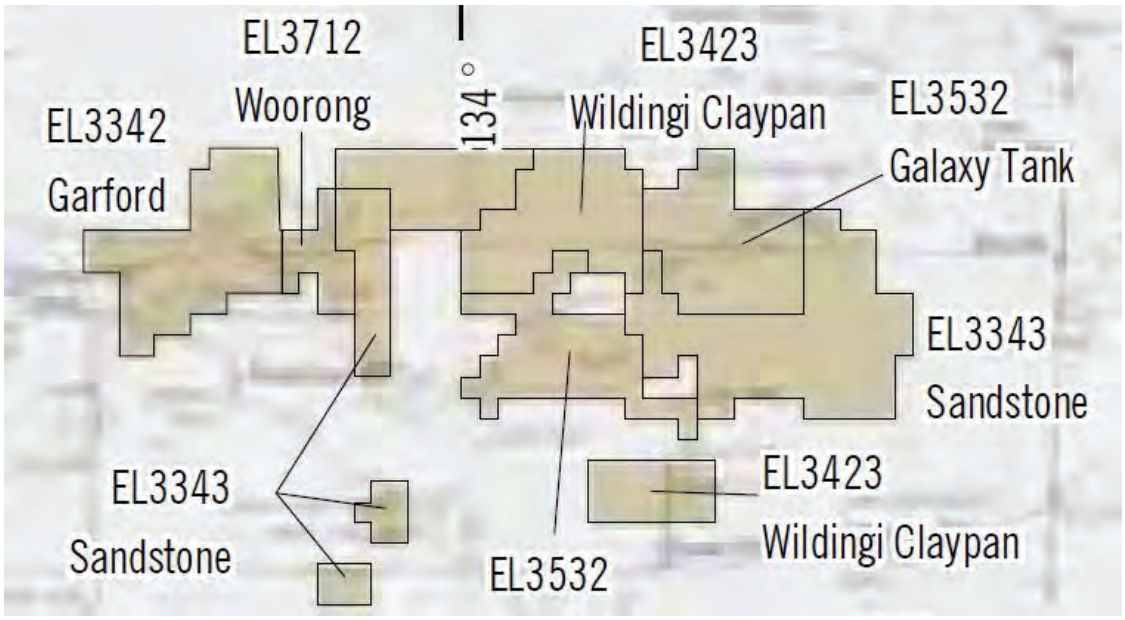
Snowden reviewed the following exploration report ‘Central Gawler Project supplement to Tasman Resources Ltd Annual Technical Report for the period 20 May 2008 to 19 May 2009’for exploration and geology.

8.1 LOCATION AND ACCESS

The Project consists of three exploration licences located approximately 680 km northwest of Adelaide and some 70 km south of Coober Pedy in the northwest pastoral district of South Australia. These tenements are accessed from the Stuart Highway via a network of unsealed roads and station tracks.

Most of the area consists of gently undulating plains. The plains are covered by a dense surface lag of silcrete and quartzite gibbers formed during the breakdown and gradual recession of the Tertiary land surface. These plains are treeless and characterised by a gilgai micro relief of low mounds and hollows covered by sparse low vegetation. Unconsolidated, but essentially vegetation-fixed, longitudinal sand dunes are prominent in the northern and central areas, predominantly EL’s 3341, 3342 and 3343. Individual dunes, trending northeast/southwest, may be up to 15m high and 20km long, separated by interdunal corridors containing numerous clay pans.

Figure 8.1 Central Gawler Project Location map



Source FML

8.2 MINERAL TENEMENTS

Table 8.1 Central Gawler Project Tenements

Tenement	Name	Area km2	Expiry Date	Agreements
EL 3343 (ELA 59/10)	Sandstone	322	Pending	Tasman Agreement
EL 3423 (ELA 233/10)	Wildingi Claypan	215	Pending	Tasman Agreement
EL 3532 (ELA 006/11)	Galaxy Tank	295	Pending	Tasman Agreement

The tenements are located on the 1:250,000 Map Sheets: SH53-06 (Coober Pedy) and SH53-10 (Tarcoola).

8.2.1 Joint Venture agreements

Tasman Agreement

FML has earned a 70% interest in the project area diamond rights by expending $750K over four years. The agreement applies to EL3343, 3423, 3532. (Brayne, 2011a)

8.3 REGIONAL GEOLOGY

The EL's are located over the central Gawler Craton. The crystalline basement comprises Archaean rocks of the Mulgathing Complex, and later intrusions of Palaeoproterozoic – Mesoproterozoic in age. The Mulgathing Complex (and Sleaford Complex to the south) has been dated as 2.5 Ga to 2.4 Ga (Belousova et al 2006). The Kararan Orogeny was a widespread thermal and magmatic event that has been dated at c. 1.6 Ga. This event includes the Gawler Range Volcanics, and comprised felsic to mafic/ultramafic intrusions and felsic to intermediate volcanics (Meyers and Cooper 2004).

Economic diamond bearing kimberlites postdate Proterozoic and Palaeozoic thermo tectonic events. Some of the deep mantle roots may have survived these events, to be later sampled by kimberlite activity.

The Algebuckina Sandstone, of late Jurassic to early Cretaceous age, unconformably overlies the Archaean basement averaging approximately 20 m in the area. The sandstone is of fluvial origin, with deposition from braided river systems in a flat topographic environment (Rogers and Zang 2006). Younger sedimentation in the area includes the Tertiary Garford Palaeochannel, and Quaternary aeolian sediments.

8.4 PREVIOUS EXPLORATION

Diamond exploration commenced in the Project area in the mid 1980's when kimberlitic indicator mineral (KIM) anomalies were discovered over the Gawler Craton. However, these were later deemed to represent a secondary source of KIM grains. Younger sediments such as the Algebuckina Sandstone were proved to be shedding these minerals. The lack of developed drainage systems and no suitable natural concentration of indicator grains also impeded exploration efforts. Since the identification of false anomalies created by the KIM sampling, no detailed aeromagnetic surveys have been used in targeting kimberlites directly (Meyers and Cooper, 2004).

Previous exploration in the area has mainly been focused on gold and base metals. Calcrete sampling and drilling of calcrete anomalies has located some gold mineralisation (Knaak and Parker, 1997). However no economic gold has been found to date apart from Challenger mine, only 50 km to the south west.

8.5 RECENT EXPLORATION (2008 – 2009)

8.5.1 Geophysics

Open file airborne magnetic data was re-assessed to identify anomalous areas with magnetic signatures that may be associated with kimberlite occurrences. These locations were examined with detailed helicopter based magnetic surveys to select suitable drill targets.

8.5.2 Target Verification and Loam Sampling

Each magnetic anomaly identified from the helimag surveys were inspected on the ground. In areas where suitable cover sequences were found, heavy mineral samples were collected for the identification of KIMs. Loam samples (approximately 10 litres sieved at -1.6 mm) were sent for processing and observation at Diatech Heavy Mineral Services in Perth to detect KIM grains which would may have been derived from a secondary (transported) source in the local area, or may have been brought to the surface by bioturbation. All samples returned a negative result.

8.5.3 Drilling

Two separate drilling programs were undertaken in September 2008 and March 2009. The first program utilised a Boart Longyear sonic drill rig which drilled five holes on five targets for a total of 219 m. In March 2009 a RAB/Aircore rig drilled the remaining untested targets and a total of 30 holes were drilled for 1,016 m. Drilling targeted the Jurassic kimberlite, extruding through crystalline basement, and beneath the Jurassic Algebuckina Sandstone but no kimberlite was intersected.

8.5.4 Heavy Mineral Sampling

Heavy mineral un-sieved samples (15 kg to 20 kg) were collected from 19 drill holes about 3 m to 5 m above the base of cover. Samples were generally medium to coarse sands, sub angular, poorly sorted with a matrix of varying kaolin content was the common material, typically Algebuckina Sandstone.

In addition to FMS holes, a total of 35 holes previously drilled on the EL's by Tasman Resources and Fission Energy were also sampled. Holes in the north in EL 3343 were drilled by Fission across the Garford Palaeochannel. Kimberlitic indicator minerals were recovered from a couple of FMS holes and some Fission holes.

Micro-probe analysis of chromite and picro-ilmenite was conducted through Diatech Heavy Mineral Services. Due to the presence of mafic and ultramafic rocks in the basement complex, ilmenite and chromite were in abundance and results were inconclusive.

8.6 EXPLORATION POTENTIAL

This project entailed follow up drilling of airborne magnetic anomalies in an area where widespread indicator mineral anomalies had been identified from previous work. Snowden considers that the mineral anomalies are derived by erosion from sediments overlying the underlying crystalline basement and that none of the work carried out suggests that diamondiferous kimberlites are present in the area. As such Snowden considers that the area has little potential for diamonds.

9. FLINDERS RANGES MANGANESE PROJECT (SA)

Snowden reviewed the following exploration reports for exploration and geology:

- Flinders Ranges Project Annual Technical Report, Flinders Diamonds Limited;
- Flinders Ranges Project combined bulk sampling and drilling report for the period June 2006 to August 2006
- Role for airborne hyperspectral surveys in the search for diamonds in the Flinders Ranges.

9.1 LOCATION, ACCESS AND CLIMATE

The Project consists of two exploration licences. EL 2977 (Pandappa) & 3247 (Lancelot) are located on the Orroroo 1:100K map sheet (6632), while EL 3131 (Gilbert Hill), is situated on the Wilmington 1:100K map sheet (6532).

All licenced areas are situated north of Adelaide in the southern extent of the Flinders Ranges. The 2977 (Pandappa) & 3247 (Lancelot) licenced areas can be accessed from the Barrier Highway via a network of unsealed roads and tracks, while the 3131 (Gilbert Hill) licenced area is access by the Stuart Highway via the township of Orroroo.

The tenements are characterised by north-south trending serrate ridgelines consisting of quartzite lithologies, separated by low depositional plains where locally derived colluvial deposits have accumulated.

The climate for the area is typical for Eastern Pastoral Region, with a moderate annual rainfall of between 150 – 200mm, occurring during the winter months. Temperature ranges from mean maximum for January of 17.0°C to 15.3°C in July.

9.2 MINERAL TENEMENTS

Table 9.1 Flinders Range Tenements

Tenement	Name	Area km^2	Expiry Date	Agreements
EL 4709	Murray Town	212	28-03-13	None
EL 4710	Mt Ragless	242	28-03-13	None

9.3 REGIONAL GEOLOGY

The tenement areas are situated to the northeast of the Gawler Craton margin in the Adelaide Geosyncline. The Gawler Craton has a prolonged history of deformation with episodes of orogenic tectonism during the Archaean and early Proterozoic that terminated during the Carpentarian with a relatively stable platform. Major continental rifting during the Proterozoic initiated the development of the Neoproterozoic to Cambrian Adelaide Geosyncline. The rift system is principally north-south oriented with a 'Y' morphology branching at its northern extent.

Sedimentation began approximately 1000 Ma ago with the deposition of the Adelaidean System, which is represented by siltstones, shales and two major glaciations followed by shallow water sedimentation until Middle Cambrian times. Sedimentation in the Adelaide Geosyncline was terminated by the Cambro-Ordovician 'Delamerian Orogeny' at approximately 505Ma. Three generations of folding are recognized affecting Adelaidean and Cambrian sediments producing a slatey cleavage and regional and minor fold axes that swing from the northeast-southwest in the south of the fold belt to north-northwest, south- southeast in the north of the fold belt.

During this event westerly-directed compression of the rift package resulted in the formation of an arcuate fold belt termed the 'Nackara Arc' in the north of the geosyncline. Mesozoic rifting of the stable continental land mass during the break up of the supercontinent Gondwana, initiated the formation of local basins (e.g. Permo-Triassic Springfield Basin) and known kimberlites were intruded into the 'Nackara Arc' in the Eurelia region (~170Ma) and in the Pine Creek-Terowie regions (174-164 Ma). Apart from these events it appears the major features of the Nackara Arc region have remained relatively stable since the end of the Delamerian Orogeny ~480 Ma, with only uplift and denudation occurring.

9.4 RECENT EXPLORATION

A bulk sampling project was conducted on EL 2977 (Pandappa), 3247 (Lancelot) & 3131 (Gilbert Hill) and was conducted to assess the diamond content of eight known diamondiferous kimberlite bodies.

An aircore drilling program, the 'Franklyn Drilling Program' was conducted on EL 2977 (Pandappa) and was undertaken to establish the source of several magnetic anomalies, with the hope of discovering new kimberlite bodies. A total of 16 Aircore holes were drilled for an aggregate of 1,023 meters, and 16 representative samples, which included multiple samples of all igneous lithologies, were collected for petrology, geochemistry and diamond and indicator mineral examination.

Franklyn 1 and Franklyn 2 are strongly serpentinised kimberlite bodies. Two mafic bodies, Franklyn 3 and Franklyn 4 appear non-kimberlitic and are therefore not prospective for hosting diamonds. The mafic body intersected at 'Magnetic Anomaly WO23' appears similar to Franklyn 1 & 2 and was submitted for geochemical analysis to assess its lithology. The mafic bodies at Franklyn 3 & Franklyn 4 appear to have been hydrothermally altered post-emplacement.

The project area lies in close proximity and in close association with known kimberlite fields of Jurassic age comprising small pipes and dykes. In addition, diamonds are known to occur in basal Permo-Triassic sediments in this region. The Jurassic age kimberlites are either barren or carry only trace amounts of diamonds and in terms of age can have no relationship to the diamonds found in the Permo-Triassic sediments.

9.5 EXPLORATION POTENTIAL

The cumulative impact of all of this work effectively downgrades the diamond prospectivity of the project area for diamonds and Snowden consider it unlikely that additional work will change this opinion.

No data was made available to Snowden regarding manganese exploration however, Snowden understands that since the grant of the above tenements no exploration has been conducted for manganese.

10. JAMESTOWN PROJECT

Snowden reviewed the following exploration reports for exploration and geology;

- Flinders Ranges Project, Jamestown tenements annual technical report for the period 1 January 2009 to 31 December 2009
- The geology of the phosphate deposits of the Orroroo district and notes on phosphorite deposits at Kapunda and Noarlunga
- Flinders Ranges Project combined bulk sampling and drilling report for the period June 2006 to August 2006
- Geology and petrology of some kimberlites near Terowie, South Australia.
- Flinders Ranges Project, Jamestown tenements annual technical report for the period 1 January 2006 to 31 December 2007
- Flinders Ranges Project, Jamestown tenements annual technical report for the period 1 January 2008 to 31 December 2008.

10.1 LOCATION AND ACCESS

The Jamestown Project is located in the southern Flinders Ranges and is accessed from the west via the Port Augusta – Wilmington – Orroroo Road and from the south via the Jamestown – Orroroo Road or the Barrier Highway via Burra and Terowie. A relatively dense network of roads and unsealed farm tracks provide generally good access within the licence areas.The tenements are located on the 1:250,000 Map Sheets: SI54-01 (Orroroo) and SI54-5 (Burra).

10.2 MINERAL TENEMENTS

The Jamestown Project originally comprisedten exploration licences. In May 2010 EL 4370 was transferred to Phoenix Copper Ltd. The remaining nine licences continue to be held by FML. They comprise the south western section of the Flinders Ranges Project area.The Project seeks to identify potential phosphate and diamond deposits.

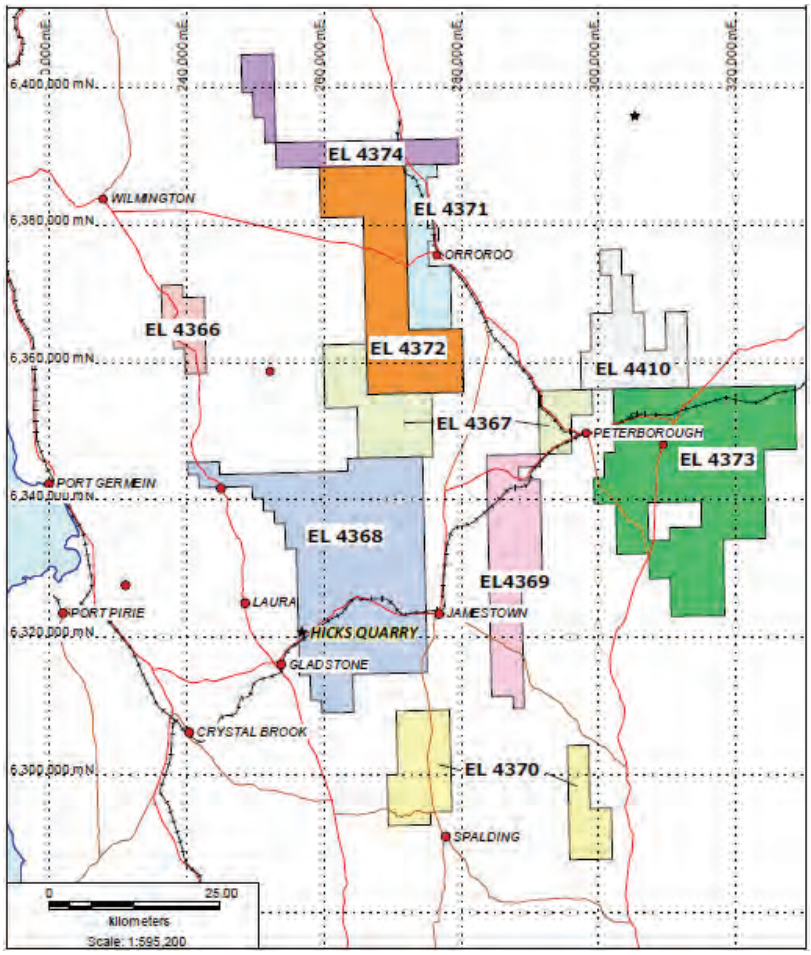
The Jamestown Project Tenement details are outlined inTable 10.1. and are shown in Figure 10.1 below.

Table 10.1 Jamestown Project Tenements

Tenement	Name	Area km2	Expiry Date	Agreements
EL 4366	Mt Remarkable	58	9-11-2010*	None
EL 4367	Slippery Corner	210	9-11-2010*	Tarcowie
EL 4368	Caltowie	670	9-11-2010*	Tarcowie and Copper
EL 4369	Jamestown	218	9-11-2010*	None
EL 4370	Washpool	209	09-11-12	Phoenix
EL 4371	Steves Gap	110	9-11-2010*	None
EL 4372	Pekina	326	9-11-2010*	None
EL 4410	Twelve Mile	176	18-01-12	None
EL 4373	Lancelot	622	8-11-2010*	None
EL 4374	Amyton	142	8-11-2010*	None

* *Renewal in process*

Figure 10.1 Jamestown Project tenements



Source: FML

10.3 JOINT VENTURES

10.3.1 Tarcowie Agreement

Under the Tarcowie Agreement between FML and Tarcowie Phosphate Pty Limited ("Tarcowie"), Tarcowie has the right to peg mining leases for phosphate on nominated small parcels of land within EL4367 and EL4368.

If Tarcowie proceeds to mine phosphate from the nominated small parcels, Tarcowie will pay FML a 1% gross sales royalty (Brayne, 2011a).

10.3.2 Copper Range Agreement

Although FML holds title to EL4368, a 100% interest in the metal rights for the tenement is held by Copper Range Limited. Previously Copper Range Limited held rights in other exploration licences in the Springfield, Jamestown and Nackara projects but now these have reverted to FML (Brayne, 2011a).

10.3.3 Phoenix Agreement

Under the Phoenix Agreement, FML sold most of its mineral rights in EL 4370 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. FML received a cash payment and shares in Phoenix for sale of its other mineral rights in EL4370. FML will receive a production royalty from Phoenix (Brayne, 2011a).

10.4 REGIONAL GEOLOGY

The Jamestown Project is located within the Adelaide Fold Belt, and comprises mostly shallow marine sedimentary rocks that were deposited into a rifted valley system during the Neoproterozoic and Cambrian Periods (1000-500 Ma). These sediments were subsequently metamorphosed and deformed by dominant regional NE and NW trending faults and fold structures during the Delamerian Orogeny of the Late Cambrian-Early Ordovician. The tectonism has created broad open synclines separated by laterally compressed and faulted anticlinal fold structures associated with a dominant east-west oriented compression.

10.5 DIAMOND EXPLORATION HISTORY

Numerous kimberlite intrusions (mainly as NW-trending dykes, north trending sills and small pipes) were discovered in the region east and southeast of Terowie by Stockdale in the 1970's and early 1980's. These kimberlites are collectively referred to as the Terowie Kimberlite Province, and comprise the Terowie, Pandappa/Calcutteroo, Waupunyah, Wonna, Mungibbie, Mittopitta and Pine Creek Fields. Additional kimberlites were subsequently found by Dampier (BHP) in the Pine Creek Field in the early 1980's and by Diamond Ventures in the Waupunyah/Hiles Lagoon area in the 1990's.

Stockdale also discovered the Eurelia Kimberlite Field, located to the north of the Jamestown tenement block, in the late 1970' to early 1980's. The kimberlite field comprises a northwest trending array of diamondiferous kimberlite dykes that until recently were the only confirmed source of primary diamonds in South Australia.

Stockdale recovered no primary sourced diamonds in the Terowie region but did identify a broad cluster of small secondary (micro) diamonds, known as the Nackara diamond trend. It occurs as a broad NE-trending zone across the Flinders Ranges Project Nackara group of tenements, and immediately to the east of the Jamestown tenement block. The microdiamonds were recorded mainly in loam samples collected as part of Stockdale's intensive regional KIM sampling programs.

A second broad northwest trending zone of secondary diamond occurrences, including macro diamonds recovered from the south-western margin of the Springfield Basin, is located north of the Jamestown tenements and is referred to here as the Kanyaka diamond trend. These diamonds were mainly recovered from drainage sampling by a number of companies, including Swan, Freeport McMoran and CRAE during the 1980's.

No kimberlite source rocks have been discovered in the Kanyaka region to date and the Springfield diamonds are considered to be significantly older (pre Upper Permian) than kimberlites located in the Eurelia area, which are dated as Middle Jurassic (~170 Ma).

10.6 PHOSPHATE EXPLORATION HISTORY

The area is also known for the numerous phosphate occurrences with several of them mined in the past as indicated by old (generally small) workings around Orroroo, Tarcowie and Pekina. A number of lenticular phosphorite beds, originally associated with the Brighton Limestone, are found in arenitic or pelitic rocks belonging to either the Tapley Hill Formation or the Tarcowie Siltstone at the top of the Umberatana Group.

The first phosphate deposits in South Australia were discovered in early 1900s. Several small deposits have been mined intermittently around Orroroo, Pekina and Tarcowie during the first half of the 20th century. The only company which carried out phosphate exploration in the area was CRAE. In 1962 CRAE conducted detailed geological mapping and sampling over the area between Orroroo and Tarcowie, including surveying, geological mapping and sampling of the old phosphate workings found in this region.

It was established that the phosphate was associated with two limestone units which are part of the Brighton Limestone. Four diamond drill holes (two south of Orroroo and two east of Tarcowie) were proposed to test the continuity and grade of the phosphorite beds. Only two holes were drilled, near Orroroo, with disappointing results (only several samples were collected and all of them returned values of 0.1 to 0.3% P_2O_5). The holes were drilled 670m apart and reached depths of 76.5m and 101m, respectively.

The lithology consisted mainly of limestones, with a thicker layer of sandstones in the shorter hole and some breccias in the deeper hole. Shales were also encountered in both holes, however only in thinner beds or intercalations. None of the holes intercepted the units below the limestones, where the phosphate was more likely to be found. The conclusion was that the phosphate mineralisation was lenticular or the weathering processes led to the phosphate being concentrated at the surface, therefore it was unlikely that a major deposit would be hosted in this area.

In 2004 the Tarcowie Phosphate Company, which runs a small phosphate operation near Tarcowie ("Catford's Cut"), conducted a drilling program within its mining lease perimeter, with 17 drill holes and 26 auger holes being completed. No drill log records are available for these holes and therefore no geological information could be obtained in relation to potential phosphorite beds being intercepted, the depths of weathering profiles or the lithology of the rock units. The best assays show values close to 17% P_2O_5 in several holes, with the highest concentrations within ten meters from surface.

10.7 PREVIOUS EXPLORATION

10.7.1 2006/2007 Exploration by Flinders Mines

A helicopter borne magnetic ("helimag") survey near Peterborough was flown in mid-2006. This survey covered more than 1,700 km^2over the Jamestown and Nackara Project areas. The lines were flown North to South, at a flying height of 25 to 30 m with lines spaced at 100 m. In addition infill lines were flown at 25 m spacing over the Franklyn anomaly.

10.7.2 2008 Exploration by Flinders Mines

A helimagsurvey at Springfield in 2008 covered a small NW portion of the Jamestown group of tenements. The survey was designed to map the extension of diamondiferous kimberlites identified in the Eurelia area and to locate new kimberlite targets in the Springfield Basin region. Ground magnetic surveys and loam and soil sampling were then undertaken over ranked anomalies selected from the helimag data. During November and December 2008 a total of 18 rock samples and 46 soil samples were collected as part of an orientation program for phosphate.

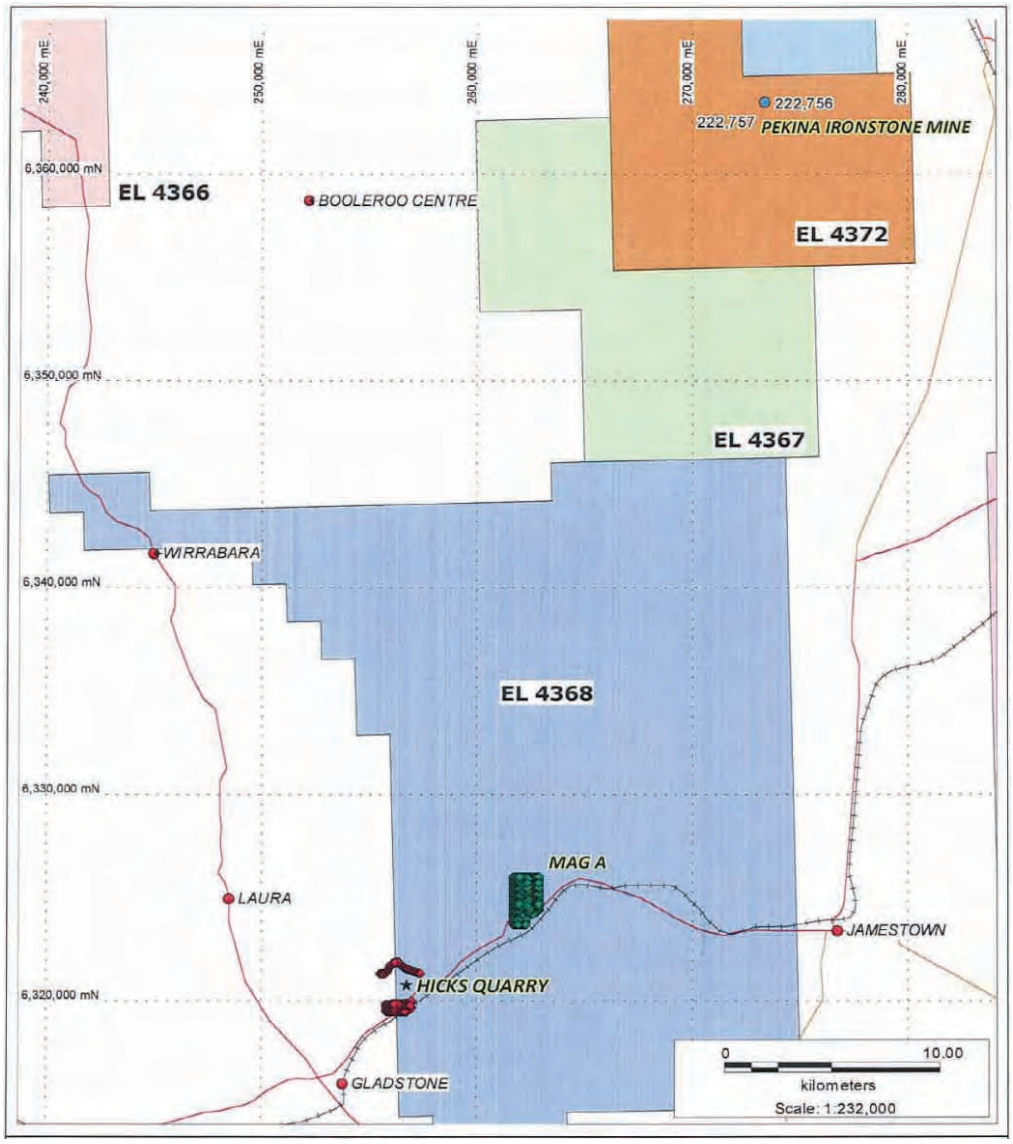
10.7.3 2009 Exploration by Flinders Mines

No diamond fieldwork was conducted during 2009 although two samples from the Walloway Diapir collected in 2008 were sent for petrological analysis. Soil geochemistry was employed as part of the phosphate exploration strategy. An extensive survey was conducted between Jamestown and Orroroo. This was undertaken in several stages with infill surveys used to better define the anomalous areas. Several rock chip samples from the exploration area were selected for petrographic work. Three bulk samples (around 20 to 25kg each) were collected from the Catford's Cut (ML6208) and the old Orroroo Phosphate Mine for preliminary metallurgical studies.

10.7.4 Exploration by Copper Range (SA) Pty Ltd

Copper Range undertook a review of the iron ore potential of the Jamestown Project which identified two iron occurrences in the project area, one at Hicks Quarry on EL 4368 (Caltowie) and the other at Pekina Ironstone on EL 4372 (Pekina) (Figure 10.2). Both of these prospects had been identified by previous work by Copper Range. The review concluded that there was potential to identify iron mineralization in the Caltowie area and the Hicks Quarry area was initially identified as a high priority target.

Figure 10.2 Iron Ore Prospects



Source: FML

Hicks Quarry

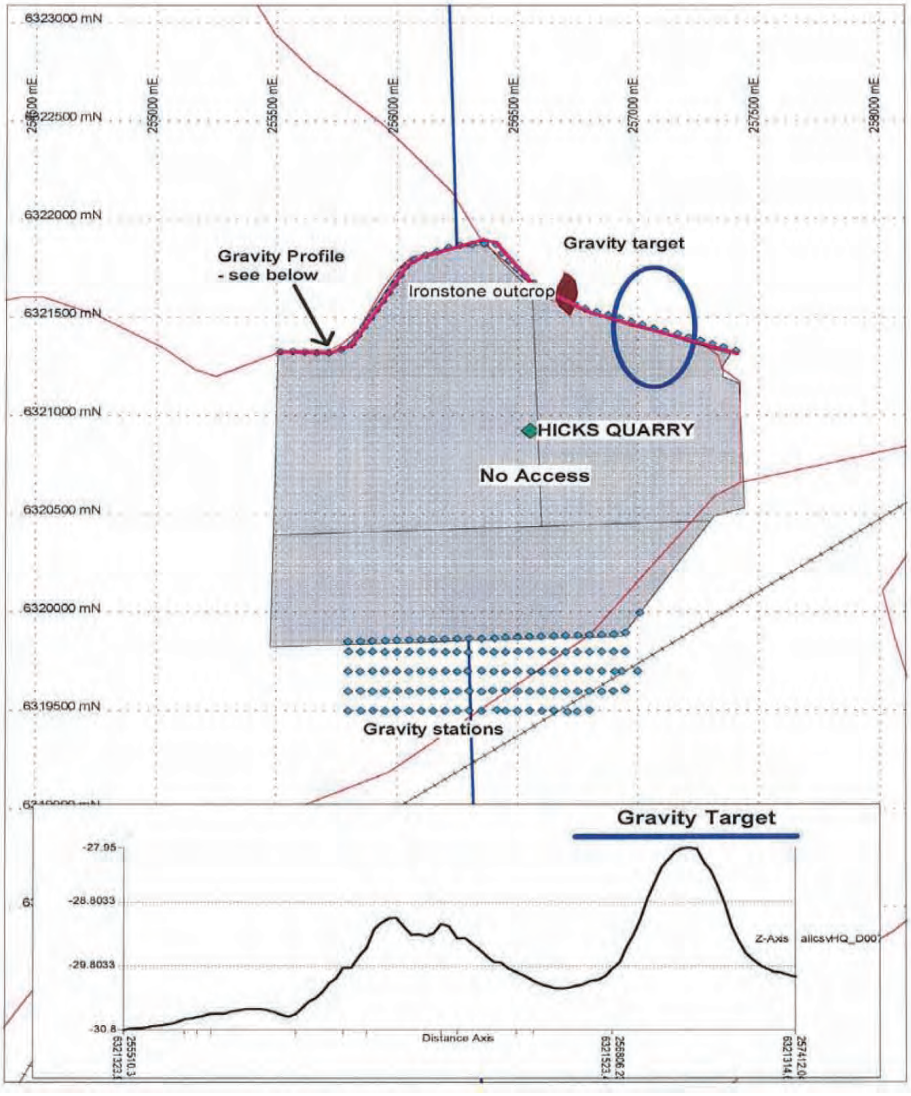
The main iron mineralisation occurrence within the lease is known as Hicks Quarry (EL 4368), it is situated near the western boundary of the Caltowie tenement about 6 km from Gladstone and 30 km from Port Pirie. The deposit was worked between 1896 and 1902 by BHP as a source of iron flux for the Port Pirie lead smelter. Approximately 70,000 tonnes of high grade ore was mined (estimated at 61% Fe).

The current quarry is roughly 100 m long, 25 m deep and 20 m wide. The maximum depth of the former quarry prior to abandonment was 27 m. It was reportedly the acquisition of the Iron Knob deposits on the Eyre Peninsula that prompted BHP to abandon the Caltowie source and no exploration for iron ore has been conducted since that time.

Exposures of massive ironstone are evident in the quarry walls within partially brecciated and highly altered sandstone. Grab sampling of this material produced results of 67.8% Fe with low P (0.1%) and low Si (0.8%), although the extent of mineralization is unknown.

A gravity survey was carried out which identified a 2 milliGal ("mgal") gravity anomaly on a road traverse to the north of the Hicks Quarry mine. The results of the survey reportedly indicate that a gravity anomaly exists in the area and continues well north of the old workings.

Figure 10.3 Hicks Quarry Prospect gravity target



Source: FML

Magnetic Anomaly "A"

Copper Range also identified that drilling for copper and gold in 1998 by a previous explorer in the vicinity of Magnetic Anomaly "A" (Mag A) intersected massive haematitic ironstone. Chips from drill hole LRC1 assayed 25 m at 46.4% Fe from 24 m to 49 m depth at the end of the hole. This result indicates iron mineralisation is present at shallow depths within the project area. This intersection is open at depth and to the south and east.

A detailed gravity survey (at 100 m x 50 m stations) confirmed that the drill hole LRC1 drilled a discrete gravity high. Drill hole LRC3 which failed to intersect significant mineralisation has no associated gravity signature. To the north of these drill holes a +500 m long 1 mgal gravity target has been defined and is considered a potential drill target.

Pekina Ironstone

A phosphate rich ironstone body, recorded as a bold ironstone ridge, known as the Pekina Ironstone Mine is recorded as being previously worked as a source of flux for Port Pirie. This prospect was sampled as part of regional reconnaissance of ironstone prospects in the area. Iron results were considered encouraging but the level of phosphorus was considered too high to justify any further work.

Only the Hicks QuarryIron and Magnetic Anomaly "A" (Mag A) prospects on EL 4268 (Caltowie) were considered worthy of further work. Copper Range withdrew from the Jamestown Project Flinders JV on all tenements except EL 4368 (Caltowie) in January 2010.

10.7.5 Recent exploration 2010

Exploration completed during 2010 comprised:

- A large infill soil sampling survey conducted around Orroroo, focusing on anomalous areas located by the previous year's regional sampling
- Rock sampling to assess potential fertilizer contaminants (Hg and Cd)
- Geological mapping the Brighton limestone and radiometric anomalies near the Brighton Limestone
- Helimag survey
- Ground magnetic survey
- IP survey.

10.7.6 Diamond exploration

Airborne Magnetic Survey

The Eurelia 2010 helimag survey was flown by Tensor Geophysical Services in January 2010 and was the second ultra-detailed airborne survey undertaken by FML. The survey line spacing was reduced to 25 m, the result of which was an improvement in resolving linear magnetic anomalies associated with narrow kimberlite dykes. The survey identified a series of linear anomalies considered likely to be related to kimberlite dykes. One of these targets in EL 4374 was investigated with a single ground magnetic survey.

A total of 3,012 line km were completed over an area of 79 km^2. Lines were oriented North to South, flying height was 30 m and spaced at 25 m. The survey covered several tenements including EL's 4371 and 4374 in the Jamestown group.

Ground Magnetics

A single ground magnetic survey was conducted in EL 4374 during 2010.

IP survey

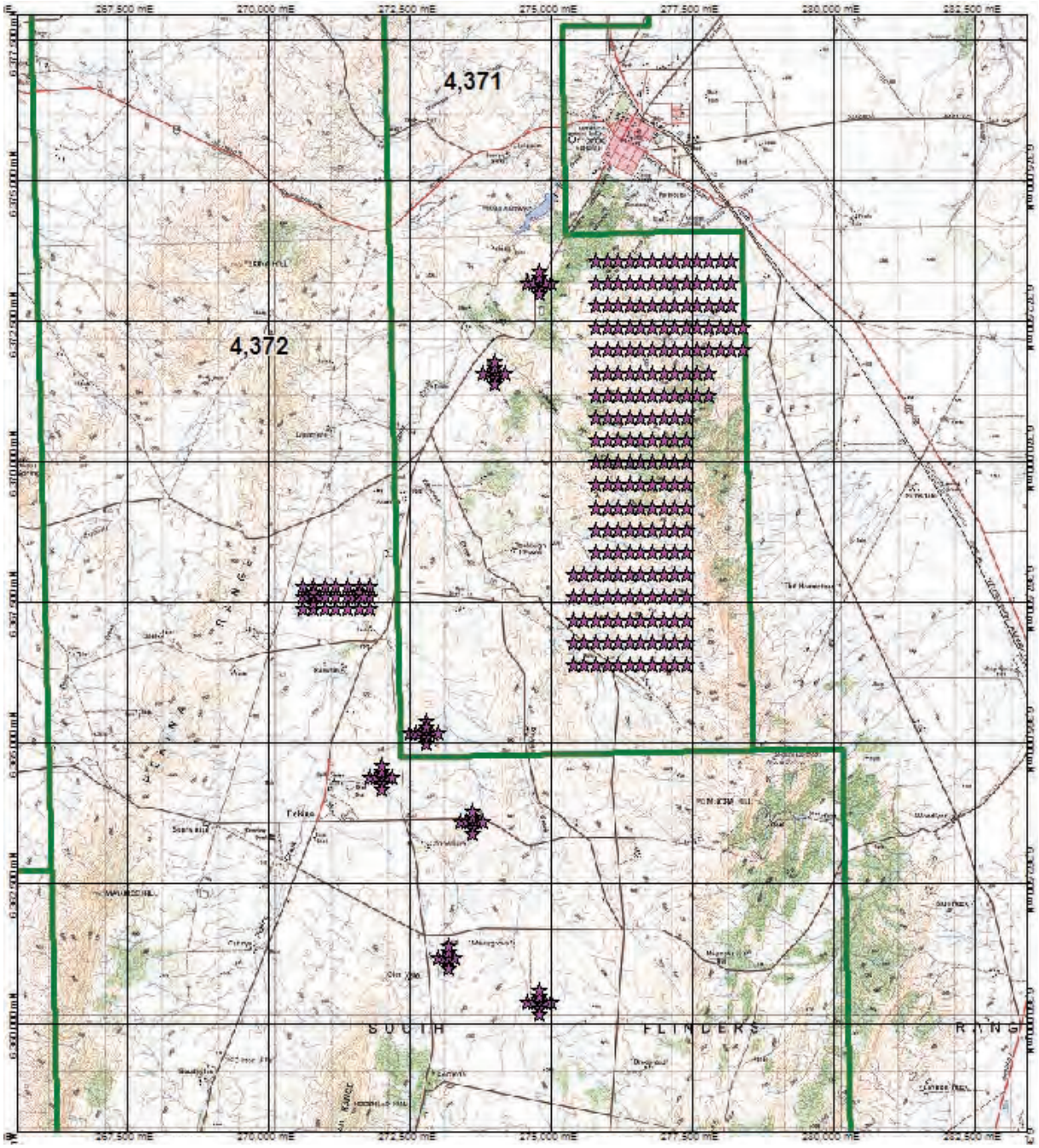
Three IP lines were completed in the vicinity of the old Wheal Sarah copper mine workings. Solo Geophysics under took the survey for Copper Range as part of their JV operations on Flinders Mines EL3244 in 2009.

10.7.7 Phosphate Exploration

Soil sampling

A total of 298 soil samples were collected in early 2010 during an infill soil sampling program targeting several phosphate anomalies around the Orroroo region (Figure 10.4). The results narrowed down several anomalous phosphate zones for future work.

Figure 10.4 Phosphate infill soil sampling locations (EL 4371 and EL 4372)

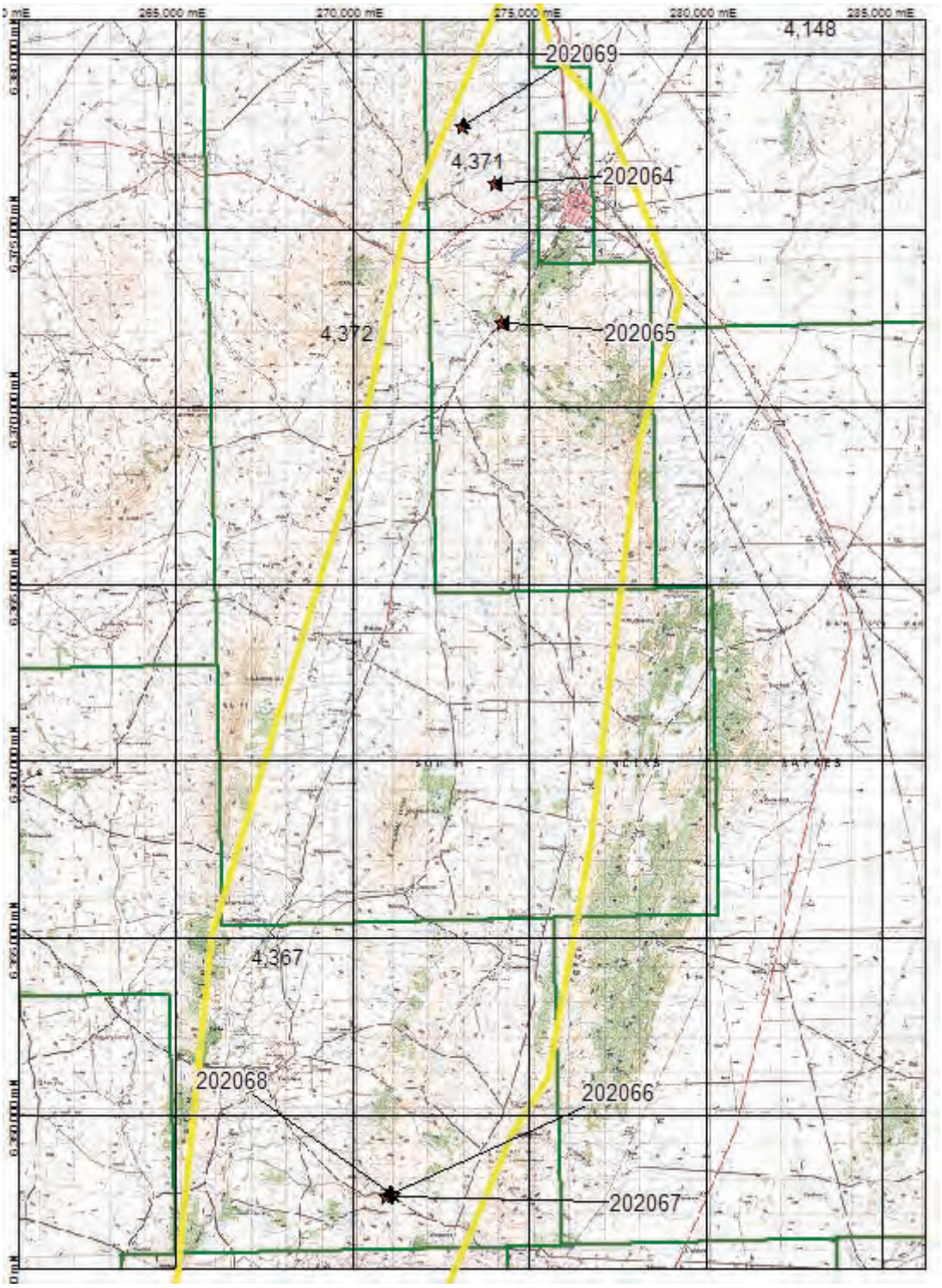


Source: Flinders Mines

Rock chip sampling

Six rock samples with the highest phosphate levels, according to previous geochemistry results (from 2009), were sent to Genalysis in late 2010 for further whole rock analysis to be analyzed for Cadmium (Cd) and Mercury (Hg). Cd and Hg have recently been noted by FML as potential contaminants and the metals levels need to be low in order to market the phosphate rock as fertilizer. Three rock samples were collected from the Orroroo region while the remaining three were collected from the Tarcowie mine area (Figure 10.5). The results generally indicated low Cd and Hg for the priority areas, although one sample had very high levels of Cd and Hg.

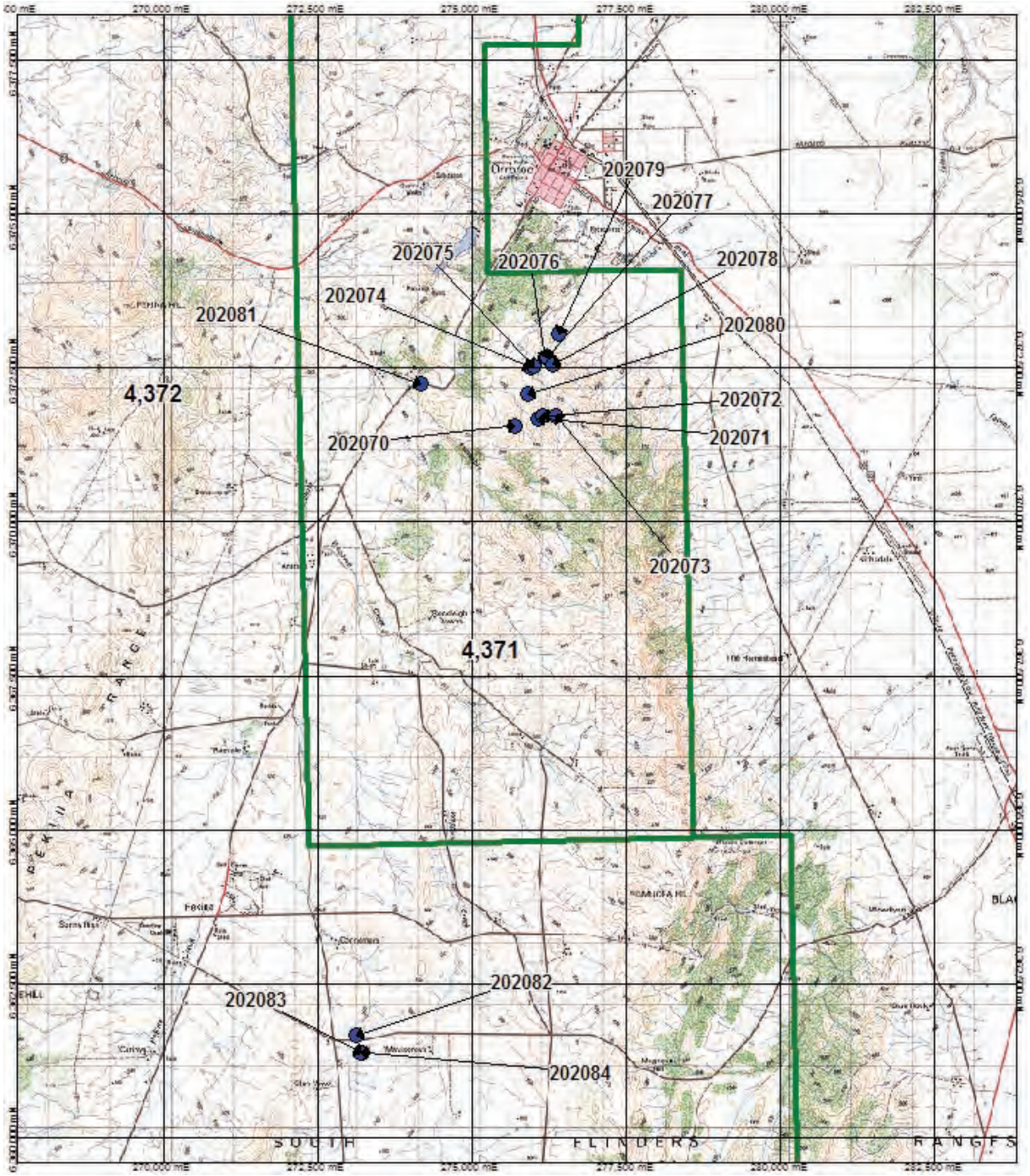
Figure 10.5 Rock chip sample locations (ELs 4371 and 4367)



Geological mapping

A small mapping program was undertaken around the town of Orroroo focusing on the Brighton Limestone Unit (phosphate bearing unit) and the U, and Th anomalies. As part of this mapping, 15 rock chip samples were collected and sent to Genalysis for analysis (Figure 10.6). The mapping of the Orroroo phosphate indicated that the phosphate zone does have a significant strike length.

Figure 10.6 Rock chip sampling (EL 4371 and 4372)



10.8 SNOWDEN OPINION OF EXPLORATION POTENTIAL

The Jameson Project has potential for phosphate and iron ore. The project area lies in close proximity and in close association with known kimberlite fields of Jurassic age comprising small pipes and dykes.The Jurassic age kimberlites are either barren or carry only trace amounts of diamonds and in terms of age can have no relationship to the diamonds found in the Permo-Triassic sediments. Over many years a considerable amount of work has been carried out in the search for economic kimberlites of Jurassic age or older kimberlites that could have sourced the diamonds in the Permo-Triassic sediments.

Search techniques include airborne and ground geophysics (AM, EM, Gravity), follow up drilling of geophysical targets, soil and stream sampling, geological and regolith mapping and bulk sample testing of new and old kimberlite discoveries.

None of the kimberlites (old and new) have any economic potential and all can be described as carrying only trace quantities of diamonds. In general only small numbers of micro-diamonds and a few microdiamonds up to 3 mm in size have been recovered from some occurrences.Regolith and other mapping suggest that kimberlites are unlikely to have been obscured by younger cover.

The cumulative impact of all of this work effectively downgrades the diamond prospectivity of the region and Snowden consider that it is unlikely that additional work will change this opinion.

The geological mapping and rock-chip and soil sampling of the Orroroo phosphate has shown the presence of low grade phosphate mineralization and further work may be warranted.

11. LAKE TORRENS PROJECT

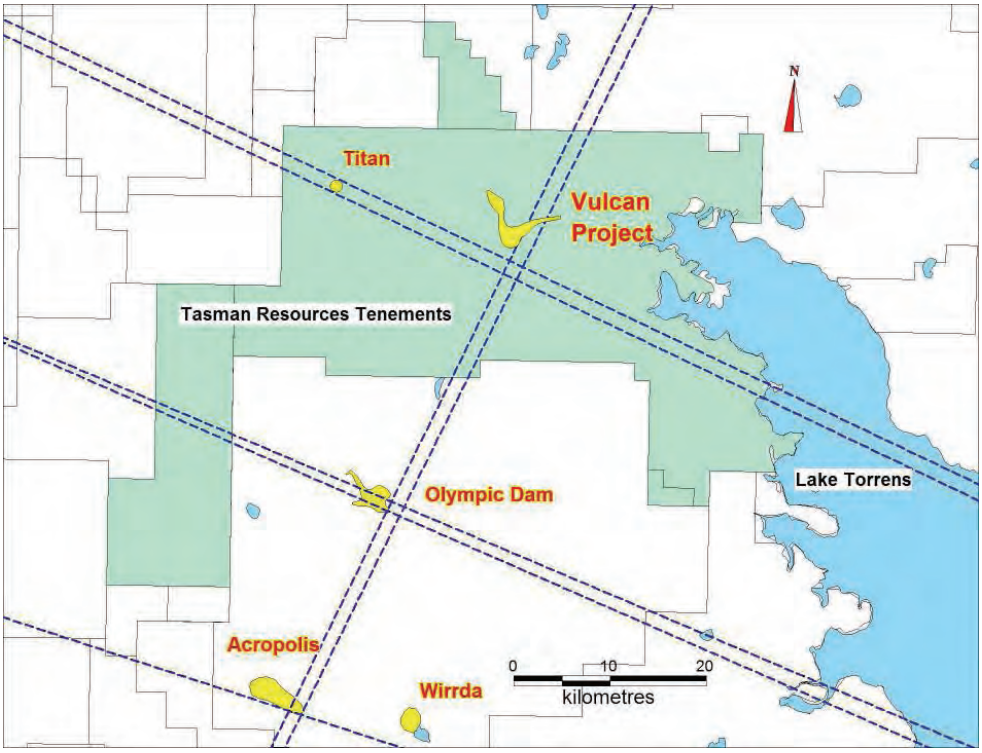
The project consists of four exploration licences, three of which are in joint venture with Tasman Resources Ltd (Table 11.1 and Figure 11.1).No reports specifically referring to this project were available to be reviewed.

11.1 MINERAL TENEMENTS

Table 11.1 Lake Torrens Project tenements

Tenement	Name	Area km2	Expiry Date	Agreements
EL 4206	White Cliff	140	16-11-12	None
EL 4300	Amdamooka	12	24-08-13	None
EL 3177 (ELA 436/08)	Todds Dam	402	Pending	None
EL 4322	Amdamooka North	1295	13-10-12	None

Figure 11.1 Lake Torrens Project



Source: FML

11.2 EXPLORATION POTENTIAL

No reports specifically referring to this project were available to be reviewed. However in view of the location of Lake Torrens, between the Central Gawler and the Springfield Tenements Snowden considers that it seems unlikely that the area is of any greater economic interest.

12. NACKARA PROJECT

Snowden reviewed the following exploration reports for exploration and geology:

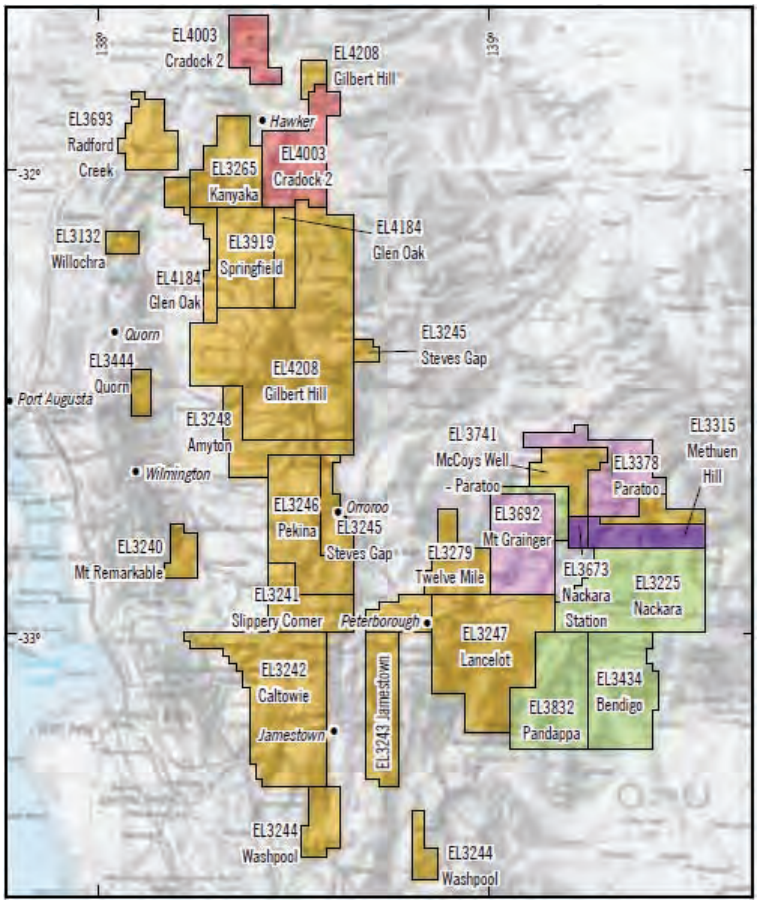
- Flinders Ranges Project Nackara tenements Combined Annual Report for the period 1 January 2008 to 31 December 2008
- Flinders Ranges Project Rehabilitation Report
- Diamond Exploration – Exploration Licences 2603 and 2723, SA July 2000
- Diamond Exploration – Exploration Licence 2723, SA June 2003
- EL 2603. Annual technical Report for the period ending 25 June 2001
- Flinders Ranges Project Nackara tenements Combined Annual Report for the period 1 January 2009 to 31 December 2009
- Flinders Ranges Project Nackara tenements Combined Annual Report for the period 1 January 2006 to 31 December 2007
- Geology and petrology of some kimberlites near Terowie, South Australia

12.1 LOCATION, ACCESS AND CLIMATE

The Nackara Project tenements form a block located approximately 200 km northeast of Adelaide and some 40 km east of Peterborough in the Southern Flinders Ranges, as shown inFigure 12.1. The tenements may be accessed from the Barrier Highway via a relatively dense network of unsealed roads and farm tracks. The tenements are located within the northern end of the Mount Lofty Ranges where relatively low, deeply dissected NNE trending outcrop ridges are separated by broad flat alluvial plains.

The tenements are located on the 1:250,000 Map Sheets: SI54-01 (Orroroo) and SI54-5 (Burra).

Figure 12.1 Nackara Project tenements



Source: FML

12.2 MINERAL TENEMENTS

The Flinders Ranges Nackara Project comprises three exploration licences - EL 3832 (Pandappa), EL 4638 (Bendigo) and EL 3225 (Nackara) that are held by FML.

Tenement details are set out below inTable 12.1.

Table 12.1 Nackara Tenements

Tenement	Name	Area km^2	Expiry Date	Agreements
EL 4638	Bendigo	394	19-12-11	Simnovec
EL 3832	Pandappa	306	11-07-2011*	Simnovec
EL 4294	Nackara	556	17-08-2011*	Simnovec
EL 3741	McCoys Well	274	11-04-2011*	none
EL 3692	Mount Grainger	375	05-02-12	Filsell
EL 4593	Paratoo	191	01-11-12	Filsell

* *Renewal in process*

12.1 JOINT VENTURE AGREEMENTS

12.1.1 Simnovec Agreement

The Simnovec Agreement is an agreement between FML, Amona Mining and Exploration Pty Limited, Novec Pty Limited and JJ Simnovec. Under the Simnovec Agreement FML could have exercised an option to purchase 100% of the mineral rights in EL3832, 4294 and 3434 for a cash purchase price of $1.5 million. The option expired on 27 July 2011 (Brayne, 2011a).

12.1.2 Filsell Agreement

Under the Filsell Agreement, FML earned 100% of the diamond rights in exploration licences EL3692 and EL3378 by expenditure of $250,000. If FML proceeds to mining diamonds on the project area, FML will pay the Filsell party a 5% net profit royalty on diamond production. The Agreement expired on 4 September 2011 (Brayne, 2011a).

12.2 REGIONAL GEOLOGY

Refer section 10.4 of this report.

12.3 PREVIOUS EXPLORATION

Refer Section 10.5 of this report.

12.4 RECENT EXPLORATION

The Nackara Project is operated as part of a regional exploration program including FML's Springfield and Jamestown groups of tenements to the west. In 2009 a total of 60 ground magnetic stations were surveyed within the tenements. Regolith-landform mapping was carried out over the Beatrice prospect area. No fieldwork was conducted in 2010 but two kimberlite samples collected in 2006 from the Monks Hill anomaly within EL 4638 were taken out of storage and sent for microdiamond and heavy mineral processing and analysis. Only one of the two samples came back positive with one microdiamond, although this sample may have been contaminated.

12.5 EXPLORATION POTENTIAL

The Nackara Project area lies in close proximity with known kimberlite fields of Jurassic age comprising small pipes and dykes. The Jurassic age kimberlites are either barren or carry only trace amounts of diamonds and in terms of age can have no relationship to the diamonds found in the Permo-Triassic sediments. Over many years a considerable amount of work has been carried out in the search for economic kimberlites of Jurassic age or older kimberlites that could have sourced the diamonds in the Permo-Triassic sediments.

None of the kimberlites (old and new) have any economic potential and all can be described as carrying only trace quantities of diamonds. In general only small numbers of micro-diamonds and a few microdiamonds up to 3 mm in size have been recovered from some occurrences.The cumulative impact of all of this work effectively downgrades the diamond prospectivity of the region and Snowden consider that it is unlikely that additional work will change this opinion.

13. SOUTHERN GAWLER PROJECT

Snowden reviewed the following exploration reports for exploration and geology:

- Flinders Island Exploration Licences 2577 and 2875 Technical Report for Period 2 January 2001 to 3 January 2004
- Flinders Island Exploration Licences 2875 and 3200, Technical Report for Period 4 January 2004 to 3 January 2006
- Flinders Island, South Australia Tenth Annual Technical Report for Period Ending 3 January 2009

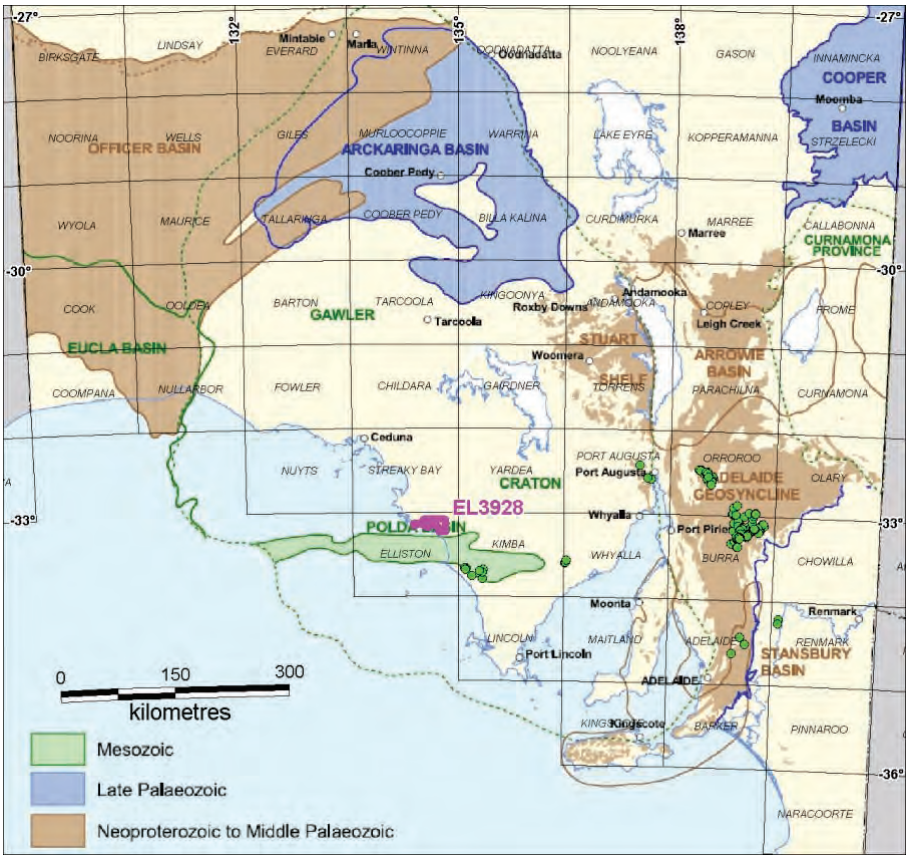
13.1 LOCATION AND ACCESS

The project consists of five exploration licences, of which two are pending approval (EL85/00 and EL 95/01). The main access to EL 3928 is along Flinders Highway which proceeds southeast from Ceduna along the coast southeast to Port Lincoln.

Two of the exploration licences (EL 4183 and EL 4290) are situated on Flinders Island, which is located about 30 km off the western Eyre Peninsula coast, South Australia. The two tenements cover the entire surface area of Flinders Island. Access for personnel and supplies is from the towns of Elliston or Port Lincoln via chartered twin engine light plane.

The island occurs within the Elliston (SI53-6) 1:250,000 standard map sheet and straddles both the offshore Topgallant (5730) and Elliston (5830) 1:100,000 map sheets Figure 13.1.

Figure 13.1 Southern Gawler Craton Area (EL 3928)



Source: FML

Figure 13.2 Southern Gawler Project, Flinders Island

Source: FML

13.2 MINERAL TENEMENTS

The Project consists of five exploration licences (Figure 13.2), of which two are pending approval (Table 13.1).

Table 13.1 Southern Gawler Project Tenements

Tenement	Name	Area km2	Expiry Date	Agreements
EL 4290	Flinders Island	16	02-08-2011*	Tawana Orogenic
EL 3928	Venus Bay	332	16-09-2011*	Tawana Orogenic
ELA 85/00	Offshore Flinders Island	364	Pending	Tawana Orogenic
ELA 95/01	Venus Bay Coastal	35	Pending	Tawana Orogenic
EL 4183	Flinders Island Coastal	24	07-09-2011*	Tawana Orogenic

** Renewal in process*

EL 3928 (Venus Bay) was granted on the 17 September 2007 to Orogenic Exploration Pty Ltd (20%) and Tawana Resources NL (80%). The licence is located north of Venus Bay and covers 333 km^2. The lease lies over part of the Elliston (SI53-06) 1:250,000; and straddles the Radstock (5731) and Talia (5831) 1:100,000 standard map sheets. The licence is on the western Eyre Peninsula within GDA94 Zone 53H.

EL 4183(Venus Bay Coastal) was granted on the 8 September 2008and covers the area circling the entire island between the boundary of EL3200 and the low water mark.

13.3 JOINT VENTURE AGREEMENT

13.3.1 Tawana Orogenic

The Tawana Orogenic Agreement is between FML, Tawana Resources NL and Orogenic Exploration Pty Limited. Further, under the Tawana Orogenic Agreement FMLhave earned a 50% interest in EL4290, 3928, 4183 and ELA85/00, 95/01 by exploration expenditure of $1 million, and a further option to acquire a 20% interest by a further exploration expenditure of $1 million has elapsed (Brayne, 2011a).

13.4 REGIONAL GEOLOGY

EL 3928 (Venus Bay) is tectonically part of the central-southern part of the Gawler Craton, on the north side of the Polda Basin.

13.5 PREVIOUS EXPLORATION

13.5.1 De Beers (Stockdale)

Active previous diamond exploration within the Venus Bay EL area is limited to De Beers (Stockdale Prospecting under EL1694) and Diamond Ventures NL (under EL1951). De Beers collected 286 surface loam sample sites in the current EL 3928 area, but some were composited together. All were limited to areas along the Flinders Highway, and along major tracks, but there are large (northern and western) areas with no samples at all.

13.5.2 Diamond Ventures NL

Some microprobe data was presented on some Stockdale grains by Diamond Ventures NL (Cooper, 1995). The field work was limited to four loam samples (119 kg) and drilling of two holes leaving large areas unexplored.

13.5.3 Tawana Resources

During September 2003 fourteen heavy mineral loam samples were collected in two areas of the Venus Bay EL, southeast of Koolkanna homestead extending down to near the northern coast of Venus Bay, and west of Mount Misery near Flinders Highway.

In June 2004 a further 13 surface loam deflation samples for heavy indicator minerals were collected as a wide spaced regional program over the western side of the EL. During December 2005 79 heavy mineral loam samples were collected, and the 1,165 kg of concentrate material was sent to Perth for cleaning and later examined in Melbourne by Tawana Resources NL internal laboratory. A total of 106 samples, weighing 1548.15 kilograms was processed by Diamantina Laboratories (Perth) for Tawana. This resulted in a concentrate weight of 5.106 kilograms. From this a total of 482 microprobe analyses were completed. Most (about 370) were ilmenite, but 70 garnet grains were also reported.

During 2008 (the first Annual Reporting period of EL3928) the exploration activity included surface loam sampling for heavy mineral kimberlite indicator minerals. A total of 28 loam samples (537 kg) was sent to Perth and resulted in 63 new microprobe analyses confirming the presence of picro-ilmenite. In April 2008 a low-level detailed helimag survey was flown over the entire licence area with a line spacing of 100 m and a flight height of 30 m, resulting in a total of 426 lines for 3,953.4 line km.

In July 2008, a drilling program targeting magnetic anomalies was completed with a total of 28 drillholes for a total of 1,117 metres. From the drilling material, 50 samples (totaling 799 kg) were collected for examination of heavy mineral kimberlite indicator minerals. No kimberlite was intersected, but two drillholes recovered individual picro-ilmenite grains overlying basement.

During August 2009 seven surface loam deflation samples (102.88 kg) were collected for kimberlite indicator heavy mineral examination as part of a systematic traverse across the northern side of Anxious Bay (Cooper, 2009). Diatech (in Perth) recovered pyrope with notable chrome levels in three samples. The micro-probed grains consisted predominantly of picro-ilmenite.

Microprobe data is available for 117 pyrope grains from the tenement area, with 28 of these containing low amounts of chrome. Three grains fall within the Calcium-harzburgite discrimination field. These are from samples collected by De Beers in February 1992 northwest of Port Kenny, while one was collected by Orogenic Exploration in August 2009 on the northeast side of Anxious Bay.

13.6 RECENT EXPLORATION

During 2010 the exploration activity concentrated on evaluating the large amount of existing diamond exploration data. A number of magnetic anomalies believed to be caused by kimberlite were drill tested during previous exploration efforts and were shown to be caused by magnetic rich granite phases, combined with steep variations in depth of cover. Two single picro-ilmenites were recovered in two separate drillholes, east of Koolkanna homestead, within sediments overlying weathered granite. The depth to granite bedrock for these would imply, assuming simple downslope drainage that the source of these picro-ilmenite is towards the west, which appears to also be the watershed divide with the northeastern Anxious Bay area which was sampled.

13.7 EL 4183 AND EL 4290 (FLINDERS ISLAND)

Flinders Island is roughly triangular in shape, about 10 km long and 4 km wide. The geology consists of granitic rocks of the GawlerCraton which is covered by the Bridgewater Formation, a deeply weathered granite palaeo-regolith up to 1.5m thick. The regolith is locally cemented and may have been transported in places. It is overlain by aeolinites which are relatively fine grained (0.3 mm to 0.4 mm diameter).

Diamonds and diamond indicators have been recovered from two main areas on Flinders Island. In the northern part of the island kimberlitic grains are concentrated west of clay pans at Gem Bay. A minor concentration of indicator minerals occurs in a roughly linear zone in the central part of the island to the west of Kapara Point. They have been recovered from loam samples and drill cuttings.

13.7.1 Previous exploration

Three drilling programs have been completed on Flinders Island; a diamond coring program of 96 holes between November 2001 and August 2002 (1,508.45m)(Cooper, 2005), a second program of 171 aircore holes from May 2003 to June 2003 (2,450.25m), and a third program of 89 aircore holes between July 2004 and October 2004 (2,023.3m). Some difficulty in sampling the aircore drill holes was caused by flowing sands and water.

A total of 703 drill hole heavy mineral samples have been examined. This includes 591 (total 5,380 kg) drill chip and 112 (total 187 kg) crushed drill core samples. Examination showed 270 drill samples were positive for kimberlite minerals with 184 pyrope, 91 picro-ilmenite, 13 chrome diopside, 3,744 kimberlite chromite and 29 olivine grains being recovered.

There are eight drill samples with 100 or more indicator grains per gram of concentrate. All these are cream sands from the Gem Beach area. More significant is that many samples taken near the end of hole depth also contained grains in this area, with six samples alone within 5 m of EOH having more than 20 indicator grains/g concentrate. All drill hole sample details were provided in reports by Cooper (2005) and Cooper (2006).

13.7.2 Recent Exploration

During 2010 a major advance was made in the understanding the geomorphology and sub-surface geology of the island following a geomorphological study, involving a field visit and examination of diamond core stored in Adelaide. The study outlines how the ‘lower’ fluvial sandstone of the Gardord Formation, beneath the clay lacustrine unit (the mottled clays) is critical to understanding the dispersion of kimberlite indicators. Also highlighted was the difficulty in determining the contact between the transported ‘lower’ sandstone and the underlying weathered granite regolith which would be close to the in situ granite.

13.8 EXPLORATION POTENTIAL

This project relates to follow up investigation of kimberlitic mineral anomalies on Flinders Island and in the Venus Bay area. Work carried out included Airborne and ground geophysics with drilling of anomalies but no kimberlites were found. It has been concluded that the mineral anomalies are derived from weathering of Jurassic age sediments. Snowden considers that sufficient work has been carried out to preclude the occurrence of economic kimberlites in the region.

14. SPRINGFIELD PROJECT

Snowden reviewed the following exploration reports for exploration and geology:

- Springfield Project Annual Report for the period 01 January 2008 to 31 December 2008
- Springfield Project 2006 - 2007 Annual Report
- Springfield Project 2004 - 2005 Annual Report
- Gravity Survey – Springfield and Boolcunda Basins.

14.1 LOCATION AND ACCESS

The Springfield tenements are located in the southern Flinders Ranges and may be accessed from either the Orroroo-Hawker Road or the Port Augusta-Quorn-Hawker Road, as shown in Figure 14.1. Within the project area access is via a relatively dense network of roads and unsealed farm tracks. The tenements are located on the 1:250,000 Map Sheets: SI54-01 (Orroroo), SH54-13 (Parachilna) and SI53-4 (Port Augusta).

14.2 MINERAL TENEMENTS

The Springfield Project comprises seven Exploration Licences owned and operated by Flinders Mines Limited (see Table 14.1). Tenure changes that have occurred during 2010 are:

- EL 3444 (Quorn) was replaced by EL 4606
- A partial relinquishment executed during 2010 reduced the total project area from 2,520 km^{2}at 31 December 2009 to a total area of 2,277 km^{2}at 31 December 2010.

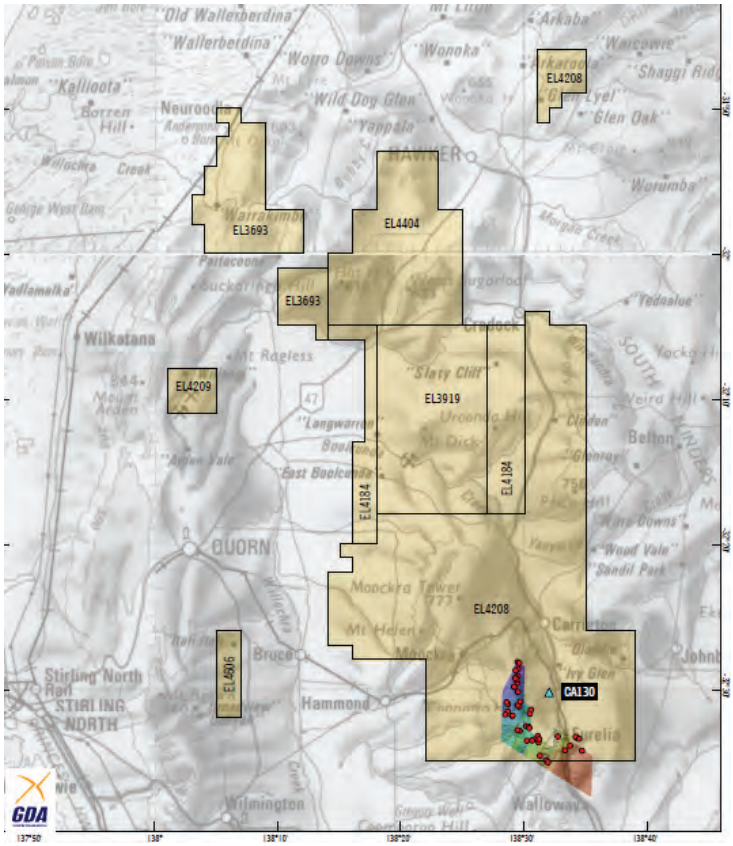
Tenement details are outlined in Table 14.1.

Table 14.1 Springfield Project Tenements

Tenement	Name	Area km^2	Expiry Date	Agreements
EL 3919	Springfield	340	2-09-2011*	None
EL 4404	Kanyaka	297	22-12-2011*	None
EL 4184	Glen Oak	186	17-09-2011*	None
EL 4209	Willochra	35	17-11-2011*	None
EL 4208	Gilbert Hill	1178	17-11-2011*	None
EL 4606	Quorn	35	18-11-11	None
EL 3693	Radford Creek	206	05-02-12	None

** Renewal in process*

Figure 14.1 Springfield Project location and tenements



Source: FML

14.3 REGIONAL GEOLOGY

Refer section 10.4 this report. Extensive areas of outcropping diapiric breccia correlated with the Willouran Callanna Beds occur in zones of structural weakness and as exposures in the crests of anticlinal fold structures.

The main structural trends and faults mapped at surface are thought to reflect deep-seated crustal fractures originating during the formation of the Adelaide Geosyncline in the Late Proterozoic. To date kimberlite dykes identified in the late 1970s in the Eurelia area (EL 3131) are dated as Jurassic.

14.4 PREVIOUS EXPLORATION

A review of previous exploration for diamonds identified 21 company exploration reports contained in the Primary Industries and Regions South Australia (PIRSA) database with information relevant to the Springfield Project. Summaries of the previous exploration are shown below.

14.4.1 Exploration 1998 to 2002

Prior to 1 January 2002 exploration activities were focused within EL 3003 (Springfield), 2464 (GlenOak) and EL 2656 (Kanyaka).

EL 3919 (Springfield) and EL 4184 (Glen Oak)

A summary of previous exploration by Tiger (1998/99) and FML (2002)at Springfield and Glen Oak is as follows:

- 1998 Bulk sampling of diamond-bearing conglomerate sediments on the SW margin of the Springfield Basin. Report No. 98/3 (Anderson 1998);
- Palaeo-geomorphology study of imbricate structures of conglomerate units exposed in trenches and bulk sampling pits. Report No. 98/1 (Russell 1998a)
- A later study combining indicator mineral wear and population characteristics with respect to palaeo-current direction. Report No. 98/4 (Russell 1998b)
- Regolith mapping based on photo interpretation of 1:40,000 scale air photographs and follow-up field checking. Report No. 98/1 (Russell, 1998)
- Regional reconnaissance regolith mapping using Landsat TM images and follow-up field investigations. Report No. 99/3 (Russell 1999)
- Reconnaissance and follow up “undercover” drilling over areas of depositional regolith Report No. 98/2 (Howard 1998) and Report No. 99/2 (Howard 1999a)
- Exploration trenching around the northern and eastern margins of the Springfield Basin. Report No. 98/4 (Russell 1998b) and No. 99/5 – Section Two (Anderson 1999b)
- Follow up trenching at Area SF8. Report No. 99/5 – Section 1 (Anderson 1999b)
- Follow up trenching, indicator mineral sampling, ground magnetic surveying and drilling at Area SF50. Report No. 99/5 – Section Two (Anderson 1999b)
- Regional drainage sampling within ELs 3003 and 2464. Report No 99/4 (Anderson 1999)
- Detailed soil sampling, geological and regolith mapping and ground magnetic surveying of five KA Series drainage anomalies. Report No. 00/2 (Anderson 2000)
- Compilation of PIRSA open file diamond exploration indicator mineral data. Report No. 99/6 (Howard 1999b)
- Reprocessing of existing aeromagnetic data (Allender and Koch 1998)
- Independent review of indicator minerals recovered from all sources within the Springfield Project focused on wear characteristics and Cr–Mg geochemistry. Muggeridge (1999).

EL 2656 (Kanyaka)

Previous exploration by Savanna Mineral Resources/Amity International during the period 1994 to 1998 included the collection of 274 indicator mineral samples (including drainage, loam and rock samples) which identified indicator mineral anomalies at the Calabrinda, Hut Hill, Wilson Valley and CC050 Prospects.

Follow up exploration by FDL during the period 1998 to December 1999 comprised:

- Indicator mineral sampling – 15 stream, loam and rock samples
- Geological mapping at the Hut Hill and Calabrinda Prospects
- Drilling at Hut Hill (38 holes for total 798m), Calabrinda (4 holes for total 117 m) and in the Wilson Valley (3 holes for total 125 m)
- Trenching at Calabrinda Prospect
- Incompatible trace element analyses of 155 samples
- Petrology
- Palaeo-geomorphological mapping
- Ground magnetic surveying at the Hut Hill Prospect

The work is documented in by Howard (1999) and Russell (1999) (Anderson 2000).

14.4.2 Exploration March 2002 to 31 December 2002

Work recommenced on the Springfield Project following the successful ASX listing of Flinders Diamonds Ltd on 20 February 2002. Exploration undertaken by FDL during the period March 2002 to 31 December 2002 comprised:

- Geophysical surveying in the Springfield and Boolcunda Basins (EL 3003) – including gravity, 2D seismic reflection and moving loop TDEM surveying
- Trenching operations within EL 3003 (KA series)
- Regional drainage sampling within ELs 3003, 2656 and 3070
- Drilling: 19 holes were drilled to test five targets in EL 3003 and 5 holes in EL 3131
- Drill hole indicator mineral and geochemical sampling
- Rehabilitation of seismic lines and drill holes.

14.4.3 Exploration January 2003 to 31 December 2003

Exploration undertaken by FDL during this period comprised:

- Regolith mapping, geophysical (aeromagnetic and gravity) surveying and drilling at theEurelia prospect (EL 3131)
- Deep drilling in the Springfield and Boolcunda Basins (EL 3003)
- Indicator mineral sampling and petrological examination of Boolcunda BL1 drill core
- Indicator mineral sampling, including regional drainage and follow up drainage and loam sampling at Round Hill and Radford Creek (ELs 3003, 3132 and 2868).

14.4.4 Exploration January 2004 to 31 December 2005

During this period exploration concentrated on two main activities – the targeting of kimberlite from geophysical data, and a geomorphological study of kimberlitic indicator mineral (KIM) anomalies in the northern part of the project.

14.4.5 Exploration January 2006 to 31 December 2007

During this period exploration consisted of a bulk sampling program.

14.4.6 January 2007 to 31 December 2008

During this period exploration consisted of an airborne magnetic survey designed to map the extension of diamondiferous kimberlites identified in the Eurelia area and to locate new kimberlite targets in the Springfield Basin region. 33 ground magnetic surveys were also conducted during the reporting period. Geophysical anomalies were followed up with loam and soil sampling and trenching.

14.4.7 January 2009 to 31 December 2009

During 2009 exploration consisted of a helimag survey designed to resolve the narrow kimberlites within the magnetic dataset. A total of 258 ground magnetic survey stations were recorded. A single gravity line was conducted over a barite occurrence at Yanyarrie some 15 km north of Carrieton. A series of trial ground EM lines were placed over a narrow kimberlite dyke (WL_58_ext) to assess the usefulness of using a simple conductivity tool to locate kimberlite dykes in an area with low magnetic contrast.

The majority of the diamond geochemical work was conducted on kimberlite dykes identified within trenches excavated in the Eurelia area, together with an R&D soil sampling program over several known kimberlite dykes. Six kimberlite dyke occurrences were chosen for an orientation loam geochemistry survey to determine if an anomalous halo is associated with the kimberlites. A total of 56 samples heavy mineral concentrates were examined in house for kimberlite indicator minerals and diamonds. Ten samples from the Eurelia kimberlite dykes were submitted for micro-probe work and two polished impregnated thin sections were examined.

Trenching focused on positive KIM anomalies and ground magnetic targets. A total of 135 trenches were excavated to test magnetic targets in EL 4208 within the area of the new 25 m line spaced helimag data.

A re-examination of the Yanyarrie barite occurrence was conducted during the exploration period. A soil sampling grid composed of 170 samples was placed across the general area containing the barite occurrence. Ten samples of barite were taken from old costeans for analysis and seven samples were collected for petrographic analysis.

14.5 RECENT EXPLORATION 2010

Field work consisted of an aircore drilling program targeting magnetic anomalies which had already been previously trenched but terminated in excessive cover. Three kimberlites were intersected during the drilling program. Trenching focused on magnetic targets selected from the 25 m line spaced helimag data and nine trenches were completed. A petrographic study was made of possible kimberlite from the drilling program. Samples from several probable kimberlite occurrences were processed for diamond indicator minerals and for microdiamond content.

14.5.1 Geophysics

Geophysical investigations during the reporting period were restricted to the Eurelia diamond field. The area covered by the 2009 ultra-detailed helimag survey was extended to the west and south to cover the remaining parts of the Eurelia diamond field.

Airbone Magnetic Survey

The Eurelia 2010 helicopter-magnetic survey is the second ultra-detailed airborne survey undertaken by FML. The survey line spacing was set with a tight 25m. The net result of this narrow line spacing was a dramatic improvement in resolving the narrow kimberlites expressed within the magnetic dataset.

The Eurelia 2010 survey was flown by Tensor Geophysical Services in January 2010. A total of 3012 line km were completed over an area of 79 km^2. Lines were oriented N-S, flying height was 25 to 30 m and spaced at 25 m.

Interpretation and Target Selection

A variety of products were produced from the supplied magnetic data. Several filters were applied to enhance the subtle short wavelengths known to be associated with the kimberlite dykes and pipes. The derived images were used to identify possible exploration targets. The kimberlite target anomalies were ranked for their size, magnetic anomaly shape and depth below cover (indicated by drill data and geology). Targets were further assessed using ground magnetic studies and geophysical modeling. Both trenching and drilling methods were used to investigate the selected targets.

Ground Magnetics

44 ground magnetic stations were surveyed in 2010.

Gravity

Two microgravity lines were placed over a kimberlite blow-dyke complex approximately 5 km north-north west of Eurelia at target CA130. The lines were oriented orthogonal to the major axis of the kimberlite body. The survey used lines of approximately 350 m in length with station spacing on the line ends of 25m reduced to 1m station spacing over the kimberlite.

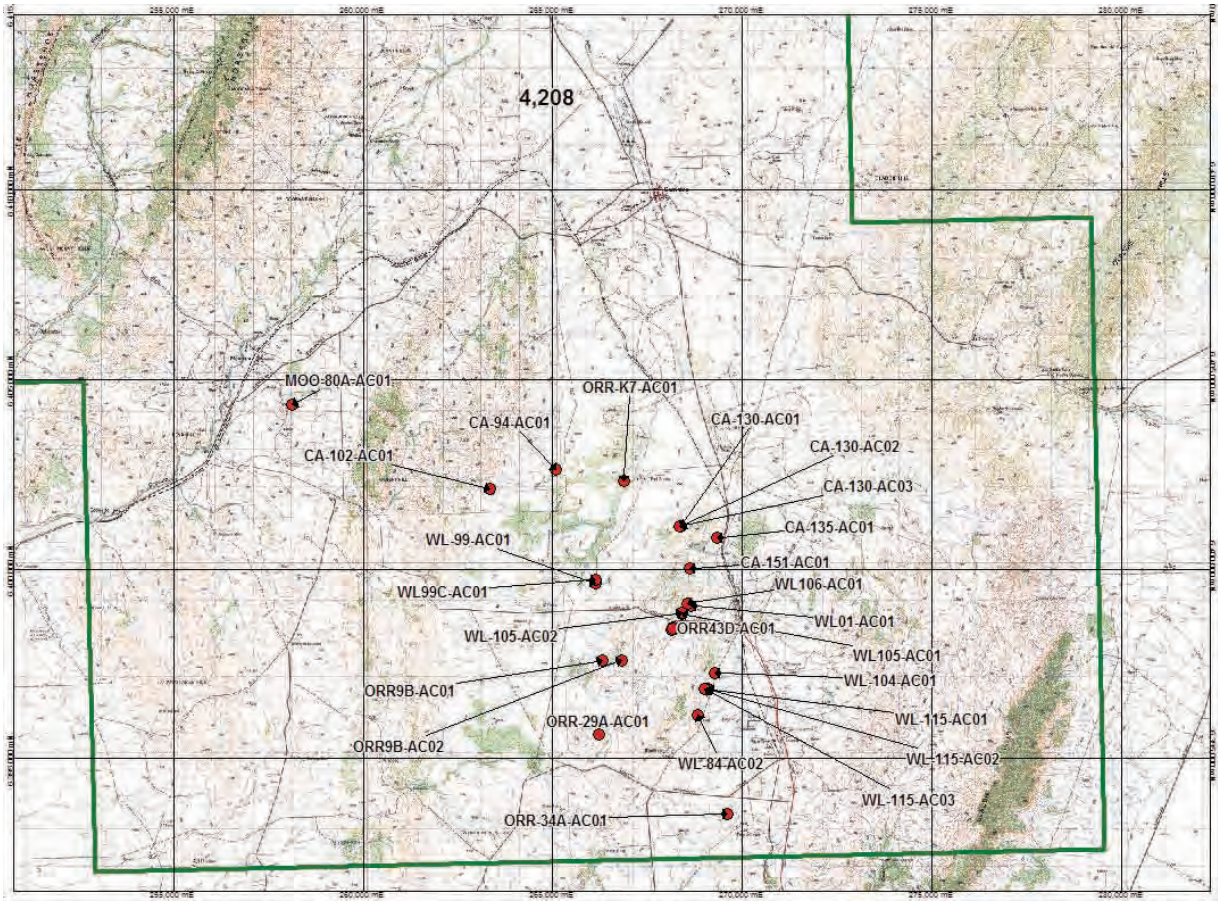
14.5.2 Trenching

Trenching focused on magnetic targets selected from the 25 m line spaced helimag data. Nine trenches were excavated, all within EL4208 (Gilbert Hill). Two were positive for kimberlite, the remainder probably had magnetic anomalies caused by magnetic paleochannel or basement topographical changes.

14.5.3 Drilling

38 holes were drilled, for a total of 1,218m. The holes were selected after being trenched to determine the cause of the magnetic anomalies. Five drill holes intersected three different kimberlites CA-130, MOO-80A, and ORR-K7. CA-130 is a diamondiferous fissure which had three holes drilled into it at varying depths to determine its size at depth. Figure 14.2 shows the drillhole locations.

Figure 14.2 Drillhole locations



Source: FML

14.5.4 Geochemistry

Eleven geochemical samples collected from the 2009/2010 trenching campaigns were sent to ALS in Adelaide and all came back positive as kimberlite. In addition 92 of 142 samples collected from the February drilling were also sent to ALS for analysis to confirm the presence of kimberlite. The remaining 50 samples were sent to Genalysis to identify any anomalous levels of gold or base metals.

14.5.5 Microdiamond work

30 samples were sent to NADL for caustic fusion and acid digest and to Diatech for microdiamond observation. In total 360 microdiamonds were recovered from the 30 samples.

14.5.6 Heavy mineral sampling work

Ten samples were sent to IDL in WA for an acid digest then the concentrates were dispatched back to Flinders Mines for in house observation of heavy minerals and diamonds.

14.5.7 MERIWA Project

The aim of the MERIWA project is to collect samples from the Eurelia area to find 'hot' and 'cold' zircons; 'hot' being zircons which have been heated at some stage. These zircons can then be dated to define more precisely the ages of volcanism within the Eurelia kimberlite. Curtin University researchers collected a total of 21 samples of stream and kimberlites to use in their research. Results of which have not yet been made available.

14.6 EXPLORATION POTENTIAL

The Springfield Project area lies in close proximity and association with known kimberlite fields of Jurassic age comprising small pipes and dykes.The Jurassic age kimberlites are either barren or carry only trace amounts of diamonds and in terms of age can have no relationship to the diamonds found in the Permo-Triassic sediments.

Search techniques include airborne and ground geophysics (AM, EM, Gravity), follow up drilling of geophysical targets, soil and stream sampling, geological and regolith mapping and bulk sample testing of new and old kimberlite discoveries.None of the kimberlites (old and new) have any economic potential and all can be described as carrying only trace quantities of diamonds. In general only small numbers of micro-diamonds and a few microdiamonds up to 3 mm in size have been recovered from some occurrences.

The cumulative impact of all of this work effectively downgrades the diamond prospectivity of the region and Snowden considers that it is considered unlikely that additional work will change this opinion.

15. VALUATION METHODOLOGY

15.1 VALUATION CONSIDERATIONS

The authors and reviewers of this report are either Members of the Australasian Institute of Mining and Metallurgy ("AusIMM") or Australian Institute of Geoscientists ("AIG") and therefore, are obliged to prepare mineral asset valuations in accordance with the Australian reporting requirements as set out in the VALMIN Code (2005 Edition).

The opinions expressed and conclusions drawn with respect to this valuation are appropriate at the valuation date of 22 December 2011. The valuation is only valid for this date and may change with time in response to variations in economic, market, legal or political conditions in addition to ongoing exploration results.

The objective of a mineral asset valuation is to establish a "fair market" value for an asset in the context of the factors outlined in the body of this report.

15.2 FAIR MARKET VALUE OF MINERAL ASSETS

Mineral assets are defined in the VALMIN Code as all property including, but not limited to real property, mining and exploration tenements held or acquired in connection with the exploration, the development of and the production from those tenements together with all plant, equipment and infrastructure owned or acquired for the development, extraction and processing of minerals in connection with those tenements.

The VALMIN Code defines fair market value of a mineral asset as the estimated amount of money or the cash equivalent of some other consideration for which, in the opinion of the Expert or Specialist reached in accordance with the provisions of the VALMIN Code, the mineral asset should change hands on the valuation date between a willing buyer and a willing seller in an arms length transaction, wherein each party has acted knowledgeably, prudently and without compulsion.

In effect therefore, the valuation Expert is assumed to have the knowledge and experience necessary to establish a realistic value for a mineral asset. The real value of a tenement can only be established in an open market situation where an informed public is able to bid for an asset. The most open and public valuation of mineral assets occur when they are sold to the public through a public share offering by a company wishing to become a public listed resource company, or by a company raising additional finance. In this instance, the public is given a free hand to make the decision, whether to buy or not buy shares at the issue price, and once the shares of the company are listed, the market sets a price.

It is well known to most valuation Experts that where mineral tenement valuation is concerned there are two quite distinct markets operating in Australia. Almost without exception, the values achieved for mineral assets sold through public flotation are higher than where values are established through, say, the cash sale by a liquidator, or the sale by a small prospector to a large company neighbour, or through joint venture arrangements.

It is Snowden's experience, that in all these circumstances the terms of sale generally do not meet the criteria laid out in the VALMIN Code for fair market value (i.e. transaction between a willing buyer and willing seller in an arm's length transaction, wherein each party had acted knowledgeably, prudently and without compulsion). Invariably one of the parties is a less than enthusiastic participant and it cannot be said that the purchase or sale is without an element of compulsion.

It is Snowden's opinion that the market value of mineral assets should be valued by the Expert on the assumption that they are traded by vending them into a public float. Generally this will mean that the vendor is issued escrow shares (escrow period is usually two years). Importantly, this is a true cash sale situation, since the purchaser of the tenements (the public) is always expected to pay cash.

The VALMIN Code notes that the value of a mineral asset usually consists of two components; the underlying or Technical Value, and the Market component which is a premium relating to market, strategic or other considerations which, depending on circumstances at the time, can be either positive, negative or zero. When the Technical and Market components of value are added together the resulting value is referred to as the Market Value.

The value of mineral assets is time and circumstance specific. The asset value and the market premium (or discount) changes, sometimes significantly, as overall market conditions, commodity prices, exchange rates, political and country risk change. Other factors that can influence the valuation of a specific asset include the size of the company's interest, whether it has sound management and the professional competence of the asset's management. All these issues can influence the market's perception of a mineral asset over and above its technical value.

15.3 METHODS OF VALUING MINERAL ASSETS

15.3.1 Mineral assets with Mineral Resources and Ore Reserves

Where Mineral Resources and/or Ore Reserves have been defined, Snowden's approach is to excise them from the mineral property and to value them separately on a value per resource tonne / metal unit basis or on the basis of a discounted cash flow ("DCF"). The value of the exploration potential of the remainder of the property can then be assessed. Where appropriate, discounts are applied to the estimated contained metal to represent uncertainty in the information.

In Snowden's opinion, an Expert charged with the preparation of a development or production project valuation must give consideration to a range of technical issues as well as make a judgement about the 'market'. Key technical issues that need to be taken into account include:

- confidence in the Mineral Resource / Ore Reserve estimate
- metallurgical characteristics
- difficulty and cost of extraction
- economies of scale
- proximity of and access to supporting infrastructure.

Discounted cash flow analysis

A DCF analysis determines the Technical Value of a project by approximating the value if it were developed under the prevailing economic conditions.

Once a Mineral Resource has been assessed for mining by considering revenues and operating costs, the economically viable component of the resource becomes the Ore Reserve. When this is scheduled for mining, and the capital costs and tax regime are considered, the net present value ("NPV") of the project is established by discounting future annual cash flows using an appropriate discount rate.

The resulting 'classical' NPV has several recognised deficiencies linked to the fact that the approach assumes a static approach to investment decision making, however the NPV represents a fundamental approach to valuing a proposed or on-going mining operation and is widely used within the mining industry.

Comparable market transaction value

When the economic viability of a resource has not been determined by studies, then a 'rule of thumb' or comparable market transaction value approach is typically applied. The comparable market transaction value approach for resources is a similar process to that for exploration property (refer to Section 15.3.2) however a dollar value per resource tonne / metal in the ground is determined.

As no two mineral assets are the same, the Expert must be cognisant of the quality of the assets in the comparable transactions, with specific reference to:

- the grade of the resource
- the metallurgical qualities of the resource
- the proximity to infrastructure such as an existing mill, roads, rail, power, water, skilled work force, equipment, etc
- likely operating and capital costs
- the amount of pre-strip (for open pits) or development (for underground mines) necessary
- the likely ore to waste ratio (for open pits)
- the size of the tenement covering the mineral asset
- the overall confidence in the resource.

15.3.2 Mineral assets in the exploration stage

When valuing an exploration or mining property, the Expert is attempting to arrive at a value that reflects the potential of the property to yield a mineable Ore Reserve and which is, at the same time, in line with what the property will be judged to be worth when assessed by the market. Arriving at the value estimate by way of a desktop study is notoriously difficult because there are no hard and fast rules and no single industry-accepted approach.

It is obvious that on such a matter, based entirely on professional judgement, where the judgement reflects the Expert's previous geological experience, local knowledge of the area, knowledge of the market and so on, that no two valuers are likely to have identical opinions on the merits of a particular property and therefore, their assessments of value are likely to differ - sometimes markedly.

The most commonly employed methods of exploration asset valuation are:

- multiple of exploration expenditure method (exploration based) also known as the premium or discount on costs method or the appraised value method
- joint venture terms method (expenditure based)
- geoscience rating methods such as the Kilburn method (potential based)
- comparable market value method (real estate based).

It is possible to identify positive and negative aspects of each of these methods. It is notable that most valuers have a single favoured method of valuation for which they are prepared to provide a spirited defence and, at the same time present arguments for why other methods should be disregarded. The reality is that it is easy to find fault with all methods since there is a large element of subjectivity involved in arriving at a value of a tenement no matter which method is selected. It is obvious that the Expert must be cognisant of actual transactions taking place in the industry in general to ensure that the value estimates are realistic.

In Snowden's opinion, a valuer charged with the preparation of a tenement valuation must give consideration to a range of technical issues as well as make a judgement about the 'market'. Key technical issues that need to be taken into account include:

- geological setting of the property
- the relative size of the landholding
- results of exploration activities on the tenement
- evidence of mineralisation on adjacent properties
- proximity to existing production facilities of the property

In addition to these technical issues the Expert has to take particular note of the market's demand for the type of property being valued. Obviously this depends upon professional judgement. As a rule, adjustment of the technical value by a market factor must be applied most judiciously. It is Snowden's view that an adjustment of the technical value of a mineral tenement should only be made if the technical and market values are obviously out of phase with each other.

It is Snowden's opinion that the market in Australia may pay a premium over the technical value for high quality mineral assets (i.e. assets that hold defined resources that are likely to be mined profitably in the short-term or projects that are believed to have the potential to develop into mining operations in the short term even though no resources have been defined). On the other hand exploration tenements that have no defined attributes apart from interesting geology or a 'good address' may well trade at a discount to technical value. Deciding upon the level of discount or premium is entirely a matter of the Expert's professional judgement. This judgement must of course take account of the commodity potential of the tenement, the proximity of an asset to an established processing facility and the size of the land holding.

15.4 SNOWDEN'S VALUATION METHODOLOGY

It is Snowden's opinion that no single valuation approach should be used in isolation as each approach has its own strengths and weaknesses. Where practicable, Snowden undertakes its valuations using a combination of valuation techniques in order to help form its opinion.

15.4.1 PIOP Exploration value

For the valuation of the exploration potential of the PIOP (excluding resources) Snowden has used the Kilburn geo-scientific method (modified by Snowden) and supported this with an estimate derived using the comparable transaction method.

15.4.2 Exploration potential estimate

Having considered the various methods used in the valuation of exploration properties, Snowden is of the opinion that the Kilburn geo-scientific method provides the most appropriate approach to utilise in the technical valuation of the exploration potential of mineral properties on which there are no defined resources. Kilburn, a Canadian mining engineer was concerned about the haphazard way in which exploration tenements were valued. He proposed an approach which essentially requires the valuer to identifythe key aspects of the valuation process. The valuer must specify the key aspects of the valuation process and must rank aspects which enhance or downgrade the intrinsic value of each property. The intrinsic value is the base acquisition cost ("BAC") which is the average cost incurred to acquire a base unit area of mineral tenement and to meet all statutory expenditure commitments for a period of 12 months. Different practitioners use slightly differing approaches to calculate the BAC.

The Kilburn geo-scientific method systematically assesses and grades four key technical attributes of a tenement to arrive at a series of multiplier factors. The multipliers are then applied serially to the BAC of each tenement with the values being multiplied together to establish the overall technical value of each mineral property. A fifth factor, the market factor, is then multiplied by the technical value to arrive at the fair market value.

The multipliers or ratings and the criteria for rating selection are as follows:

- Off property 1.0 - 10
- On property 1.0 - 10
- Anomalies 0.5 - 0
- Geology 0.1 - 5
- Market 0.5 - 3

The successful application of this method depends on the selection of appropriate multipliers that reflect the tenement prospectivity. Furthermore, there is the expectation that the outcome reflects the market's perception of value, hence the application of the market factor. Snowden is philosophically attracted to the Kilburn type of approach because it endeavours to implement a system that is systematic and defendable. It also takes account of the key factors that can be reasonably considered to impact on the exploration potential. The keystone of the method is the BAC which provides a standard base from which to commence a valuation. The acquisition and holding costs of a tenement for one year provides a reasonable, and importantly, consistent starting point. Presumably when a tenement is pegged for the first time by an explorer the tenement has been judged to be worth at least the acquisition and holding cost.

It has been argued that the Kilburn method is a valuation-by-numbers approach. In Snowden's opinion, the strength of the method is that it reveals to the public, in the most open way possible, just how a tenement's value was systematically determined. It is an approach that lays out the subjective judgements made by the Expert. In the case of assessing the FML suite of properties, Snowden has also considered the Kilburn and comparable transaction methods to be appropriate.

In arriving at a technical value for the properties, Snowden has taken into consideration the company's equity position if the tenements are subject to a farm-in, joint venture or option to purchase arrangement.

16. VALUATION

16.1 PIOP PROJECT

16.1.1 Mineral Resource valuation

Snowden has elected not to value the main mineral asset of FML, the PIOP resources contained within E47/882-1,as it does not consider some of the assumptions used within the pre-feasibility study to fall within the required range of confidence for estimation to be undertaken using discounted cashflow methods. Snowden has however valued the remaining exploration potential exclusive of resources (using the Kilburn Geo-scientific method as modified by Snowden) on E47/882-1 in addition to E47/1560-1 and P47/1291-1 where FML retain iron rights. In considering the exploration potential Snowden has not considered M47/1451 (in application) as the mining lease application is over the same ground as E47/882-1.

Snowden also notes that it has not valued the diamond exploration potential on FMG's iron leases to which FML holds the rights. No information was made available to Snowden upon which to base an estimate and as such the work was considered to be outside the scope of this report.

To establish a benchmark market value for in-ground haematite iron metal, Snowden has completed a search of the publicly available information on recent market transactions involving haematite over the preceding three years (Table 16.1). Snowden's search is not intended to be a definitive listing of all market transactions in this period, but rather a list of transactions which offer comparability to the properties under consideration as a whole. The level of disclosure and complexity of some of the transactions reviewed, limited Snowden's ability to assign meaningful cash equivalent values and these were therefore disregarded for the purpose of this analysis.

Table 16.1 Comparable Transactions Haematite

Date / Project Name	Project Name	Company details	100% Basis Purchase price	Km^2	$/km^2
Jun-09	Mulgara Minerals	Midas – DB Family Trust	0.158M	114	$1,385
Jun-09	Jigalong Iron Rights	Warwick – Hannans / Atlas	4.526M	2000	$2,126
Jul-08	E47/1560	Flinders Mines – Cazaly	1.443M	44	$32,786
May-08	Pilbara Project	Haddington – Atlas Iron	1.464M	610	$2,399
May-08	Pilbara Project	Haddington – Atlas Iron	2.752M	610	$4,511

Snowden has included the July 2008 Flinders - Cazaly transaction for E47/1560, June 2009 Warwick - Hannans / Atlas transaction for the Jigalong iron rights, June 2009 Midas - DB Family Trust transaction for Mulgara Minerals and the May 2008, Haddington – Atlas iron transaction for Haddingtons Pilbara iron project.

The July 2008 Flinders - Cazaly transaction for E47/1560, is an anomaly in terms of the price paid for exploration potential with respect to the other transactions. Exploration on the ground following the acquisition of E47/1560 resulted in the discovery of the Anvil resource. The iron mineralisation evaluated in the lease to date is low grade, high in silica, and phosphorous and presents limited opportunity for development. None the less the style of mineralisation discovered is consistent with what was targeted, but the iron grade is lower and the impurity levels higher than was targeted. The price paid by Flinders is in Snowden's view anomalous with respect to the other transactions and should be excluded from the dataset when considering the value of exploration potential in the region.

Snowden considers the value of exploration potential within the region falls within a range of $1,400/km^2 and $2,400/km^2 with a preferred value of $1,900/km^2.

The total area of the lease to which FML retain iron rights in the region is approximately 152.23km^2 and implies a value for the exploration potential of FML's leases to be within a range of $213,000 and $365,000 with a preferred value of $289,000.

16.1.2 Exploration Potential Valuation

Snowden observes that under the conditions of its agreement with FMG (refer section 3.2.1, this report); FML has assigned all its iron ore rights with the exception of those on leases E47/882-1, M47/151, P47/1291 and E47/1560-1 to FMG. In return FML received the right to explore for and mine diamonds on FMG's Pilbara tenements and a 1% royalty on iron ore production (capped at the first 8 million tonnes during any half year).The royalty is calculated as Tonnes x FOB price per tonne payable by FMG's customers x Rate. Rate is 1% (if less than 8 million tonnes) or 0.00001% (if greater than 8 million tonnes) for iron ore extracted from the Flinders Tenements. Snowden has not attempted to estimate the value of any royalty on future production by FMG as it has not been made privy to the necessary information pertaining to the status of FMG's exploration and development progress on the FML leases to which it has been granted iron rights.

FML retain the rights to iron on E47/882-1, M47/151, P47/1291 and E47/1560-1. Snowden has valued the remaining exploration potential on E47/882-1(excluding the mineral resources associated with the proposed iron project), P47/1291 and E47/1560-1. The remaining FML leases in the Pilbara region to which FML have assigned the iron rights to FMG are valued on the basis of their prospectivity for diamonds to which FML retain the rights. No attempt has been made to value the diamond exploration rights on FMG's Pilbara leases to which FML have rights to explore for and mine diamonds as the necessary information was not provided to Snowden and is outside the scope of this report.

Snowden has elected to use the Kilburn geo-scientific method (as modified by Snowden) to value the exploration potential of E47/882-1, P47/1291 and E47/1560-1.

Table 16.2 Technical Value of PIOP leases for which Iron Exploration is relevant

Pilbara											
Lease	Off Property		On Property		Anomaly		Geology		Lower	Upper	Preferred
E47/881-2	1	1.5	1	2.5	1	1.5	1	2	$36,180	$407,030	$221,610
E47/1560-1	1	1.5	1	1.5	1	2	1	2	$14,740	$132,660	$73,700
P47/1291-1	1	1	1	1	1	1	1	1	$980	$980	$980
									$51,900	**$540,670**	**$296,290**

Snowden estimates that the technical value of FML's Pilbara tenements for which Iron Ore exploration is relevant, as calculated by the Kilburn geo-scientific method (modified by Snowden), lies in a range of $52,000 to $541,000 with a preferred value of $296,000.

Snowden has not applied any discount to the technical value of the iron exploration project in respect to native title, or tenure risk and applies no market premium or discount to the exploration value of these tenements due to their early stage status.

Snowden notes that the Kilburn estimate compares to an estimate of value of exploration potential undertaken using the comparable transaction method of between $213,000 and $365,000 with a preferred value of $289,000 as derived in section 16.1.1 above.

Table 16.3 Technical Value of PIOP leases for which Diamond Exploration is relevant

Pilbara										
Lease	Off Property		On Property		Anomaly		Geology		Lower	Upper	Preferred
E47/1011-1	1	1	1	1	1	1	0.1	0.5	$370	$1,840	$1,110
E47/1016-1	1	1	1	1	1	1	0.1	0.5	$4,250	$21,270	$12,760
E47/1306-1	1	1	1	1	1	1	0.1	0.5	$4,220	$21,110	$12,670
E47/1333-1	1	1	1	1	1	1	0.1	0.5	$5,830	$29,150	$17,490
E47/1334-1	1	1	1	1	1	1	0.1	0.5	$5,900	$29,480	$17,690
E47/1352-1	1	1	1	1	1	1	0.1	0.5	$1,040	$5,190	$3,120
E47/1372-1	1	1	1	1	1	1	0.1	0.5	$6,370	$31,830	$19,100
E47/1398	1	1	1	1	1	1	0.1	0.5	$6,570	$32,830	$19,700
E47/1399	1	1	1	1	1	1	0.1	0.5	$6,370	$21,830	$19,100
E47/1436-1	1	1	1	1	1	1	0.1	0.5	$3,280	$16,420	$9,850
E47/1523-1	1	1	1	1	1	1	0.1	0.5	$2,350	$11,730	$7,040
E47/1524-1	1	1	1	1	1	1	0.1	0.5	$4,960	$24,790	$14,880
									$51,510	**$257,470**	**$154,510**

Snowden estimates that the technical value of FML's Pilbara tenements for which diamond exploration is relevant, as calculated by the Kilburn geo-scientific method (modified by Snowden), lies in a range of $52,000 to $257,000 with a preferred value of $155,000.

In Snowden's opinion a 16% discount to the technical value of this tenement package is necessary to reflect native title and tenure risk. Snowden has elected not to apply a market premium or discount in respect of the project due to its very early staged status for diamond exploration.

Snowden estimate that the Market Value of FML's tenements in the Pilbara in respect of exploration for diamonds falls within a range of $43,000 to $216,000 with a preferred value of $130,000.

Table 16.4 Summary of the PIOP Tenements value based on Exploration potential

PIOP Exploration	Lower estimate	Upper estimate	Preferred Estimate
Iron Exploration	$52,000	$541,000	$296,000
Diamond Exploration	$43,000	$216,000	$130,000
Total	$95,000	$757,000	$426,000

16.2 CANEGRASS

16.2.1 Mineral Resource valuation

To establish a benchmark market value for in-ground vanadium metal, Snowden has completed a search of the publicly available information on recent market transactions involving vanadium over the preceding two years(Table 16.5). Snowden's search is not intended to be a definitive listing of all market transactions in this period, but rather a list of transactions which offer comparability to the Property in terms of reported tonnes, grade or the state of the project as a whole. The level of disclosure and complexity of some of the transactions reviewed, limited Snowden's ability to assign meaningful cash equivalent values and these were therefore disregarded for the purpose of this analysis.Snowden has included the Atlantic Ltd, Windimurra,Prophecy Resources Titan vanadium, and TNG Mount Peake transactions.

Table 16.5 shows two Atlantic Ltd ("Atlantic") transactions, the April 2010 transaction whereby Atlantic and Mineral Resources Limited ("MRL") acquired a 90% interest in the Windimurra project from Mid-West Vanadium Pty Ltd ("MVPL") for some US$90 million, which on a 100% basis would value the project at US$100 million, or US$0.056 per lb of contained V_2O_5. The later transaction of August 2010, saw Atlantic acquire MRL's 27.5% interest for AUD$16 million which on a 100% basis is equivalent to US$53.2 million (AUD: USD = 1.0443), or equivalent to US$0.029 per lb of contained V_2O_5.

The weighted average value of the two Atlantic transactions is equivalent to US$0.049 per lb of contained V_2O_5 for the Windimurra project, which is approaching production status using current conventional processing technologies.

In the case of the Prophecy Resources Titan project transaction the value of the titanium was ignored and the in-situ value of vanadium only was calculated as US$0.019per lb of contained V_2O_5 seeTable 16.5. The Titan project contains in resource, approximately 50% of the V_2O_5 content of Mount Peake, but at a grade of 0.43% which is similar to Atlantic's Windimurra project at 0.49%, whereas Mount Peake has an average grade of 0.29%. The Mount Peake vanadium Mineral Resource is a low grade inferred resource and dependent upon the development of the new TIVAN™ hydrometallurgical process which is proprietary technology.

Table 16.5 Comparable Resource Transactions

Date	Acquirer	Vendor	Mineral resource	Additional	lb V2O5	Transaction ValueUSD $M	US $/lb V2O5
3/08/2011	ECE	TNG Ltd	139Mt at 0.29% V205	5.3% TiO2	888,682,322	$48.7M	0.055
5/08/2010	Atlantic Ltd	Mid-West Vanadium Pty Ltd	176.6 Mt at 0.46% V2O5	No titanium	1,790,441,440	$53.2M	0.030
8/04/2010	Atlantic Ltd	Mineral Resources Ltd	176.6 Mt at 0.46% V2O5	No titanium	1,790,441,440	$100M	0.056
14/1/2010	Prophecy Resources	Randsburg	49.0 Mt at 0.43 % V2O5	14.82 % TiO2	464,382,800	$8.75M	0.019

The Canegrass inferred mineral resource is at the lower end of the confidence spectrum for inferred resources, and currently estimated to have a grade of 0.62% V_2O_5. The greater proportion of the Mount Peake resource is categorised at a level of indicated resource or higher and supported by scoping to pre-feasibility level studies. In considering the upper limit of a range of value for the Canegrass resource it is Snowden's opinion that a value of about 25% of the price of the Mount Peake and Atlantic transaction values represents an upper limit to the value of an a relatively well defined insitu resource. This would define an upper limit of value at US$ 0.014/lb V_2O_5.

Prophecy Resource's Randsburg project has very high titanium credits and at US$ 0.019 /lbV_2O_5represents the lowest value per lb V_2O_5in the transaction data set for defined vanadium resources. The Prophecy project in Ontario Canada is in close proximity to all required infrastructure. Snowden considers that Prophecy Resource's Randsburg project valuation supports its upper limit value estimate of US$ 0.014/lb $V_2O_5$for Canegrass.

In considering a lower value limit for inferred vanadium magnetite resources Snowden considers US$ 0.005/lbV_2O_5 to represent a reasonable value for a very early stage resource. Snowden considers a range of between US$ 0.005/lb V_2O_5 and US$ 0.014/lb $V_2O_5$to be an appropriate value range to apply to the Canegrass inferred resource.

Given that the Canegrass project has an Inferred resource of 107Mt at 0.62% V_2O_5, estimated by Optiro (Optiro, 2011) based on 0.5% V_2O_5 cut-off and a 20% Fe cut-off, (See Table 4.3) it is Snowden's opinion that these comparative transactions reflect that the Canegrass inferred mineral resource would have a market value of between US$7.31 M and US$20.47 M. with a preferred value of US$13.89 M. The USD:AUD exchange rate at the Valuation date of 22 December 2011 was 0.9922 thereby implying a value range in Australian dollars for the Canegrass mineral resource between $7.37M and $20.63M with a preferred value of $14.00M.

16.2.2 Canegrass Exploration Potential

Where no mineral resources have been defined Snowden has elected to use the Kilburn geo-scientific method (modified by Snowden) to value the exploration potential of the Canegrass tenements (excluding the Inferred Mineral Resource).

Table 16.6 Canegrass Magnetite Vanadium Exploration Technical Value

Canegrass Magnetite											
Lease	Off Property		On Property		Anomaly		Geology		Lower	Upper	Preferred
E58/232-I	1	1.5	1	2	1	1.5	1	2	$16,750	$150,750	$83,750
E58/235-I	1	1	1	1	1	1	1	2	$16,750	$33,500	$25,130
E58/236-I	1	1.3	1	1	1	1	1	1.5	$16,750	$32,660	$24,710
E58/271-I	1	1.2	1	1	1	1	1	2	$44,220	$106,130	$75,180
E58/282-I	1	1.5	1	2	1	1.5	1	2	$8,380	$75,380	$41,880
E58/307-I	1	1.5	1	1.1	1	1.1	1	1.5	$1,010	$2,740	$1,880
E58/308-I	1	1	1	1	1	1	1	1.3	$1,010	$1,310	$1,160
E58/358-I	1	1.2	1	1.2	1	1.1	1	1.3	$47,340	$97,470	$72,410
E58/359-I	1	1.2	1	1	1	1	1	1.5	$21,110	$37,990	$29,550
P58/1174	1	1	1	1	1	1	1	1	$5,380	$5,380	$5,380
P58/1175	1	1	1	1	1	1	1	1	$4220	$4,220	$4,220
P58/1176	1	1	1	1	1	1	1	1	$6,260	$6,260	$6,260
P58/1302	1	1	1	1	1	1	1	1	$4,130	$4,130	$4,130
P58/1327	1	1	1	1	1	1	1	1	$4,870	$4,870	$4,870
P58/1328	1	1	1	1	1	1	1	1	$7,480	$7,480	$7,480
P58/1329	1	1	1	1	1	1	1	1	$2,020	$2,020	$2,020
P58/1330-1	1	1	1	1	1	1	1	1	$1,930	$1,970	$1,930
P58/1331	1	1	1	1	1	1	1	1	$1,010	$1,010	$1,010
P58/1352	1	1	1	1	1	1	1	1	$1,000	$1,000	$1,000
P58/1403	1	1	1	1	1	1	1	1	$5,980	$5,980	$5,980
P58/1404	1	1	1	1	1	1	1	1	$1,970	$1,970	$1,970
P58/1425	1	1	1	1	1	1	1	1	$1,970	$1,970	$1,970
P58/426	1	1	1	1	1	1	1	1	$890	$,890	$890
P58/1427	1	1	1	1	1	1	1	1	$1,870	$1,870	$1,870
P58/1428	1	1	1	1	1	1	1	1	$640	$640	$640
P58/436	1	1	1	1	1	1	1	1	$890	$890	$890
P58/1438	1	1	1	1	1	1	1	1	$2,080	$2,080	$2,080
P58/1439	1	1	1	1	1	1	1	1	$890	$890	$890
P58/1440	1	1	1	1	1	1	1	1	$1,000	$1,000	$1,000
P58/1445	1	1	1	1	1	1	1	1	$890	$890	$890
P59/1851	1	1	1	1	1	1	1	1	$890	$890	$890
P59/1865	1	1	1	1	1	1	1	1	$1,000	$1,000	$1,000
P59/1866	1	1	1	1	1	1	1	1	$4,880	$4,880	$4,880
									$237,460	**$602,070**	**$419,790**

Snowden estimates that the technical value of FML's Canegrass tenements for magnetite vanadium exploration as calculated by the Kilburn geo-scientific method (modified by Snowden) lies in a range of $237,00 to $602,000 with a preferred value of $420,000.

Snowden has not applied any discount to the technical value of the magnetite vanadium exploration project in respect to native title, or tenure risk and applies no market premium or discount to the exploration value of these tenements due to their early stage status.

16.2.3 Canegrass Valuation Summary

Canegrass	Lower estimate	Upper estimate	Preferred Estimate
Mineral Resource	$7,370,000	$20,630,000	$14,000,000
Exploration	$237,000	$602,000	$420,000
Total	**$7,607,000**	**$21,232,000**	**$14,420,000**

16.3 STRANGWAYS EXPLORATION PROPERTY

Snowden has elected to use the Kilburn geo-scientific method (as modified by Snowden) to value the exploration potential of the Strangways exploration property.

Table 16.7 Strangways Diamond and Secondary Multi-commodity Exploration Technical Value

Strangways											
Lease	Off Property		On Property		Anomaly		Geology		Lower	Upper	Preferred
SEL25055	1	1	1	1	0.5	0.6	0.3	0.4	$63,730	$101,960	$82,850
SEL25056	1	1	1	1	0.5	0.6	0.3	0.4	$29,640	$47,420	$38,530
									$93,370	**$149,380**	**$121,380**

Snowden estimates that the technical value of FML's Strangways tenements for diamonds, vermiculite and base metals exploration as calculated by the Kilburn geo-scientific method (modified by Snowden) lies in a range of $93,000 to $149,000 with a preferred value of $121,000.

Snowden has not applied any discount to the technical value of the Strangways project in respect to native title, or tenure risk and applies no market premium or discount to the exploration value of these tenements.

16.3.1 Strangways Valuation Summary

Strangways	Lower estimate	Upper estimate	Preferred Estimate
Exploration	$93,000	$149,000	$121,000

16.4 ADELAIDE HILLS EXPLORATION PROPERTY

Snowden has elected to use the Kilburn geo-scientific method (modified by Snowden) to value the exploration potential of the Adelaide Hills diamond and base metals exploration property.

Table 16.8 Adelaide Hills Diamond and Base Metal Exploration Technical Value

Adelaide Hills											
Lease	Off Property		On Property		Anomaly		Geology		Lower	Upper	Preferred
EL 4303	1	1	1	1	0.5	0.6	0.3	0.4	$15,030	$24,060	$19,550
EL 4641	1	1	1	1	0.5	0.6	0.3	0.4	$11,420	$18,280	$14,850
EL 4712	1	1	1	1	0.5	0.6	0.3	0.4	$31,150	$49,850	$40,500
EL 4091	1	1	1	1	0.5	0.6	0.3	0.4	$7,310	$11,700	$9,510
EL 4131	1	1	1	1	0.5	0.6	0.3	0.4	$2,980	$46,310	$37,630
EL 4227	1	1	1	1	0.5	0.6	0.3	0.4	$7,950	$12,710	$10,330
EL 4464	1	1	1	1	0.5	0.6	0.3	0.4	$4,740	$7,590	$6,170
									$106,540	**$170,500**	**$138,540**

Snowden estimates that the technical value of FML's Adelaide Hills tenements for diamonds, and base metals exploration as calculated by the Kilburn geo-scientific method (modified by Snowden) lies in a range of $107,000 to $171,000 with a preferred value of $139,000. In Snowden's opinion a 2% discount to the technical value of the project is necessary to reflect tenure risk as two of the seven leases comprising the project have renewal pending status.

Snowden estimate that the Market Value of FML's tenements in the Adelaide Hills in respect of exploration for diamonds and base metals falls within a range of $105,000 to $168,000 with a preferred value of $136,000.

16.4.1 Adelaide Hills Valuation Summary

Adelaide Hills	Lower estimate	Upper estimate	Preferred Estimate
Exploration	$105,000	$168,000	$136,000

16.5 BILLA KALINA EXPLORATION PROPERTY

Snowden has elected to use the Kilburn geo-scientific method (modified by Snowden) to value the exploration potential of the Billa Kalina diamond exploration property.

Table 16.9 Billa Kalina Diamond Exploration Technical Value

Billa Kalina											
Lease	Off Property		On Property		Anomaly		Geology		Lower	Upper	Preferred
EL 4760	1	1	1	1	0.5	0.6	0.3	0.4	$15,580	$24,920	$20,250
EL 4757	1	1	1	1	0.5	0.6	0.3	0.4	$21,540	$34,460	$28,000
EL 4463	1	1	1	1	0.5	0.6	0.3	0.4	$46,190	$73,900	$60,050
EL3170 (ELA 33/10)	1	1	1	1	0.5	0.6	0.3	0.4	$18,600	$29,760	$24,180
EL 3338 (ELA 78/10)	1	1	1	1	0.5	0.6	0.3	0.4	$34,810	$55,700	$45,260
									$136,720	**$218,740**	**$177,740**

Snowden estimates that the technical value of FML's Billa Kalina diamond exploration tenements as calculated by the Kilburn geo-scientific method (modified by Snowden) lies in a range of $137,000 to $219,000 with a preferred value of $178,000.

In Snowden's opinion a 4% discount to the technical value of the project is necessary to reflect tenure risk astwo of the five leases comprising the project have renewal pending status.

Snowden estimate that the Market Value of FML's Billa Kalina tenements in respect of exploration for diamonds falls within a range of $132,000 to $210,000 with a preferred value of $171,000.

16.5.1 Billa Kalina Valuation Summary

Billa Kalina	Lower estimate	Upper estimate	Preferred Estimate
Exploration	$132,000	$210,000	$171,000

16.6 CENTRAL GAWLER CRATON

Snowden has elected to use the Kilburn geo-scientific method (modified by Snowden) to value the exploration potential of the Central Gawler diamond exploration property.

Table 16.10 Central Gawler Craton Diamond Exploration Technical Value

Central Gawler Craton											
Lease	Off Property		On Property		Anomaly		Geology		Lower	Upper	Preferred
EL 3343 (ELA 59/10)	1	1	1	1	0.5	0.6	0.3	0.4	$10,180	$16,280	$13,230
EL 3423(ELA 233/10)	1	1	1	1	0.5	0.6	0.3	0.4	$6,800	$10,870	$8,840
EL 3532 (ELA 006/11)	1	1	1	1	0.5	0.6	0.3	0.4	$9,320	$14,920	$13,120
									$26,300	**$42,070**	**$34,190**

Snowden estimates that the technical value of FML's Central Gawler Craton diamond exploration tenements as calculated by the Kilburn geo-scientific method (modified by Snowden) lies in a range of $26,000 to $42,000 with a preferred value of $34,000.

In Snowden's opinion a 10% discount to the technical value of the project is necessary to reflect tenure risk in that all three of the leases comprising the project have renewal pending status.

Snowden estimate that the Market Value of FML's Central Gawler tenements in respect of exploration for diamonds falls within a range of $24,000 to $38,000 with a preferred value of $31,000.

16.6.1 Central Gawler Craton Valuation Summary

Central Gawler	Lower estimate	Upper estimate	Preferred Estimate
Exploration	$24,000	$38,000	$31,000

16.7 FLINDERS RANGES

Snowden has elected to use the Kilburn geo-scientific method (modified by Snowden) to value the exploration potential of the Flinders Ranges exploration property.

Table 16.11 Flinders Ranges Exploration Technical Value

Flinders Ranges Mn										
Lease	Off Property		On Property		Anomaly		Geology		Lower	Upper	Preferred
EL 4709	1	1	1	1	0.5	0.6	0.3	0.4	$9,570	$15,310	$12,440
EL 4710	1	1	1	1	0.5	0.6	0.3	0.4	$10,930	$17,480	$14,210
									$20,500	**$32,790**	**$26,650**

While the exploration project is termed the "Flinders Ranges Manganese project" Snowden was unable to find any work relating to manganese exploration in the FML data sets made available. Given the proximity of the exploration leases to FML's other diamond tenements Snowden have assessed the property in terms of diamond exploration.

Snowden estimates that the technical value of FML's Flinders Ranges (diamond) exploration tenements as calculated by the Kilburn geo-scientific method (modified by Snowden) lies in a range of $21,000 to $33,000 with a preferred value of $27,000.

In Snowden's opinion a 30% discount to the technical value of the project is necessary to reflect thenative title risk associated with both of the leases comprising the project.

Snowden estimate that the Market Value of FML's Flinders Ranges tenements in respect of exploration for diamonds falls within a range of $15,000 to $23,000 with a preferred value of $19,000.

16.7.1 Flinders Ranges Valuation Summary

Flinders Ranges	Lower estimate	Upper estimate	Preferred Estimate
Exploration	$15,000	$23,000	$19,000

16.8 JAMESTOWN EXPLORATION PROPERTY

Snowden has elected to use the Kilburn geo-scientific method (modified by Snowden) to value the exploration potential of the Jamestown, diamond, phosphate and iron exploration property.

Table 16.12 Jamestown diamond, phosphate and iron Exploration Technical Value

Jamestown											
Lease	Off Property		On Property		Anomaly		Geology		Lower	Upper	Preferred
EL 4366	1	1	1	1	0.5	0.6	0.3	0.4	$2,620	$4,190	$3,410
EL 4367	1	1	1	1	0.5	0.6	0.3	0.4	$9,480	$15,170	$12,330
EL 4368	1	1	1	1	0.5	0.6	0.3	0.4	$30,250	$48,400	$39,330
EL 4369	1	1	1	1	0.5	0.6	0.3	0.4	$9,840	$15,750	$12,800
EL 4370	1	1	1	1	0.5	0.6	0.3	0.4	$9,440	$15,100	$12,270
EL 4371	1	1	1	1	0.5	0.6	0.3	0.4	$4,970	$7,950	$6,460
EL 4372	1	1	1	1	0.5	0.6	0.3	0.4	$14720	$23,550	$19,140
EL 4410	1	1	1	1	0.5	0.6	0.3	0.4	$7,950	$12,710	$10,330
EL 4373	1	1	1	1	0.5	0.6	0.3	0.4	$28,080	$44,930	$36,510
EL 4374	1	1	1	1	0.5	0.6	0.3	0.4	$6,410	$10,260	$8,340
									$123,760	**$198,010**	**$160,920**

Snowden estimates that the technical value of FML's Jamestown diamond, phosphate and iron exploration tenements as calculated by the Kilburn geo-scientific method (modified by Snowden) lies in a range of $124,000 to $198,000 with a preferred value of $161,000.

In Snowden's opinion a 20% discount to the technical value of the project is necessary to reflect native title risk inherent with the leases and tenure risk associated with renewal of exploration leases pending.

Snowden estimate that the Market Value of FML's Jamestown tenements in respect of exploration for diamonds, phosphate and iron falls within a range of $99,000 to $158,000 with a preferred value of $129,000.

16.8.1 Jamestown Valuation Summary

Jamestown	Lower estimate	Upper estimate	Preferred Estimate
Exploration	$99,000	$158,000	$129,000

16.9 LAKE TORRENS EXPLORATION PROPERTY

No reports on exploration activity on the Lake Torrens tenements were available in the FML dataset, given the location of the property between the Central Gawler Craton and Springfield tenements Snowden have assumed that the same exploration rational as applied to the neighbouring properties was the underlying reason the leases were acquired. Similarly Snowden view the exploration potential of the properties in the same vein as the neighbouring Central Gawler and Springfield properties.

Snowden has elected to use the Kilburn geo-scientific method (modified by Snowden) to value the exploration potential of the Lake Torrens exploration property.

Table 16.13 Lake Torrens Exploration Technical Value

Lake Torrens											
Lease	Off Property		On Property		Anomaly		Geology		Lower	Upper	Preferred
EL 4206	1	1	1	1	0.5	0.6	0.3	0.4	$6,320	$10,110	$8,220
EL 4300	1	1	1	1	0.5	0.6	0.3	0.4	$540	$870	$710
EL 3177 (ELA 436/08)	1	1	1	1	0.5	0.6	0.3	0.4	$18,150	$29,040	$23,600
EL 4322	1	1	1	1	0.5	0.6	0.3	0.4	$58,140	$93,550	$76,010
									$83,480	**$133,570**	**$108,540**

Snowden estimates that the technical value of FML's Lake Torrens exploration tenements as calculated by the Kilburn geo-scientific method (modified by Snowden) lies in a range of $83,000 to $134,000 with a preferred value of $109,000.

In Snowden's opinion, a 2% discount to the technical value of the project is necessary to reflect tenure risk relating to renewal in the leases comprising the project.

Snowden estimate that the Market Value of FML's Lake Torrens exploration falls within a range of $81,000 to $131,000 with a preferred value of $106,000.

16.9.1 Lake Torrens Valuation

Lake Torrens	Lower estimate	Upper estimate	Preferred Estimate
Exploration	$81,000	$131,000	$106,000

16.10 NACKARA EXPLORATION PROPERTY

Snowden observe that the five joint venture agreements that comprised the majority of the six exploration leases in the Nackara project have expired with the rights reverting to their original owners. Only one lease remains which is held by FML, and its status is renewal pending.

Snowden has elected to use the Kilburn geo-scientific method (modified by Snowden) to value the exploration potential of the Nackara exploration property.

Table 16.14 Nackara Exploration Technical Value

Nackara													
Lease	Off Property		On Property		Anomaly		Geology		Lower	Upper	Preferred
EL 3710	1	1	1	1	0.5	0.6	0.3	0.4	$12,370	$19,790	$16,080
									$12,370	**$19,790**	**$16,080**

Snowden estimates that the technical value of FML's Nackara exploration tenement as calculated by the Kilburn geo-scientific method (modified by Snowden) lies in a range of $12,000 to $20,000 with a preferred value of $16,000.

In Snowden's opinion a 10% discount to the technical value of the project is necessary to reflect tenure risk inherent in the lease comprising the project.

Snowden estimate that the Market Value of FML's Nackara exploration property falls within a range of $11,000 to $18,000 with a preferred value of $14,000.

16.10.1 Nackara Valuation Summary

Nackara	Lower estimate	Upper estimate	Preferred Estimate
Exploration	$11,000	$18,000	$14,000

16.11 SOUTHERN GAWLER CRATON EXPLORATION PROPERTY

Snowden has elected to use the Kilburn geo-scientific method (modified by Snowden) to value the exploration potential of the Southern Gawler Craton diamond exploration property.

Table 16.15 Southern Gawler Exploration Technical Value

Southern Gawler Craton													
Lease	Off Property		On Property		Anomaly		Geology		Lower	Upper	Preferred
EL 4290	1	1	1	1	0.5	0.6	0.3	0.4	$360	$580	$470
EL 3928	1	1	1	1	0.5	0.6	0.3	0.4	$7,490	$11,990	$9,740
ELA 85/00	1	1	1	1	0.5	0.6	0.3	0.4	$8,220	$13,150	$10,690
ELA 95/01	1	1	1	1	0.5	0.6	0.3	0.4	$790	$1,260	$1,030
EL 4183	1	1	1	1	0.5	0.6	0.3	0.4	$540	$870	$710
									$17,400	**$27,850**	**$22,640**

Snowden estimates that the technical value of FML's Southern Gawler Craton diamond exploration property as calculated by the Kilburn geo-scientific method (modified by Snowden) lies in a range of $17,000 to $28,000 with a preferred value of $23,000.

In Snowden's opinion a 12% discount to the technical value of the project is necessary to reflect tenure risk associated with lease applications within the project area.

Snowden estimate that the Market Value of FML's Southern Gawler diamond exploration property falls within a range of $15,000 to $25,000 with a preferred value of $20,000.

Table 16.16 Southern Gawler Craton Valuation

Southern Gawler	Lower estimate	Upper estimate	Preferred Estimate
Exploration	$15,000	$25,000	$20,000

16.12 SPRINGFIELD EXPLORATION PROPERTY

Snowden has elected to use the Kilburn geo-scientific method (modified by Snowden) to value the exploration potential of the Springfield diamond exploration property.

Table 16.17 Springfield Exploration Technical Value

Springfield										
Lease	Off Property		On Property		Anomaly		Geology		Lower	Upper	Preferred
EL 3919	1	1	1	1	0.5	0.6	0.3	0.4	$15,350	$24,560	$19,960
EL 4404	1	1	1	1	0.5	0.6	0.3	0.4	$13,410	$21,460	$17,440
EL 4184	1	1	1	1	0.5	0.6	0.3	0.4	$8,400	$13,440	$10,920
EL 4209	1	1	1	1	0.5	0.6	0.3	0.4	$1,580	$2,530	$2,060
EL 4208	1	1	1	1.2	0.5	0.6	0.3	0.4	$53,190	$102,120	$77,660
EL 4606	1	1	1	1	0.5	0.6	0.3	0.4	$1,580	$2,530	$4,060
EL 3693	1	1	1	1	0.5	0.6	0.3	0.4	$9,300	$14,880	$12,090
									$102,810	**$181,520**	**$142,190**

Snowden estimates that the technical value of FML's Springfield diamond exploration property as calculated by the Kilburn geo-scientific method (modified by Snowden) lies in a range of $103,000 to $182,000 with a preferred value of $142,000.

In Snowden's opinion a 43% discount to the technical value of the project is necessary to reflect native title and tenure risk associated with the project as 70% of leases in the project are facing renewal risk.

Snowden estimate that the Market Value of FML's Springfield diamond exploration property falls within a range of $59,000 to $103,000 with a preferred value of $81,000.

16.12.1 Springfield Valuation Summary

Springfield	Lower estimate	Upper estimate	Preferred Estimate
Exploration	$59,000	$103,000	$81,000

16.13 MARKET VALUE

In arriving at a market value for the projects, Snowden has considered the current market for resource and exploration properties in Australia and is of the opinion that it is not appropriate to apply a market premium or discount to the derived technical value for the properties under consideration.

The estimated Market Value of the properties, for is therefore taken to be as follows:

Table 16.18 FML Market Value Exploration property Kilburn Method Value

Project	Commodity	Minimum	Maximum	Preferred
PIOP Exploration	Hematite Iron Exploration	$52,000	$541,000	$296,000
	Diamond Exploration	$43,000	$216,000	$130,000
Canegrass Exploration	Magnetite Vanadium Exploration	$237,000	$602,000	$420,000
Strangways	Diamond Vermiculite Base Metals	$93,000	$149,000	$121,000
Adelaide Hills	Diamond Base Metals	$105,000	$168,000	$136,000
Billa Kalina	Diamond	$132,000	$210,000	$171,000
Central Gawler Craton	Diamond	$24,000	$38,000	$31,000
Flinders Ranges Mn	Diamond	$15,000	$23,000	$19,000
Jamestown	Diamond Phosphate Iron	$99,000	$158,000	$129,000
Lake Torrens	Diamond	$81,000	$131,000	$106,000
Nackara	Diamond	$11,000	$18,000	$14,000
Southern Gawler Craton	Diamond	$15,000	$25,000	$20,000
Springfield	Diamond	$59,000	$103,000	$81,000
Subtotal		$966,000	$2,382,000	$1,674,000

Table 16.19 FML Market Value Canegrass Magnetite Vanadium Resource

Project	Commodity	Minimum	Maximum	Preferred
Canegrass Resource	Vanadium Magnetite	$7.37 M	$20.63 M	$14.00M

Table 16.20 Fair Market Value FML Mineral Assets Excluding PIOP Resources

Project	Commodity	Minimum	Maximum	Preferred
Exploration Value FML	All	$0.97 M	$2.38 M	$1.67 M
Canegrass Vanadium Resource	Vanadium Magnetite	$7.37 M	$20.63 M	$14.00M
Total		**$8.24 M**	**$22.26 M**	**$15.25 M**

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18. GLOSSARY

Term/abbreviation	Description
Abbreviations	g/t – grams per tonne, m – metre, M – million, km2 – kilometres square, NPV - Net Present Value, IRR - Internal rate of return, DCF - discounted cash flow
ABS	Australian Bureau of Statistics
Archean	Geological time classification system in which the rocks are greater than 2500 million years old.
ASCII	American Standard Code for Information Interchange
ASS	Acid Sulfate Soils
bcm	Bench Cubic Metre
BID	Bedded Iron Deposit
BIF	Banded Iron Formation
CaFe	Calcined FE = Fe% / (100-LOI%) * 100
Chert	A cryptocrystalline siliceous rock usually of sedimentary origin
CID	Channel Iron Deposit
CIF	Cost of Insurance and Freight
CRAE	Conzinc Rio Tinto Australia Exploration
CSV	Character Separated Variable
Cut-off	Grade above which material is considered ore
CWi	Bond Crushing Work Index
DCF	Discounted Cash Flow, DCF analysis is a method of valuing a project, company, or asset using the concepts of the time value of money
DD	Diamond Drill (Drilling, Drill Hole)
DEC	Western Australia Department of Environment and Conservation
DEM	Department of Environment and Conservation
DIA	Department of Indigenous Affairs
DMP	Department of Minerals and Petroleum

Term/abbreviation	Description
DMTU	Dry Metric Tonne Unit
Dolomite	A calcium/magnesium carbonate mineral
DOW	Department of Water
DRI	Degradation Reducibility Index
DSO	Direct Ship Ore
DTM	Digital Terrain Model
DXF	AutoCad Digital eXchange Format
Dyke	A long relatively thin sheet-like body of igneous rock that, while in the molten state, intruded a fissure in older rocks. It cuts across the bedding or structural planes of the host rock
EMP	Environmental Management Plan
EMS	Environmental Management System
EPA	Western Australia Environmental Protection Agency
EPBC Act	Environmental Protection and Biodiversity Conservation Act 1999
Erosion	The breaking down and subsequent removal of either rock or surface
Ferruginous	referring to material containing the element iron (Fe). Pertaining to or containing iron.
FMG	Fortescue Metals Group
FOB	Free On Board
GDEs	Groundwater dependent ecosystems
GIS	Geographic Information Systems
Goethite	A hydrated iron oxide mineral
Golder	Golder Associates Pty Ltd
GPL	General Propose Lease
GPS	Global Positioning System
Grade	The amount of valuable mineral in a rock or alluvial sample, usually expresses as a percentage, parts per million (ppm) or in grams per tonne(g/t) or grams per bank cubic metre (g/bcm).
ha	Hectare
Haematite	An oxide of iron (Fe2O3) and one of that metal's most common ore minerals
Indicated Mineral Resource	'An 'Indicated Mineral Resource' is that part of a Mineral Resource for which tonnage, densities, shape, physical characteristics, grade and mineral content can be estimated with a reasonable level of confidence. It is based on exploration, sampling and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drillholes. The locations are too widely or inappropriately spaced to confirm geological and/or grade continuity but are spaced closely enough for continuity to be assumed.' (JORC, 2004)
Inferred Mineral Resource	'An 'Inferred Mineral Resource' is that part of a Mineral Resource for which tonnage, grade and mineral content can be estimated with a low level of confidence. It is inferred from geological evidence and assumed but not verified geological and/or grade continuity. It is based on information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drillholes which may be limited or of uncertain quality and reliability.' (JORC, 2004)
Iron Ore	Minerals from which metallic iron (Fe) can be extracted
IRR	Internal rate of return is the rate of return on investment used in capital budgeting to measure and compare the profitability of investments
JORC	Australian Joint Ore Reserves Committee
JORC Code	Joint Ore Reserves Committee Code, common reference to the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves.

Term/abbreviation	Description
km	Kilometre
Limonite	Hydrous oxide of iron
LOI	Loss on Ignition
LOM	Life of Mine
MAIG	A post-nominal that signifies the holder is Member of the Australian Institute of Geoscientists ("AIG"). Under the JORC reporting code, a 'competent person' must be at a minimum a member of the AIG or the AusIMM.
MAusIMM	A post-nominal that signifies the holder is Member of the Australian Institute of Mining and Metallurgy ("AusIMM"). Under the JORC reporting code, a 'competent person' must be at a minimum a member of the AIG or the AusIMM.
Measured Mineral Resource	A "Measured Mineral Resources' is that part of a Mineral resources for which the tonnage, densities, shape, physical characteristics, grade and mineral content can be estimated with a high level of confidence. It is based on detailed and reliable exploration, sampling and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes. The locations are spaced closely enough to confirm the geological and/or grade continuity.
Mesa	An isolated, nearly level landmass standing distinctly
mg/L	milligram per litre – 10^{-3} grams per 10^{3} milllitres – parts per million parts
mineralization	The process by which minerals are introduced into a rock. More generally a term applied to accumulations of economic or related minerals in quantities ranging from anomalous to economically viable
Mineral Resource	Defined in the 2004 JORC Code as a concentration or occurrence of material of intrinsic economic interest in or on the earths crust in such a form, quality and quantity that there are reasonable prospects for eventual economic extraction. The location, quantity, grade, geological characteristics and continuity of a Mineral Resource are known, estimated or interpreted from specific geological evidence and knowledge.
ML	Mega litre – 10^{6} litres
MOU	Memorandum of Understanding
MP	Mining Proposal
Mtpa	Million tonnes per annum
NPV	Net Present Value is the sum of the present values (PVs) of the individual (annual) cash flows
NSR	Net Smelter Return is a royalty or certain percentage of the revenue generated by a smelter by using ore from a mine
NVCP	Native Vegetation Clearing Permit
OK	Ordinary Kriging
OPF	Ore Processing Facility
Ore Reserve	Defined in the 2004 JORC Code as the economically mineable part of a Measured and/or Indicated Mineral Resource. It includes diluting materials and allowances for losses, which may occur when the material is mined.
OS&H	Occupational Safety and Health
Paleochannel	A remnant of a stream channel cut in older rock and filled by sediments of younger overlying rock
PDF	Portable Document Format
PEC	Declared Priority Ecological Community
PER	Public Environmental Review

Term/abbreviation	Description
PIOP	Pilbara Iron Ore Project
Pisolite	A sedimentary rock composed principally of pisoliths
PMP	Project Management Plan
PoW	Program of Work
ppm	Parts per million – 10,000 ppm = 1%
Proterozoic	Geological time classification system in which rocks are between 570 and 2500 million years old.
Pyrite	A common iron mineral composed of iron and sulphur.
QA/QC	Quality Assurance Quality Control
QMS	Quality Management System
RC	Reverse Circulation
RDI	Reduction Degradation Index
RI	Sinter Reducibility Index
RL	Reduced Level
shale	A sedimentary rock formed by consolidation of clay, mud or silt, having laminated structure and composed of minerals essentially unaltered since deposition.
Silica	An oxide of silicone which is dominant in sand
Sill	An intrusive sheet of igneous rock of roughly uniform thickness that has been forced between the bedding planes of existing rock
siltstone	A fine-grained sedimentary rock
SINAD	Signal plus Noise and Distortion measurement
Sinter feed product	Fine particles of iron ore that have been treated by heat to produce blast furnace feed
Stratabound	Confined within a particular strata
Stratigraphy	The study of stratified rocks especially their sequence in time, the character of the rocks and the correlation of the beds in different localities.
Syncline	A fold in rock in which the strata dip inward from both sides toward the axis.
TCO	Total Cost Ownership
TDS	Total Dissolved Salts
TEC	Threatened Ecological Community
Tertiary	A geological time period from 70 to two million years ago
TGA	Thermogravimetric analysis
TI	Tumble Index
UHF	Ultra High Frequency
Valmin Code	The Valmin Code and guidelines sets standards for the preparation and commissioning of Independent Expert Reports for public documents as required by corporations law concerning the assessment and/or valuation of mineral or petroleum securities.
Variogram	A model of grade continuity as a foundation of time and/or space
VIU	Value in Use
XRF	X-ray Fluorescence

Appendix A Tenement Schedule

Pilbara Project								
Tenement	**Tenement Name**	**Area km^2**	**Area ha**	**Status**	**Application Date**	**Expiry Date**	**Holder**	**Agreements**
E47/882-I	Blacksmith	108		Live	31-10-97	30-10-12	FML	Prenti Agreement
M47/1451	Blacksmith ML		11,156	Pending	24-09-10		FML	Prenti Agreement
E47/1011-I	Bold Cliff	11		Live	19-06-01	18-06-12	FML	Prenti & Fortescue
E47/1016-I	Mulga Downs	127		Live	19-07-02	18-07-12	FML	Prenti & Fortescue
E47/1306-I	Hamersley West	126		Live	17-11-05	16-11-12	FML	Prenti & Fortescue
E47/1333-I	Satelite Spring	174		Live	28-07-07	27-07-12	FMG	Prenti & Fortescue
E47/1334-I	Satelite Spring East	176		Live	02-06-07	01-06-12	FMG	Prenti & Fortescue
E47/1352-I	Hamersley Station West	31		Live	16-02-08	15-02-13	FMG	Prenti & Fortescue
E47/1372-I	Hamersley Range	190		Live	16-05-07	15-05-12	FMG	Prenti & Fortescue
E47/1398	Fortescue Valley	196		Pending	08-04-04		FMG	Prenti & Fortescue
E47/1399	Range Bore	190		Pending	08-04-04		FMG	Prenti & Fortescue
E47/1436-I	Malay Well	98		Live	31-03-06	30-03-13	FMG	Prenti & Fortescue
E47/1523-I	Mt Brockman West	70		Live	16-02-08	15-02-13	FMG	Prenti & Fortescue
E47/1524-I	Mt Borckman North	148		Live	15-06-07	14-06-12	FMG	Prenti & Fortescue
E47/1560-I	Anvil	44		Live	06-09-07	05-09-12	FMG	Prenti & Fortescue
M47/663	Mulga Downs FMG		760	Pending	24-06-05		FML	Prenti & Fortescue
M47/664	Mulga Downs FMG		781	Pending	24-06-05		FML	Prenti & Fortescue
M47/665	Mulga Downs FMG		899	Pending	24-06-05		FML	Prenti & Fortescue
M47/666	Mulga Downs FMG		973	Pending	24-06-05		FML	Prenti & Fortescue
M47/667	Mulga Downs FMG		703	Pending	24-06-05		FML	Prenti & Fortescue
M47/668	Mulga Downs FMG		860	Pending	24-06-05		FML	Prenti & Fortescue
M47/669	Mulga Downs FMG		726	Pending	24-06-05		FML	Prenti & Fortescue
M47/670	Mulga Downs FMG		587	Pending	24-06-05		FML	Prenti & Fortescue
M47/671	Mulga Downs FMG		883	Pending	24-06-05		FML	Prenti & Fortescue
M47/672	Mulga Downs FMG		867	Pending	24-06-05		FML	Prenti & Fortescue
P47/1291-I	Gap Area	0.2		Live	27-09-07	26-06-15	FML	Prenti Agreement
M47/1407	Hamersley West FMG		1776	Pending	13-09-07		FML	Prenti & Fortescue

Canegrass Magnetite							
Tenement	Tenement Name	Area km^2	Status	Application Date	Expiry Date	Holder	Agreements
E58/232-I	Boulder Well	50	Live	29-07-02	28-07-12	FML	Maximus Canegrass agreement
E58/235-I	Canegras Well	50	Live	29-07-02	28-07-12	FML	Maximus Canegrass agreement
E58/236-I	Challa	50	Live	22-03-02	21-03-12	FML	Maximus Canegrass agreement
E58/271-I	Gingier Pool	132	Live	07-11-05	06-11-12	FML	Maximus Canegrass agreement
E58/282-I	Honeypot	25	Live	03-05-07	02-05-12	FML	Maximus Canegrass agreement
E58/307-I	Challa Homestead	3	Live	07-02-07	06-02-12	FML	Maximus Canegrass agreement
E58/308-I	Challa South	3	Live	07-02-07	06-02-12	FML	Maximus Canegrass agreement
E58/358-I	Pipeline	157	Live	22-03-10	21-03-15	FML	Maximus Canegrass and Corporate Group Agreements
E58/359-I	Bundy Well	211	Live	26-02-10	25-02-15	FML	Maximus Canegrass and Corporate Group Agreements
P58/1174	Windimurra W4	1.5	Live	03-04-07	02-04-11	FML	Maximus Canegrass agreement
P58/1175	Windimurra W5	1	Live	03-04-07	02-04-11	FML	Maximus Canegrass agreement
P58/1176	Windimurra W6	1.5	Live	03-04-07	02-04-11	FML	Maximus Canegrass agreement
P58/1300	Challa H1	0.4	Expired	18-09-06	17-09-10	FML	Maximus Canegrass agreement
P58/1301	Challa H2	0.4	Expired	18-09-06	17-09-10	FML	Maximus Canegrass agreement
P58/1302	Challa H3	1	Live	18-09-06	17-09-10	FML	Maximus Canegrass agreement
P58/1327	Challa H4	1.2	Live	01-11-06	31-10-10	FML	Maximus Canegrass agreement
P58/1328	Challa H5	1.8	Live	01-11-06	31-10-10	FML	Maximus Canegrass agreement
P58/1329	Challa H6	0.5	Live	01-11-06	31-10-10	FML	Maximus Canegrass agreement
P58/1330-I	Challa H7	0.5	Live	01-11-06	31-10-10	FML	Maximus Canegrass agreement
P58/1331	Challa H8	0.2	Live	01-11-06	31-10-10	FML	Maximus Canegrass agreement
P58/1352	Challa H9	0.2	Live	05-10-09	04-10-13	FML	Maximus Canegrass agreement
P58/1353	Challa H10	0.3	Expired	05-10-09	04-10-13	FML	Maximus Canegrass agreement
P58/1403	Challa A	1.4	Live	03-03-10	02-03-14	FML	Maximus Canegrass agreement
P58/1404		0.5	Live	03-03-10	02-03-14	FML	Maximus Canegrass agreement
P58/1405	Bullock Well North	0.2	Expired	31-12-08	30-12-12	FML	Maximus Canegrass agreement
P58/1406	Bullock Well	0.2	Expired	31-12-08	30-12-12	FML	Maximus Canegrass agreement
P58/1425		0.5	Live	28-06-10	24-06-14	FML	Maximus Canegrass agreement
P58/1426		0.2	Live	28-06-10	27-06-14	FML	Maximus Canegrass agreement
P58/1427		0.4	Live	28-06-10	27-06-14	FML	Maximus Canegrass agreement
P58/1428		0.2	Live	28-06-10	27-06-14	FML	Maximus Canegrass agreement
P58/1429		0.2	Expired	21-04-10	20-04-14	FML	Maximus Canegrass agreement
P58/1430		0.3	Expired	21-04-10	21-04-14	FML	Maximus Canegrass agreement
P58/1431		0.2	Expired	21-04-10	22-04-14	FML	Maximus Canegrass agreement
P58/1432		0.2	Expired	26-02-10	25-02-14	FML	Maximus Canegrass agreement
P58/1433		0.4	Expired	26-02-10	25-02-14	FML	Maximus Canegrass agreement
P58/1434		0.2	Expired	26-02-10	25-02-14	FML	Maximus Canegrass agreement
P58/1435		0.2	Expired	26-02-10	25-02-14	FML	Maximus Canegrass agreement
P58/1436		0.2	Live	26-02-10	25-02-14	FML	Maximus Canegrass agreement
P58/1437		0.5	Expired	26-02-10	25-02-14	FML	Maximus Canegrass agreement
P58/1438		0.5	Live	26-02-10	25-02-14	FML	Maximus Canegrass agreement
P58/1439		0.2	Live	26-02-10	25-02-14	FML	Maximus Canegrass agreement
P58/1440		0.2	Live	04-03-10	03-03-14	FML	Maximus Canegrass agreement
P58/1445		0.2	Live	04-03-10	03-03-14	FML	Maximus Canegrass agreement
P59/1851		0.2	Live	21-04-10	20-04-14	FML	Maximus Canegrass agreement
P59/1865		0.2	Live	08-03-10	07-03-14	FML	Maximus Canegrass agreement
P59/1866		0.2	Live	08-03-10	07-03-14	FML	Maximus Canegrass agreement

Strangways							
Tenement	**Tenement Name**	**Area km^2**	**Status**	**Application Date**	**Expiry Date**	**Holder**	**Agreements**
SEL25055	Strangways	1118	Live	13-06-06	12-06-12	FML	Maximus Agreement
SEL25056	Mud Tank Alcoota	520	Live	13-06-06	12-06-12	FML	Maximus Agreement

Adelaide Hills							
Tenement	**Tenement Name**	**Area km^2**	**Status**	**Application Date**	**Expiry Date**	**Holder**	**Agreements**
EL 4303	Lobethal	333	Live	01-09-09	31-08-2011*	FML	Maximus Agreement
EL 4401	Kanmantoo	489	Live	17-12-09	16-12-12	Hillgrove Resources	Kelaray greement
EL 4641	Echunga	253	Live	07-01-11	6-01-2012*	FML	Maximus Agreement
EL 4712	Mt Pleasant	690	Live	30-03-11	29-03-12	FML	Maximus Agreement
EL 4091	Mt Barker	162	Live	25-02-08	24-02-12	FML	Maximus Agreement
EL 4131	Kapunda	641	Live	28-04-08	27-04-12	FML	Maximus Agreement
EL 4227	Brukunga	176	Live	25-02-09	24-02-12	FML	Maximus Agreement
EL 4464	Tarlee	105	Live	13-04-10	12-04-12	FML	Maximus Agreement

Billa Kalina							
Tenement	**Tenement Name**	**Area km^2**	**Status**	**Application Date**	**Expiry Date**	**Holder**	**Agreements**
EL 4760	Francis	345	Live	22-06-11	21-06-12	FML	Maximus Agreement
EL 4759	Margaret	477	Live	22-06-11	21-06-12	FML	Maximus Agreement
EL 4463	Billa Kalina	1023	Live	13-04-10	12-04-12	FML	Maximus Agreement
Pt EL 3170 (ELA 33/10)	Bamboo Lagoon	412	Pending	17-02-10		FML	Maximus Agreement
EL 3338 (ELA 78/10)	Millers Creek	771	Pending	18-03-10		FML	Maximus Agreement

Central Gawler Craton							
Tenement	**Tenement Name**	**Area km^2**	**Status**	**Application Date**	**Expiry Date**	**Holder**	**Agreements**
EL 3343 (ELA 59/10)	Sandstone	322	Pending	01-01-10		Tasman Resources NL	Tasman Agreement
EL 3423 (ELA 233/10)	Wildingi Claypan	215	Pending	01-01-10		Tasman Resources NL	Tasman Agreement
EL 3532 (ELA 006/11)	Galaxy Tank	295	Pending	12-12-10		Tasman Resources NL	Tasman Agreement

Flinders Rangers Manganese							
Tenement	**Tenement Name**	**Area km^2**	**Status**	**Application Date**	**Expiry Date**	**Holder**	**Agreements**
EL 4709	Murray Town	212	Live	29-03-11	28-03-13	Flinders Iron Pty Ltd	none
EL 4710	Mt Ragless	242	Live	29-03-11	28-03-13	Flinders Iron Pty Ltd	none

Jamestown Project							
Tenement	**Tenement Name**	**Area km^2**	**Status**	**Application Date**	**Expiry Date**	**Holder**	**Agreements**
EL 4366	Mt Remarkable	58	Live	10-11-09	9-11-2010*	FML	none
EL 4367	Slippery Corner	210	Live	10-11-09	9-11-2010*	FML	Tarcowie Agreement
EL 4368	Caltowie	670	Live	10-11-09	9-11-2010*	FML	Tarcowie and Copper Agreement
EL 4369	Jamestown	218	Live	10-11-09	9-11-2010*	FML	none
EL 4370	Washpool	209	Live	10-11-09	09-11-12	Pheonix Copper Ltd	Phoenix Agreement
EL 4371	Steves Gap	110	Live	10-11-09	9-11-2010*	FML	none
EL 4372	Pekina	326	Live	09-11-09	9-11-2010*	FML	none
EL 4410	Twelve Mile	176	Live	19-01-10	18-01-12	FML	none
EL 4373	Lancelot	622	Live	09-11-09	8-11-2010*	FML	none
EL 4374	Amyton	142	Live	09-11-09	8-11-2010*	FML	none

Lake Torrens							
Tenement	**Tenement Name**	**Area km^2**	**Status**	**Application Date**	**Expiry Date**	**Holder**	**Agreement**
EL 4206	White Cliff	140	Live	17-11-08	16-11-12	Tasman Resources NL	none
EL 4300	Amdamooka	12	Live	25-08-09	24-08-13	Tasman Resources NL	none
EL 3177 (ELA 436/08)	Todds Dam	402	Pending	01-01-08		Tasman Resources NL	none
EL 4322	Amdamooka North	1295	Live	14-10-09	13-10-12	Tasman Resources NL	none

Nackara							
Tenement	**Tenement Name**	**Area km^2**	**Status**	**Application Date**	**Expiry Date**	**Holder**	**Agreements**
EL 4638	Bendigo	394	Live	20-12-10	19-12-11	Novec Pty Ltd	Simnovec Agreement
EL 3832	Pandappa	306	Live	12-07-07	11-07-2011*	Amona Mining & Exploration Pty Ltd	Simnovec Agreement
EL 4294	Nackara	556	Live	18-08-09	17-08-2011*	John J Simnovec	Simnovec Agreement
EL 3741	McCoys Well	274	Live	12-04-07	11-04-2011*	Flinders Mines Ltd	none
EL 3692	Mount Grainger	375	Live	06-02-07	05-02-12	IR, MA & WJ Filsell	Filsell Agreement
EL 4593	Paratoo	191	Live	02-11-10	01-11-12	IR & MA Filsell	Filsell Agreement

Southern Gawler Craton							
Tenement	**Tenement Name**	**Area km^2**	**Status**	**Application Date**	**Expiry Date**	**Holder**	**Agreements**
EL 4290	Flinders Island	16	Live	03-08-09	02-08-2011*	Orogenic Exploration PL & Tawana Resources NL	Tawana Orogenic Agreement
EL 3928	Venus Bay	332	Live	17-09-07	16-09-2011*	Orogenic Exploration PL & Tawana Resources NL	Tawana Orogenic Agreement
ELA 85/00	Offshore Flinders Island	364	Pending	01-01-00		Orogenic Exploration PL & Tawana Resources NL	Tawana Orogenic Agreement
ELA 95/01	Venus Bay Coastal	35	Pending	01-01-01		Orogenic Exploration PL & Tawana Resources NL	Tawana Orogenic Agreement
EL 4183	Flinders Island Coastal	24	Live	08-09-08	07-09-2011*	Orogenic Exploration PL & Tawana Resources NL	Tawana Orogenic Agreement

Springfield							
Tenement	**Tenement Name**	**Area km^2**	**Status**	**Application Date**	**Expiry Date**	**Holder**	**Agreements**
EL 3919	Springfield	340	Live	03-09-07	2-09-2011*	Flinders Mines Ltd	none
EL 4404	Kanyaka	297	Live	23-12-09	22-12-2011*	Flinders Mines Ltd	none
EL 4184	Glen Oak	186	Live	18-09-08	17-09-2011*	Flinders Mines Ltd	none
EL 4209	Willochra	35	Live	18-11-08	17-11-2011*	Flinders Mines Ltd	none
EL 4208	Gilbert Hill	1178	Live	18-11-08	17-11-2011*	Flinders Mines Ltd	none
EL 4606	Quorn	35	Live	19-11-10	18-11-11	Flinders Mines Ltd	none
EL 3693	Radford Creek	206	Live	06-02-07	05-02-12	Flinders Mines Ltd	none

Appendix B Comparable Transactions

Vanadium Resource Transactions

Project Name &Date	Transaction Details	Asset Details	Purchase Price USD $M	$/lb V_2O_5
Mount Peake VanadiumAugust 2011	On 3 August 2011 TNG Limited announced the investment of $13.4 million in TNG by Jiangsu Eastern China Non-Ferrous Metals Investment Holding Company Ltd (ECE). Through the investment ECE will earn a 30% stake in TNG.	The Mount Peake project is locatedin the Northern Territory close toexisting key power and transport infrastructure. The area under licencecovers a highly prospective, butpoorly explored area of the WesternArunta geological province. The project currently has a JORC inferred resource estimate of 139Mt@ 0.29% vanadium (V205), 5.3%titanium (TiO2) and 23.7% iron (Fe). Calculation for Vanadium resource only.	48.7M	$0.055
Mount Peake VanadiumAugust 2011	On 3 August 2011 TNG Limited announced the investment of $13.4 million in TNG by Jiangsu Eastern China Non-Ferrous Metals Investment Holding Company Ltd (ECE). Through the investment ECE will earn a 30% stake in TNG.	The Mount Peake project is locatedin the Northern Territory close toexisting key power and transport infrastructure. The area under licencecovers a highly prospective, butpoorly explored area of the WesternArunta geological province. The project currently has a JORC inferred resource estimate of 139Mt@ 0.29% vanadium (V205), 5.3%titanium (TiO2) and 23.7% iron (Fe). Calculation for Vanadium resource only.	48.7M	
Atlantic Ltd Windimurra Vanadium Mine August 2010	On 5 August 2010 Atlantic Limited (Atlantic) increased their holding in Midwest Vanadium Pty Ltd, the company that holds 100% of the Windimurra Vanadium project. Atlantic paid AU$16M to acquire Mineral Resources Ltd (MRL) 27.5% interest in the project, increasing Atlantic's interest to 90%.	The Windimurra vanadium project contains a mineral resource of 176.6Mt of V2o5 at an average grade of 0.46% and an ore reserve of 97.8Mt of V2O5 at an average grade of 0.47% as at December 2008, a more recent study was released on 16 May 2011.	$53.2M	$0.030
Windimurra Vanadium Project April 2010	On 8 April 2010 Atlantic Ltd announced it has reached agreement with Mineral Resources Limited to work together to acquire and commission the world class Windimurra Vanadium project in Western Australia. Underpinning the transaction is the agreement that Atlantic and MRL have reached with the secured lenders to Midwest Vanadium Pty Ltd (MVPL), the company that holds 100% of the Project, whereby, subject to completion, MRL and Atlantic will acquire a 90% equity interest in MVPL in return for procuring new project finance in the order of $90-100 million to complete construction and commissioning of the Project.	The Project is located 600km north-east of Perth, Western Australia near Mt Magnet. The Project is owned 100% by MVPL and the plant and mine is at an advanced stage of construction (estimated to be 85% complete). The Project hosts one of the world's largest known vanadium deposits. The current owner of the Project has previously stated that the current JORC-compliant reserve at Windimurra is 97.8 million tonnes at 0.47% V2O5. The Project site is close to existing infrastructure and will be serviced by the Midwest gas pipeline and existing on-site power generators.	100M	$0.056

Project Name &Date	Transaction Details	Asset Details	Purchase Price USD $M	$/lb V_2O_5
Titan Vanadium-Titanium-Iron Project January 2010	January 14, 2010 - Prophecy Resource Corp. (TSX.V: PCY; OTC: PCYRF; Frankfurt: 3P1) has entered into an option agreement with Randsburg International Gold Corp. (TSX.V: RGZ) whereby Prophecy can earn an 80% interest in the Titan Vanadium-Titanium-Iron project located in Ontario, Canada. Under the agreement, Prophecy shall have the right to acquire an 80% interest in the Titan Project by paying Randsburg an aggregate of $500,000 and incurring $200,000 in Exploration Expenditures by December 31, 2010. This transaction is subject to completion of due diligence and acceptance for filing by the TSX Venture Exchange.	The Titan project is located in eastern Ontario approximately 120 km east-northeast of Sudbury, straddling the boundary between Angus and Flett Townships, with access to excellent infrastructure. The Titan property consists of 1,052 contiguous hectares (2,600 acres) comprising 17 patented claims and 3 mining claims. Magnetite, ilmenite, titanium dioxide, and vanadium mineralization at Titan occurs in a southeast plunging body in gabbro to leucotroctolite in the northeastern corner of the Fall Lake complex. The Titan deposit is located at the northern end of an aeromagnetic anomaly that is approximately1,200 by 800 meters in area. A total of 4,898 assay intervals are recorded from 38 core holes drilled by Randsburg on the property. Drilling highlights reported by Randsburg included 142 meters of 0.27% Vanadium (0.48% Vanadium Pentoxide) from hole RA-5-21 and 174 meters of 0.26% Vanadium (0.46% Vanadium Pentoxide) from hole RA-5-10. The mineralization started from surface to an open vertical depth of 500 meters. The complete horizontal and vertical extent of the deposit is still to be determined. Information on the geology at Titan and assay results reported by Randsburg are available below. A Technical Report dated February 12, 2007 prepared by Mines Development Associates for Randsburg calculated a National Instrument 43-101 compliant Inferred Resource for the Titan project.	$8.75M	$0.019

Hematite Exploration Transactions – all USD

Date / Project Name	Transaction Details	Assets Details	100% Basis Purchase price	Km^2	$/km^2$
June 2009Mulgara Minerals	On 29 June 2009 Midas Resources Limited entered into a conditional Sale and Purchase Agreement to acquire Mulga Minerals Pty Ltd from the D B Family Trust. The consideration for the purchase is 6 million Midas fully paid shares and $75,000 in cash.	The tenement package consists of seven tenements and four separate project areas, Marandoo, West Angelas, West Pilbera, Yandicoogina and Red Hill.	$157,590	114	$1,385
June 2009Jigalong Project iron Rights	On 19 June 2009 Pilbara explorer, Warwick Resources Limited (ASX:WRK) is pleased to announce that it has entered into agreements with Hannans Reward Ltd and Atlas Iron Ltd to purchase the Jigalong Project iron rights in the East Pilbara region of Western Australia. Purchase price of $5,250,000 payable in cash, Warwick shares and Atlas shares. 2. On completion, Hannans shall be paid the following: a. $750,000 cash; b. $2,100,000 through the issue of 14,000,000 fully paid ordinary shares in Warwick at a deemed issue price of 15 cents per share; c. Warwick shall procure the issue by Atlas of 700,000 fully paid ordinary shares in Atlas at a deemed issue price of $1.65 per share ($1,155,000); 3. Deferred consideration of $1,245,000 through the issue of 8,300,000 fully paid ordinary shares in Warwick at a deemed issue price of 15 cents per share: a. 3,333,333 shall be issued upon the earlier of 6 months or the reporting of a JORC resource of at least 50 Mt at Jigalong; and b. 4,966,667 shall be issued upon the earlier of 12 months or the reporting of a JORC resource of at least 100 Mt at Jigalong. price of 15 cents per share.	The Jigalong Project is located 165km (approx) east of Newman in the mineral rich East Pilbara region of Western Australia. It covers a large area (approx. 2,000km2) of under explored terrain prospective for a range of commodities (gold, base metals, uranium, manganese and iron)	$4,525,500	2000	$2,126
July 2008E47/1560	Flinders Mines Ltd acquired from Cazaly Resources Ltd a 100% interest in E47/1560 for A$0.75 M cash and A$0.75 M in shares.	The 44 sqkm tenement E47/1560 is located in the Hamersley Ranges of the Pilbara Region of Western Australia. Flinders Mines Ltd reports that based on geological mapping programmes, the project area is prospective for hosting CID and dertrital iron mineralisation.	$1,442,620	44	$32,786
May 2008Haddington Pilbara	Atlas Iron Ltd obtained from Haddington Resources Ltd the option acquire a 100% interest in the iron rights to its Pilbara project area for 0.73 M shares (stated value of A$2.06/share) an a 2% NSR (excluded from this valuation). At the time of announcement, Atlas Iron Ltd's shares were trading at A$3.96/share. For the purpose of this valuation, the A$2.06 share price is used.	The discontiguous 610 sqkm Pilbara project areas are located within 50 km to the east of Wodgina in the Pilbara Region, Western Australia. Little information was disclosed about the iron potential of the project area.	$1,463,740	610	$2,399
May 2008HaddingtonPilbara	Atlas Iron Ltd obtained from Haddington Resources Ltd the option acquire a 100% interest in the iron rights to its Pilbara project area for 0.73 M shares (stated value of A$2.06/share) an a 2% NSR (excluded from this valuation). At the time of announcement, Atlas Iron Ltd's shares were trading at A$3.96/share. For the purpose of this valuation, the A$3.96 share price is used.	The discontiguous 610 sqkm Pilbara project areas are located within 50 km to the east of Wodgina in the Pilbara Region, Western Australia. Little information was disclosed about the iron potential of the project area.	$2,751,830	610	$4,511

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THIS FINANCIAL SERVICES GUIDE FORMS PART OF THE INDEPENDENT EXPERT'S REPORT

4 January 2012

PART 2 - FINANCIAL SERVICES GUIDE

1. Ernst & Young Transaction Advisory Services

Ernst & Young Transaction Advisory Services Limited ("Ernst & Young Transaction Advisory Services" or "we," or "us" or "our") has been engaged to provide general financial product advice in the form of an Independent Expert's Report ("Report") in connection with a financial product of another person. The Report is set out in Part 1.

2. Financial Services Guide

This Financial Services Guide ("FSG") provides important information to help retail clients make a decision as to their use of the general financial product advice in a Report, information about us, the financial services we offer, our dispute resolution process and how we are remunerated.

3. Financial services we offer

We hold an Australian Financial Services Licence which authorises us to provide the following services:

- Financial product advice in relation to securities, derivatives, general insurance, life insurance, managed investments, superannuation, and government debentures, stocks and bonds; and
- Arranging to deal in securities.

4. General financial product advice

In our Report we provide general financial product advice. The advice in a Report does not take into account your personal objectives, financial situation or needs.

You should consider the appropriateness of a Report having regard to your own objectives, financial situation and needs before you act on the advice in a Report. Where the advice relates to the acquisition or possible acquisition of a financial product, you should also obtain an offer document relating to the financial product and consider that document before making any decision about whether to acquire the financial product.

We have been engaged to issue a Report in connection with a financial product of another person. Our Report will include a description of the circumstances of our engagement and identify the person who has engaged us. Although you have not engaged us directly, a copy of the Report will be provided to you as a retail client because of your connection to the matters on which we have been engaged to report.

5. Remuneration for our services

We charge fees for providing Reports. These fees have been agreed with, and will be paid by, the person who engaged us to provide a Report. Our fees for Reports are based on a time cost or fixed fee basis. Our directors and employees providing financial services receive an annual salary, a performance bonus or profit share depending on their level of seniority.

Ernst & Young Transaction Advisory Services is ultimately owned by Ernst & Young, which is a professional advisory and accounting practice. Ernst & Young may provide professional services, including audit, tax and financial advisory services, to the person who engaged us and receive fees for those services.

Except for the fees and benefits referred to above, Ernst & Young Transaction Advisory Services, including any of its directors, employees or associated entities should not receive any fees or other benefits, directly or indirectly, for or in connection with the provision of a Report.

6. Associations with product issuers

Ernst & Young Transaction Advisory Services and any of its associated entities may at any time provide professional services to financial product issuers in the ordinary course of business.

7. Responsibility

The liability of Ernst & Young Transaction Advisory Services, if any, is limited to the contents of this Financial Services Guide and the Report.

8. Complaints process

As the holder of an Australian Financial Services Licence, we are required to have a system for handling complaints from persons to whom we provide financial services. All complaints must be in writing and addressed to the AFS Compliance Manager or Chief Complaints Officer and sent to the address below. We will make every effort to resolve a complaint within 30 days of receiving the complaint. If the complaint has not been satisfactorily dealt with, the complaint can be referred to the Financial Ombudsman Service Limited.

9. Compensation Arrangements

The Company and its related entities hold Professional Indemnity insurance for the purpose of compensation should this become relevant. Representatives who have left the Company's employment are covered by our insurances in respect of events occurring during their employment. These arrangements and the level of cover held by the Company satisfy the requirements of Section 912B of the Corporations Act 2001.

Contacting Ernst & Young Transaction Advisory Services	**Contacting the Independent Dispute Resolution Scheme:**
AFS Compliance Manager Ernst & Young 680 George Street Sydney NSW 2000 Telephone: (02) 9248 5555	Financial Ombudsman Service Limited PO Box 3 Melbourne VIC 3001 Telephone: 1300 78 08 08

This Financial Services Guide has been issued in accordance with ASIC Class Order CO 04/1572.

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Flinders MINES

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Lodge your vote:

Online:
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Proxy Form

Vote online or view the annual report, 24 hours a day, 7 days a week:
www.investorvote.com.au

- ☑ **Cast your proxy vote**
- ☑ **Access the annual report**
- ☑ **Review and update your securityholding**

Your secure access information is:
Control Number: 999999

SRN/HIN: I9999999999 **PIN: 99999**

PLEASE NOTE: For security reasons it is important that you keep your SRN/HIN confidential.

For your vote to be effective it must be received by 10:00am (Adelaide time) Wednesday 28 March 2012

How to Vote on Items of Business

All your securities will be voted in accordance with your directions.

Appointment of Proxy

Voting 100% of your holding: Direct your proxy how to vote by marking one of the boxes opposite each item of business. If you do not mark a box your proxy may vote as they choose. If you mark more than one box on an item your vote will be invalid on that item.

Voting a portion of your holding: Indicate a portion of your voting rights by inserting the percentage or number of securities you wish to vote in the For, Against or Abstain box or boxes. The sum of the votes cast must not exceed your voting entitlement or 100%.

Appointing a second proxy: You are entitled to appoint up to two proxies to attend the meeting and vote on a poll. If you appoint two proxies you must specify the percentage of votes or number of securities for each proxy, otherwise each proxy may exercise half of the votes. When appointing a second proxy write both names and the percentage of votes or number of securities for each in Step 1 overleaf.

A proxy need not be a securityholder of the Company.

Signing Instructions for Postal Forms

Individual: Where the holding is in one name, the securityholder must sign.
Joint Holding: Where the holding is in more than one name, all of the securityholders should sign.
Power of Attorney: If you have not already lodged the Power of Attorney with the registry, please attach a certified photocopy of the Power of Attorney to this form when you return it.
Companies: Where the company has a Sole Director who is also the Sole Company Secretary, this form must be signed by that person. If the company (pursuant to section 204A of the Corporations Act 2001) does not have a Company Secretary, a Sole Director can also sign alone. Otherwise this form must be signed by a Director jointly with either another Director or a Company Secretary. Please sign in the appropriate place to indicate the office held. Delete titles as applicable.

Attending the Meeting

Bring this form to assist registration. If a representative of a corporate securityholder or proxy is to attend the meeting you will need to provide the appropriate "Certificate of Appointment of Corporate Representative" prior to admission. A form of the certificate may be obtained from Computershare or online at www.investorcentre.com under the information tab, "Downloadable Forms".

Comments & Questions: If you have any comments or questions for the company, please write them on a separate sheet of paper and return with this form.

GO ONLINE TO VOTE,
or turn over to complete the form ➔

MR SAM SAMPLE
FLAT 123
123 SAMPLE STREET
THE SAMPLE HILL
SAMPLE ESTATE
SAMPLEVILLE VIC 3030

☐ **Change of address.** If incorrect, mark this box and make the correction in the space to the left. Securityholders sponsored by a broker (reference number commences with '**X**') should advise your broker of any changes.

I 9999999999 I N D

Proxy Form

Please mark ☒ to indicate your directions

STEP 1 Appoint a Proxy to Vote on Your Behalf

XX

I/We being a member/s of Flinders Mines Limited hereby appoint

☐ **the Chairman of the meeting** **OR** _____

PLEASE NOTE: Leave this box blank if you have selected the Chairman of the Meeting. Do not insert your own name(s).

or failing the individual or body corporate named, or if no individual or body corporate is named, the Chairman of the Meeting, as my/our proxy to act generally at the meeting on my/our behalf and to vote in accordance with the following directions (or if no directions have been given, as the proxy sees fit) at the Scheme Meeting of Flinders Mines Limited to be held at Enterprise House, 136 Greenhill Road, Unley, South Australia, 5061 on Friday 30 March 2012 at 10:00am (Adelaide time) and at any adjournment of that meeting.

STEP 2 Items of Business

PLEASE NOTE: If you mark the **Abstain** box for an item, you are directing your proxy not to vote on your behalf on a show of hands or a poll and your votes will not be counted in computing the required majority.

		For	Against	Abstain
1	Approval of Scheme of Arrangement	☐	☐	☐

The Chairman of the Meeting intends to vote undirected proxies in favour of each item of business.

SIGN Signature of Securityholder(s) *This section must be completed.*

Individual or Securityholder 1	Securityholder 2	Securityholder 3
Sole Director and Sole Company Secretary	**Director**	**Director/Company Secretary**

Contact Name _____ **Contact Daytime Telephone** _____ **Date** / /