



21 August 2015

Todd Transaction Meeting Documents

Following the announcement on 13 August 2015 regarding the Shareholder Meeting, the Directors of Flinders Mines Limited (ASX:FMS) advise that the meeting documentation, providing information to assist Flinders shareholders decide how to vote in relation to the Todd Transaction, is attached. The meeting documentation is expected to be dispatched to all Flinders shareholders today.

Flinders shareholders should read the meeting documentation, including the report by independent expert, Deloitte Corporate Finance Pty Ltd (Independent Expert) before deciding how to vote. The Independent Expert, has concluded that the Todd Transaction is fair and reasonable to the holders of the Company's shares whose votes are not to be disregarded (Non-Associated Shareholders). The Directors of Flinders continue to unanimously recommend that Flinders shareholders vote in favour of the Todd Transaction in the absence of a superior proposal.

As previously announced, the Shareholder Meeting will be held on Thursday, 24th September 2015 at 10.00 am (Adelaide time).



IAN GORDON
MANAGING DIRECTOR

21 August 2015

Dear Flinders Mines shareholder,

Please find attached a Notice of Meeting and Independent Expert's Report ("IER") with respect to the current offer from New Zealand's Todd Corporation, through its wholly-owned subsidiary, PIO Mines Pty Ltd ("Todd") to acquire Flinders' Pilbara Iron Ore Project ("PIOP") via the Option and Sale Agreement executed on the 8th of May, 2015 ("Offer").

The Option and Sale Agreement gives Todd the right to acquire the PIOP for A\$55 million on or before 31 December 2016 by paying an option fee of A\$10 million. Todd may extend the option for two periods of two years each (total of 4 years post 31 December 2016) by paying an additional A\$10 million per extension, on top of the initial option payment. If Todd exercises the option and develops the PIOP, it will also pay Flinders a royalty on the production of PIOP iron ore. Todd will fund all ongoing project costs during the term of this option period.

As you know, your Company has undertaken significant work to mature the PIOP from a virgin iron ore discovery to the point where the project might be either developed or sold. Given the hurdles associated with a company the size of Flinders contemplating a multi-billion dollar development, your Directors recommend that in the absence of a superior proposal, you accept the Offer, and further, they intend to vote their own shares in favour of the Offer.

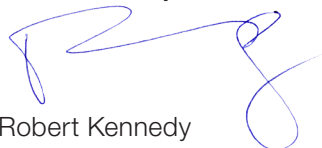
The attached IER, which has been prepared by Deloitte Corporate Finance, **concludes that the Offer is fair and reasonable to the non-associated Flinders' shareholders**. Your Directors recommend that you carefully read the IER and obtain your own financial advice in respect to the Offer and your shareholdings.

Accepting or rejecting the Offer both present risks to shareholders. These risks are fully detailed in the IER. Your Directors believe that on balance, the Offer is in the best interests of shareholders because:

- The consideration offered by Todd is fair and reasonable to the non-associated Flinders shareholders, even without considering the potential future royalty returns if the PIOP is developed.
- The Offer allows your Directors to make an immediate return to shareholders via a capital return of A\$0.0025 per share, if approved by shareholders.
- The minimum option fee and exercise price of A\$65 million is a significant premium to the value of the PIOP as determined by the Independent Expert of A\$45 million.
- If the project is developed the Company will receive substantial cash flows from the Royalty.
- If the option is not exercised, Flinders will have received a non-refundable option premium of a minimum A\$10 million while retaining a 100% interest in the PIOP.

I commend the Todd Offer to you and look forward to your support at the shareholders' meeting on 24 September, 2015.

Yours sincerely

A handwritten signature in blue ink, appearing to be "Robert Kennedy", written over a light blue horizontal line.

Robert Kennedy

Chairman

Notice of General Meeting

**General Meeting to be held at
Crowne Plaza, Level 15, Hindmarsh Room 3, 16 Hindmarsh Square, Adelaide SA
on Thursday, 24 September 2015 at 10.00 am (Adelaide time).**

FLINDERS MINES LIMITED

ABN 46 091 118 044

FLINDERS MINES LIMITED
ABN 46 091 118 044

NOTICE OF GENERAL MEETING

Notice is hereby given that a General Meeting of the shareholders of Flinders Mines Limited (the **Company** or **Flinders**) will be convened at 10.00 a.m. on Thursday, 24 September 2015, at Crowne Plaza, Level 15, Hindmarsh Room 3, 16 Hindmarsh Square, Adelaide SA, to consider and, if thought fit, pass the following resolutions.

If you are unable to attend the Meeting, we encourage you to complete and return the enclosed Proxy Form. The completed Proxy Form must be received by the Company at least 48 hours before the commencement of the Meeting.

AGENDA

RESOLUTION 1 – Approval to grant PIO Mines Pty Ltd an option to purchase the Company's Pilbara Iron Ore Project and if that option is exercised, sell the Pilbara Iron Ore Project

To consider and, if thought fit, pass the following resolution as an ordinary resolution:

"That, for the purposes of ASX Listing Rule 10.1 and for all other purposes, approval is given for the Company to:

1. enter into the Option and Sale Agreement with PIO Mines Pty Ltd, the material terms and conditions of which are summarised in the Explanatory Statement;
2. grant PIO Mines Pty Ltd an option to purchase the Company's Pilbara Iron Ore Project (**PIOP**) in accordance with the Option and Sale Agreement; and
3. if that option is exercised, sell the PIOP to PIO Mines Pty Ltd (or its Related Body Corporate) in accordance with the Option and Sale Agreement

on the terms and conditions described in the Explanatory Statement."

Voting Exclusion Statement

A vote on this resolution must not be cast (in any capacity) by or on behalf of the following persons:

- PIO Mines Pty Ltd and their Associates or any other party to the transaction;
- a person (and their Associates) who might obtain a benefit, except a benefit solely in the capacity of a holder of ordinary securities, if the resolution is passed.

However, the Company will not disregard a vote if the vote is cast as proxy for a person entitled to vote in respect of this resolution:

- in accordance with the directions on the Proxy Form; or
- by the chairman of the Meeting pursuant to an express authorisation to exercise the proxy.

Independent Expert's Report

Deloitte Corporate Finance Pty Limited has prepared an Independent Expert's Report relating to the approval required for the purpose of ASX Listing Rule 10.1 and concluded that the Option Grant Transaction is fair and reasonable to the holders of the Company's shares whose votes are not to be disregarded (**Non-Associated Shareholders**). The Independent Expert's Report is set out in Annexure A to this Notice. Shareholders should carefully read the Independent Expert's Report as it provides information which the Directors believe to be material to shareholders in deciding whether or not to pass this resolution.

RESOLUTION 2 – Return of Capital to Shareholders

To consider and, if thought fit, pass the following resolution as an ordinary resolution:

"That subject to and conditional on the passing of resolution 1, for the purposes of Part 2J.1 of the *Corporations Act 2001* (Cth) and for all other purposes, approval is given (on the terms and conditions described in the Explanatory Statement) for the share capital of the Company to be reduced by up to approximately \$6.9 million, such reduction of capital to be effected by the Company paying to each registered holder of fully paid ordinary shares in the Company as at a record date to be determined, an amount of \$0.0025 per fully paid ordinary share in the Company held by the holder at that time."

OTHER BUSINESS

To transact any further business that may be lawfully brought forward.

Further information regarding the business to be transacted at the General Meeting is set out in the accompanying Explanatory Statement.

Dated this 21st day of August 2015.

BY ORDER OF THE BOARD



Justin Nelson
Company Secretary

EXPLANATORY STATEMENT PART 1 (GENERAL INFORMATION)

This Explanatory Statement accompanies and forms part of the Notice of General Meeting dated 21 August 2015 and has been prepared to provide shareholders with material information to enable them to make an informed decision on the business to be conducted at the General Meeting of the Company. Amongst other things, this Explanatory Statement provides shareholders with the information required to be provided to shareholders by the Corporations Act and the ASX Listing Rules.

The Explanatory Statement sets out an explanation of the resolutions to be put to shareholders. Shareholders should read this Explanatory Statement and the Independent Expert's Report carefully before determining how to vote in respect of the resolutions.

Throughout this Explanatory Statement abbreviations and defined terms are used. Defined terms are generally identified by the use of an upper case first letter and are defined either in the "Glossary" section or when the relevant term is first used.

1. FLINDERS' CURRENT OPERATIONS

Pilbara Iron Ore Project

The Pilbara Iron Ore Project (**PIOP**) is located in the Hamersley Ranges approximately 70km northwest of Tom Price in the Pilbara region of Western Australia. The project comprises two 100% owned tenements, M47/1451 (Blacksmith) and E47/1560 (Anvil). The key tenements are located approximately 20km west of Rio Tinto's Paraburdoo Dampier rail track. Iron mineralisation on the main project tenement (M47/1451) is laterally associated with both Rio's Caliwyingina North deposit and Fortescue Metals Group's Serenity deposit, part of the Solomon hub.

In February 2014, the Company signed an Alliance Agreement with Rutila Resources, Forge Resources Swan and Balla Two (Mining) for access to port and rail infrastructure. The Company in alliance with the Balla Balla JV has since been invited by the State Government of Western Australia to negotiate a State Rail Agreement for the construction of a rail line between the PIOP and the Balla Balla port facility.

During the last 12 months the Company has completed a significant amount of reverse circulation and diamond drilling (**DD**) which was required to upgrade a large portion of the project resource base from inferred to indicated status. In addition, the DD holes have provided the ore samples required to complete the metallurgical test work. As at the end of December 2014 the vast majority of the PIOP resource base had been successfully upgraded to measured or indicated status. The metallurgical test work was also completed and demonstrated that the ore can be simply upgraded by a de-slime processing plant. The PIOP currently hosts a mineral resource of 1,042Mt at 55.6% Fe, based on a 50% cut-off grade. The majority of this total mineral resource is reported in accordance with the 2012 JORC Code, however, the Anvil tenement deposits have been previously reported to June 2004 standards and have not been updated since as the supporting information has not materially changed (refer to ASX announcement dated 14/11/2011).

Canegrass Project

The Canegrass project area is located in Western Australia's mid-west region, approximately 60km southeast of Mt Magnet and around 15km WSW of Atlantic Ltd's Windimurra Vanadium project. The Canegrass project covers an area of approximately 700km² and hosts an extensive mafic/ultramafic intrusive package, the Windimurra complex. The project hosts Fe-V-Ti mineralisation and has the potential for base metal and precious metal mineralisation.

In March 2015 an aircore drilling program was undertaken at the project's Honeypot and Boulder gold prospects located approximately 60km south east of Mt Magnet. Assays for the drilling returned several gold intercepts with the highlight, an intersection of 8m @ 2.03 g/t Au from 12m in hole HAC022 at the Honeypot Prospect.

A follow-up aircore drill program is planned in the September quarter of 2015 to extend the current drilling to the north. Given the result in hole HAC022, this area represents the primary target for further work.

2. MATERIAL TERMS OF THE OPTION GRANT TRANSACTION

On 11 May 2015, the Company announced that it had entered into an option and sale agreement (**Option and Sale Agreement**) with a Subsidiary of TIO (NZ) Limited (**TIO**) to grant the Todd Group an option to purchase the Company's Pilbara Iron Ore Project. TIO is a Subsidiary of New Zealand based Todd Corporation Limited (**Todd**) and also a Flinders substantial shareholder. PIO Mines Pty Ltd is the Subsidiary of TIO that is party to the Option and Sale Agreement.

The consideration payable under the Option and Sale Agreement includes an up-front cash payment of A\$10million and, if the Option is exercised, a project sale price of A\$55million and an ongoing production royalty payment.

The material terms of the Option and Sale Agreement are summarised as follows:

- the Option and Sale Agreement is conditional on statutory and regulatory approvals, approval by Flinders' shareholders and relevant Third Party consents, by 31 October 2015. One of the conditions relates to approval under the *Foreign Acquisitions and Takeovers Act 1975* (Cth), which was granted to the Todd Group on 24 June 2015;
- Todd Group will pay the Company an option payment of A\$10 million, the payment of which is secured by a bank guarantee until the conditions are satisfied;
- an Option exercise period commencing on satisfaction (or waiver) of the conditions and running up to and including 31 December 2016, during which time the Todd Group will have exclusive access to the PIOP, the right to undertake exploration and feasibility works on the PIOP, and may elect to acquire the project for A\$55 million and payment of a production royalty;
- Todd Group may extend the Option exercise period for a further two periods each of two years subsequent to the initial Option exercise period upon payment of an additional A\$10 million for each additional two year period;
- Todd Group will pay the Company an ongoing royalty in respect of production at the PIOP. The production royalty ranges from A\$0.60 to A\$1.40 per tonne on a straight line basis between iron ore prices of US\$60 and US\$80 per tonne (62% CFR price), with a minimum royalty of A\$0.60 per tonne below this range and a maximum royalty of A\$1.40 per tonne above this range;

- if the Todd Group has not commenced construction of the PIOP within two years of the date the sale of the PIOP completes (following exercise of the Option), it must pay the Company a further A\$20 million. The future royalties are not affected by this further payment;
- in the event that the Option lapses or the Todd Group abandons the Option, the Company retains ownership of the PIOP.

3. **SHAREHOLDER APPROVALS SOUGHT**

The Option and Sale Agreement is conditional upon Flinders' shareholder approval and accordingly the General Meeting has been convened to consider approving grant of the Option, which may lead to the 100% interest in PIOP being acquired by the Todd Group (resolution 1).

Shareholder approval is also sought to make a cash payment to shareholders of \$0.0025 per fully paid ordinary share (representing approximately \$6.9 million in total) as a return of capital (resolution 2).

4. **INFORMATION ON THE TODD GROUP**

Information regarding the Todd Group can be found in the Independent Expert's Report in section 1.5 *Overview of Todd Corporation*.

5. **INTENTIONS OF THE TODD GROUP**

Information regarding the intentions of the Todd Group can be found in the Independent Expert's Report in section 1.4 *Intentions if the Option Grant Transaction proceeds*.

6. **INDEPENDENT EXPERT'S REPORT**

Deloitte Corporate Finance Pty Limited has prepared an Independent Expert's Report on whether in its opinion the Option Grant Transaction is fair and reasonable to the Non-Associated Shareholders. Deloitte has concluded that the Option Grant Transaction is fair and reasonable to the Non-Associated Shareholders. The Independent Expert's Report is set out in Annexure A to this Notice. Shareholders should carefully read the Independent Expert's Report as it provides information which the Directors believe to be material to shareholders in deciding whether or not to approve the Option Grant Transaction.

7. **EFFECT OF THE OPTION GRANT TRANSACTION ON THE COMPANY'S FINANCIAL POSITION**

Assuming:

- the passing of resolutions 1 and 2; and
- the satisfaction (or waiver) of certain conditions precedent by 31 October 2015;

the principal immediate effect of the Option Grant Transaction on the Company will be to increase cash reserves by \$10 million (before expenses associated with the Option Grant Transaction or Capital Return are taken into account).

8. **EFFECT OF THE OPTION GRANT TRANSACTION AND CAPITAL RETURN ON THE COMPANY'S CAPITAL STRUCTURE**

The Option Grant Transaction will not affect the total number of shares on issue or the number of shares held by each shareholder as the Company will not issue, grant or cancel any securities.

9. **ADVANTAGES OF THE OPTION GRANT TRANSACTION**

- An integrated project consolidating the port and rail with PIOP allows the best opportunity for future development with lower operating costs.
- If the Option lapses or the Todd Group abandons the Option, Flinders retains 100 per cent ownership of the PIOP and all work completed by the Todd Group.
- The project sale price and ongoing royalty payment (subject to the project being developed) will produce returns to shareholders without project risk or further dilution that would have been required to continue down a development route.
- A process by which project ownership of PIOP is transferred to the Todd Group and operated alongside the Todd Group's ownership of the Balla Balla JV, in exchange for future cash and royalty payments, represents an efficient method of adding value for shareholders.

10. **DISADVANTAGES OF THE OPTION GRANT TRANSACTION**

- In the event that the Todd Group exercises the Option, the Company will relinquish ownership of PIOP. This may be seen as a disadvantage to some shareholders that are seeking, via the Company, a 100 per cent ownership investment in the PIOP.
- The proposed Option Grant Transaction has required the Company to engage a number of advisors, lawyers and experts to facilitate and report on the proposal. This work includes preparation of the Notice of General Meeting and Independent Expert's Report to ensure compliance with ASX Listing Rules and other statutory requirements and approvals. These are sunk but necessary costs to all Flinders' shareholders.
- There is no certainty that the Todd Group will exercise the Option and if it does whether the PIOP will be developed.
- The Company's business activities will change from a focus on the PIOP to Canegrass and yet to be identified other mineral exploration and development opportunities that may arise. There is no guarantee that the Company will be in a position to pursue other opportunities that may arise or that these as yet to be identified projects will result in a positive return to shareholders.

In addition to the advantages and disadvantages referred to above, your Directors refer you to the Independent Expert's Report prepared by Deloitte Corporate Finance Pty Limited which is included with this Notice of General Meeting.

11. FUTURE DIRECTION OF THE COMPANY IF THE OPTION GRANT TRANSACTION IS APPROVED

If resolution 1 is passed, the Option Grant Transaction will proceed, subject to satisfaction (or waiver), by 31 October 2015, of certain conditions precedent.

In this circumstance and assuming that the Todd Group elects to exercise the Option:

- the Company's project ownership of PIOP will be transferred to the Todd Group and operated alongside the Todd Group's ownership of the Balla Balla JV, in exchange for the future cash and royalty payments as outlined on pages 5 and 6;
- the Company's strategy will shift from PIOP to Canegrass and the evaluation of potential exploration and development opportunities that might meet criteria capable of adding significant shareholder value.

Further, subject to the passing of resolution 2, the return of capital to shareholders will proceed.

12. FUTURE DIRECTION OF THE COMPANY IF THE OPTION GRANT TRANSACTION IS NOT APPROVED

If resolution 1 is not passed, the Option Grant Transaction will not proceed and the Company retains a 100 per cent interest in PIOP. In this circumstance, the Company will continue to investigate all options available to it in relation to the best path forward for shareholders in maximising the value of the PIOP asset. Further, the return of capital to shareholders the subject of resolution 2 will not proceed.

13. INTERDEPENDENCE OF RESOLUTIONS

Resolution 2 is subject to and conditional upon resolution 1 being passed. If resolution 1 is not passed, it will be deemed that resolution 2 has not been passed. That is, the return of capital to shareholders will not proceed unless the Option Grant Transaction is approved.

14. COMPETENT PERSONS STATEMENT

The information in this Notice that relates to exploration targets, exploration results, or mineral resources is based on information compiled by Dr Graeme McDonald who is a member of the Australian Institute of Mining and Metallurgy and a full-time employee of Flinders. Dr McDonald has sufficient experience that is relevant to the styles of mineralisation and types of deposits under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the JORC Code. Dr McDonald consents to the inclusion in the Notice of the matters based on his information in the form and context in which it appears.

15. **DIRECTORS' RECOMMENDATION AND VOTING INTENTIONS**

The Directors consider that the Option Grant Transaction represents an efficient method of adding value for the Company's shareholders. In the absence of a Superior Proposal and as the Independent Expert has concluded that the Option Grant Transaction is fair and reasonable to the Non-Associated Shareholders, the Directors:

- unanimously recommend that the shareholders vote in favour of the Meeting resolutions; and
- intend to vote (or procure the voting of) all of the shares controlled by them in favour of the Meeting resolutions.

As at the date of this Explanatory Statement, the number of shares in which each Director of the Company holds a Relevant Interest is as follows:

DIRECTOR	NUMBER OF SHARES
Robert Kennedy	44,000,000
Ian Gordon	3,033,334
Ewan Vickery	7,000,000
Kevin Malaxos	3,200,000
Nicholas Smart	838,095

16. **RESPONSIBILITY STATEMENT**

Except as expressly set out below, Flinders has provided, and is responsible for, the information in this Explanatory Statement and the accompanying Notice and the Todd Group does not assume any responsibility for the accuracy or completeness of that information.

The Todd Group has provided, and is responsible for, the information in paragraphs 4 and 5 of Part 1 of this Explanatory Statement and Flinders does not assume any responsibility for the accuracy or completeness of that information.

Deloitte Corporate Finance Pty Limited has provided and is responsible for the Independent Expert's Report.

EXPLANATORY STATEMENT PART 2 (EXPLANATION OF THE PROPOSED RESOLUTIONS)

RESOLUTION 1 – APPROVAL TO GRANT PIO MINES PTY LTD AN OPTION TO PURCHASE THE COMPANY’S PILBARA IRON ORE PROJECT AND IF THAT OPTION IS EXERCISED, SELL THE PILBARA IRON ORE PROJECT

Introduction

Resolution 1 seeks shareholder approval for the purposes of ASX Listing Rule 10.1, because the interest in the PIOP being acquired by the Todd Group is a substantial “asset” and the transacting parties are in a relationship of the type that will cause ASX to apply ASX Listing Rule 10.1 to the acquisition.

ASX Listing Rule 10.1

Overview

Subject to certain exceptions, ASX Listing Rule 10.1 requires the approval of shareholders for transactions involving the acquisition or disposal of substantial “assets” which take place between entities, where there exists between those entities certain defined relationships or a relationship that, in the opinion of ASX, requires a transaction to be approved by shareholders.

A substantial “asset” for the purposes of ASX Listing Rule 10.1 is one where the consideration paid for it or its value (or its value in the opinion of the ASX) exceeds 5% or more of the equity interests as set out in the latest accounts of the company given to the ASX under the ASX Listing Rules.

Reasons for obtaining approval under ASX Listing Rule 10.1

For the purposes of ASX Listing Rule 10.1, the Option Grant Transaction is subject to shareholder approval because:

- the interest in the PIOP being acquired by the Todd Group is a substantial “asset”; and
- the transacting parties, by virtue of a Subsidiary of the Todd Group being a substantial shareholder in Flinders, are in a relationship of the type that will cause ASX to apply ASX Listing Rule 10.1 to the acquisition.

Information for shareholders required under ASX Listing Rule 10.1

Where a company is required to seek approval under ASX Listing Rule 10.1, ASX Listing Rule 10.10 requires that the notice of meeting be accompanied by a report on the transaction by an independent expert stating whether the transaction is fair and reasonable to the company’s ordinary security holders.

Pursuant to ASX Listing Rule 10.10, Flinders has commissioned a report on the Option Grant Transaction by Deloitte Corporate Finance Pty Limited. That report is provided to shareholders with this Explanatory Statement. The report concludes the transaction is fair and reasonable to the Non-Associated Shareholders.

If resolution 1 is passed, the Company will have complied with the ASX requirement to obtain shareholder approval for the purposes of ASX Listing Rule 10.1. Conversely, if resolution 1 is not passed the Company will not be permitted to dispose of a substantial asset (PIOP) to a substantial shareholder (a Subsidiary of TIO (NZ) Limited) as proposed in this Explanatory Statement and the Option Grant Transaction will not proceed.

RESOLUTION 2 – RETURN OF CAPITAL TO SHAREHOLDERS

Introduction

The Company proposes to make a cash payment to shareholders of \$0.0025 per fully paid ordinary share (representing approximately \$6.9 million in total) as a return of capital (**Capital Return**).

The record date for determining entitlements to receive the Capital Return will be notified to shareholders as soon as practicable after the date of this General Meeting.

Reason for the Capital Return

In the event that the Todd Group exercises the Option, the Company will relinquish ownership of PIOP and the strategy of Flinders will shift from PIOP to the existing Canegrass Project and the identification of new mineral exploration and development opportunities. After careful consideration of the Company's anticipated capital requirements, the Board has determined that the amount of the proposed Capital Return is not immediately required to implement this future strategy and is therefore currently surplus to the Company's needs.

The Directors believe that the return to shareholders of approximately \$6.9 million is consistent with prudent capital management and will not adversely affect the financial flexibility of the Company to give effect to its business plans.

Requirements for the Capital Return

Equal reduction

The proposed Capital Return constitutes an equal reduction of Flinders' share capital for the purposes of the Corporations Act. It applies to each shareholder in proportion to the number of fully paid ordinary shares that each shareholder holds and the terms of the reduction are the same for each shareholder. The Capital Return will not affect either the total number of shares on issue or the number of shares held by each shareholder.

Statutory requirements

The requirements under the Corporations Act for a company to reduce its share capital are set out below, together with a description of how that requirement is met in relation to the proposed Capital Return.

- It is fair and reasonable to shareholders as a whole.

The Directors consider that the Capital Return is fair and reasonable to shareholders as a whole on the basis that all shareholders will be treated in the same manner in terms of the proportion of the share capital of the Company being returned.

- It does not materially prejudice the Company's ability to pay its creditors.

The Directors have considered the Company's balance sheet, anticipated future cash flows and expenditure and are satisfied that the Capital Return will not impact on the Company's ability to meet its obligations to creditors.

- It is approved by shareholders by ordinary resolution in a general meeting.

Shareholder approval is being sought at this meeting for the purposes of complying with the Corporations Act requirements. The Capital Return must be approved by an ordinary resolution of the Company's shareholders.

In accordance with section 256C(5) of the Corporations Act, a copy of this Notice of Meeting (including the Explanatory Statement) has been lodged with the Australian Securities and Investments Commission.

Effect of Capital Return on the Company

Effect on capital structure

All shareholders will hold the same number of shares in the Company immediately after the Capital Return as they held immediately before the Capital Return. The Capital Return will not affect either the total number of shares on issue or the number of shares held by each shareholder.

Effect on financial position

The amount that will be charged against the Company's share capital account and paid to shareholders will be determined by the number of Flinders' shares on issue on the Capital Return record date.

Based on 2,769,059,119 shares, being the number of shares on issue at the date of this Explanatory Statement, and the Capital Return of \$0.0025 cents per share, an amount of approximately \$6.92 million will be charged against the Company's share capital account and paid to shareholders. The Company's share capital account would therefore be reduced by approximately \$6.92 million following the Capital Return.

Based on 2,785,791,689 shares, being the number of shares which would be on issue if conversion of all outstanding rights over unissued shares on issue at the date of this Explanatory Statement occurs prior to the record date, and the Capital Return of \$0.0025 cents per share, an amount of approximately \$6.96 million will be charged against the Company's share capital account and paid to shareholders. The Company's share capital account would therefore be reduced by approximately \$6.96 million following the Capital Return.

In determining to implement the Capital Return, the Directors have carefully reviewed the Company's assets, liabilities and expected cash flows. The Company's directors believe that the Capital Return will not prejudice the Company's ability to pay its creditors. The Company's directors have also satisfied themselves as to the solvency of the Company following the Capital Return.

Share price impact

If the proposed Capital Return is implemented, the Company's shares may trade at a lower price from the 'ex' date for the Capital Return than they would have done had the Capital Return not been made due to the outflow of Company funds to shareholders.

Tax Implications of the Capital Return for the Company

No adverse tax consequences are expected to arise for the Company as a consequence of the Capital Return.

Tax implications of the Capital Return for Flinders shareholders

The summary in this section is general in nature and should not be relied upon as advice. In addition, particular taxation implications will depend on the circumstances of each particular shareholder. As such, all shareholders are encouraged to seek and rely on their own professional advice in relation to their tax position. Neither the Company nor any of its officers, employees or advisors assumes any liability or responsibility for advising shareholders about the tax consequences for them from the proposed Capital Return.

This general description is only relevant in relation to the Australian taxation position of shareholders who hold shares on capital account. This general description does not apply to shareholders who hold shares on revenue account or as trading stock.

Shareholders who are not residents of Australia for tax purposes should seek their own advice in relation to the taxation consequences arising from the Capital Return under the laws of their country of residence.

ATO Class Ruling

Soon after the date of dispatch of this Explanatory Statement, the Company expects that an application will have been lodged with the ATO for a class ruling that no part of the capital reduction will be treated as a dividend for Australian taxation purposes. The Company will advise the outcome of the application lodged with the ATO for a class ruling, once that ruling is received.

The implementation of the proposed capital reduction is conditional on the Company obtaining a favourable class ruling from the ATO. If a favourable ruling is not obtained the Capital Return will not proceed and other capital initiatives will be considered.

Payment Details

If the Capital Return is approved by shareholders, payment will be made to eligible shareholders, being registered holders of shares in the Company at the record date.

Any fraction of a cent payable to any shareholder in respect of the shareholder's aggregate holding of shares will be rounded up to the nearest whole cent.

How to provide your bank account details to the share registry

As with dividend payments, payment of the Capital Return to Australian registered resident shareholders will be made by way of direct credit to a financial institution in Australia (including a bank, building society or credit union account). Shareholders may provide the share registry with their bank account details by entering their details via the secure Easy Update website at www.computershare.co.au/easyupdate/fms. You will need to enter your SRN/HIN located at the top of the enclosed Proxy Form and your postcode to access the website. If you do not have internet access, please call 1300 556 161 (within Australia) or +61 3 9415 4000 (outside Australia) and follow the voice instructions to provide your shareholder information over the phone or to receive a direct credit form to be sent to your registered address. If the Capital Return is approved by shareholders, cheques will be despatched (or, in the case of shareholders who have elected to have payments made directly into a nominated bank, building society or credit union account – payment will be made) to entitled shareholders, being registered holders of shares at the record date.

Interdependency with other resolutions

Resolution 2 is subject to and conditional on the approval of resolution 1. Accordingly, if you intend to vote in favour of resolution 2, you should also vote in favour of resolution 1.

Directors' recommendation

Directors unanimously recommend that shareholders vote in favour of the proposed Capital Return. Each Director intends to vote all the shares in the Company they control in favour of the proposed Capital Return.

Directors' Interests in the Capital Return

As at the date of this Explanatory Statement, the number of shares in which each Director of the Company holds a relevant interest is as follows:

DIRECTOR	NUMBER OF SHARES
Robert Kennedy	44,000,000
Ian Gordon	3,033,334
Ewan Vickery	7,000,000
Kevin Malaxos	3,200,000
Nicholas Smart	838,095

Each of the Directors who hold ordinary shares will receive \$0.0025 cents per share in respect of each ordinary share held by that Director on the record date.

As at the date of this Explanatory Statement, the Company had the following unquoted options and rights on issue:

TERMS	NUMBER
Performance rights, issued to the Managing Director, expiring 30 June 2016	10,000,000
Incentive rights, issued to current and former Flinders' employees expiring 30 June 2016	6,732,570

If the performance rights issued to the Managing Director vest before the record date, the Managing Director will receive \$0.0025 cents per share in respect of the ordinary shares issued pursuant to the vesting of those rights. The performance rights will vest if the Managing Director is still employed by the Company on the first to occur of the following events:

The Company's Board making a final investment decision, on the basis of a Bankable Feasibility Study, to develop the Company's PIOP. In this context, a "Bankable Feasibility Study" means a comprehensive study of the technical, economic and financial feasibility of the development and operation of PIOP, which study will be undertaken using such reputable consultants and experts as are appropriate for each component of the study and be in such form as is adequate to enable an international bank or other financial institution to determine whether to proceed to provide or arrange finance for the development and operation of PIOP; or a takeover of the Company. In this context a "takeover" of the Company occurs if a person or a corporation who did not previously do so;

- acquires or holds directly or indirectly a relevant interest (as defined in section 9 of the Corporations Act) in securities conferring 50% or more of the voting or economic interest in the Company;

- acquires or holds directly or indirectly the power to control the appointment or dismissal of the majority of the Company's Directors; or
- has the capacity to control the financial operating policies or management of a Company.

No director holds any incentive rights.

No other material information

Other than as set out in this Notice and other than information previously disclosed to the shareholders of the Company, there is no other information that is known to the Company's Directors which may reasonably be expected to be material to the making of a decision by the Company's shareholders whether or not to vote in favour of the Capital Return.

GLOSSARY

A\$ and \$ means Australian dollars, unless otherwise stated.

Adelaide time means the time in Adelaide, South Australia.

Alliance Agreement means the Alliance Agreement between Flinders, Forge Resources Swan Pty Ltd (ACN 149 783 069), Balla Two (Mining) Pty Ltd (ACN 157 889 346) and Rutila Resources Limited (ACN 139 886 187) dated 26 February 2014.

Associate has the meaning set out in section 12 and 16 of the Corporations Act.

ASX means ASX Limited.

ASX Listing Rules means the Listing Rules of ASX.

Balla Balla JV means the joint venture between Forge Resources Swan Pty Ltd (ACN 149 783 068) of Level 24, 56 Pitt Street, Sydney New South Wales 2000 and Balla Two (Mining) Pty Ltd (ACN 157 889 346).

Board means the current board of directors of Flinders.

Company means Flinders Mines Limited (ABN 46 091 118 044).

Competing Proposal means any proposal, agreement, arrangement or transaction, which, if entered into or completed, would mean a Third Party (either alone or together with any Associate) may:

- acquire control (within the meaning of section 50AA of the Corporations Act) of Flinders or any Subsidiary of Flinders;
- directly or indirectly acquire or become the holder of, or otherwise acquire or have a right to acquire, a legal, beneficial or economic interest in, or control of, PIOP, or a material part of Flinders' business or the business or assets of Flinders; or
- otherwise directly or indirectly acquire or merge with Flinders or a Subsidiary of Flinders;

whether by way of takeover bid, scheme of arrangement, shareholder approved acquisition, capital reduction, buy-back, sale or purchase of shares, other securities or assets, assignment of assets and liabilities, incorporated or unincorporated joint venture, dual-listed company (or other synthetic merger), or other transaction or arrangement.

Constitution means the constitution of Flinders.

Corporations Act means the *Corporations Act 2001* (Cth).

Directors means the current directors of Flinders.

Explanatory Statement means the Explanatory Statement accompanying the Notice.

Flinders means the Company.

General Meeting or **Meeting** means the meeting convened by the Notice.

Independent Expert means Deloitte Corporate Finance Pty Limited.

Independent Expert's Report means the report prepared by Deloitte Corporate Finance Pty Limited and the accompanying report prepared by AMC Consultants Pty Limited.

JORC Code means the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (2012 Edition).

Meeting means the General Meeting convened by the Notice.

Notice or **Notice of General Meeting** means this notice of general meeting including the Explanatory Statement and Proxy Form.

Option means the option to be granted under the Option and Sale Agreement, comprising the sole and exclusive right and option during the option period for the Todd Group (information with respect to the option period can be found on pages 5 and 6) to purchase free from encumbrances all of Flinders' rights, title and interest in and to the PIOP for the purchase price (information with respect to the purchase price can be found on pages 5 and 6).

Option and Sale Agreement has the meaning set out in Section 2 of the Explanatory Statement Part 1 (General Information).

Option Grant Transaction means the grant of the option the subject of the Option and Sale Agreement and the entry into the Option and Sale Agreement.

PIO Mines Pty Ltd means PIO Mines Pty Ltd (ACN 605 697 461) of Suite 4, Level 30, 363 George Street, Sydney New South Wales 2000.

PIOP means the Pilbara Iron Ore Project in respect of which an iron ore mine is proposed under the *Mining Act 1978 (WA)* in the Pilbara region of Western Australia comprising predominantly M47/1451 and E47/1560.

Proxy Form means the Proxy Form accompanying the Notice.

Related Body Corporate has the meaning set out in section 50 of the Corporations Act.

Relevant Interest has the meaning given to that term in section 608 and 609 of the Corporations Act.

Subsidiary has the meaning given in Division 6 of Part 1.2 of the Corporations Act.

Superior Proposal means a bona fide Competing Proposal which the Board, acting in good faith, and after receiving written legal advice from its legal advisor and written advice from its financial advisor, determines:

- is reasonably capable of being valued and completed in a timely fashion taking into account all aspects of the Competing Proposal including any timing considerations, any conditions precedent and the identity of the proponent; and
- would, if completed substantially in accordance with its terms, be more favourable to the Flinders' shareholders (as a whole) than the Option Grant Transaction, taking into account all terms and conditions of the Competing Proposal.

Third Party means a party other than the Todd Group.

Todd means the Todd Corporation Limited (a company registered in New Zealand, with company number 3491), of Level 14, The Todd Building, 95 Custom House Quay, Wellington, 6011, New Zealand.

Todd Group means Todd Corporation Limited and each of its Related Bodies Corporate.

VOTING INFORMATION AND NOTES

1. Voting entitlement on a poll

On a poll, each shareholder present in person, by proxy, body corporate representative or attorney has one vote for each fully paid share they hold.

2. Proxies

A shareholder entitled to attend and vote at this Meeting is entitled to appoint a proxy to attend and vote on the shareholder's behalf. If the shareholder is entitled to cast two or more votes at the Meeting, the shareholder may appoint up to two proxies to attend and vote on the shareholder's behalf.

If a shareholder appoints two proxies, each proxy must be appointed to represent a specified proportion or number of the shareholder's votes. Absent this specification, on a poll, each proxy will need to exercise half the votes.

A proxy can be either an individual or a body corporate and need not be a shareholder of the Company. If a shareholder appoints a body corporate as proxy, the body corporate will need to appoint an individual as its corporate representative and provide satisfactory evidence of this appointment.

If a shareholder's instruction is to abstain from voting for a particular item of business, the shareholders' votes will not be counted in computing the required majority on a poll.

To appoint a proxy, a Proxy Form must be signed by the shareholder or the shareholder's attorney duly authorised in writing. If the shareholder is a corporation, the Proxy Form must be signed in accordance with section 127 of the Corporations Act. To be effective, a Proxy Form (and, if it is signed by an attorney, the authority under which it is signed or a certified copy of the authority) must be received by the Company not later than 48 hours prior to the commencement of the Meeting. Proxy Form and authorities may be lodged:

- by post to Computershare Investor Services Pty Ltd, GPO Box 242, Melbourne VIC 3001;
- by facsimile to Computershare on (within Australia) 1800 783 447 (outside Australia) +61 3 9473 2555 or the Company on +61 8 8271 1988; or
- electronically by casting votes online at www.investorvote.com.au and follow the prompts. To use this facility you will need your holder number (SRN or HIN), postcode and control number as shown on the Proxy Form. You will have been taken to have signed the Proxy Form if you lodge it in accordance with the instructions on the website.

Custodian voting – For Intermediary Online subscribers only (custodians), please visit www.intermediaryonline.com to submit your voting intentions.

Chairman acting as proxy

Shareholders may appoint the chairman of the Meeting as their proxy.

Where the chairman is appointed as a proxy by a shareholder entitled to cast a vote on a particular resolution and the Proxy Form specifies how the chairman is to vote on the resolution (that is, a directed proxy), the chairman must vote in accordance with that direction.

In respect of proxies where no voting direction has been given (undirected proxies), the chairman intends to vote all available proxies in favour of the Meeting resolutions.

3. **Entitlement to vote at the Meeting**

For the purpose of the Meeting, shares in the Company will be taken to be held by those persons who are registered holders at 7.00pm (Adelaide time) on 22 September, 2015. Accordingly, transactions registered after that time will be disregarded in determining entitlements to attend and vote at the Meeting.

4. **Quorum**

The Constitution provides that ten or more members present in person, by proxy, body corporate representative or attorney shall be a quorum for a general meeting of the Company.

5. **Appointment of a corporate representative**

Corporate representatives are requested to bring appropriate evidence of appointments as a representative. Proof of identity will be required for corporate representatives.

6. **Appointment of an attorney**

Attorneys are requested to bring a power of attorney pursuant to which they are appointed. Proof of identity will also be required for attorneys.



Flinders Mines Limited

Independent expert's report and Financial Services Guide

24 July 2015



Financial Services Guide

What is a Financial Services Guide?

This Financial Services Guide (FSG) provides important information to assist you in deciding whether to use our services. This FSG includes details of how we are remunerated and deal with complaints.

Where you have engaged us, we act on your behalf when providing financial services. Where you have not engaged us, we act on behalf of our client when providing these financial services, and are required to give you an FSG because you have received a report or other financial services from us. The person who provides the advice is an Authorised Representative (AR) of Deloitte Corporate Finance Pty Limited (Deloitte Corporate Finance), which authorises the AR to distribute this FSG. Their AR number is included in the report which accompanies this FSG.

What financial services are we licensed to provide?

We are authorised to provide financial product advice and to arrange for another person to deal in financial products in relation to securities, interests in managed investment schemes, government debentures, stocks or bonds to retail and wholesale clients. We are also authorised to provide personal and general financial product advice and deal by arranging in derivatives and regulated emissions units to wholesale clients, and general financial product advice relating to derivatives to retail clients.

Our general financial product advice

Where we have issued a report, our report contains only general advice. This advice does not take into account your personal objectives, financial situation or needs. You should consider whether our advice is appropriate for you, having regard to your own personal objectives, financial situation or needs.

If our advice is provided to you in connection with the acquisition of a financial product you should read the relevant offer document carefully before making any decision about whether to acquire that product.

How are we and all employees remunerated?

We will receive a fee of approximately \$130,000 exclusive of GST in relation to the preparation of this report. This fee is not contingent upon the success or otherwise of the proposed transaction between Flinders Mines Limited and a subsidiary of TIO (NZ) Limited.

Other than our fees, we, our directors and officers, any related bodies corporate, affiliates or associates and their directors and officers, do not receive any commissions or other benefits.

All employees receive a salary and while eligible for annual salary increases and bonuses based on overall performance they do not receive any commissions or other benefits as a result of the services provided to you. The remuneration paid to our directors reflects their individual contribution to the organisation and covers all aspects of performance.

We do not pay commissions or provide other benefits to anyone who refers prospective clients to us.

Associations and relationships

We are ultimately controlled by the Deloitte member firm in Australia (Deloitte Touche Tohmatsu). Please see www.deloitte.com/au/about for a detailed description of the legal structure of Deloitte Touche Tohmatsu.

What should you do if you have a complaint?

If you have any concerns regarding our report or service, please contact us. Our complaint handling process is designed to respond to your concerns promptly and equitably. All complaints must be in writing to the address below.

If you are not satisfied with how we respond to your complaint, you may contact the Financial Ombudsman Service (FOS). FOS provides free advice and assistance to consumers to help them resolve complaints relating to the financial services industry. FOS' contact details are also set out below.

The Complaints Officer, Financial Ombudsman Services	
PO Box N250	GPO Box 3
Grosvenor Place	Melbourne VIC 3001
Sydney NSW 1220	info@fos.org.au
complaints@deloitte.com.au	www.fos.org.au
Fax: +61 2 9255 8434	Tel: 1300 780 808
	Fax: +61 3 9613 6399

What compensation arrangements do we have?

Deloitte Australia holds professional indemnity insurance that covers the financial services provided by us. This insurance satisfies the compensation requirements of the Corporations Act 2001 (Cth).

1 February 2013

Deloitte Corporate Finance Pty Limited, ABN 19 003 833 127, AFSL 241457 of Level 1 Grosvenor Place, 225 George Street, Sydney NSW 2000

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee, and its network of member firms, each of which is a legally separate and independent entity. Please see www.deloitte.com/au/about for a detailed description of the legal structure of Deloitte Touche Tohmatsu Limited and its member firms.

Member of Deloitte Touche Tohmatsu Limited

The Directors
Flinders Mines Limited
Level 1
135 Fullarton Road
Rose Park SA 5067

24 July 2015

Dear Directors

Independent expert's report

Introduction

Flinders Mines Limited (Flinders or the Company) entered into a transaction implementation agreement (the Deed) on 8 May 2015, which was subsequently announced to the market on 11 May 2015, with a subsidiary of TIO (NZ) Limited (Todd)¹, an existing substantial shareholder of Flinders and subsidiary of New Zealand based The Todd Corporation Limited (Todd Corporation). If the conditions precedent set out in the Deed are satisfied, an option and sale agreement (the Option Agreement) will be executed between Flinders and Todd in respect of the potential acquisition of Flinders' Pilbara Iron Ore Project (the PIOP) by Todd (the Option Grant Transaction).

The terms of the Option Grant Transaction include the following:

- an upfront payment of \$10 million payable to Flinders upon executing the Option Agreement
- an option exercise period up to and including 31 December 2016, during which time Todd will have exclusive access to the PIOP, the right to undertake exploration and feasibility works on the PIOP, and may elect to acquire the project. Todd may extend the term of the option for a further two periods, of two years each (to 31 December 2018 and 31 December 2020 respectively), with payment of an additional \$10 million to Flinders for each two year period
- if Todd elects to exercise the option and acquire the PIOP, an exercise price of \$55 million will be payable to Flinders. Todd will also pay a production royalty to Flinders if it develops the PIOP. The payment of the royalty is subject to a royalty deed, which is to be executed if Todd exercises the option and acquires the PIOP. The production royalty ranges from \$0.60 to \$1.40 per tonne on a straight line basis between iron ore prices of United States dollar (US\$) 60 and US\$80 per tonne (62% cost and freight (CFR) price), with a minimum royalty of \$0.60 per tonne below this range and a maximum royalty of \$1.40 per tonne above this range
- if Todd has not commenced construction of the PIOP within two years of acquiring the PIOP (following exercise of the option), it must pay Flinders a further \$20 million. The future royalties are not affected by this further payment
- in the event that the Option Agreement lapses or Todd abandons the option, Flinders retains ownership of the PIOP, as well as any payments received to date.

¹ PIO Mines Pty Limited is the subsidiary of Todd that is party to the Option Grant Transaction

The Deed, and therefore the associated Option Grant Transaction, is conditional on statutory and regulatory approvals (including approval by the Australian Securities Exchange (ASX)), approval by Flinders' Non-Associated Shareholders (Non-Associated Shareholders)² and relevant third party consents being received prior to 31 October 2015.

An overview of the Option Grant Transaction and the consideration offered pursuant to this transaction are also set out in Section 1.

Purpose of the report

When the disposal of a substantial asset to a related party is proposed, even if the disposal is to occur by way of an option agreement, Chapter 10 of the Listing Rules of the ASX (the Listing Rules) requires an independent expert to prepare a report stating whether the proposed transaction is fair and reasonable to the non-associated securityholders. In addition, the directors may request an independent expert to prepare a report when a transaction with a related party requires member approval under Chapter 2E of the Corporations Act.

We understand that the PIOP, the subject of the Option Grant Transaction, qualifies as a substantial asset and, as Todd Corporation is a current substantial shareholder of Flinders³, Todd is a related party of Flinders. Accordingly, the directors of Flinders, who are all independent for purposes of this transaction (Directors), have requested that Deloitte Corporate Finance provide an independent expert's report advising whether, in our opinion, the Option Grant Transaction is fair and reasonable to Non-Associated Shareholders in order to assist them in their decision to vote for, or against, the Option Grant Transaction.

This report is to be included in the notice of the meeting and accompanying explanatory statement to approve the Option Grant Transaction (the Notice of Meeting), which will be sent to Non-Associated Shareholders, and has been prepared for the exclusive purpose of assisting Non-Associated Shareholders in their consideration of the Option Grant Transaction.

Neither Deloitte Corporate Finance, Deloitte Touche Tohmatsu, nor any member or employee thereof, undertakes responsibility to any person, other than the Non-Associated Shareholders and Flinders, in respect of this report, including any errors or omissions however caused.

Basis of evaluation

Guidance

We have prepared this report having regard to Chapter 10 of the Listing Rules and Australian Securities and Investments Commission (ASIC) Regulatory Guide 111 in relation to the content of expert's reports and ASIC Regulatory Guide 112 in respect of the independence of experts.

ASIC Regulatory Guide 111

This regulatory guide provides guidance in relation to the content of independent expert's reports prepared for a range of transactions.

Generally, ASIC expects an expert who is asked to analyse a related party transaction to express an opinion on whether the transaction is 'fair and reasonable' from the perspective of non-associated members. This analysis is specifically required where the report is also intended to accompany meeting materials for member approval of an asset acquisition or disposal under Listing Rule 10.1.

ASIC Regulatory Guide 111 states that where an expert assesses whether a related party transaction is 'fair and reasonable', there should be a separate assessment of whether the transaction is 'fair' and 'reasonable'.

Under ASIC Regulatory Guide 111 an offer is:

- fair, when the value of the financial benefit being offered by the entity to the related party is equal to or more than the value of the assets being acquired
- reasonable, if it is fair, or, despite not being fair, after considering other significant factors, members should vote for the proposal.

² Holders of Flinders' ordinary securities who are not associated with Todd, Todd Corporation, or any subsidiaries of these entities

³ Todd Corporation, through its subsidiaries, holds 19.56% of the issued shares in Flinders

To assess whether the Option Grant Transaction is fair and reasonable to Non-Associated Shareholders, we have adopted the tests of whether the Option Grant Transaction is either fair and reasonable, not fair but reasonable, or neither fair nor reasonable, as set out in ASIC Regulatory Guide 111.

Fairness

The PIOP and the potential consideration receivable under the Option Agreement have been valued at fair market value, which we have defined as the amount at which the asset would be expected to change hands between a knowledgeable and willing but not anxious buyer and a knowledgeable and willing but not anxious seller, neither of whom is under any compulsion to buy or sell. Special purchasers may be willing to pay higher prices to reduce or eliminate competition, to ensure a source of material supply or sales, or to achieve cost savings or other synergies arising on business combinations, which could only be enjoyed by the special purchaser. The valuation of the PIOP has not been premised on the existence of a special purchaser.

We have considered the fairness of the Option Grant Transaction by comparing the value of the PIOP with the value of the consideration to be paid by Todd pursuant to the Option Agreement.

Reasonableness

ASIC Regulatory Guide 111 considers an offer to be reasonable if either:

- the offer is fair
- despite not being fair, but considering other significant factors, members should vote for the proposal.

Summary and conclusion

The structure of the Option Grant Transaction provides Todd with significant flexibility. It gives Todd certainty and effective control over buying the PIOP, while allowing it up to five plus years to evaluate an integrated mine and infrastructure project, monitor the iron ore market including the iron ore price outlook and decide whether or not to proceed with the overall project.

Conversely, Flinders is faced with significant uncertainty, as the outcome of the Option Grant Transaction is completely out of its control. With the exception of the proposed capital return of \$6.9 million (equal to \$0.0025 per fully paid ordinary share), which will be distributed if the upfront option fee is paid, Non-Associated Shareholders face further uncertainty about whether any subsequent payments made by Todd to Flinders under the Option Agreement will be distributed to them.

The structure of the Option Grant Transaction is therefore less attractive to Flinders and Non-Associated Shareholders than a direct sale or takeover offer would be. However, despite the Directors' attempts to negotiate a different transaction, neither Todd nor an alternative third party has offered such a transaction and Non-Associated Shareholders must therefore assess the Option Grant Transaction on its merits, and weigh it up against the alternatives currently available to determine whether or not to accept it.

In our opinion the Option Grant Transaction is fair and reasonable. In arriving at this opinion, we have had regard to the following factors.

The Option Grant Transaction is fair

According to ASIC Regulatory Guide 111, in order to assess whether the Option Grant Transaction is fair, the independent expert is required to compare the fair market value of the PIOP with the fair market value of the consideration under the Option Agreement. The Option Grant Transaction is fair if the value of the financial benefit being offered by Todd under the Option Agreement, being the consideration, is equal to or greater than the value of PIOP.

Set out in the table below is a comparison of our assessment of the fair market value of the PIOP with the consideration offered by Todd under the Option Agreement.

Table 1

	Section	Low (AUD million)	High (AUD million)
Estimated fair market value of the PIOP	3	40	50
Estimated fair market value of consideration under the Option Agreement	4	65	95

Source: Deloitte Corporate Finance analysis

Note:

1. All amounts stated in this report are in Australian dollars (\$/AUD) unless otherwise stated and may be subject to rounding

The consideration offered under the Option Agreement is above the range of our estimate of the fair market value of the PIOP. Accordingly it is our opinion that the Option Grant Transaction is fair.

Valuation of the PIOP

In assessing the value of the PIOP, we have applied a market based approach. The market approach involves assessing a value for the PIOP based on comparable resource multiples (on an AUD per tonne of contained iron basis) observed in recent trading in comparable companies, and resource multiples achieved in recent comparable transactions, as set out in Section 3.4.1. We have also placed a value on the exploration potential of the PIOP, as set out in Section 3.4.2.

We have selected a resource multiple of \$0.07 to \$0.09 per tonne of contained iron to apply to the resources of the PIOP, and have placed a value of \$336,800 on the exploration potential of the project. This derives a valuation range of \$40 million to \$50 million for the PIOP.

We have cross-checked our valuation using discounted cash flow and historical cost methodologies, as well as analysis of Flinders' recent share trading. Refer to Section 3 for greater detail on our valuation of the PIOP.

Valuation of consideration

The value of the consideration to be received by Flinders under the Option Agreement is uncertain because a number of the components of the consideration depend on the outcome of future decisions that are under Todd's control. We have therefore valued the consideration using a Monte Carlo simulation, which is a valuation method used to value option arrangements where the future price path is complex and uncertain.

The result is a mean value that captures the probability of different outcomes occurring under the Option Agreement. This value is between \$65 million and \$95 million. We have set out our valuation of the consideration using the Monte Carlo simulation in Section 4.

When this range of values is compared with the value of the PIOP it is clear that the consideration offered is fair. However, this is still not easy and intuitive for Non-Associated Shareholders to understand. We have therefore attempted below to demonstrate the fairness of the consideration in more simple terms as well.

A simple analysis of fairness

We have valued the PIOP at between \$40 million and \$50 million. Under a simple analysis of all possible future scenarios (the matrix of consideration which could be received by Flinders is illustrated in Section 1.2), it is clear that the consideration offered is greater than this value range (and therefore fair) under all scenarios.

We have simplified our fairness analysis to focus only on Todd exercising the option, extending the option (for a second or third term) and exercising the option, or letting the option lapse. These four scenarios are analysed below. We do not need to consider whether Todd ever develops the PIOP or ever pays \$20 million to delay its development of the PIOP, because the delay fee and royalty payments only provide additional upside potential to Flinders and are not critical to assessing fairness.

1. If Todd exercises the option on or before 31 December 2016:

- Todd will pay the upfront option fee of \$10 million plus the exercise price of \$55 million to Flinders, giving a total consideration of \$65 million. After reflecting the time value of money⁴, as part of the consideration will only be paid in the future, the consideration is \$58.9 million
- this time value adjusted consideration is greater than the current value of the PIOP

2. If Todd extends the option at 31 December 2016 and exercises the option on or before 31 December 2018:

- Todd will pay the initial upfront option fee of \$10 million, a further \$10 million to extend the option plus the exercise price of \$55 million to Flinders, giving a total consideration of \$75 million. After reflecting the time value of money, as part of the consideration will only be paid in the future, the consideration is \$59.5 million
- this time value adjusted consideration is greater than the current value of the PIOP

3. If Todd extends the option at 31 December 2018 and exercises the option on or before 31 December 2020:

- Todd will pay the initial upfront option fee (\$10 million) and the additional option fees to extend the option (\$10 million plus a further \$10 million) plus the exercise price of \$55 million to Flinders, giving a total consideration of \$85 million. After reflecting the time value of money, as part of the consideration will only be paid in the future, the consideration is \$60.0 million
- this time value adjusted consideration is greater than the current value of the PIOP

4. If Todd lets the option lapse at any stage:

- Todd will have paid the upfront option fee and the option fees to extend the option term of between \$10 million and \$30 million, which are time value adjusted to between \$10 million and \$26.3 million reflecting that a portion of these payments will only be made in the future
- Flinders will keep the PIOP, currently valued at between \$40 million and \$50 million
- the effective consideration or financial benefit received by Flinders, being the option fees plus the value of the PIOP retained, is greater than the current value of the PIOP.

The Option Grant Transaction is reasonable

In accordance with ASIC Regulatory Guide 111 an offer is reasonable if it is fair. On this basis, as the Option Grant Transaction is fair, in our opinion the Option Grant Transaction is reasonable.

Other factors

We have set out below some additional key factors Non-Associated Shareholders should consider in their evaluation of the Option Grant Transaction.

The alternatives to the Option Grant Transaction

Prior to entering into an infrastructure agreement with Todd and Rutila Resources Limited (Rutila) (together the Balla Balla JV) in February 2014 (the Alliance Agreement), the Directors widely explored various infrastructure solutions for the PIOP, as well as potential transactions involving the PIOP and the Company. Other than the failed Magnitogorsk Iron and Steel Works OJSC (MMK) offer in 2012, none of these discussions led to any commercial arrangements being agreed. Due to the exclusivity arrangements in the Alliance Agreement (and now the Deed), the Directors have not been able to approach any other parties about an alternative development solution since execution of this agreement, which has also had an impact on their ability to negotiate an alternative corporate transaction.

⁴ Utilising a discount rate of 13.5%, being the mid-point of our assessed range of applicable discount rates for the PIOP as set out in Appendix D

If Non-Associated Shareholders decide to vote against the Option Grant Transaction and once the Alliance Agreement lapses on 31 December 2015, the Directors will be able to explore alternatives again; however it is expected that there will be very few available. One possibility is that the West Pilbara Iron Ore project under Aquila Resources Limited's new owners (Shanghai Baosteel Group Corporation and Aurizon Holdings Limited) may provide an alternative infrastructure solution or transaction; however there is no certainty that this will be the case, or that the structure, timing or economics of such a solution would be more attractive than the Option Grant Transaction.

Non-Associated Shareholders may also form the view that Todd is unable to advance the development of the Balla Balla JV infrastructure project (Balla Balla Infrastructure) without access to the PIOP (especially following the signing of the conditional off-take arrangement with Shandong Iron and Steel Group), and Todd may therefore be willing to offer a different transaction structure if Non-Associated Shareholders vote against the Option Grant Transaction. In this case, Non-Associated Shareholders take the risk that Todd is not currently willing to make such an offer, and will instead take its chances and bide its time while other scenarios (described below) play out.

To keep open the option to develop the PIOP or otherwise transact with a third party in the future, we understand Flinders will need to continue to spend between \$2 million and \$3 million per year to maintain the PIOP in good standing and maintain the Flinders corporate entity and ASX listing. Flinders' current cash reserves of approximately \$4.4 million⁵ (plus any refunds from its research and development claims), may therefore be used up within two years, before which point Flinders will either need to raise capital, privatise or wind down its operations.

Unless the iron ore price improves significantly over the next two years, it is likely that the Flinders share price would decline over the period leaving the Company and its shareholders vulnerable to a number of downside scenarios, including a takeover at a low price relative to the current price, a forced sale of the PIOP or entering into voluntary administration. There is no certainty that Shareholders will receive any offer for their shares or any distribution from Flinders under these scenarios.

If the iron ore price does improve significantly over the next two years, other alternatives may arise that allow Flinders to develop the PIOP or transact with a third party. We envisage that any development alternatives for the PIOP will require Flinders to raise significant funding, which is likely to be challenging under most scenarios. To put this in context, the capital expenditure, and therefore funding, required for the Balla Balla Infrastructure and the PIOP as an integrated project (Integrated Project) is in excess of \$3 billion.

Uncertainty of cash distributions to Non-Associated Shareholders

The structure of the Option Agreement exposes Flinders to volatility and uncertainty regarding the financial benefit to be received compared to an alternative structure such as a direct sale of the PIOP or a takeover of Flinders. The uncertainty for Non-Associated Shareholders is further exacerbated as there is currently no mechanism by which Non-Associated Shareholders can realise full value for their shares (other than by selling them on market in the normal course of trading) under the Option Agreement, nor is there any guarantee that any future payments received by Flinders will be distributed to Non-Associated Shareholders. Although the Directors are proposing to distribute approximately \$6.9 million of the \$10 million upfront option fee to shareholders as a capital return of \$0.0025 per fully paid ordinary share, future payments to be received by Flinders are at Todd's discretion, and the ultimate distribution of these future payments to Non-Associated Shareholders is at the discretion of the Directors.

As set out in Section 1.4, the Directors may consider distributing a portion of the future funds received under the Option Agreement shareholders, although a portion of the funds will need to be retained to enable Flinders to continue as a going concern until the outcome of the Option Agreement is known with certainty. The future funds received under the Option Agreement could therefore be quarantined in the Company, at least to some degree, to allow Flinders to maintain the PIOP in good standing until the option is exercised, and/ or to undertake other exploration activities.

⁵ Flinders company presentation, 29 May 2015

Opinion

In our opinion, the Option Grant Transaction is fair and reasonable to Non-Associated Shareholders. An individual Shareholder's decision in relation to the Option Grant Transaction may be influenced by his or her particular circumstances. If in doubt the Shareholder should consult an independent adviser, who should have regard to their individual circumstances.

This opinion should be read in conjunction with our detailed report which sets out our scope and findings.

Yours faithfully



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Glossary

Reference	Definition
\$/AUD	Australian dollars
ACT	Australian Competition Tribunal
Al ₂ O ₃	Aluminium oxide
Alliance Agreement	Infrastructure agreement between Flinders and the Balla Balla JV
AMC	AMC Consultants Pty Limited
Aquila	Aquila Resources Limited
AR	Authorised Representative
ASIC	Australian Securities and Investments Commission
ASX	Australian Securities Exchange
AUASB	Auditing and Assurance Standards Board
Balla Balla Infrastructure	Balla Balla JV's proposed rail network and port facility
Balla Balla JV	Balla Balla joint venture, between Todd and Rutila
BC Iron	BC Iron Limited
BFS	Bankable feasibility study
BHP	BHP Billiton Limited
BID	Bedded iron deposit
Brockman	Brockman Mining Limited
Bt	Billion tonnes
Buckland	BC Iron's Buckland Project
BREE	Bureau of Resources and Energy Economics
C/dmtu	US cents per dry metric tonne unit
Canegrass	Canegrass iron ore/vanadium project
CFR	Cost and freight
CID	Channel iron deposit
Citic Pacific	Citic Pacific Mining Management Pty Limited
Company	Flinders Mines Limited
CY	Calendar year
Deed	Transaction implementation agreement between Flinders and Todd
Deloitte Corporate Finance	Deloitte Corporate Finance Pty Limited
DFS	Definitive feasibility study
DID	Detrital iron deposit
Directors	Directors of Flinders
Draft Notice of Meeting	Draft of the notice of the meeting to approve the Option Grant Transaction
EMRP	Equity market risk premium
Fe	Iron
FID	Financial Investment Decision
Flinders	Flinders Mines Limited
FOB	Free on board
Fortescue	Fortescue Metals Group Limited
FOS	Financial Ombudsman Service
FSG	Financial Services Guide
FY	Financial year
Hamersley Iron	Hamersley Iron Pty Limited

Reference	Definition
Hancock Prospecting	Hancock Prospecting Pty Limited
Integrated Project	Balla Balla Infrastructure and the PIOP as an integrated project
JORC	Joint Ore Reserves Committee
km	Kilometres
km ²	Kilometres squared
Listing Rules	Chapter 10 of the Listing Rules of the ASX
LOI	Loss on ignition
M&I&I	Measured, indicated and inferred
mm	Millimetres
MMK	Magnitogorsk Iron and Steel Works OJSC
MoU	Memorandum of Understanding
MRL	Mineral Resources Limited
Mt	Million tonnes
Mtpa	Mt per annum
Non-Associated Shareholders	Flinders shareholders not associated with Todd
Notice of Meeting	Notice of the meeting to approve the Option Grant Transaction
Option Agreement	Option and sale agreement
Option Grant Transaction	Todd's offer to acquire Flinders' Pilbara Iron Ore Project
P	Phosphorous
PFS	Pre-feasibility study
Pilbara	Pilbara region of Western Australia
PIOP	Pilbara Iron Ore Project
Prenti	Prenti Exploration Pty Limited
R _f	Risk free rate
Rio Tinto	Rio Tinto Limited
Robe River	Robe River Iron Associates
Roy Hill	Roy Hill Prospecting Pty Limited
Rutila	Rutila Resources Limited
S	Sulphur
SIA	Scheme implementation agreement
SiO ₂	Silicon dioxide
Sundance	Sundance Resources Limited
Todd	TIO (NZ) Limited
Todd Corporation	Todd Corporation Limited
Todd Energy	Todd Corporation's Energy division
US\$	United States dollar
US\$/dmt	US\$ per dry metric tonne
VALMIN code	Valuation of Minerals and Petroleum Assets and Securities for Independent Expert Reports
VWAP	Volume weighted average price
WACC	Weighted average cost of capital
Wah Nam	Wah Nam International

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1 Overview of the Option Grant Transaction

1.1 Summary

Flinders entered into the Deed on 8 May 2015, which was subsequently announced to the market on 11 May 2015, with Todd, an existing substantial shareholder of Flinders and subsidiary of New Zealand based Todd Corporation. If the conditions precedent set out in the Deed are satisfied, the Option Agreement will be executed between Flinders and Todd in respect of the potential acquisition of the PIOP by Todd (referred to above as the Option Grant Transaction).

The terms of the Option Grant Transaction include the following:

- an upfront payment of \$10 million payable to Flinders upon executing the Option Agreement
- an option exercise period up to and including 31 December 2016, during which time Todd will have exclusive access to the PIOP, the right to undertake exploration and feasibility works on the PIOP, and may elect to acquire the project. Todd may extend the terms of the option for a further two periods, of two years each (to 31 December 2018 and 31 December 2020 respectively), with payment of an additional \$10 million to Flinders for each two year period
- if Todd elects to exercise the option and acquire the PIOP, an exercise price of \$55 million will be payable to Flinders. Todd will also pay a production royalty to Flinders if it develops the PIOP. The payment of the royalty is subject to a royalty deed, which is to be executed if Todd exercises the option and acquires the PIOP. The production royalty ranges from \$0.60 to \$1.40 per tonne on a straight line basis between iron ore prices of US\$ 60 and US\$80 per tonne (62% CFR price), with a minimum royalty of \$0.60 per tonne below this range and a maximum royalty of \$1.40 per tonne above this range
- if Todd has not commenced construction of the PIOP within two years of acquiring the PIOP (following exercise of the option), it must pay Flinders a further \$20 million. The future royalties are not affected by this further payment
- in the event that the Option Agreement lapses or Todd abandons the option, Flinders retains ownership of the PIOP.

1.2 Consideration payable under the Option Grant Transaction

Under the Option Grant Transaction, there are several different future decisions Todd can make in relation to the Option Agreement and the development of the PIOP.

Each of these decisions derives a different outcome for Flinders, in terms of the consideration receivable from Todd. In Figure 1, we have presented all of the different variations of the consideration that could potentially be received by Flinders.

Figure 1: Potential consideration payable by Todd to Flinders

	Decisions available to Todd under the Option Agreement						Potential consideration payable by Todd to Flinders (million)
	Let option lapse	Extend the option for a further two years	Exercise option and acquire the PIOP	Exercise option and develop the PIOP within two years	Exercise option and develop the PIOP after two years	Exercise option and do not develop the PIOP	
Initial option term to 31 December 2016	✓						\$10 + PIOP retained
		✓					\$20 (refer to second option term)
			✓				\$65
			✓	✓			\$65 + royalty
			✓			✓	\$85
Second option term to 31 December 2018 (if option extended by Todd)	✓						\$85 + royalty
		✓					\$20 + PIOP retained
			✓				\$30 (refer to third option term)
			✓	✓			\$75
			✓			✓	\$75 + royalty
Third option term to 31 December 2020 (if option extended by Todd)			✓				\$95
			✓		✓		\$95 + royalty
	✓						\$30 + PIOP retained
			✓	✓			\$85
			✓			✓	\$85 + royalty
			✓		✓		\$105
					✓		\$105 + royalty

Source: Deloitte Corporate Finance analysis, and the Deed

1.3 Key conditions of the Option Grant Transaction

The Deed, and therefore the associated Option Grant Transaction, is conditional on statutory and regulatory approvals (including approval from the ASX), approval by Non-Associated Shareholders and relevant third party consents being received prior to 31 October 2015.

1.4 Intentions if the Option Grant Transaction proceeds

If the Option Grant Transaction proceeds, the outcome for Flinders is uncertain and at the discretion of Todd regarding its decisions in relation to the option and the development of the PIOP. The potential outcomes under the Option Agreement are varied, as set out above.

However, as a minimum, Flinders will receive \$10 million as an upfront option fee. The Directors are proposing to return approximately \$6.9 million of this amount to shareholders (including Todd Corporation as an existing shareholder of Flinders) via a capital return of \$0.0025 per fully paid ordinary share. The capital return is subject to approval by shareholders as set out in the Notice of Meeting. The remainder of the upfront option fee will be retained to enable Flinders to continue as a going concern until the outcome of the Option Agreement is known with certainty. Additional funds may also be received under the Option Agreement (although the amount is uncertain). The Directors' intentions regarding the use and distribution of these additional funds is also subject to retaining sufficient funds in the Company to continue as a going concern until the outcome of the Option Agreement is known with certainty.

Todd has expressed its intention to develop the Integrated Project if the Option Grant Transaction is approved by Non-Associated Shareholders. Todd has also expressed its current intention to deliver a final investment decision (FID) on the Integrated Project as soon as practicable with a current target of the end of 2016. Until then, Todd is responsible for all exploration and feasibility costs associated with the development of the PIOP.

1.5 Overview of Todd Corporation

Todd Corporation is a family-owned private company based in Wellington, New Zealand. It was established in 1884. The company's primary interests include oil and gas exploration and production, electricity generation, minerals, property development, healthcare, technology and wine. These interests are held through a combination of operated businesses and equity investments.

Todd is a wholly-owned subsidiary of Todd Corporation, and focuses on holding investments in the metals and mining sector.

1.5.1 Corporate activity and investments

Todd Corporation's four primary divisions are Energy (upstream, international and downstream), Minerals and Coal, Property and Growth Businesses. The majority of Todd Corporation's significant investments in the resources sector have been through its Energy division in oil and gas assets, however it has been increasing its exposure to the minerals sector in recent years.

Todd manages a number of international investments, primarily in iron ore and tungsten. Todd currently holds a 32% interest in the Balla Balla JV (with Rutila holding the remaining 68%). However, Todd is currently in the process of completing an off-market takeover of Rutila. Under the terms of the takeover, Todd will acquire all of the outstanding shares in Rutila it does not already own, with the exception of an interest held by NYCO Pty Limited, an entity controlled by Rutila's Executive Chairman, Mr Nicholas Curtis. Todd's effective interest in Rutila is currently 94.64%⁶. Additionally, Todd also holds a 19.56% equity interest in Flinders.

Todd Corporation, through a subsidiary, has also invested in Wolf Minerals Limited, an ASX listed tungsten development business that is currently developing the Hemerdon tungsten project in Devon, England. Todd Corporation, through another of its subsidiaries, TTI (NZ) Pty Limited, currently holds a 32.3% interest in the company. Todd Corporation's other minerals investments include a combined (direct and indirect) interest of 29% in the Sisson tungsten project in New Brunswick, Canada, which is being developed by Northcliff Resources Limited.

Todd Corporation's Energy division (Todd Energy) has interests in a number of producing oil and gas fields in New Zealand, which are summarised below.

⁶ Rutila company announcement, 22 July 2015

Table 2: Todd Energy: Oil and gas assets

Field	Commenced production	Todd Corporation Ownership
McKee	1983	100%
Mangahewa	2001	100%
Kapuni	1970	50%
Maari	2009	16%
Pohokura	2006	26%
Maui	1979	6.25%

Source: Todd Corporation Energy division

In addition, Todd Energy generates electricity from hydro, geothermal and gas-fired co-generation plants, located on New Zealand's North Island.

The Property division has been involved in designing some of New Zealand's largest land development projects.

1.5.2 Financial capacity

As Todd is a private company there is limited publicly available information that can be used to assess the financial capacity of the group to develop the Integrated Project. However, based on discussions with representatives of Todd and with the Directors of Flinders, we understand that:

- Todd has the financial support of its parent, Todd Corporation, in respect of its mining investments
- Todd Corporation has a significant balance sheet, a conservative current level of gearing and the capacity to undertake further borrowing
- Todd is advancing discussions regarding the financing of the Integrated Project.

2 Profile of the PIOP

2.1 Flinders company overview

Flinders is an ASX-listed mining exploration and development company headquartered in Adelaide, South Australia. Flinders' principal asset, the PIOP, is a pre-development stage iron ore project in the Pilbara region of Western Australia (the Pilbara). In recent years, the Company's primary activities have focused on the development of the PIOP. These activities have included the completion of a pre-feasibility study (PFS), the commencement of a bankable feasibility study (BFS), and the investigation of potential infrastructure solutions to advance the project to production. Refer to Section 2.3.4 for further discussion on the development of the PIOP.

In addition to the PIOP, Flinders also holds a 100% interest in the exploration stage Canegrass iron ore/vanadium project (Canegrass) in Western Australia, as well as an interest in an exploration stage phosphate mine in South Australia, as set out in the table below.

Table 3: Flinders' asset portfolio

Asset	Interest	Location	Development stage
Iron Ore			
PIOP	100%	Pilbara, Western Australia	PFS completed
Canegrass	100%	Mid-West, Western Australia	Exploration
Phosphate			
Jamestown	100%	South Australia	Exploration

Source: Flinders

2.2 Flinders' financial highlights

The following table sets out a high level summary of Flinders' recent financial performance.

Table 4: Flinders' financial information

AUD '000	FY13	FY14	YTD FY15 ²
Revenue	521	201	117
Payments to suppliers and employees	(4,760)	(4,970)	(2,075)
Research and development tax refunds	2,672	917	-
Payments for exploration expenditure	(8,493)	(5,932)	(7,510)
Proceeds from issue of shares	-	13,829	5,256
Other	506	28	(94)
Net cash flows	(10,075)	3,872	(4,423)
Cash and cash equivalents	5,996	9,869	5,446

Source: Flinders

Notes:

1. FY – Financial year
2. Represents the nine month period from 1 July 2014 to 31 March 2015
3. Subject to rounding

We note the following regarding the financial information presented above:

- Flinders did not hold any interest bearing debt facilities in the period presented above
- Flinders does not have an interest in any producing projects and, as a result, does not currently generate any operating revenues. Revenue presented above relates largely to interest received on cash balances. In addition, Flinders also received research and development tax incentives totalling \$3.6 million over the period.
- the focus of Flinders' activities in recent years has been the development of the PIOP. As a result, the vast majority of its expenditure over the period relates to exploration activities and the completion of feasibility studies for the project. To fund these activities, it was necessary for Flinders to raise capital twice in calendar year (CY) 2014:
 - March 2014 – Flinders raised approximately \$13.8 million via a placement and non-renounceable entitlement issue, at a price of 2.5 cents per share. This price represented a discount of 16.9% to the 30 day volume weighted average price (VWAP) of Flinders prior to the announcement of the raising. Some of the funds raised by Flinders were used to commence a BFS for the PIOP
 - November 2014 – Flinders raised approximately \$5.3 million via a placement and share purchase plan, at a price of 1.5 cents per share. This price represented a discount of 18.8% to the 30 day VWAP of Flinders prior to the announcement of the raising. The funds raised were to be used to allow the Company to complete the BFS for the PIOP; however, as a result of the Option Grant Transaction the BFS has not been completed.

2.3 The PIOP

2.3.1 Project overview

The PIOP is a pre-development stage iron ore project located approximately 200 kilometres (km) from the Pilbara coastline. The project covers an area of approximately 155 kilometres squared (km²) and comprises two tenements, known as Blacksmith and Anvil. The following figure sets out the location of the PIOP, as well as nearby mines and the project's proposed rail and port infrastructure. Refer to Section 2.3.4 for further discussion of the PIOP's proposed rail and port infrastructure.

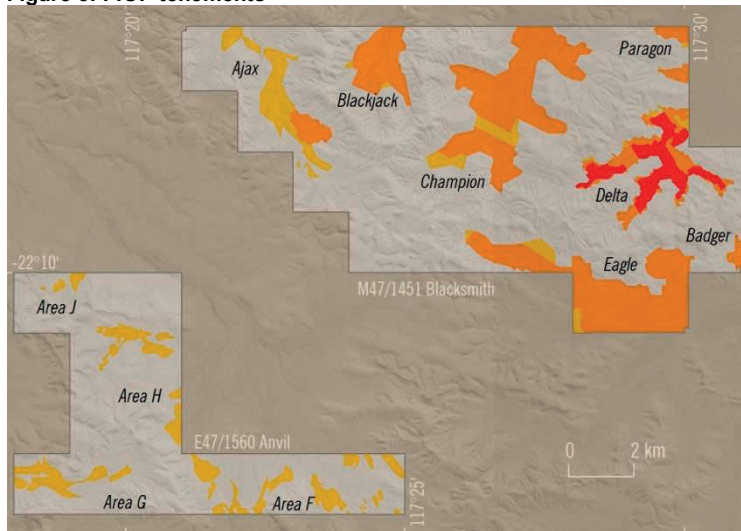
Figure 2: PIOP location



Source: Flinders website

The larger of the project's two tenements, Blacksmith, is also more advanced and has been the focus of studies undertaken at the PIOP to date. The Blacksmith tenement comprises of seven deposits; Ajax, Badger, Blackjack, Champion, Delta, Eagle and Paragon. These deposits contain a mixture of bedded iron (BID), channel iron (CID) and detrital iron (DID) mineralisation and are all located in separate valleys in the Hamersley Ranges. The Anvil tenement is located approximately 10km south-west of Blacksmith. The following figure sets out the deposits and mining areas within Blacksmith and Anvil.

Figure 3: PIOP tenements



Source: Flinders company presentation

2.3.2 Project history

A brief history of the PIOP is presented below.

Figure 4: History of the PIOP

2005	Flinders and Prenti Exploration Pty Limited (Prenti) entered into an agreement with Fortescue Metals Group Limited (Fortescue) to swap commodity rights on a number of tenements which they jointly owned. Under the agreement, Fortescue obtained the iron ore rights on four tenements owned by Flinders and Prenti, whilst Flinders and Prenti obtained diamond rights on a number of Fortescue's tenements. The E47/882 exploration tenement (Blacksmith), in which Flinders maintained a 100% interest, was not included in this transaction
2007	Flinders shifted its focus from diamond exploration to iron ore exploration following the discovery of the Serenity and Calwingina deposits by Fortescue and Rio Tinto Limited (Rio Tinto) respectively, in close proximity to Blacksmith. Following this, initial exploration commenced at Blacksmith, with an initial exploration target of 325 to 390 million tonnes (Mt) announced by Flinders in November 2007
2008	Flinders acquired the E47/1560 tenement (Anvil) from Cazaly Iron Pty Limited in June 2008, shortly before the commencement of Flinders' first drilling campaign at Blacksmith. The Company changed its name from Flinders Diamonds Limited to Flinders Mines Limited reflecting its changed focus
2009	Flinders announced a maiden inferred resource at Blacksmith of 476 Mt at 56.5% iron (Fe). Following this, Worley Parsons was appointed to undertake a PFS for the PIOP, the focus of which was Blacksmith
2010	Following further drilling at Blacksmith, Flinders announced its first indicated resource of 157 Mt at 56.5% Fe at the Delta deposit (within Blacksmith). Global resources for the PIOP were subsequently upgraded to 550 Mt at 55.6% Fe
2011	In January, Flinders announced the completion of a PFS for the PIOP. The PFS contemplates an initial production rate of 5 Mt per annum (Mtpa) from the Blacksmith tenement, ramping up to 15 Mtpa after 5 years. The study also highlighted the need for access to third-party rail and port infrastructure in order to progress the PIOP to production. Following this, global resources for the PIOP were upgraded to 917 Mt
	In November, Flinders announced the execution of a scheme implementation agreement (SIA) with MMK for the acquisition of 100% of the issued shares in Flinders via a Scheme of Arrangement. MMK subsequently terminated the SIA in July 2012
2012	In March, the Western Australian Government granted Flinders a mining license for Blacksmith (M47/1451)
2013	Flinders signed a Memorandum of Understanding (MoU) with Brockman Mining Limited (Brockman) in July, with respect to the PIOP and Brockman's Marillana project. The MoU contemplated the potential sharing of infrastructure and transportation solutions between the companies; however, following the execution of a separate infrastructure agreement by Flinders in early 2014, no formal agreement with Brockman materialised. In July, Flinders signed six MoUs with Chinese steel mills to allow for the technical evaluation of iron ore from the PIOP by potential foundation customers
2014	In February, Flinders entered into the Alliance Agreement. Under the Alliance Agreement, Flinders would gain access the Balla Balla JV's proposed Balla Balla Infrastructure. In return for handling production from the PIOP, Flinders will pay the Balla Balla JV a service charge, the reimbursement of operating expenses and a price participation fee according to the number of tonnes handled through the Balla Balla Infrastructure
	Flinders commenced a BFS for the PIOP in July, reflecting the newly signed Alliance Agreement. It was anticipated that the BFS would contemplate a production rate of more than 20 Mtpa for the PIOP; however, as a result of the Option Grant Transaction the BFS has not been completed
	In November, Flinders announced a capital raising via a placement and share purchase plan, which resulted in Flinders raising \$5.3 million. The price of the capital raising was 1.5 cents per share, representing a discount of 18.8% to the Company's 30 day VWAP. Under the capital raising, a subsidiary of Todd, which already held an effective interest of approximately 10.0% in Flinders, committed to an investment of approximately \$4.5 million in Flinders. This transaction resulted in Todd increasing its effective interest in the Company to 19.9%
2015	In January, Flinders announced the results of infill drilling at the Ajax deposit (within Blacksmith). Global resources at the PIOP were upgraded to 1,042 Mt at 55.6% Fe
	The Option Grant Transaction was announced on 11 May 2015

Source: Flinders website, ASX announcement

2.3.3 Defined resources

To date, the vast majority of resources defined at the PIOP are located within the Blacksmith tenement. The following table sets out the global resources defined at the PIOP as at the announcement of the Option Grant Transaction.

Table 5: PIOP defined resources

Tenement	Mt	Fe%	SiO ₂ %	Al ₂ O ₃ %	P%	LOI%
Blacksmith	959.5	55.8	9.2	4.6	0.07	5.6
Measured	105.3	56.4	10.5	5.1	0.05	2.8
Indicated	792.2	55.7	8.9	4.5	0.07	6.0
Inferred	62.0	55.4	10.0	4.8	0.06	5.1
Anvil	82.4	53.6	11.4	5.8	0.05	4.9
Measured	-	-	-	-	-	-
Indicated	-	-	-	-	-	-
Inferred	82.4	53.6	11.4	5.8	0.05	4.9
Total¹	1,041.9	55.6	9.3	4.7	0.07	5.5

Source: Flinders

Note:

1. Blacksmith resources are compliant with Joint Ore Reserves Committee (JORC) Code 2012, whilst Anvil resources are compliant with JORC Code 2004

2.3.4 Development plan and infrastructure

Development plans for the PIOP have changed as the project has evolved. The initial development plan, as presented in the PFS, contemplated a peak production rate of up to 15 Mtpa, total production tonnes of approximately 229 Mt and a life of mine of 20 years. A project of this size was not considered sufficient to underpin the development of independent rail and port infrastructure. Consequently, the PFS also highlighted the fact that the eventual development of the PIOP would be reliant on gaining access to third party rail and port infrastructure. The PFS presented a case whereby Flinders would gain access to Rio Tinto's existing rail network and port allocation; however, the companies were never able to reach a commercial agreement.

Following the PFS, Flinders continued to explore third party infrastructure options for the PIOP. The Company explored the possibility of constructing a rail line from the PIOP to the proposed Anketell Port, as well as the construction of a rail spur linking the PIOP to the proposed West Pilbara Iron Ore Project (an unincorporated joint venture between Aquila Resources Limited and AMCI (OI) Pty Ltd). In addition, Flinders also explored the possibility of gaining access to Fortescue's existing rail and port infrastructure; however the companies never agreed commercial terms for such an arrangement. Various other options were also explored including mine gate sales, joint ventures, farm in agreements and mergers with other junior miners.

Flinders signed a MoU with Brockman in July 2013 to explore the potential sharing of project infrastructure between the PIOP and Brockman's nearby Marillana project. However, this arrangement never progressed, and Flinders eventually executed the Alliance Agreement with the Balla Balla JV in February 2014.

Under the Alliance Agreement, all production from the PIOP will be handled through the proposed Balla Balla Infrastructure, which will include a rail network connecting the PIOP to a dedicated export facility on the Pilbara coastline. The Balla Balla Infrastructure will be constructed and managed by the Balla Balla JV, with Flinders being the foundation user of the Balla Balla export facility. The commercial terms of the Alliance Agreement as at the date of execution were as follows:

- Flinders will pay an operating cost recovery fee for each Flinders tonne handled through the Balla Balla Infrastructure

- Flinders will pay a service charge of \$25 per tonne for each Flinders tonne handled through the Balla Balla Infrastructure. However, a \$5 per tonne foundation customer discount will be provided to Flinders for the first 20 Mtpa commitment, with further rebates applied for additional ore transported
- Flinders will pay the Balla Balla JV a price participation fee of 30% of revenue derived from ore sales received in excess of AUD 60 per tonne.

Following the execution of the Alliance Agreement, Flinders commenced a BFS for the PIOP which included production rates of up to 25 Mtpa and was intended to define bankable parameters for the PIOP; however, this study has not been completed.

Although the execution of the Alliance Agreement has allowed Flinders to commence studies for a project with increased scale, a sustained decrease in iron ore prices (and the industry as a whole) in the past two years has meant the economics of the PIOP have become increasingly marginal. The following table summarises Flinders' current development plan for the PIOP under the Alliance Agreement and Flinders' initial development plan presented in the PFS.

Table 6: PIOP development plans

	Unit	PFS	Alliance Agreement
Production rate	Mtpa	Up to 15	25
Total mine life	Years	20	~11.5
Total product mined	Mt	229	~288
Transport from mine		Truck/Rail (Rio Tinto)	Balla Balla Rail
Export facility		Dampier Port (Rio Tinto)	Balla Balla Export Facility

Source: Flinders website, ASX announcements

3 Valuation of the PIOP

3.1 Introduction

For the purpose of our opinion fair market value is defined as the amount at which the PIOP would be expected to change hands between a knowledgeable willing buyer and a knowledgeable willing seller, neither being under a compulsion to buy or sell.

Special purchasers may be willing to pay higher prices to reduce or eliminate competition, to ensure a source of material supply or sales, or to achieve cost savings or other synergies arising on business combinations, which could only be enjoyed by the special purchaser. We have not considered special value in this assessment.

Refer to Appendix B for a detailed discussion on the various valuation methodologies which can be adopted in valuing corporate entities and businesses.

3.2 Selection of valuation methodologies

It is common market practice to use the discounted cash flow method to value resource projects due to their finite lives and the significant capital expenditure required in the development stage and preparatory phases of production. However, in this instance, based on the following risks and uncertainties of the PIOP, we do not consider that the PIOP is sufficiently advanced in its development to utilise a discounted cash flow approach as the primary methodology to value the project:

- Flinders completed a PFS in respect of the PIOP in 2011 which indicated the project could be economic. However, since this date, no further feasibility studies have been completed. Flinders commenced a BFS during 2014, however this has not been completed due to the sudden decrease in the iron ore price in early 2015 and the subsequent negotiation of the Option Grant Transaction
- the PIOP is still subject to certain approvals and consents required to develop the project including native title, planning consents, land approvals for mine access and site approvals for onsite processing and tailings disposal
- the development of the project is dependent on access to rail and port infrastructure. In February 2014, Flinders entered into the Alliance Agreement with the Balla Balla JV regarding the development of the project. However, in the current iron ore price environment, the agreed infrastructure charges under the Alliance Agreement make the project uneconomic
- Flinders does not currently have access to the necessary funding to develop the project. An estimated \$800 million of capital expenditure is required to develop the PIOP. Flinders will be required to raise significant equity to fund the project, even if some debt financing was to be available. Both debt and equity financing are unlikely to be available under the current economics of the project
- since the date of the PFS and the execution of the Alliance Agreement, the iron ore price has declined significantly. Given the current iron ore price environment and outlook, Flinders' management considers the project (in their hands) to be uneconomic. The financial analysis undertaken by Flinders to date, and announced to the market on 29 May 2015 in its Shareholder presentation, indicates that the iron ore price would need to be in excess of US\$ 85 per tonne⁷ to enable a minimal return on the project to be earned (after considering funding for the project). Based on the high level discounted cash flow analysis set out in Section 3.6.1, we also consider the PIOP to be uneconomic in the current iron ore price environment and under the terms of the Alliance Agreement.

Notwithstanding the current uneconomic nature of the PIOP, as the PIOP contains JORC-compliant certified resources, we consider the project has some intrinsic value. To capture this intrinsic value, we have used a market approach to assess the value of the PIOP.

⁷ On a dry metric tonne basis, with a benchmark 62% Fe, CFR

The market approach involves assessing a value for the PIOP based on comparable resource multiples (on an AUD per tonne of contained iron basis) observed in recent trading in comparable companies, and resource multiples achieved in recent comparable transactions.

We note, however, that there are limitations to the comparable resources multiple approach because the tenements of the PIOP and those held by the comparable companies or the subject of the comparable transactions:

- are not necessarily at the same stage of development;
- do not necessarily have the same potential production yields and capital expenditure profiles;
- do not necessarily have the same potential upside in undiscovered resources; and
- do not necessarily have the same access to infrastructure.

Despite these limitations, we consider there are limited alternative methods available to estimate the value of the PIOP and the market based approach is a commonly used valuation approach for mining projects which are not sufficiently advanced to value using the discounted cash flow method.

The PIOP also includes some exploration potential, which holds a value, albeit an immaterial value, over and above the core valuation of the resources of the PIOP assessed on a market based approach. Due to the early stage exploration nature of the exploration potential, we have engaged AMC Consultants Pty Limited (AMC) to value the exploration potential. AMC has valued the exploration potential by having regard to acreage multiples (on an AUD per km basis) achieved in transactions involving early stage iron ore tenements.

To provide additional evidence of the value of the PIOP and its exploration potential, we have had regard to the following:

- a high level discounted cash flow method, to support our view that the project is currently uneconomic and the selection of the market based approach as our primary valuation method
- recent trading in the shares of Flinders, as the PIOP is Flinders' primary and only significant asset
- the historical exploration and development costs incurred to date on defining resources of the project.

3.3 Appointment and role of the independent technical specialist

AMC, an independent mining specialist, was engaged to prepare a report providing a technical summary of the PIOP, confirmation of the reasonableness of the resource estimates relevant for the PIOP (which were prepared by another expert), an assessment of the reasonableness of the assumptions contained in the high level discounted cash flow for the purposes of confirming that the project is currently uneconomic, and the value of the exploration potential of the PIOP.

AMC has prepared its independent technical specialist's report having regard to the code for Technical Assessment and Valuation of Minerals and Petroleum Assets and Securities for Independent Expert Reports (VALMIN code). The scope of AMC's work was controlled by Deloitte Corporate Finance. A copy of AMC's report is provided in Appendix G.

3.4 Valuation methodologies adopted

3.4.1 Market based approach

To value the PIOP using a market based approach, we have applied a resource multiple (AUD per tonne of contained iron) to the measured, indicated and inferred (M&I&I) JORC-compliant resources of the project. In determining the size of the resource multiple to be applied, we considered the resource multiples derived from share market prices of comparable listed companies as well as those implied by recent comparable transactions.

Share trading multiples

The PIOP is a pre-development stage iron ore project with significant JORC-compliant resources. Recent optimisation studies undertaken at the PIOP (following the execution of the Alliance Agreement) have contemplated annual production of 25 Mtpa and total production from the project of approximately 288 Mt. The

eventual development of the project relies on gaining access to significant rail and port infrastructure, which is yet to be constructed.

Although there are a number of Australian companies with pre-development stage iron ore assets, there are very few companies with assets which we consider are directly comparable to the PIOP.

In estimating a resource multiple for the PIOP, we have had regard to companies with an asset portfolio that includes the following characteristics:

- primarily hematite resource base of a similar size to the PIOP; however, we have also included companies with pre-development stage magnetite projects as a ‘notional floor’ for our selected resource multiple
- projects at a comparable stage of development to the PIOP and similar scale to the PIOP
- plans to develop or gain access to transport infrastructure, including rail networks and port facilities.

We set out trading multiples for comparable listed companies below, based on the criteria outlined above.

Table 7: Comparable listed iron ore companies

Company	Country	Primary ore type	Enterprise value ¹ (AUD million)	M&I&I resources (Mt contained Fe)	Resource multiple (AUD per tonne)
Flinders ²	Australia	Hematite	49	579 ³	0.08 – 0.09 ⁴
Hematite					
Brockman	Australia	Detrital	400	919	0.44
Sundance Resources Limited	Republic of Congo	Hematite	133	2,344	0.06 – 0.12 ⁴
BC Iron Limited	Australia	Hematite	15	365	0.04
Magnetite					
Iron Road Limited	Australia	Magnetite	45	716	0.06
Rutila	Australia	Magnetite	45	204	0.22
Grange Resources Limited	Australia	Magnetite	29	483	0.06
Australasian Resources Limited	Australia	Magnetite	6	263	0.02

Source: Capital IQ, Deloitte Corporate Finance analysis

Notes:

1. Enterprise value current as at 22 July 2015
2. The Option Grant Transaction is not a corporate takeover and, as a result, we do not consider the current share price of Flinders reflects a premium for control. Therefore, we have added a 30% control premium to Flinders’ market capitalisation when calculating its resource multiple, as we have done with each of the other companies presented above
3. Does not include resources from Canegrass
4. As a result of factors outlined below, some resource multiples are presented as a range

Refer to Appendix E for a detailed list of all comparable companies considered as part of our analysis. We note that multiples observed for listed companies do not reflect the market value for control of a company, given they are for portfolio holdings. Australian studies indicate the premiums required to obtain control of companies range between 20% and 40% of the portfolio holding values (refer to Appendix F for details on the Deloitte Corporate Finance control premium study). Therefore, we have added a control premium of 30% to the market capitalisation of the comparable companies and Flinders when calculating the above resource multiples.

We note the following with regards to the share trading multiples presented above:

- we consider Sundance Resources Limited’s (Sundance) principal project, Mbalam-Nabebe, to be broadly comparable to the PIOP. Mbalam-Nabebe is located in the Republic of Congo (and Cameroon) and, similar to the PIOP, is a pre-development stage iron ore project which contemplates the production of significant high-grade hematite resources. Further, although the project’s resource base is large, it is relatively stranded and will require the construction of significant rail and port infrastructure, at significant cost and financial burden to the company, in order to reach production. As well as development risk, there is also some sovereign risk associated with operating an iron ore project in both the Republic of Congo and Cameroon

Based on feasibility studies completed to date, we understand that operating costs at Mbalam-Nabebe are likely to be lower than at the PIOP. However, as the project is located further from potential buyers in China, freight expenses are significantly higher than what is paid by producers in the Pilbara. Mbalam-Nabebe is more advanced than the PIOP, with Sundance completing a definitive feasibility study (DFS) for the project in 2011

In addition to the high grade hematite resources, Mbalam-Nabebe also has a substantial inferred itabirite resource. Itabirite requires substantial beneficiation, at significant cost, in order to be saleable. Given the current iron ore price environment, it is questionable whether the market is ascribing much value to this resource. As a result, we have analysed Sundance's implied resource multiple with and without the itabirite resources. Sundance's current resource multiple, based on M&I&I resources, is \$0.06 (per tonne of contained iron) including, and \$0.12 (per tonne of contained iron) excluding, the itabirite resources

- although an established iron ore producer, we consider BC Iron Limited's (BC Iron) operations to be somewhat comparable to the PIOP. The company operates one producing mine, Nullagine, (in which it holds a 75% interest, with Fortescue owning 25%); however, Nullagine is small compared to the PIOP and has a relatively short remaining life of mine. In addition to Nullagine, BC Iron owns the Iron Valley mine, which is currently operated by Mineral Resources Limited (MRL). Under the terms of this arrangement, BC Iron sells production from Iron Valley to MRL under a mine gate sale agreement. The terms of this agreement have not been disclosed publicly and, as a result, the amount of value being ascribed to Iron Valley by the market is uncertain

BC Iron also owns the Buckland Project (Buckland) which, similar to the PIOP, is a pre-development stage project located in the Pilbara. A feasibility study for the project was completed in 2014 which contemplated a production rate from the project of 8 Mtpa and a life of mine in excess of 15 years. Unlike the PIOP, it is planned that production from the mine will be hauled to port via public and private roads. Similar to the PIOP, product from the project will be exported via transshipment from a proposed 20 Mtpa export facility located at Cape Preston East. Based on cost estimates outlined in the feasibility study, Buckland is uneconomic at current prices. We understand that BC Iron is currently updating its feasibility studies for the project in light of the current iron ore environment, and is also exploring a number of financing options to advance the project to production

BC Iron's current resource multiple is \$0.04 (per tonne of contained iron). Intuitively, you would expect companies with producing assets to trade at a higher resource multiple than companies holding purely pre-development stage assets. However, based on publicly available information, we understand that BC Iron's producing assets (Nullagine and Iron Valley) are marginal at current iron ore prices. Further, producing assets have far greater committed costs than pre-development stage assets. It is therefore more difficult to place producing assets on care and maintenance when prices are low, with the aim of recommencing production once prices recover. As a result, we would expect a marginal pre-development stage asset such as the PIOP to have a higher implied resource multiple than a comparable marginal producing asset in the current iron ore price environment

- Brockman's principal asset, Marillana, is a pre-development stage iron ore project which is a comparable size to the PIOP. Further, the development of Marillana will require the construction of, or access to, significant proposed rail and port infrastructure in order to reach production.

Previously called Brockman Resources Limited, the company was acquired by Hong Kong-based company Wah Nam International (Wah Nam) in 2011, and subsequently changed its name to Brockman. Following this transaction, share trading in the company has been extremely illiquid. Consequently, we do not believe Brockman's current resource multiple represents a value that the average market participant would ascribe to Brockman's asset portfolio in the current environment

- although Rutila's asset portfolio includes pre-development stage iron ore assets (principally, the Balla Balla magnetite project), its operations are now focused on the development of the Balla Balla Infrastructure project. As a result, we believe the company's implied resource multiple does not provide a reasonable benchmark to estimate the value of its mining assets. Further, Rutila also has a relatively small free float and its recent trading is likely affected by Todd's recent offer to acquire the company. As a result, we have placed little reliance on Rutila's resource multiple in selecting a resource multiple to apply to the resources of the PIOP.

Transaction multiples

In the period since mid to late 2014, both iron ore spot prices and long term iron ore price forecasts have declined significantly. As a result, there has been a marked deterioration in the outlook for players in the iron ore industry, particularly for those companies holding assets which sit higher on the cost curve than major producers. Consequently, we do not believe transactions prior to this period provide a reasonable basis to estimate the current fair market value of projects such as the PIOP. There have been no publicly announced transactions involving comparable assets to the PIOP since this period. Therefore, we have not had regard to transaction multiples in estimating a resource multiple to apply to the defined resources of the PIOP.

Selected multiple

Based on the above, we have selected a resource multiple of \$0.07 to \$0.09 (per tonne of contained iron) to be applied to the resources of the PIOP.

We note that the PIOP is Flinders' principal asset. Although Flinders also holds a number of small exploration-stage projects (which include a relatively small JORC-compliant iron ore and vanadium resource at its Canegrass project), the value attributable to these projects is likely to be minor in comparison to the value of the PIOP. We consider our selected resource multiple to be comparable with the resource multiple implied by Flinders' share trading after adjusting for a 30% control premium. Flinders' current resource multiple on a control basis is \$0.08 per tonne including, and \$0.09 per tonne excluding, the defined resources at Canegrass.

3.4.2 Exploration potential

In addition to the resources of the PIOP which have been valued in this section, there are exploration areas which lie outside of the area covered by the resources of the PIOP.

Deloitte Corporate Finance has engaged AMC to value the exploration potential of the PIOP. As set out in Section 4 of AMC's Independent Technical Specialist's Report (in Appendix G), AMC has considered the value of this exploration potential with reference to a yardstick value on a \$ per kilometre basis observed from recent transactions.

AMC has assessed the value of the exploration potential to be \$336,800.

3.5 Conclusion: Valuation of the PIOP

Based on the above, we have assessed the value of the PIOP (including the exploration potential) to be in the range of \$40 million to \$50 million. If we were asked to determine a most likely value for the PIOP we would consider it reasonable to use the midpoint of the above valuation range, being \$45 million.

3.6 Cross-checks

3.6.1 High level discounted cash flow

To support the value of the PIOP and our selection of the market based approach to value this project, we have used a high level discounted cash flow approach. The discounted cash flow approach has also been used to confirm the economic feasibility of the project in the current iron ore price environment. The discounted cash flow method estimates market value by discounting a project's future cash flows to their net present value, and requires the determination of the following:

- estimate of future cash flows associated with the development and operations of the project
- an appropriate discount rate to be applied to these cash flows.

Our high level discounted cash flow analysis for the 2015 to 2030 calendar years, which is estimated to be the life of the PIOP, has been performed on an Australian dollar, nominal, pre-debt after tax basis.

The high level cash flow model is based on the following assumptions:

- a financial model prepared by Flinders for the purpose of evaluating the economics of the Alliance Agreement, as set out in its investor presentation dated June 2015. AMC has reviewed the production, and operating and capital expenditure included in the financial model prepared by Flinders from the perspective of confirming that the PIOP is uneconomic. AMC has updated the financial model for consistency with the latest work completed by Flinders and AMC's opinion on operating costs, sustaining capital expenditure and

closure costs. Based on this updated financial model, AMC, does not consider any of the inputs to be unreasonable to be used for this purpose, as set out in section 6 of the Independent Technical Specialist's Report in Appendix G

- an estimated development cost of \$800 million, with a foreign currency adjustment for costs denominated in US\$
- an estimated long term iron ore price of US\$65 per tonne (62% Fe CFR) based on a range of analyst estimates
- a realised price discount of 16% relative to the 62% Fe CFR price. This discount is based on the grade and impurity levels of the product from the PIOP. In addition to this, there is a 7% discount due to moisture content
- a freight cost to China from the Pilbara of \$8 per tonne
- a US\$ to AUD exchange rate of 0.77 based on a range of analyst estimates
- an average production rate of 25 mtpa
- operating costs of the mine, including the costs of the Alliance Agreement and shipping (excluding royalties), of \$63 per tonne
- ongoing capital expenditure after the development of the mine is assumed to be immaterial given the short mine life
- applicable state royalties and corporate tax payable
- mine closure cost of between \$25 million and \$30 million.

The projected cash flows have been discounted to a present value using nominal discount rates in the range from 13.0% to 14.0% (as determined in Appendix D). This range of discount rates reflects our assessment of the risk of the PIOP and its likely cost of capital.

In relation to the prospective financial information set out in this section, we note actual results may be different from the prospective financial information of the PIOP referred to since anticipated events frequently do not occur as expected and the variation may be material. The achievement of the prospective financial information is dependent on the outcome of the assumptions. Accordingly, Deloitte Corporate Finance expresses no opinion as to whether the prospective financial information will be achieved. The assumptions presented above have been adopted exclusively for the purposes of the high level discounted cash flow analysis to provide shareholders with an understanding of the economic feasibility of the PIOP and provide support for our selection of the market approach as our primary methodology to value the PIOP.

Based on the outcomes of the high level discounted cash flow analysis, the PIOP is uneconomic and has no value at our selected long term iron ore price. Whilst the value of the PIOP is uneconomic to Flinders in the current price environment, it does not necessarily mean that the project is uneconomic to Todd, or an alternative market participant with access to infrastructure, as the infrastructure costs in the discounted cash flow analysis could be lower in these circumstances.

Using the assumptions set out above, on an operating basis, the long term iron ore price would need to be in excess of US\$75 for the project to generate a positive cash margin per tonne. However, this margin does not incorporate any cost of funding the development of the project. The funding costs are currently unknown.

As the PIOP is currently uneconomic, we do not consider it appropriate to use the discounted cash flow approach as a primary method for the valuation of the PIOP and, accordingly, we consider a market based approach to be the most appropriate method to capture the in situ value of the project.

3.6.2 Recent share trading

As noted above, the PIOP is Flinders' principal asset. Although the Company's asset portfolio includes other early stage mining projects, we believe the value being ascribed to these assets by the market is minor, relative to the value of the PIOP.

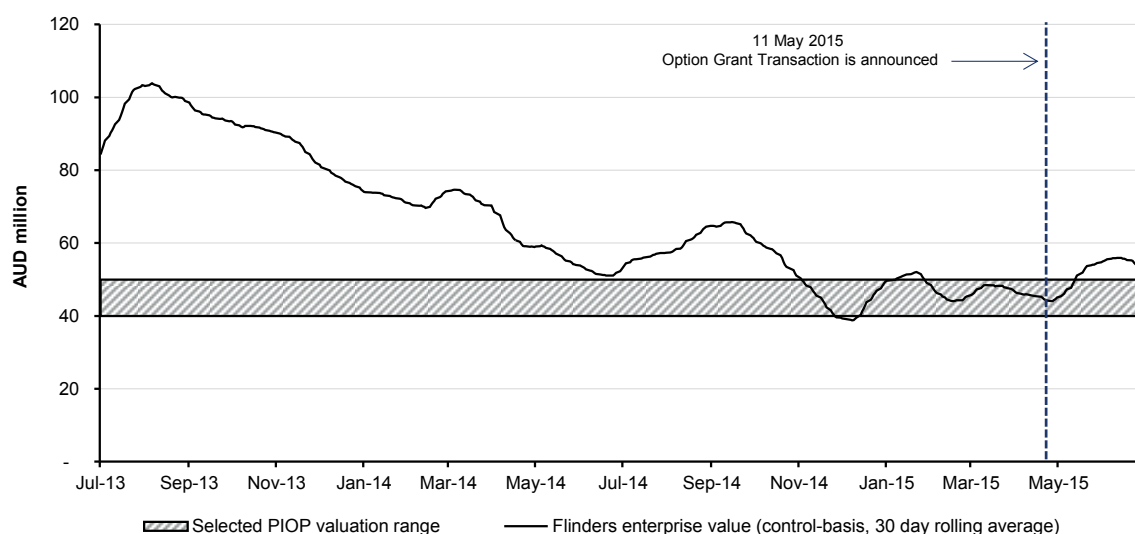
The market can be expected to provide an objective assessment of the fair market value of a listed entity, where the market is well informed and liquid. Market prices incorporate the influence of all publicly known information relevant to the value of an entity's securities. We believe that the share price and therefore market capitalisation of Flinders, prior to the announcement of the Option Grant Transaction, is an appropriate measure to determine the enterprise value of Flinders, as a cross-check to our valuation of the PIOP, for the following reasons:

- in the past six months, approximately 14.3 million Flinders shares were traded on average on a weekly basis. This equates to an average trading volume of approximately 0.5% of the Company's total issued shares per week, and 0.8% of the Company's total issued shares per week on a free-float basis, based on Flinders' free-float of approximately 65% (Todd Corporation is the largest shareholder in Flinders, holding 19.6% of the shares on issue). This equates to 14.0% and 21.4% respectively for the entire six month period. On this basis, we consider Flinders shares are widely held and are also somewhat liquid
- reviewed financial statements for Flinders for the half year ended 31 December 2014 were released to the market on 19 February 2015, providing a recent update regarding the Company's financial performance. Furthermore, Flinders released its quarterly cash flow and activities report for the period ended 31 March on 29 April 2015
- Flinders publishes quarterly activities reports on its assets outlining exploration and development progress and outcomes. This provides the market with regular updates on Flinders' exploration and development progress against expected outcomes
- Flinders published a company presentation on 29 May 2015, providing shareholders with an update with respect to the Option Grant Transaction.

As Flinders does not hold any other significant assets, we would expect the enterprise value of Flinders (on a control basis) to be comparable to our selected value of the PIOP. The enterprise value of Flinders has been determined based on the market capitalisation of the Company (share price times number of shares on issue), plus net debt.

The following figure presents Flinders' enterprise value (on a control basis, assuming a 30% premium for control) since 1 June 2013.

Figure 5: Flinders' historical enterprise value



Source: Capital IQ, Deloitte Corporate Finance analysis

Over the past two years, Flinders' enterprise value (on a control basis) has been in a 30 day rolling average range of between \$39.0 million and \$103.8 million. However, the company's 30 day rolling average enterprise value has not exceeded \$55.9 million in the past six months, and has been in our selected valuation range for the PIOP for the vast majority of this period.

Based on this analysis, we consider that Flinders' recent share trading supports our selected valuation range for the PIOP.

3.6.3 Historical cost

In supporting the value of the PIOP derived using a market based approach we have also had regard to the historical costs incurred by Flinders in proving up the resources of the PIOP.

We consider the historical costs incurred by Flinders (which have mostly been incurred in the past three years) provide a benchmark of the costs that might have to be expended in order to recreate the current level of resources of the PIOP (or the information known about these resources) and reflects the potential value of the asset to a market participant. It is unlikely that a market participant that already has its own infrastructure and tenements, in close proximity to the PIOP, would pay any more than this amount for the project in the current iron ore price environment.

Flinders has also incurred other historical costs associated with evaluating the economic feasibility of the project and infrastructure options, however we do not consider that these costs would be valuable to other market participants (as these activities would need to be re-evaluated by any new acquirer of the PIOP) and have therefore not included them in our analysis of historical costs. We have incorporated only those costs we consider to be appropriate in proving up the resources of the PIOP.

The historical expenditure incurred by Flinders is in the range of approximately \$35 million to \$45 million (depending on whether personnel costs are included or not). This historical expenditure, relating only to the cost of proving up the resources of the PIOP, has also been considered and confirmed by AMC.

Based on this, we consider the historical expenditure relating to the PIOP directionally supports the lower end of our valuation of the PIOP.

4 Valuation of the consideration

4.1 Valuation approach

In this section we have estimated the fair market value of the consideration under the Option Agreement using a Monte Carlo simulation. A variety of valuation models exist for valuing options. Broadly, they may be characterised as either closed-form solutions (such as a Black-Scholes method) or numerical approaches. Closed-form solutions are usually less flexible than numerical approaches and do not allow for all of the features associated with some instruments.

Monte Carlo simulation is an approach that can accommodate complex exercise conditions akin to those under the Option Agreement. In particular, it can be used when the decision elected under an option depends on some function of the whole price path followed, rather than just at expiry. Monte Carlo simulation is also used to analyse options where the exercise condition is dependent on outcomes associated with factors other than, or in addition to, the value of the asset or commodity price.

In this instance, the Monte Carlo simulation was based on the Ornstein-Uhlenbeck process, which is a stochastic process that simulates the price path of a commodity according to the long term average price, the commodity's volatility, and the reversion rate to the long term price. The resulting price paths of this simulation are then used to determine the expected value of the outcomes. These outcomes, discounted to the valuation date, represent the option value, or in this case, the value of the consideration under the Option Agreement.

4.2 Key assumptions to the Monte Carlo simulation

The key terms of the option to be issued under the Option Grant Transaction are set out in Section 1. The decisions elected under the Option Agreement are at Todd's discretion. We have modelled these decision paths having regard to the following assumptions:

Table 8: Key assumptions for the valuation of the consideration

Input	Selected input	Basis for selection / estimation
Valuation date	22 July 2015	Being the latest date at which our valuation analysis was completed
Option expiry date	31 December 2020	The latest date at which the option can be exercised by Todd
PIOP value	\$45 million	The midpoint of our selected valuation range for the PIOP as presented in Section 3.4.1
Current iron ore spot price	US\$52.10	62% CFR price as at 22 July 2015
Forecast long term iron ore prices	US\$55 to US\$75	62% CFR price, based on various broker and industry analyst forecasts. The Monte Carlo simulation model has been run using this range of long term prices
Expected annual volatility	25.0%	Based on the annual historical volatility of iron ore prices over the past 30 years. This rate, in addition to the mean reversion rate outlined below, creates the possible price paths that the long term iron ore price may take over the option life
Mean reversion rate	0.13	The speed at which the iron ore price reverts to our selected long term iron ore price. Based on historical iron ore prices for the past 30 years

Source: Deloitte Corporate Finance analysis

Based on the above parameters, the Monte Carlo simulation (the stochastic process) determines the possible paths that the long term iron ore price can take. These price paths have then been applied to a simplified discounted cash flow model which estimates the value of the Integrated Project (incorporating the development of the PIOP) in Todd's hands at particular points in time during the option life using the following assumptions:

- a life of mine for the PIOP is estimated at 15.5 years
- a peak production rate for the PIOP of 25 Mtpa

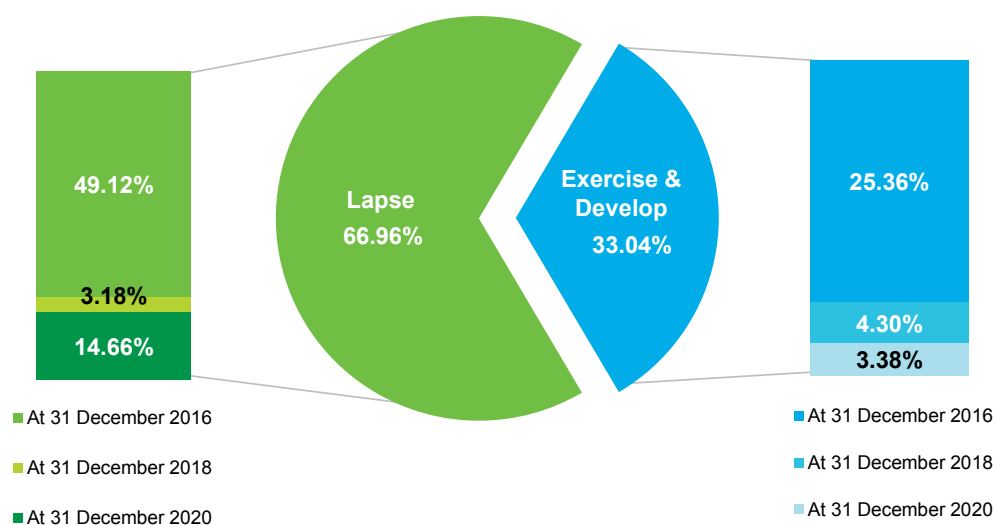
- a nominal, post-tax discount rate of 13.5% based on our estimated discount rate range of 13.0% to 14.0%. This rate is applied to the project cash flows of the Integrated Project in Todd's hands. As the consideration is linked to the outcomes of this analysis, this discount rate has also been applied to the consideration payments (including the determination of the royalty payment)
- operating cost and capital expenditure inputs of the Integrated Project based on information presented in recent announcements by Rutila⁸.

Further, we have made the following assumptions in order to simplify the Monte Carlo simulation:

- Todd will exercise the option if the calculated net present value of the Integrated Project exceeds \$55 million, being the cost to exercise the option. In the event that the option is exercised by Todd, we have assumed that construction of the Integrated Project will commence immediately (i.e. no development delay payment will be made)
- Todd will let the option lapse if the resulting price path from the Monte Carlo simulation is below US\$ 55 per tonne (in real 2015 terms), being the low end of our selected forecast long term iron ore price range
- Todd will extend the option if the calculated net present value of the Integrated Project is between the two scenarios above.

We have estimated the probability of each of the major decisions available to Todd under the Option Agreement being made, based on the outcomes of the simplified discounted cash flow model using the possible price paths determined by the Monte Carlo simulations. The following figure presents the probability of the option lapsing or being exercised (and, consequently, the Integrated Project being developed), as well as a breakdown of the dates at which these decisions were made according to the Monte Carlo simulations and simplified discounted cash flow model.

Figure 6: Option Agreement decision probabilities



Source: Deloitte Corporate Finance analysis

Note:

1. At the midpoint of our selected long term iron price of US\$55 to US\$75 (real 2015)

The valuation of the consideration is based on the probabilities presented above, and the consideration payable at each decision point. The determination of the royalties payable under each decision has been based on the assumptions underlying the simplified discounted cash flow model.

4.3 Valuation of the consideration

Based on the probability weighted outcome of the amount of consideration payable to Flinders by Todd under each decision path, we have assessed the value of the consideration to be between \$65 million and \$95 million.

⁸ Rutila company announcement, 31 December 2014

Appendix A: Context to the Report

Individual circumstances

We have evaluated the Option Grant Transaction for Non-Associated Shareholders as a whole and have not considered the effect of the Option Grant Transaction on the particular circumstances of individual investors. Due to their particular circumstances, individual investors may place a different emphasis on various aspects of the Option Grant Transaction from the one adopted in this report. Accordingly, individuals may reach different conclusions to ours on whether the Option Grant Transaction is fair and reasonable. If in doubt investors should consult an independent adviser, who should have regard to their individual circumstances.

Limitations, qualifications, declarations and consents

This report has been prepared at the request of the Directors and is to be included in the Notice of Meeting to be given to Non-Associated Shareholders to assist in their evaluation of the Option Grant Transaction. Accordingly, it has been prepared only for the benefit of the Directors and those persons entitled to receive the Notice of Meeting in respect of their assessment of the Option Grant Transaction outlined in the report and should not be used for any other purpose. Neither Deloitte Corporate Finance, nor Deloitte Touche Tohmatsu, nor any member or employee thereof, undertakes responsibility to any person, other than the Non-Associated Shareholders and Flinders, in respect of this report, including for any errors or omissions however caused. Further, recipients of this report should be aware that it has been prepared without taking account of their individual objectives, financial situation or needs. Accordingly, each recipient should consider these factors before acting on the Option Grant Transaction. This engagement has been conducted in accordance with professional standard APES 225 Valuation Services issued by the Accounting Professional and Ethical Standards Board Limited.

The report represents solely the expression by Deloitte Corporate Finance of its opinion as to whether the Option Grant Transaction is fair and reasonable. Deloitte Corporate Finance consents to this report being included in the Notice of Meeting.

Deloitte Corporate Finance relied on the Independent Technical Specialist's Report, prepared by AMC and included as Appendix G, in the preparation of the independent expert's report. Deloitte Corporate Finance has received consent from AMC for reliance on its report in the preparation of the independent expert's report.

Statements and opinions contained in this report are given in good faith but, in the preparation of this report, Deloitte Corporate Finance has relied upon the completeness of the information provided by Flinders and its officers, employees, agents or advisors which Deloitte Corporate Finance believes, on reasonable grounds, to be reliable, complete and not misleading. Deloitte Corporate Finance does not imply, nor should it be construed, that it has carried out any form of audit or verification on the information and records supplied to us. Drafts of our report were issued to Flinders for confirmation of factual accuracy. In addition, Todd was provided with a section of our report relating to the operations and financial capacity of Todd, for confirmation of factual accuracy.

In recognition that Deloitte Corporate Finance may rely on information provided by Flinders and its officers, employees, agents or advisors, Flinders has agreed that it will not make any claim against Deloitte Corporate Finance to recover any loss or damage which Flinders may suffer as a result of that reliance and that it will indemnify Deloitte Corporate Finance against any liability that arises out of either Deloitte Corporate Finance's reliance on the information provided by Flinders and their officers, employees, agents or advisors or the failure by Flinders and their officers, employees, agents or advisors to provide Deloitte Corporate Finance with any material information relating to the Option Grant Transaction.

To the extent that this report refers to prospective financial information we have considered the prospective financial information and the basis of the underlying assumptions. The procedures involved in Deloitte Corporate Finance's consideration of this information consisted of enquiries of Flinders' personnel and analytical procedures applied to the financial data. These procedures and enquiries did not include verification work nor constitute an audit or a review engagement in accordance with standards issued by the Auditing and Assurance Standards Board (AUASB) or equivalent body and therefore the information used in undertaking our work may not be entirely reliable.

Based on these procedures and enquiries, Deloitte Corporate Finance considers that there are reasonable grounds to believe that the prospective financial information for Flinders and the PIOP included in this report has been prepared on a reasonable basis in accordance with ASIC Regulatory Guide 111. In relation to the prospective financial information, actual results may be different from the prospective financial information of Flinders and the PIOP referred to in this report since anticipated events frequently do not occur as expected and the variation may be material. The achievement of the prospective financial information is dependent on the outcome of the assumptions. Accordingly, we express no opinion as to whether the prospective financial information will be achieved.

Deloitte Corporate Finance holds the appropriate Australian Financial Services licence to issue this report and is owned by the Australian Partnership Deloitte Touche Tohmatsu. The employees of Deloitte Corporate Finance principally involved in the preparation of this report were Nicki Ivory, Authorised Representative AR Number 461005, B.Com, CA, CFA and Stephen Adams, Authorised Representative AR Number 460771, B. Ec, M App. Fin., F. Fin. Each has many years' experience in the provision of corporate financial advice, including specific advice on valuations and mergers and acquisitions. Nicki Ivory also has many years of experience in the preparation of expert reports.

Consent to being named in disclosure document

Deloitte Corporate Finance Pty Limited (ACN 003 833 127) of 11 Waymouth Street, Adelaide, SA, 5001 acknowledges that:

- Flinders proposes to issue a Notice of Meeting in respect of the Option Grant Transaction
- the Notice of Meeting will be issued in hard copy and be available in electronic format
- it has previously received a copy of the draft Notice of Meeting (Draft Notice of Meeting) for review
- it is named in the Notice of Meeting as the 'independent expert' and the Notice of Meeting includes its independent expert's report in Annexure A of the Notice of Meeting.

On the basis that the Notice of Meeting is consistent in all material respects with the draft Notice of Meeting received, Deloitte Corporate Finance Pty Limited consents to it being named in the Notice of Meeting in the form and context in which it is so named, to the inclusion of its independent expert's report in Annexure A of the Notice of Meeting and to all references to its independent expert's report in the form and context in which they are included, whether the Notice of Meeting is issued in hard copy or electronic format or both.

Deloitte Corporate Finance Pty Limited has not authorised or caused the issue of the Notice of Meeting and takes no responsibility for any part of the Notice of Meeting, other than any references to its name and the independent expert's report as included in Annexure A.

Sources of information

In preparing this report we have had access to the following principal sources of information:

- various transaction documents including the Deed, the Option Agreement, the draft royalty deed and Draft Notice of Meeting
- annual report/s for Flinders for the years ending June 2013, June 2014 and
- half-yearly report for Flinders for the six months ending 31 December 2014
- the Alliance Agreement between the Balla Balla JV and Flinders
- Flinders Investor Presentation, June 2015
- Rutila company announcements
- annual reports for comparable companies
- company websites for Flinders, Todd and comparable companies
- publicly available information on comparable companies and market transactions published by ASIC, Thomson research, Capital IQ, and Mergermarket

- IBIS company and industry reports
- AMC's Independent Technical Specialist's Report
- other publicly available information, media releases and brokers reports on Flinders, Todd, comparable companies and the iron ore mining industry.

In addition, we have had discussions and correspondence with the following Flinders and Todd representatives in relation to the above information and current operations and prospects of Flinders, the PIOP and the Integrated Project:

- Ian Gordon, Managing Director, Flinders
- Jim Panagopoulos, Chief Financial Officer, Flinders
- Robert Kennedy, Non-Executive Chairman, Flinders
- Kevin Malaxos, Non-Executive Director, Flinders
- Ewan Vickery, Non-Executive Director, Flinders
- Justin Nelson, Company Secretary, Flinders
- Miro Rapaic, General Manager – Project Development, Flinders
- Will Goodwin, Chief Financial Officer, Todd Minerals and Coal
- Peter Jones, Group Executive – Engineering, Rutila.

Appendix B: Valuation methodologies

To estimate the fair market value of the PIOP we have considered common market practice and the valuation methodologies recommended by ASIC Regulatory Guide 111, which provides guidance in respect of the content of independent expert's reports. These are discussed below.

Market based methods

Market based methods estimate a company or asset's fair market value by considering the market price of transactions in its securities or the market value of comparable companies. Market based methods include:

- capitalisation of maintainable earnings
- analysis of a company's recent security trading history
- industry specific methods.

The capitalisation of maintainable earnings method estimates fair market value based on the company's future maintainable earnings and an appropriate earnings multiple. An appropriate earnings multiple is derived from market transactions involving comparable companies. The capitalisation of maintainable earnings method is appropriate where the company's earnings are relatively stable.

The most recent security trading history provides evidence of the fair market value of the securities in a company where they are publicly traded in an informed and liquid market.

Industry specific methods estimate market value using rules of thumb for a particular industry. Generally rules of thumb provide less persuasive evidence of the market value of a company than other valuation methods because they may not account for company specific factors.

Discounted cash flow methods

Discounted cash flow methods estimate market value by discounting a company or an asset's future cash flows to a net present value. These methods are appropriate where a projection of future cash flows can be made with a reasonable degree of confidence. Discounted cash flow methods are commonly used to value early stage companies or projects with a finite life.

Asset based methods

Asset based methods estimate the market value of a company's securities based on the realisable value of its identifiable net assets. Asset based methods include:

- orderly realisation of assets method
- liquidation of assets method
- net assets on a going concern basis.

The orderly realisation of assets method estimates fair market value by determining the amount that would be distributed to securityholders, after payment of all liabilities including realisation costs and taxation charges that arise, assuming the company is wound up in an orderly manner.

The liquidation method is similar to the orderly realisation of assets method except the liquidation method assumes the assets are sold in a shorter time frame. Since wind up or liquidation of the company may not be contemplated, these methods in their strictest form may not necessarily be appropriate. The net assets on a going concern basis method estimates the market values of the net assets of a company but does not take account of realisation costs.

These asset based methods ignore the possibility that the company's value could exceed the realisable value of its assets as they ignore the value of intangible assets such as customer lists, management, supply arrangements and goodwill. Asset based methods are appropriate when companies are not profitable, a significant proportion of a company's assets are liquid, or for asset holding companies

Appendix C: Australian iron ore industry

Western Australia iron ore overview

Flinders' principal asset is a pre-development stage iron ore project located in the Pilbara region of Western Australia. Accordingly, the following overview focuses predominantly on the iron ore industry in Australia, as well as the global supply and demand dynamics which impact the industry.

Product Overview

Iron ore is found in its raw form as hematite (primary type of iron ore in Australia), magnetite, goethite, limonite, itabirite, pisolite and taconite ores. Hematite and magnetite are normally used in steel making, with hematite being preferred due to its higher iron content as ore in situ. Magnetite ores generally require a greater amount of beneficiation, usually in the form of crushing, milling and magnetic separation which increases mining costs.

Iron content is the most important factor that determines the value of the ore. The majority of the world's high grade iron ore resources (greater than 60% Fe content and on average 62% to 63% Fe) are hematite deposits, which either require a small amount of beneficiation or can be fed directly into blast furnaces (albeit after sintering for fines ore). The majority of iron ore currently exported from Australia, and the Pilbara, is high grade hematite direct shipping ore which only requires crushing and screening. There are also a number of large high grade hematite mines in Brazil. Australia also has a number of lower grade hematite deposits (Fe content of 40% to 50%).

Magnetite ores are generally of a lower grade (between 25% and 40% Fe content) and require beneficiation involving crushing, milling and magnetic separation. Magnetically beneficiated ore can be pelletised for use as a high grade raw material in the steel making process.

The productivity of blast furnaces is affected by the chemical composition of the ore, such as iron content and levels of impurities. Steelmakers are willing to pay a premium for high grade ore with low impurities.

The main impurities found in naturally occurring hematite and magnetite ores are silicon dioxide (SiO_2), aluminium oxide (Al_2O_3), sulphur (S) and phosphorous (P). The level of these impurities is one of the main determinants of whether an iron ore resource is commercially viable.

The level of impurities is a growing issue for steelmakers as high grade, low impurity ore resources are being depleted. Steelmakers are able to reduce the average impurity of ores going into blast furnaces by blending ores with different characteristics.

The geological features of each ore deposit affect the mining approach and production costs, which are higher where ore bodies are deeper (requiring higher stripping ratios) or where ore bodies are below the water table (requiring dewatering and drying).

Iron ore is a relatively low value-to-weight ratio product and there are three principal types of iron ore products: fines (size less than 6 millimetres (mm)); lump (size 6mm to 30mm); and pellets. Currently, fines account for the largest share of production in Australia (approximately 80%), followed by lump (approximately 19%) and pellets account for less than 1% of output, with little historical variation in these contributions. The demand for these products is affected by availability, price differentials and blast furnace requirements.

Although the cost of production of fines and lump ores is similar, lump ores are generally priced at a premium to fines. This is because fines must be sintered by the steel mill before they can be added to the blast furnace. Sintering improves the permeability of the furnace feed stock and prevents the loss of fines. Demand for fines has been increasing in recent years as Chinese steel mills, in particular, have invested in significant sintering and pelletising capacity.

Lump ore is generally considered to be the most desirable source of iron ore for steel production as no pre-smelter processing is required.

Iron ore industry in Australia

Australia has the most significant iron ore resources in the world, with approximately 27% of global resources, ahead of Brazil, Russia and China⁹. Australia is also the world's largest producer (on a grade adjusted basis) and exporter of iron ore. It is projected that Australia will produce approximately 790 Mt of iron ore during CY 2015, followed by Brazil (390 Mt) and China (380 Mt). Iron ore exports from Australia totalled 720 Mt in CY 2014, ahead of Brazil (360 Mt) and South Africa (46 Mt)¹⁰.

The iron ore mining industry is forecast to account for 2.73% of Australia's gross domestic product in FY 2015 and 2.80% in FY 2016, with estimated sales of \$63.1 billion and \$66.6 billion respectively¹¹. Iron ore is Australia's largest export, responsible for approximately 23% of all exports¹².

The table below outlines the various types and characteristics of Australia's iron ore resources.

Table 9: Australian iron ore product types - characteristics and mines

Product Type	Characteristics	Mines
Premium Brockman	65% Fe / 0.05% P / 4.3% SiO ₂ / 1.7% Al ₂ O ₃	Mount Whaleback and Mount Tom Price
Brockman	62.7% Fe / 0.10% P / 3.4% SiO ₂ , 2.4% Al ₂ O ₃ / 4.0% LOI ¹	Channar, Paraburdoo and Jimblebar
Marra Mamba	62% Fe / 0.06% P / 3% SiO ₂ / 1.5% Al ₂ O ₃ / 5% LOI	Nammuldi, West Angelas, Mining Area C, Marandoo, Hope Downs, Cloudbreak and Christmas Creek
Channel Iron Deposits	58% Fe / 0.05% P / 4.8% SiO ₂ / 1.4% Al ₂ O ₃ / 10% LOI	Robe River and Yandicoogina
Other Hematite	Low: 57.4% Fe / 0.09% P / 7.07% SiO ₂ / 2.4% Al ₂ O ₃ / 4.0% LOI	Pardoo
	High: 63.8% Fe / 0.017% P / 6.13% SiO ₂ / 1.01% Al ₂ O ₃ / 0.46% LOI	Koolan Island
Magnetite	66.3% Fe (after beneficiation) / 0.02% P / 1.9% SiO ₂ / 0.4% Al ₂ O ₃ / 1.0% LOI	Balmoral and Karara

Source: Geoscience Australia

Note:

1. LOI - Loss on ignition

⁹ US Geological Survey, Mineral Commodity Summaries, January 2015 – Iron Ore

¹⁰ BREE, Resources and Energy Statistics 2015

¹¹ IBIS World Industry Report B0801 – Iron Ore Mining in Australia May 2015

¹² Department of Foreign Affairs and Trade 2014

Western Australia is the by far the most significant iron ore producing region in Australia, representing approximately 97.6% of total national production¹³. Within Western Australia, the Pilbara accounts for almost 90% of total production¹⁴.

The following three main types of hematite ore are mined in the Pilbara:

- Brockman ore, which can be further classified as low phosphorous (Premium Brockman) or high phosphorous Brockman ore
- Marra Mamba ore
- channel iron deposits, also known as pisolite, which is a mixture of hematite and goethite.

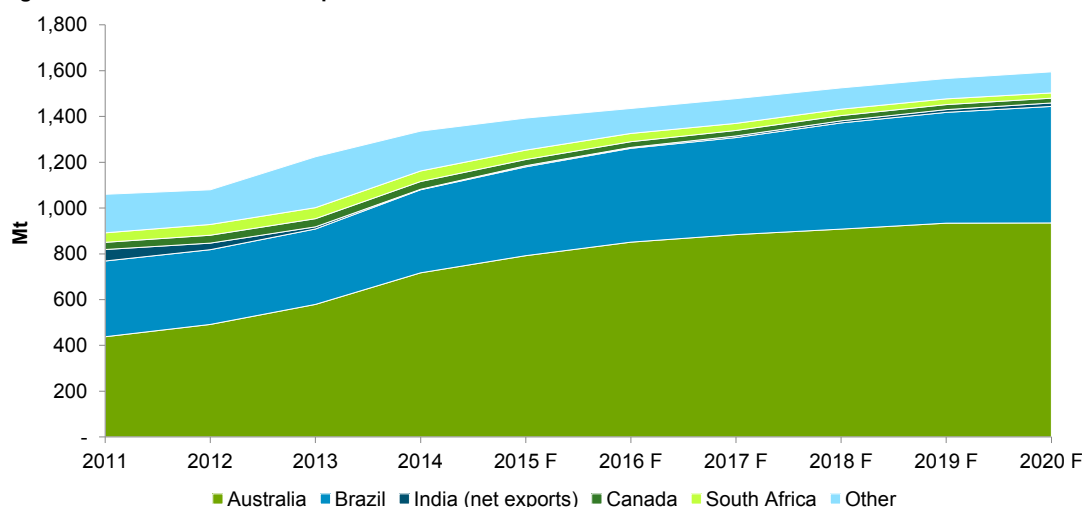
Rio Tinto, the largest Australian iron ore producer (approximately 32.6% market share), BHP Billiton Limited (BHP) (approximately 30.6% market share) and Fortescue (approximately 19.8% market share) currently account for approximately 83% of total iron ore production in Australia¹⁵.

Citic Pacific Mining Management Pty Limited (Citic Pacific), Hancock Prospecting Pty Limited (Hancock Prospecting), ITOCHU Minerals and Energy of Australia Pty Limited, Mitsui Iron Ore Development Pty Limited, Atlas Iron Limited, Cliffs Natural Resources Holdings Pty Limited and Grange Resources Limited also have interests in producing iron ore mines in Australia.

Outlook

World exports of iron ore are projected to increase at an average annual rate of 3.9% between 2014 and 2020, growing to approximately 1.6 billion tonnes (Bt) by the end of 2020¹⁶. The majority of export growth is expected to come from Australia and Brazil, as illustrated in the figure below.

Figure 7: Medium term world export outlook



Source: BREE

Note:

1. F - Forecast

Australian exports of iron ore are projected to increase at an average annual rate of 7.3% between 2014 and 2020. By 2020, Australia's iron ore exports are projected to account for 58% of world trade, driven largely by increases in output from several large existing projects operated by BHP, Rio Tinto and Fortescue, as well as the commencement of production from development stage projects such as Hancock Prospecting's Roy Hill mine

¹³ BREE, Resources and Energy Quarterly – March quarter 2015

¹⁴ Pilbara Development Commission, Transforming the Pilbara presentation – 9 July 2014

¹⁵ IBIS World Industry Report B0801 – Iron Ore Mining in Australia May 2015

¹⁶ BREE, Resources and Energy Quarterly – March quarter 2015

Global demand

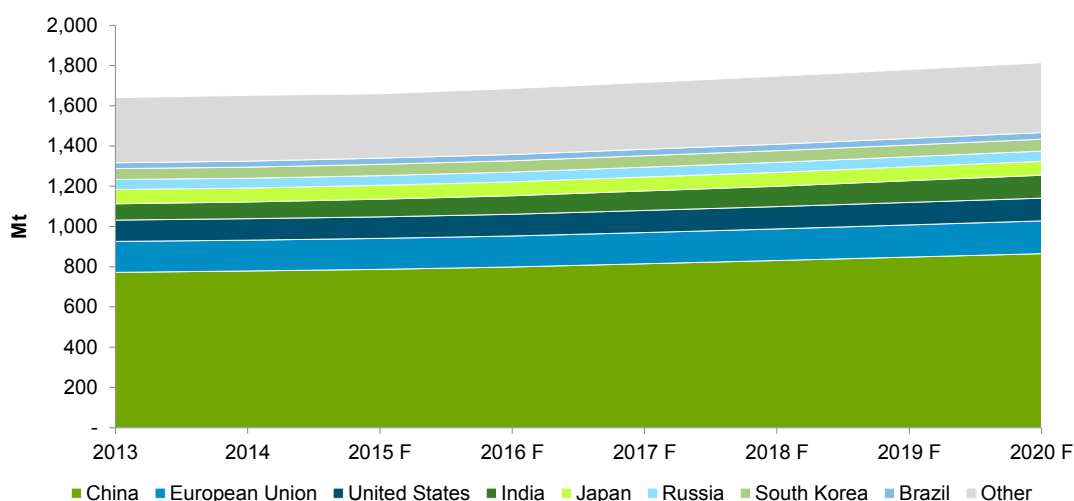
Demand for iron ore is driven by iron and steel making, which in turn is driven by a range of industries of which the most important are construction, motor vehicle manufacturing, ship building, plant and equipment manufacturing and consumer goods manufacturing.

A key driver of demand for Australian iron ore is demand from China. Significant growth in iron ore exports to China has occurred with a 23% compounded annual growth rate over the 5 years ending 2014. China currently accounts for approximately 76% of Australia's total iron ore exports. It is anticipated that Chinese imports of Australia iron ore will continue to increase, albeit at a somewhat decreasing rate¹⁷.

In China's new model for growth, average economic growth is forecast to fall from 10% to around 7% in 2015, leading to a reduction in the level of investment in the construction industry required to support this lower economic growth. Demand for steel and iron ore is concentrated heavily around investment in the construction sector, with some market commentators believing China's decreasing investment levels could lead to a fall in the demand for iron ore¹⁸.

The main markets for iron ore are the steel producing regions of Asia, Europe and North America, as presented in the figure below.

Figure 8: Global steel consumption per country



Source: BREE

Note:

1. F - Forecast

Australian domestic iron ore demand is relatively small and the only substantial local consumers of iron ore are Arrium Limited and BlueScope Steel Limited. This is not expected to change in the short to medium term.

¹⁷ Department of Foreign Affairs and Trade, Country and Commodity Table - 2014

¹⁸ Report on the Work of the Government – Li Keqiang, China 2015

Global supply

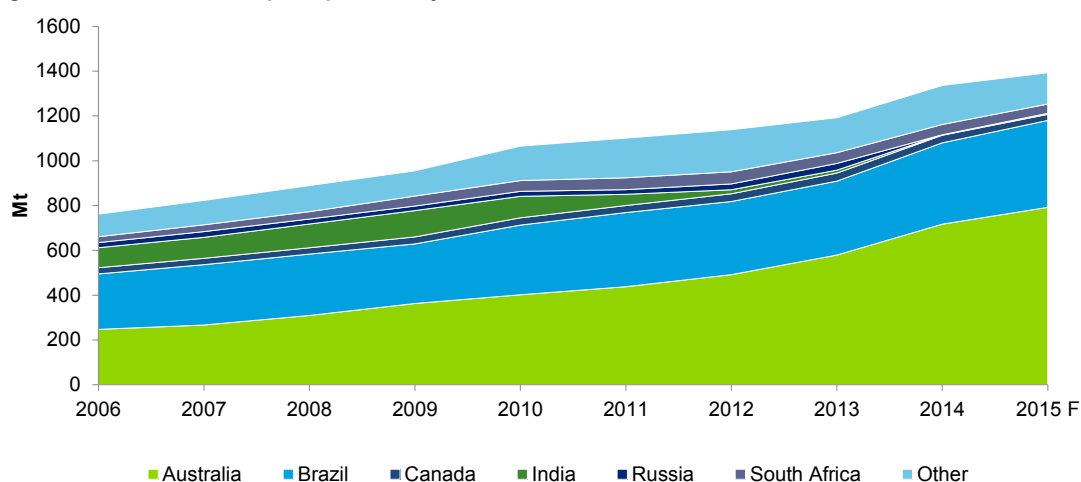
As previously outlined, the most significant iron ore producing nations are Australia, Brazil, China, Russia and India. China produces on average very low quality iron ore (iron ore content around 30% compared to 50% or more for traded ore) and uses most of its iron ore production for domestic steel production.

Global iron ore production increased from 1,572 Mt in 2006 to 1,982 Mt in 2013¹⁹. The increase in iron ore production over this period is primarily due to the economic growth, urbanisation and industrialisation of China.

Of the total global production of iron ore in 2013, 1,191 Mt was exported and the balance used for domestic consumption. Although China and India are significant producers of iron ore, they are not significant exporters. This is largely driven by the fact that both nations consume significant quantities of iron ore domestically.

The following figure sets out export quantities for each of the most significant iron ore exporters throughout the world.

Figure 9: Global iron ore exports per country



Source: BREE

Notes:

1. F - Forecast
2. No data for Russia in 2014 and 2015

In global terms, Vale S.A. of Brazil is the largest global iron ore producer followed by Rio Tinto, BHP and Fortescue. Iron ore produced by Vale, Rio Tinto and BHP represents the majority of seaborne traded iron ore and this is expected to continue in the short to medium term with most of the future increase in global iron ore exports forecast to come from Brazil and Australia. This increase is expected to be delivered primarily through increasing production in existing mines and the commencement of production from large mines such as Roy Hill and new mines in Brazil.

Pricing

Iron ore prices are typically priced with reference to a benchmark product specification. At present, the most widely accepted benchmark is the 62% Fe CFR (China) index. The following figure presents historical spot prices for this index, as well as a range of long term broker forecast prices (in real 2015 terms).

¹⁹ BREE, Resources and Energy Statistics – 2014

Figure 10: Historical prices and price forecast



Source: Capital IQ, Thomson One, Deloitte Corporate Finance analysis

Notes:

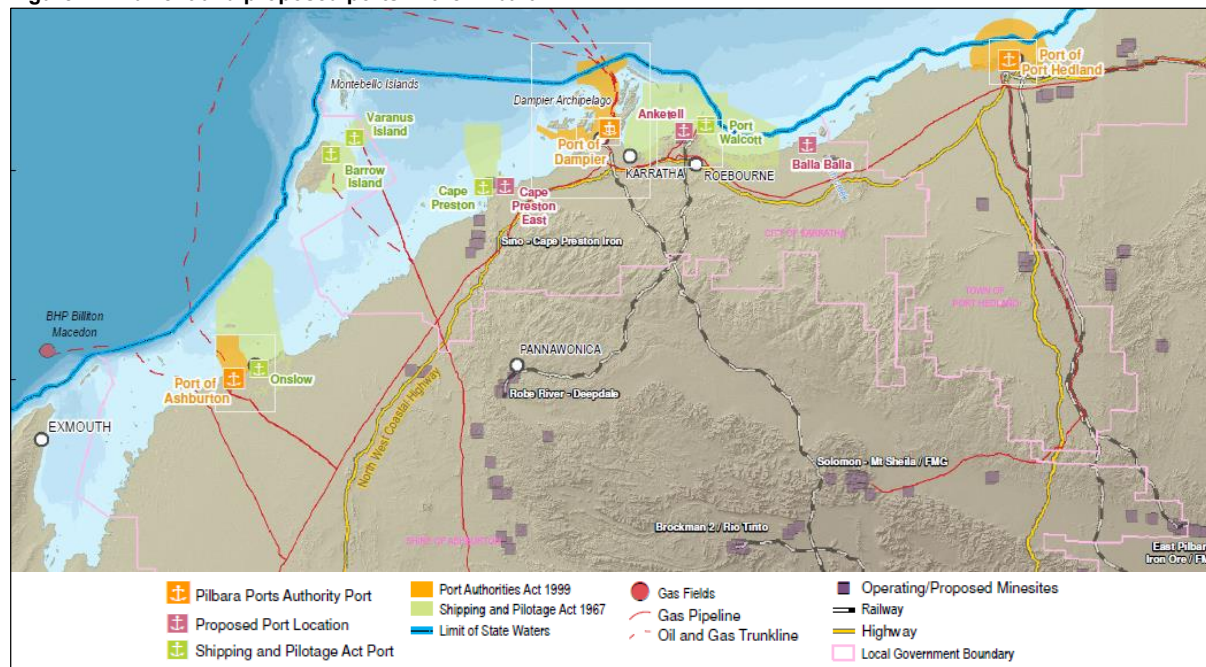
1. 62% CFR basis
2. Broker forecast prices current as at June 2015

The increase in iron ore prices in the three years to 2012 was mainly driven by the growth in steel production in China to supply its rapid infrastructure development and the delay in supply response. The recent declines in the iron ore price during 2014 and 2015 were driven by an increase in supply, from Australia and Brazil, combined with lower than anticipated demand from China. Lower iron ore prices have placed pressure on smaller miners to either revise their cost structure or be forced out of the market. The expected stabilisation of iron ore prices in the near term will likely allow cost efficient companies (mostly the majors) to remain profitable in future years.

Infrastructure

Iron ore mined in the Pilbara is shipped from four ports; Dampier, Cape Lambert, Port Hedland and Cape Preston. The Dampier and Port Hedland ports are owned by the State Government of Western Australia, as set out in the figure below:

Figure 11: Current and proposed ports in the Pilbara



Source: Pilbara Port Authority

Rio Tinto has operations at Dampier and Cape Lambert. Hamersley Iron Pty Limited (Hamersley Iron), a subsidiary of Rio Tinto, operates the East Intercourse and Parker Point berths and owns the port infrastructure facilities at Dampier. Robe River Iron Associates (Robe River), an unincorporated joint venture which is 53% owned by Rio Tinto, owns and operates the Cape Lambert port facilities. BHP and Fortescue operate out of Port Hedland and own the port infrastructure facilities, including berths at the port. Roy Hill will also be operating out of Port Hedland once operations from its Roy Hill mine commence in 2015. Roy Hill's berth will handle all production from the mine and will have an export capacity of 55 Mtpa. The port facility located at Cape Preston is currently only being used by Citic Pacific, which tranships concentrate product from its Sino Iron Project from the facility.

In March 2010, the State Government identified Anketell Point, 30km east of Karratha (with the next closest port being Dampier) as the site of one of the next major iron ore ports in the Pilbara. Aquila Resources Limited (Aquila) (now owned by Shanghai Baosteel Group Corporation and Aurizon Holdings Limited), Fortescue and MCC Australia Holdings Pty Limited are the foundation investors in the proposed new port. Approval has been received from the Environmental Protection Agency and a native title agreement was signed with the Ngarluma people in 2014. The port may be constructed as part of a funding package for one of the foundation investors.

The State Government has acknowledged that the four existing ports, plus proposed export facilities such as Anketell Point, Cape Preston East and Balla Balla, will likely be sufficient to meet the forecast demand for export facilities over the medium to long term²⁰.

Rail infrastructure in the Pilbara is limited to four main producing rail lines owned by BHP, Rio Tinto and Fortescue, being:

- the Hamersley and Robe River railway, majority-owned by Rio Tinto, and operated by its subsidiary Pilbara Iron, is a private rail network in the Pilbara for the purpose of carrying iron ore. The railway opened in 1972 and has since grown to a total length of approximately 1,300km

²⁰ Department of Infrastructure and Regional Development, Freightline 2 – 2014

- BHP's Mount Newman railway runs for 426km from Newman to Port Hedland. The line, along with its spur lines to Mount Whaleback, Orebodies 18, 23 and 25, Jimblebar, Yandi and Area C, services the iron ore mines at Newman. The railway line was officially opened on 22 January 1969
- completed in 2008 at a cost of \$2.8 billion, Fortescue's railway was the first large-scale railway development undertaken in the Pilbara in more than 40 years. The company's rail infrastructure consists of 620km of track. Its rail network is the fastest and heaviest haul line in the world with a 40 tonne axle load capacity.

A fourth rail line will commence operations in 2015 as part of the development of the Roy Hill mine, which is majority owned by Hancock Prospecting.

In 2011, the Australian Competition Tribunal (ACT) decided that Rio Tinto and BHP are not required to grant public access to their heavy haulage railway lines and associated infrastructure for the transportation of iron ore²¹. Given the position of these major iron ore producers, newcomers to iron ore mining in the region may have to consider individual infrastructure arrangements with companies that have existing rail and port infrastructure, or companies with plans to construct new infrastructure. The Alliance Agreement between Flinders and the Balla Balla JV is an example of such an arrangement.

²¹ Federal Court of Australia – Pilbara Infrastructure Pty Ltd v Australian Competition Tribunal 2011

Appendix D: Discount rate

The discount rate used to equate the future cash flows to their present value reflects the risk adjusted rate of return demanded by a hypothetical investor for the asset or business being valued. Discount rates are determined based on the cost of an entity's debt and equity weighted by the proportion of debt and equity selected. This is commonly referred to as the weighted average cost of capital (WACC). The WACC can be derived using the following formula:

$$WACC = \left(\frac{E}{V} * K_e \right) + \left(\frac{D}{V} * K_d (1 - t_c) \right)$$

The components of the formula are:

K_e = cost of equity capital

K_d = cost of debt

t_c = corporate tax rate

E/V = proportion of entity funded by equity

D/V = proportion of entity funded by debt

The adjustment of K_d by $(1 - t_c)$ reflects the tax deductibility of interest payments on debt funding. The corporate tax rate has been assumed to be 30%, in line with the Australian corporate tax rate.

The following table sets out our selected Australian denominated, nominal, post-tax, discount rate for the PIOP.

Table 10

Input	Low	High
Risk free rate (R_f)	2.92%	2.92%
Equity market risk premium (EMRP)	7.50%	7.50%
Beta (ungeared)	1.50	1.70
Tax rate	30.0%	30.0%
Net debt/enterprise value	20.0%	20.0%
Beta (geared, selected)	1.50	1.70
Calculated K_e	14.17%	15.67%
K_d (pre-tax)	10.00%	10.00%
K_d (post-tax)	7.00%	7.00%
WACC (post-tax)	12.74%	13.94%
Selected WACC	13.00%	14.00%

Source: Capital IQ, Deloitte analysis

A brief discussion on the key parameters adopted in the calculation of the discount rate is set out below:

- **R_f** : compensates the investor for the time value of money and the expected inflation rate over the investment period. In determining the R_f , we have adopted the five-day average zero coupon yield on the 10-year Australian Government Bond as at 22 July 2015
- **EMRP**: represents the risk associated with holding a market portfolio of investments, that is, the excess return a shareholder can expect to receive for the uncertainty of investing in equities as opposed to investing in a risk free alternative. We consider an EMRP of 7.5% to be reasonable
- **ungeared β** : measures the systematic risk or non-diversifiable risk of a company in comparison to the market as a whole. In estimating the beta for the PIOP, we have considered betas of comparable listed companies that operate in the iron ore industry. These betas have been calculated based on weekly and monthly returns, over a two year and four year period, respectively, compared to a relevant domestic index and the MSCI Index.

We have selected an unlevered beta ranging from 1.50 to 1.70

- **gearing ratio:** we have considered the current capital structure of the PIOP and the capital structure of the companies considered comparable to the PIOP to determine a gearing ratio of 20%
- **geared β :** we have re-gearred the selected β based on the gearing ratio and a tax rate of 30%
- **specific premium:** we have selected a total specific risk premium of nil as we do not consider there to be any risks specific to the PIOP which have not already been captured in our selected β .
- **K_e :** we have used the CAPM to estimate the K_e for the PIOP. CAPM calculates the minimum rate of return that the company must earn on the equity-financed portion of its capital to leave the market price of its shares unchanged. The CAPM is the most widely accepted and used methodology for determining the cost of equity capital.

The cost of equity capital under CAPM is determined using the following formula:

$$K_e = R_f + \beta(R_m - R_f) + a$$

- **K_d :** we have estimated the PIOP's post-tax cost of debt to be 7.00% based on our selected level of gearing and the average cost of debt of listed comparable companies.

Appendix E: Comparable iron ore companies

Table 11

Table 11

Entity	Country	Primary ore type	Enterprise Value ² (AUD million)	M&I Resources (Mt contained iron)	M&I&I Resources (Mt contained iron)	Control basis	
						M&I Resource multiple (AUD / t)	M&I&I Resource multiple (AUD / t)
Australian iron ore companies							
Flinders Mines Limited	Australia	Hematite	49	501	579 ³	0.10	0.08 - 0.09
BC Iron Limited	Australia	Hematite	15	309	365	0.05	0.04
Brockman Mining Limited	Australia	Detrital/Hematite	400	781	919	0.51	0.44
Sundance Resources Limited	Republic of Congo	Hematite	133	1,084	2,344	0.12	0.06 - 0.12
Equatorial Resources Limited	Republic of Congo	Hematite	2	22	288	0.08	0.01
Red Hill Iron Limited ⁴	Australia	Hematite	38	188	217	0.20	0.18
Grange Resources Limited	Australia	Magnetite	29	254	483	0.11	0.06
Iron Road Limited	Australia	Magnetite	45	550	716	0.08	0.06
Rutila Resources Limited	Australia	Magnetite	45	137	204	0.33	0.22
Australasian Resources Ltd	Australia	Magnetite	6	175	263	0.03	0.02

Source: Capital IQ, ASX company announcements, and Deloitte Corporate Finance analysis

Notes:

1. n/m – not meaningful
2. Enterprise value (on a control basis) current as at 22 July 2015
3. Does not include resources from Canegrass
4. We have not considered Red Hill Iron Limited's resource multiple in our valuation analysis as its share trading is highly illiquid

Appendix F: Control premium

Deloitte Corporate Finance study

We conducted a study of premiums paid in Australian transactions completed between 1 January 2000 and 15 May 2014. This study was conducted by Deloitte Corporate Finance staff for internal research purposes. Our merger and acquisition data was sourced from Bloomberg, Reuters and Capital IQ and yielded 546 transactions that were completed during the period under review²².

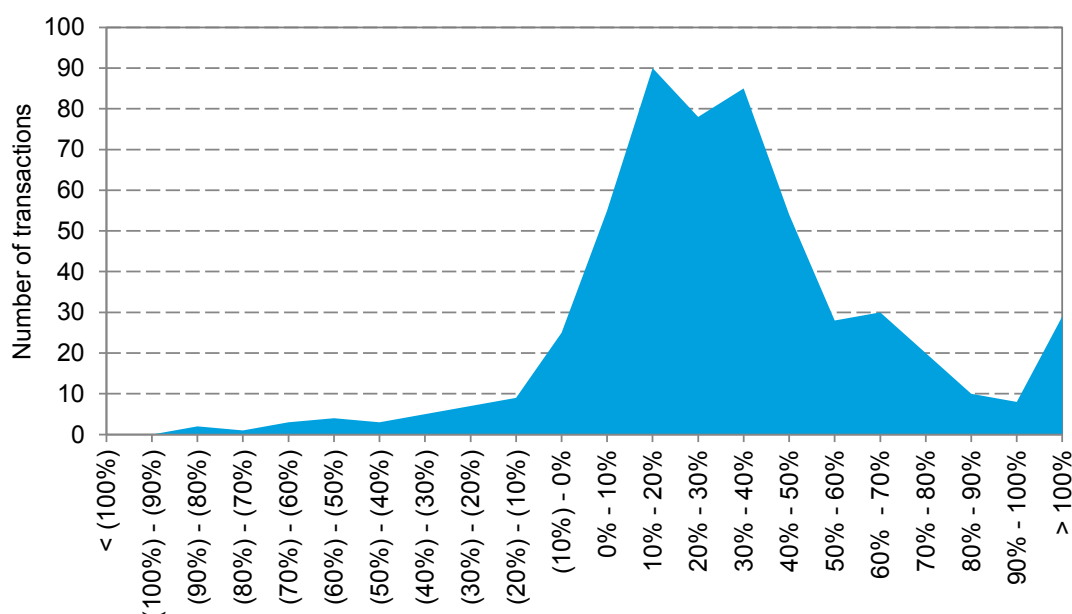
Our data set consisted of transactions where an acquiring company increased its shareholding in a target company from a minority interest to a majority stake or acquired a majority stake in the target company.

We assessed the premiums by comparing the offer price to the closing trading price of the target company one month prior to the date of the announcement of the offer. Where the consideration included shares in the acquiring company, we used the closing share price of the acquiring company on the day prior to the date of the offer.

Summary of findings

As the following figure shows, premiums paid in Australian transactions between 1 January 2000 and 15 May 2014 are widely distributed with a long 'tail' of transactions with high premiums.

Figure 12: Distribution of data



Source: Deloitte Corporate Finance analysis

²² Excluding transactions where inadequate data was available.

The following table details our findings.

Table 12: Premium analysis - findings

	Control premium
Average	33%
Median	29%
Upper quartile	47%
Lower quartile	12%

Source: Deloitte Corporate Finance analysis

Notwithstanding the relatively wide dispersion of control premiums observed in our study we consider the control premium range of 20% to 40% to be representative of general market practice for the following reasons.

Many of the observed control premiums below 20% are likely to have been instances where the market has either been provided with information or anticipated a takeover offer in advance of the offer being announced. Accordingly, the pre-bid share trading price may already reflect some price appreciation in advance of a bid being received, which creates a downward bias on some of the observed control premiums in our study.

Many of the observed control premiums above 40% are likely to have been influenced by the following factors which create an upward bias on some of the observed control premiums in our study:

- some acquirers are prepared to pay above fair market value to realise ‘special purchaser’ value which is only available to a very few buyers. Such ‘special purchaser’ value would include the ability to access very high levels of synergistic benefits in the form of cost and revenue synergies or the ability to gain a significant strategic benefit
- abnormally high control premiums are often paid in contested takeovers where there are multiple bidders for a target company. In such cases, bidders may be prepared to pay away a greater proportion of their synergy benefits from a transaction than in a non-contested situation
- some of the observations of very high premiums are for relatively small listed companies where there is typically less trading liquidity in their shares and they are not closely followed by major broking analysts. In such situations, the traded price is more likely to trade at a deeper discount to fair market value on a control basis.

Accordingly, the observed control premiums to share trading prices for such stocks will tend to be higher.

Other studies

In addition to the study above, we have also had regard to the following:

- a study conducted by S.Rossi and P.Volpin of London Business School dated September 2003, ‘Cross Country Determinants of Mergers and Acquisitions’, on acquisitions of a control block of shares for listed companies in Australia announced and completed from 1990 to 2002. This study included 212 transactions over this period and indicated a mean control premium of 29.5% using the bid price of the target four weeks prior to the announcement
- ‘Valuation of Businesses, Shares and Equity’ (4th edition, 2003) by W.Lonergan states at pages 55-56 that: “Experience indicates that the minimum premium that has to be paid to mount a successful takeover bid was generally in the order of at least 25 to 40 per cent above the market price prior to the announcement of an offer in the 1980s and early 1990s. Since then takeover premiums appear to have fallen slightly.”
- a study conducted by P.Brown and R.da Silva dated 1997, ‘Takeovers: Who wins?’, JASSA: The Journal of the Securities Institute of Australia, v4(Summer):2-5. The study found that the average control premium paid in Australian takeovers was 29.7% between the period January 1974 and June 1985. For the ten year period to November 1995, the study found the average control premium declined to 19.7%.

Appendix G: Independent Technical Specialist's Report

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Report

Flinders Mines Limited **Independent Technical Specialist's Report** Deloitte Corporate Finance Pty Limited

AMC Project 215051
24 July 2015

24 July 2015

Nicki Ivory
Authorised Representative
Deloitte Corporate Finance Pty Limited
Woodside Plaza
Level 14, 240 St Georges Terrace
PERTH WA 6000

Dear Nicki

Flinders Mines Limited (Flinders) announced on 11 May 2015 that it had entered into an option agreement (Option Agreement) with a subsidiary of TIO (NZ) Limited, a subsidiary of The Todd Corporation Limited (Todd Corporation) in relation to the purchase by Todd of Flinders' Pilbara Iron Ore Project (PIOP). Under the announced terms of the Option Agreement, Todd will, subject to certain conditions precedent, pay Flinders an up-front cash consideration and an additional consideration to exercise the option to purchase the PIOP.

The PIOP is located in the Pilbara region of Western Australia. The project is comprised of two key tenements, Blacksmith and Anvil located approximately 20 km west of the Rio Tinto Iron Ore rail track from Paraburdoo to Dampier. An iron ore Mineral Resource of approximately 1 billion tonnes has been estimated for the PIOP.

Key points in the progression of feasibility study and evaluation work for the PIOP prior to announcement of the Option Agreement include:

- A pre-feasibility study for the project was completed in December 2010. That study was based on an initial 5 Mtpa production rate ramping up to 15 Mtpa, and assumed timely availability of third-party rail and port infrastructure.
- The Flinders announcement on 26 February 2014 of an Alliance Agreement with the Balla Balla Joint Venture (BB Joint Venture) formed between subsidiaries of Rutila Resources Ltd and Todd Minerals Limited whereby Flinders would secure access to the BB Joint Venture's proposed integrated rail and port facilities. Further to that agreement, Flinders planned a bankable feasibility study (BFS) with a targeted initial production rate of 25 Mtpa. (Flinders announced on 19 June 2015 that work on the BFS has been suspended).
- Further to the Option Agreement announced on 11 May 2015, the Flinders announcement and presentation on 29 May 2015 presented that, inter alia:
 - "The Alliance agreement with Rutila became uneconomic for Flinders once the iron ore price dropped dramatically in early 2015"
 - "The average predicted outlook for iron ore prices are below US\$60 per tonne for the next five years"
 - "Under the current Alliance solution, and iron ore price outlook, the PIOP is uneconomic and is unlikely to be financed and developed".

Deloitte Corporate Finance Pty Limited (Deloitte Corporate Finance) was engaged by Flinders to prepare an independent expert's report (IER) in relation to the Option Agreement in respect of the potential acquisition of the PIOP (Proposed Transaction). The IER is to accompany a disclosure document to be provided to the shareholders of Flinders.

Given the nature of the Proposed Transaction and the stage of development of PIOP, Deloitte Corporate Finance advised AMC Consultants Pty Ltd (AMC) that it required a technical specialist to assist it in the preparation of the IER by providing Deloitte Corporate Finance with an independent technical specialist's report regarding PIOP and in accordance with the scope of work advised by Deloitte Corporate Finance. The ITSR is to be included as an appendix to the IER.

The Directors of Flinders commissioned AMC to provide Deloitte Corporate Finance with this independent technical specialist's report (ITSR) on the PIOP, under instruction from Deloitte Corporate Finance.

Key aspects of the scope of the ITSR as advised by Deloitte Corporate Finance to AMC are:

- Review technical studies (including pre-feasibility and other study activities) and geological reports in order for the technical specialist to become familiar with PIOP.
- Review Mineral Resource estimates relevant for PIOP, and advise in relation to the reasonableness of these estimates.
- Advise on the appropriateness of the technical assumptions adopted in financial modelling in respect of PIOP, which may include the production profile and costs that have been considered in production cases for the PIOP.
- Provide an opinion as to the fair market value of the exploration areas of PIOP that lie outside the area covered by the Mineral Resource of the PIOP, using valuation methods appropriate under the VALMIN Code¹.
- Prepare the ITSR to include a brief report containing a technical summary of PIOP, a summary of its Mineral Resource, and AMC's opinion as to the fair market value of the exploration areas of PIOP outside the Mineral Resource.

It should be noted that the scope of this ITSR does not include consideration of the BB Joint Venture's proposed rail and port facilities because they are not part of the PIOP, although the development intention is stated as being for the PIOP to be integrated with those facilities.

As referred to above, this ITSR includes a valuation of the exploration areas of the PIOP not covered by the Mineral Resource. It should be noted that Deloitte Corporate Finance has valued the PIOP Mineral Resource and its opinion on the value of the Mineral Resource is presented in the IER.

For exploration properties, it is not possible to project cash flows and/or production estimates with sufficient confidence to rely on discounted cash flow methodology. Therefore, AMC has considered other methods to value the exploration properties. These methods are commonly used in Australia to value exploration properties and are discussed in this report.

The VALMIN Code defines a Technical Value as an assessment of future net economic benefit. The code defines a Fair Market Value as one which is based on a Technical Value, adjusted with a premium or discount relating to market, strategic or other considerations. AMC's valuation of exploration areas as presented in this ITSR are Fair Market Values. Some of the exploration valuation methods result in a Technical Value, but AMC does not believe it appropriate at this time to apply a premium or discount to exploration areas such as those considered in this ITSR to obtain Fair Market Value.

AMC has completed its commission to prepare this ITSR as a Specialist in accordance with the VALMIN Code to the extent that the code is relevant to AMC's commission.

AMC's use, in this report, of the terms Mineral Resources and Ore Reserves is in accordance with the JORC Code.

Principal sources of information considered by AMC in the preparation of this report are listed in Appendix A.

AMC did not visit the PIOP site or tenements because AMC is familiar with iron ore deposits in the Pilbara of the type that underpin the PIOP, there was no exploration or development activity in progress at the time of preparing this report and, in AMC's opinion, no material information would be gained by such site visit in addition to that provided by Flinders to AMC for the purposes of preparing this report. AMC is therefore satisfied that Flinders has provided AMC with sufficient information to make an informed assessment of the PIOP and its valuation of the exploration areas not covered by the Mineral Resource without a site visit.

¹ Code for the Technical Assessment and Valuation of Mineral and Petroleum Assets and Securities for Independent Expert Reports, The VALMIN Code 2005 Edition, Prepared by The VALMIN Committee, a joint committee of the Australasian Institute of Mining and Metallurgy, the Australian Institute of Geoscientists and the Mineral Industry Consultants Association with the participation of the Australian Securities and Investment Commission, the Australian Stock Exchange Limited, the Minerals Council of Australia, the Petroleum Exploration Society of Australia, the Securities Association of Australia and representatives from the Australian finance sector.

AMC has not audited the information provided to it, but has aimed to satisfy itself that all of the information has been prepared in accordance with proper industry standards and is based on data that AMC considers to be of acceptable quality and reliability. Where AMC has not been so satisfied, AMC has included comment in this report and made modifications to that information in preparing the production cases and valuations of exploration properties provided by AMC to Deloitte Corporate Finance.

AMC has been provided with an independent specialist's reports on the status of the material tenements of the PIOP. It is concluded in those reports that the material tenements of the PIOP are in good standing in all material respects. Accordingly, AMC has prepared this ITSR on the basis that the material tenements of the PIOP are in good standing.

The summary findings of this ITSR are:

AMC's opinion on the PIOP Mineral Resource estimate

The total Mineral Resource estimate for PIOP as at January 2015 is 1,042 Mt grading 55.6% iron (Fe). The estimates for the Blacksmith and Anvil tenements that comprise the PIOP, are summarized in Table I.

Table I PIOP Mineral Resource estimate by tenement as at January 2015 at 50% Fe cut-off

Resource Classification	Tonnes (Mt)	Iron (% Fe)	Silica (% SiO ₂)	Alumina (% Al ₂ O ₃)	Phosphorus (% P)	LOI (%)
Blacksmith – M47/1451						
Inferred	62.0	55.4	10.0	4.8	0.06	5.1
Indicated	792.2	55.7	8.9	4.5	0.07	6.0
Measured	105.3	56.4	10.5	5.1	0.05	2.8
Total Blacksmith	959.5	55.8	9.2	4.6	0.07	5.6
Anvil – E47/1560						
Inferred	82.4	53.6	11.4	5.8	0.05	4.9
Indicated	–	–	–	–	–	–
Measured	–	–	–	–	–	–
Total Anvil	82.4	53.6	11.4	5.8	0.05	4.9
PIOP Total						
Inferred	144.4	54.4	10.8	5.3	0.06	5.0
Indicated	792.2	55.7	8.9	4.5	0.07	6.0
Measured	105.3	56.4	10.5	5.1	0.05	2.8
Total PIOP	1,042	55.6	9.3	4.7	0.07	5.5

Source: Flinders ASX Announcement 9 January 2015

In relation to the PIOP Mineral Resource estimates, AMC finds that:

- The data upon which the estimates are based was collected according to industry-accepted practices.
- Quality control protocols reviewed for drilling in 2013 and 2014 show that the drilling was well supported by quality control protocols, and any variable biases will have little impact on the Mineral Resource estimate.
- A bias in assay results between twinned reverse circulation (RC) and diamond drilling (DD) has been identified. In RC samples, the iron (Fe) grade had a high bias, and the silica grade (SiO₂) was low. AMC considers that difference is of a small magnitude and therefore will not impact the estimate significantly.
- The cross validation of density determinations using different sample preparation techniques supports the density determinations used in the estimates.
- The geological interpretation is appropriate for the estimates.
- Grade estimation uses common industry practices.
- The estimates have been reported at a cut-off grade of 50% Fe.
- AMC concurs with the Mineral Resource classification.

AMC's overall conclusion in relation to the Mineral Resource estimates is that they have been prepared using accepted industry practice with drillhole data supported by a quality control protocol. The estimates are appropriately classified as Measured, Indicated and Inferred Resources in accordance with the JORC Code.

AMC's opinion on the technical inputs to the financial model for PIOP

Deloitte Corporate Finance and AMC were provided with a financial model for PIOP (Financial Model) as prepared by Flinders.

AMC reviewed the technical inputs to the Financial Model which include:

- Tonnes and grade of planned to be mined and processed, and the scheduled production.
- The initial capital expenditure estimate for construction of the PIOP.
- The operating cost and sustaining capital expenditure estimates for the PIOP.

Based on its review, AMC updated the technical inputs to the Financial Model (updated Financial Model) according to the results of the latest work completed by Flinders, and AMC's opinion on operating costs, sustaining capital expenditure, and closure costs.

Key technical inputs to the updated Financial Model are:

- Initial capital expenditure for construction of the project of A\$800M, with a foreign exchange adjustment for the cost of items sourced in US\$.
- A ramp-up of production starting at 15 Mt for the first year, 20 Mt for the second and third years, 22.5 Mt for the fourth year, and 25 Mtpa thereafter.
- Total wet (7% moisture) product sold of 288 Mt over a mine life of approximately 12 years.
- A mining waste to ore ratio of 1.5:1 based on pit optimization work undertaken by an independent technical consultant.
- Total mine operating cost (mining, processing, and general and administration) at a constant A\$23 per tonne of product sold. This includes a processing plus general and administration cost approximately A\$12/t of plant feed.
- Annual sustaining capital expenditure of 1% of initial capital expenditure, or A\$8Mpa, and totalling A\$100M over the mine life.
- Mine closure cost estimate of between A\$25M and A\$30M.

Based on its review, AMC concluded that the technical inputs to the updated Financial Model are reasonable for the purpose of assessing the economic viability of the PIOP.

AMC's valuations of the exploration areas of PIOP outside the Mineral Resource

AMC's opinion of the fair market value of the exploration areas of PIOP that lie outside the area covered by the Mineral Resource of the PIOP, using valuation methods appropriate under the VALMIN Code, are as listed in Table II, and total A\$336,800.

Table II Valuation of Blacksmith and Anvil tenement areas not covered by Mineral Resources

Tenement	Total Area of tenement (km ²)	Approx. Area covered by Mineral Resources (km ²)	Approx. Area not covered by Mineral Resources (km ²)	Value (\$ per km ²)	Value of Area not covered by Mineral Resources (A\$)
Blacksmith	111.45	40	71	4,000	284,000
Anvil	44.37	20	24	2,200	52,800
Total					336,800

AMC presents the ITSR which follows in the form of:

- Mineral assets.
- PIOP background.
- PIOP geology and Mineral Resources.
- PIOP Exploration valuation.

- PIOP Environmental.
- PIOP Financial Model.
- Qualifications.

All monetary figures in this report are expressed in 2015 Australian Dollars (\$) or A\$) unless otherwise noted. Costs are presented on a cash cost basis unless otherwise specified.

For definitions of abbreviations used in this report, refer to Appendix B, and for contributors to this report, refer to Appendix C.

Yours sincerely



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1 Mineral assets

1.1 Projects

Flinders Mines Limited (Flinders) is based in South Australia and reports interests in a portfolio of mineral assets comprising the Pilbara Iron Ore Project (PIOP) and other discreet vanadium, and gold projects. Flinders holds a 100% interest in the PIOP, which is the subject of this report.

The PIOP comprises two main tenements; Blacksmith M47/1451, and Anvil E47/1560, and four smaller infrastructure tenements for an airstrip, camp, and roads (2).

A joint venture between Flinders Diamonds Limited (now Flinders Mines Limited), and Prenti Exploration Pty Ltd (Prenti) commenced the PIOP in May 2003. In May 2007, Flinders commenced its iron ore search at Blacksmith and the Blacksmith Mining Lease, M47/1451, was granted by the Western Australian Department of Mines and Petroleum in 2012.

In April 2009, Flinders announced a maiden Inferred Resource at Blacksmith of 476 Mt at 55.4% Fe. In August 2009 this was extended to 511 Mt at 55.4% Fe. Flinders' first Indicated Resource estimate of 157 Mt grading 56.5% Fe for the Delta deposit, which lies on the Blacksmith tenement, was announced in 2010.

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. In 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 joint venture agreement.

Flinders now reports an unencumbered 100% ownership of the iron ore tenements in the PIOP tenure.

1.2 Standing of tenements

Lists of material tenements are included later in this ITSR.

Clause 67 of the VALMIN Code states that:

"The status of Tenements is Material and requires disclosure. Determination of the status of Tenements is necessary and must be based on a recent independent inquiry, either by the Expert or a Specialist or on a recent report by either a solicitor or a tenement specialist..."

Accordingly, Flinders has provided AMC with an independent report on the standing of the tenements prepared by McMahon Mining Title Services Pty Ltd. The conclusion in this report is that the tenements are in good standing.

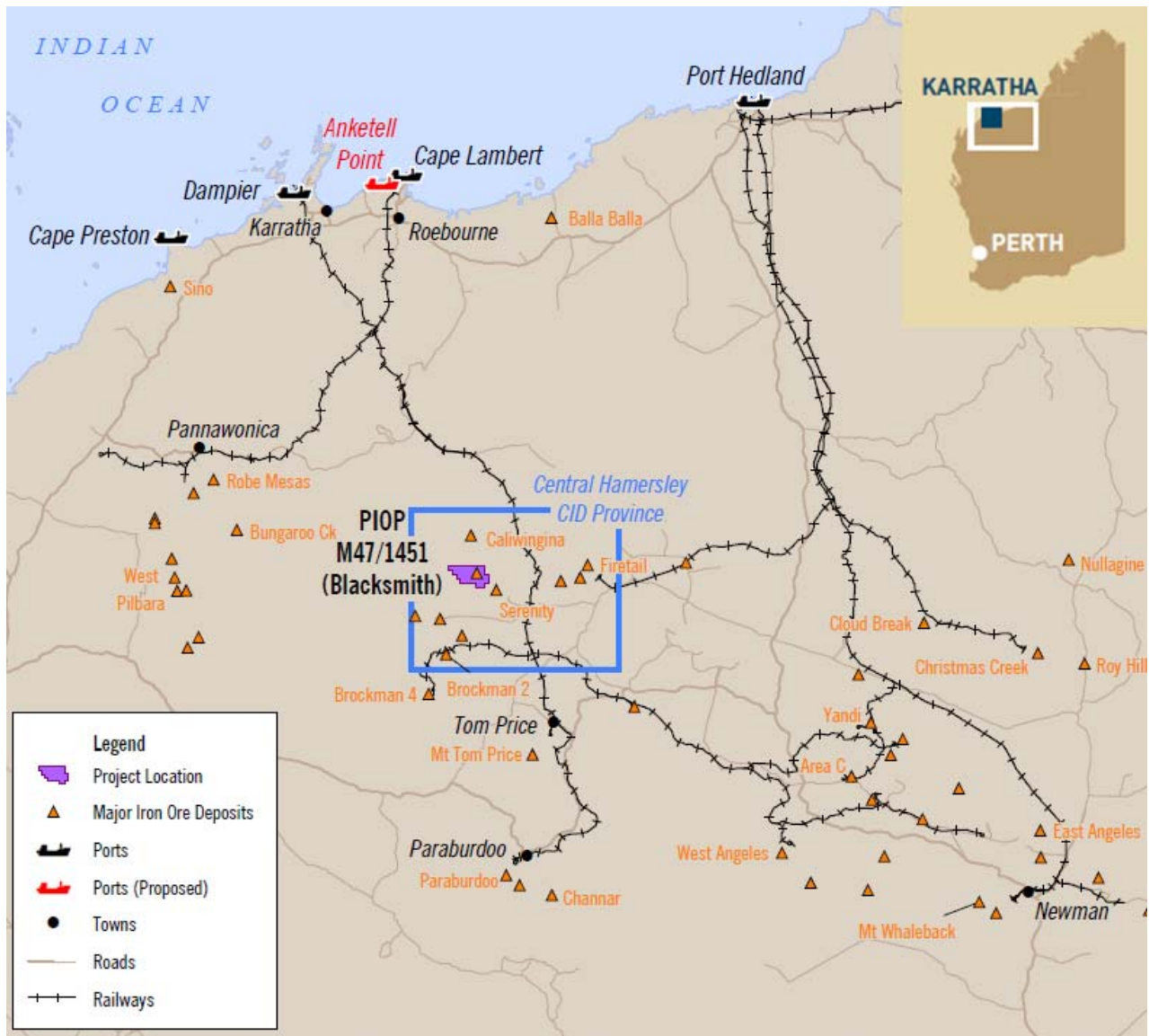
Accordingly, AMC has prepared this ITSR on the basis that the tenements are in good standing.

2 PIOP background

2.1 Location

The Pilbara Iron Ore Project (PIOP) is located in the Central Hamersley Channel Iron Deposit (CID) province in the Pilbara region of Western Australia, as shown in Figure 2.1.

Figure 2.1 PIOP location

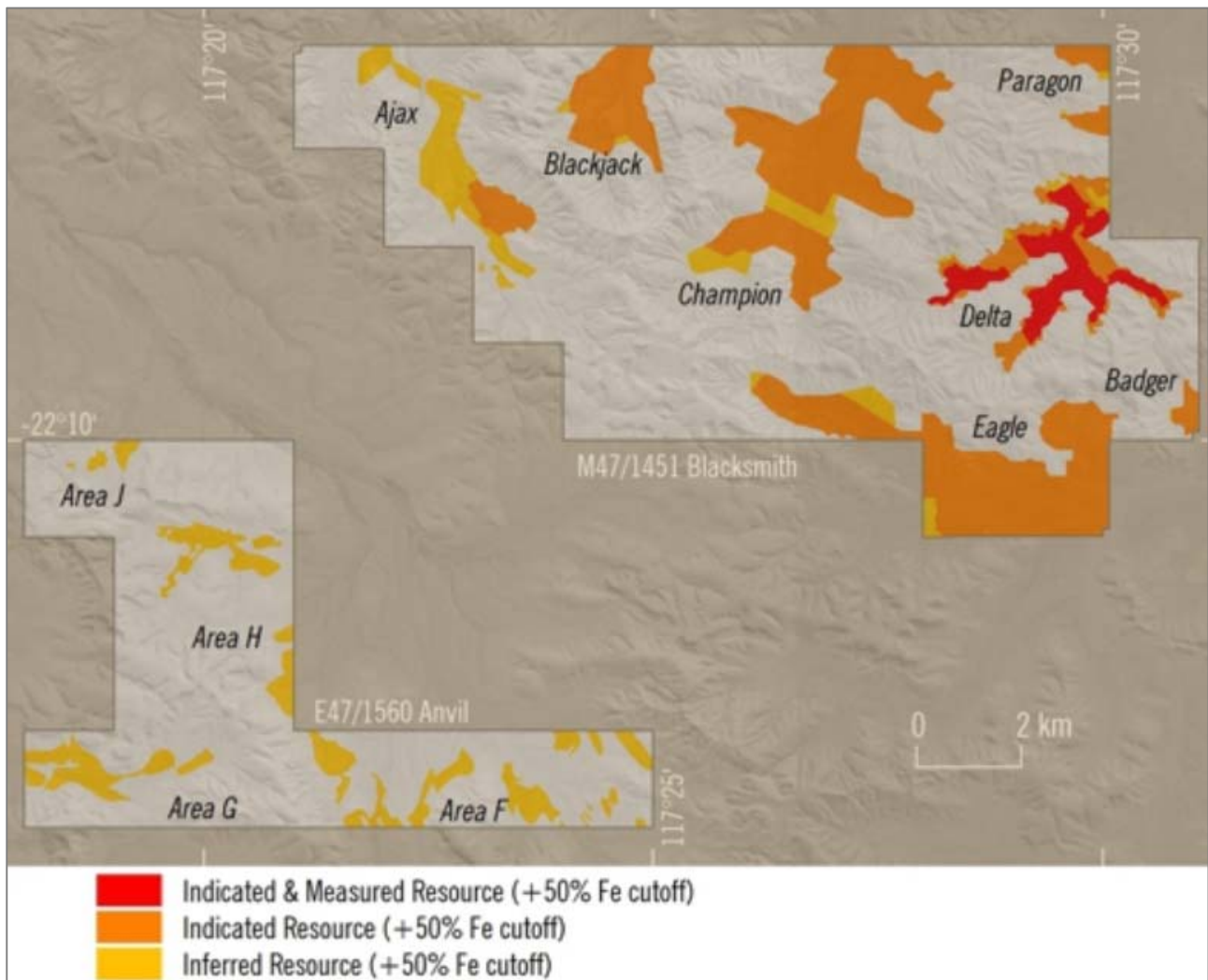


Source: Finders document Layout-PILBARA 412.pdf

There are eight deposits within the PIOP with Mineral Resources reported in compliance with the JORC Code 2012². The seven main deposits are Ajax, Badger, Blackjack, Champion, Delta, Eagle, and Paragon. They are all located within the Blacksmith tenement (M47/1451) as shown on Figure 2.2. The remaining Mineral Resource is situated within the Anvil tenement (E47/1560).

The Blacksmith tenement is located approximately 60 km north-west of the town of Tom Price and 160 km south-east of Karratha. The Anvil tenement is located approximately 10 km to the south-west of Blacksmith.

² Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves, The JORC Code 2012 Edition. Effective 20 December 2012 and mandatory from 1 December 2013. Prepared by the Joint Ore Reserves Committee of the Australasian Institute of Mining and Metallurgy, Australasian Institute of Geoscientists and Minerals Council of Australia (JORC).

Figure 2.2 Location of the reported Mineral Resources

Source: Flinders website

2.2 PIOP development – recent history

2.2.1 Pre-feasibility study

A pre-feasibility study (PFS), dated December 2010, was prepared by WorleyParsons to evaluate development of a new iron ore mine on the Flinders tenements in the West Pilbara to produce direct shipping and beneficiated iron ore products suitable for global export markets.

The PFS was undertaken to provide Flinders with a basis for deciding whether to proceed with definitive feasibility study evaluation for the PIOP.

The PFS was based on an initial production rate of 5 Mtpa ramping up to 15 Mtpa after five years.

The base case for the PFS relied on the provision of rail and port product infrastructure by a third party. A key finding of the PFS was that the most significant risk impacting on the project at that time was the timely availability of that third party rail and port infrastructure, and that this risk would require significant attention in the lead up to a definitive feasibility study for the project.

The mine infrastructure required to support the mining operation included ore processing facility, tailings storage facility (TSF), mine buildings, and mine village. The location and extent of the infrastructure including connection to the third party rail infrastructure depended on the nature of any ore or product off-take or transport arrangement, which had not been determined, and was subject to obtaining various approvals, and granting of a Mining Lease.

The recommendations for the PIOP reported in the PFS included:

- Securing access to product transport infrastructure as a matter of high priority.
- Testwork to better understand the characteristics of the CID ore.
- Sintering testwork by Flinders and potential customers.
- Examine the potential for commencing production at a 15 Mtpa rate rather than 5 Mtpa.
- Continued drilling to upgrade the confidence in the Mineral Resource estimate.

2.2.2 Project development post-PFS

Updates on the PIOP as presented in the Flinders 2011 to 2013 Annual Reports included:

- On completion of the PFS, the PIOP team continued with value improvement studies for the project. Those studies included planning for commencing production at a rate of 15 Mtpa, and the metallurgical testwork as recommended from the PFS.
- In May 2011, Flinders approved the commencement of a Definitive Feasibility Study (DFS) with WorleyParsons being re-appointed as the project management contractor.
- The DFS scope included an initial production rate of 15 Mtpa.
- Confidential discussions regarding product transport, port access, and off-take considerations, and project partnerships were in progress.
- A Native Title Mining Agreement with Wintawari Guruma Aboriginal Corporation (Eastern Guruma) was reached in March 2012.
- Following execution of the Native Title Mining Agreement, the Mining Lease (M47/1451) over the Blacksmith tenement was granted by the Western Australian department of Mines and Petroleum.
- Estimates of Mineral Resource were increased in 2011/2012.
- The processes for key environmental approvals were being progressed.
- The DFS continued, with a focus on detailed mine planning, and metallurgical testwork, and product marketing.
- Discussions with existing and proposed infrastructure providers continued.
- Key environment approvals by Commonwealth and State Governments for 'on-tenement' mining and mining related activities were granted in 2012/2013.
- During 2012/2013, project studies were focussed on activities that relating to key inputs into the DFS or have potential to add significant value to the project.
- Sinter testwork progressed.
- Product marketing discussions continued with potential customers.
- Flinders decided, in 20102/2013 to pursue a single product strategy to simplify ore processing operations and to investigate a smaller scale operation (5 Mtpa) in the interests of minimizing capital expenditure and early cash flow.

2.2.3 Alliance Agreement

Flinders announced in February 2014, and as referred to in Flinders 2014 Annual Report that:

- An Alliance Agreement with the Balla Balla Joint Venture (BB Joint Venture) formed between subsidiaries of Rutila Resources Ltd (Rutila) and Todd Minerals Limited whereby Flinders would secure access to the BB Joint Venture's proposed integrated rail and port facilities.
- The agreement is conditional upon completion of a Bankable Feasibility Studies (BFS) confirming the viability of the mining and infrastructure operations, all necessary approvals, final investment decisions (FIDs) and the execution of Services Agreements, will result in the BB Joint Venture providing rail services, port handling and ship loading services to Flinders for its iron ore to be mined at the PIOP.
- Flinders and the BB Joint Venture have agreed on commercial terms for access which, following completion of bankable mining, rail and port studies, will result in the potential commencement of mining from the PIOP by 2017 summarized as follows:
 - Flinders will pay a direct operating cost recovery fee on each Flinders tonne handled through the infrastructure facilities.
 - Flinders will pay A\$25/tonne service charge on each Flinders tonne handled through the infrastructure facilities.

- The BB Joint Venture will pay Flinders a A\$5/tonne foundation user rebate for the first 20 Mtpa commitment with a further rebate (commercial in confidence) applied for additional ore transported.
- Flinders will pay the BB Joint Venture a price participation fee of 30% of revenue derived from ore sales in excess of A\$60/t.

The Flinders investor presentation in February 2014 also stated that:

- “Balla Balla JV will construct and operate an Export Facility that, as a minimum, will be sufficient to meet the requirements of PIOP production rate of 20Mtpa plus Balla Balla mine tonnage of between 6-10 Mtpa
- Optimisation study has identified potential to increase design capacity to 45Mtpa”.

Further to the Alliance Agreement, Flinders committed to a BFS for the PIOP with a minimum production rate of 20 Mtpa, with the basis of the BFS being a production rate of 25 Mtpa. It is reported in the 2014 Annual Report, issued in September 2014, that work on approvals associated with a production rate of 25 Mtpa were being progressed, relating in particular to site dewatering and water use, on-site processing and tailings disposal and additional approvals required for airstrip, camp and access roads that were not previously approved.

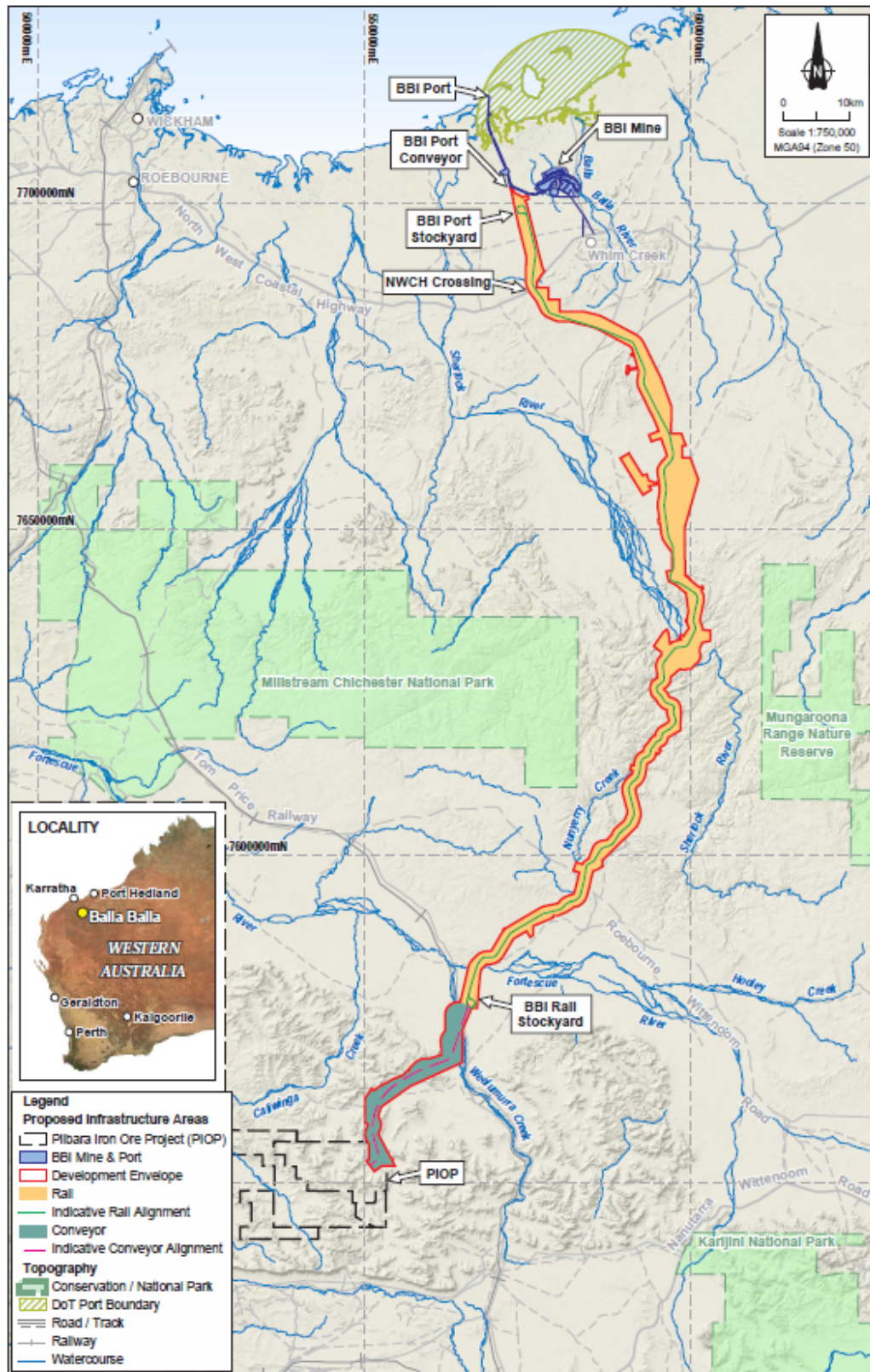
2.2.4 BB Joint Venture Rail and Port Infrastructure Project

Per the Rutila 2014 Annual Report and other publically available information:

- The BB Joint Venture was formed in 2012 between subsidiaries of Rutila and Todd. The BB Joint Venture was formed to develop the Balla Balla vanadium/titanium/magnetite Mine (BB Mine) using a dedicated transshipment operation. All primary environmental approvals were obtained for the BB Mine and a 10 Mtpa transshipment operation, a DFS completed and the required native title agreement negotiated.
- Recent deterioration in the iron ore market has made the development of the BB Mine economically challenging on a standalone basis.
- The original design capacity for the BB Mine transshipment operation was for up to 10 Mtpa however, significantly greater installed capacity was required in order to economically load cape-size ocean going vessels. Consequently, this opened up opportunities to utilise the excess capacity at the proposed transshipment facility. The proposed Port Facility is based on using the identified excess capacity for potential third party participants.
- Discussions were held with Flinders to utilize the excess capacity which culminated in the signing of the Alliance Agreement. In securing Flinders as a foundation customer, it was recognized that the BB Joint Venture was in essence, pursuing two separate, but related, projects – the BB Mine and the Balla Balla rail and port infrastructure project (BBI). The development of BBI is estimated to reduce the direct capital expenditure requirements for the BB Mine, thus potentially enhancing the prospect for future development.
- To facilitate the development of Flinders’ PIOP and ultimately the BB Mine, BBI management proposes to construct and operate (refer Figure 2.3 for the BBI layout):
 - A transshipment and stockyard facility at Balla Balla Harbour on the Pilbara Coast (the Port Facility), including stockyards, a 9 km causeway out to sea, a 2.9 km jetty to access deep water, with anchorage required 22 km offshore.
 - Approximately 160 km of railway (the Railway) traversing south from Balla Balla Harbour, toward the Flinders’ PIOP.
 - A 37 km conveyor from the PIOP mine to rail head (conveyor is necessary to cross the Rio Tinto Tom Price rail line).
- The foundation customer for BBI is Flinders. Flinders PIOP is a proposed 25 Mtpa iron ore mine located some 200 km to the south of Balla Balla Harbour. The initial phase of proposed development will enable the export of PIOP’s ore (Stage 1).
- A second phase of proposed development would increase the port capacity to 45 Mtpa principally for the export of the Balla Balla magnetite material from the BB Mine, located approximately 5 km from the Port Facility (Stage 2).

It should be noted that the scope of this ITSR does not include consideration of the BB Joint Venture's proposed rail and port facilities or the BB Mine because they are not part of the PIOP, although the development intention is stated as being for the PIOP to be integrated with those facilities.

Figure 2.3 BBI rail and port layout



Source: Rutila Rail EPBC Referral document

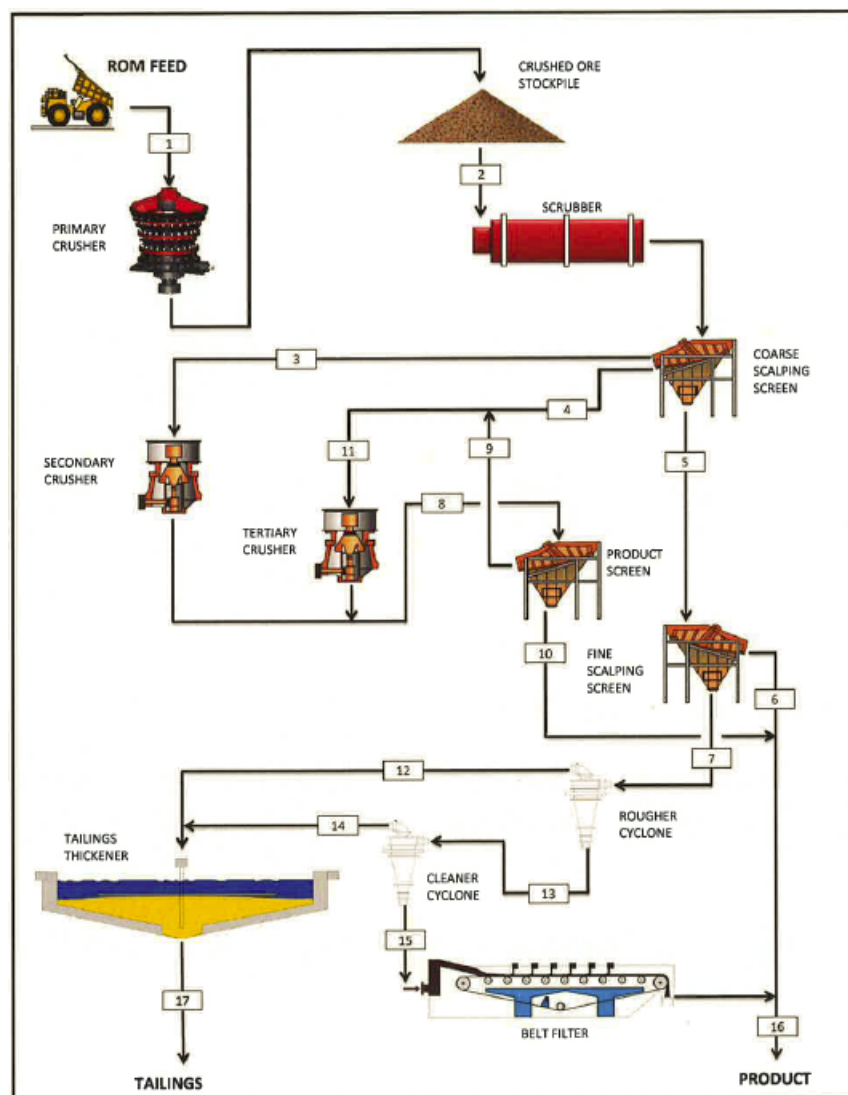
2.2.5 Options Study

In preparation for the BFS work to be undertaken in 2015, Flinders commissioned an independent consultant to study various options (Options Study) to determine the most appropriate ore processing screens size according to Finders updated metallurgical testwork, followed by open pit optimization to provide a preliminary evaluation of various operating strategies. This Options Study is dated January 2015 and was based on Mineral Resource modelling that was updated in late 2014 calendar year. The Options Study is confined to the main tenement, Blacksmith, on which approximately 90% of the PIOP Mineral Resource is located, and of which approximately 90% has been classified as Measured and Indicated Resource.

Resource models used for the Options Study were diluted by regularization of model blocks. All models were regularized to 12.5 m x 12.5 m x 3 m high blocks. This resulted in 8% ore loss, and small changes to grades. Earlier studies considered at 4 m, 5 m and 6 m high blocks for regularization. Given that mining was planned to be undertaken on 6 m benches and 3 m flitches, the regularization process may not have introduced sufficient dilution.

The Options Study report refers to a resource base at Blacksmith of 897 Mt grading 55.8 Fe, 9.1% SiO₂ and 4.6% Al₂O₃. The product shipped target is stated at 58.5% Fe, 3.2% Al₂O₃ and 6% SiO₂, and therefore a wet processing facility is likely to be required at PIOP to meet the shipped target. Wet processing is likely to include primary crushing, coarse ore stockpile, washing plant including scrubbers and wet scalping screens, secondary and tertiary crushing, TSF, product screening, desliming, and sampling sections as can be seen in Figure 2.4.

Figure 2.4 Process plant simplified flowsheet



Source: Flinders document Process Flow Block Diagram.pdf

The metallurgical testwork provided by Flinders was the basis for the regression formulae used in the Options Study for processing plant mass yields and upgrade factors for iron, silica, and alumina for various combinations of crush and screen, wet plant, and direct-shipping ore plant configurations.

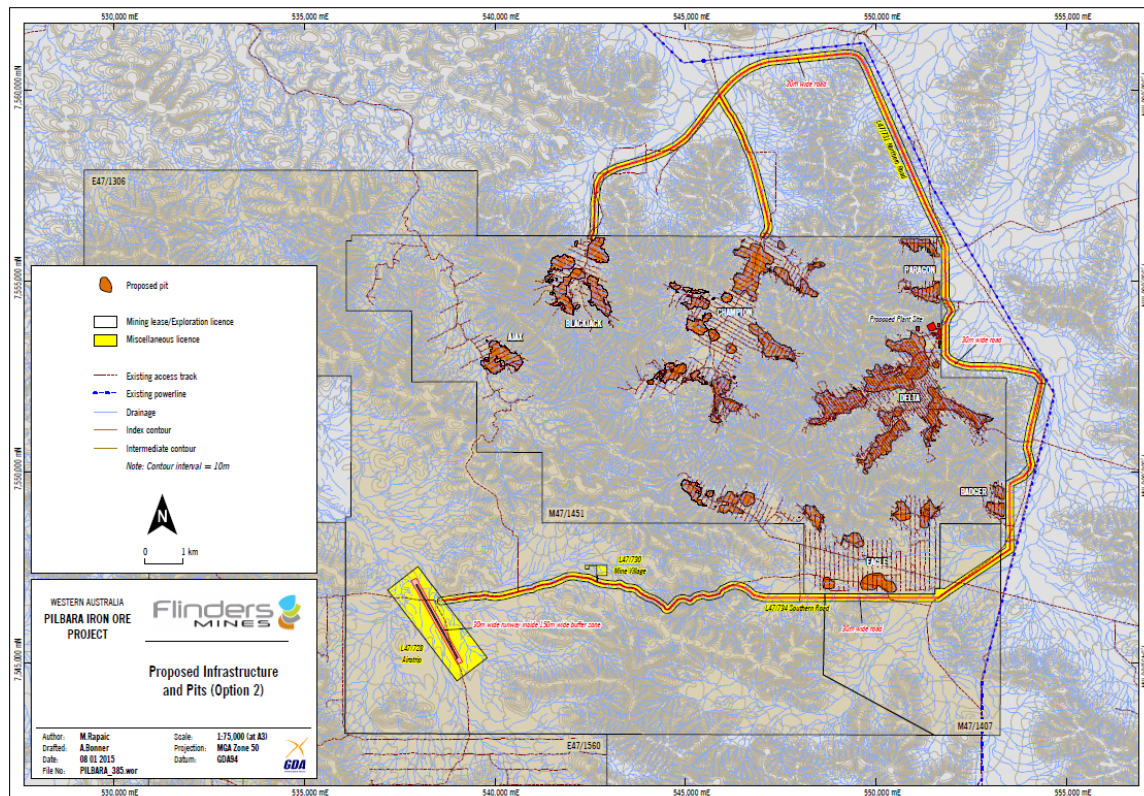
Although not reported in the Options study, other reports provided to AMC indicate that total water consumption is a key consideration for Flinders. Whilst the process plant water consumption is largely dependent on the defined product moisture, a portion also goes to losses, for example to the tailings storage. It should be noted that Flinders has a fixed allocation of water available for consumption. Therefore, the process plant will need to be designed to make efficient use of water and conserve water wherever possible to remain within the current allocation limits.

A tails thickener will be used to dewater the tailings stream prior to pumping to the TSF. The initial TSF is planned to be at the Paragon South pit.

The latest plant design work is based on the process plant and associated infrastructure being located entirely within the Blacksmith tenement.

Industry-standard pit optimization processes based on the inputs described above were undertaken to examine five project options.

The pit optimization pit work indicated that that a base case yielding 288 Mt of product was the preferred case. The optimum pit shells developed in the Options Study indicated a series of discrete pits over a large area as shown in Figure 2.5. Pit depths are generally in the range 40 m to 70 m vertical depth. Upper walls of pits can be expected to be dry, it is anticipated that some deeper mining will be below the water table and pit dewatering will be required. The shallow and widely distributed nature of the optimum pit shells would allow mine planning and scheduling to achieve a blended plant feed. Furthermore, the shallow nature of the deposits would most likely support high mining rates. AMC has not viewed the detailed mine schedules supporting a 25 Mtpa production scenario, AMC does not consider that there would be a limit applied to the mining rate based on the ability to pre-strip or the vertical advance rates that might be required. AMC therefore considers that the production rate of 25 Mtpa would appear to be achievable, assuming that blending, pit backfill, and possible mining below the water table are all assessed and the requirements can be met.

Figure 2.5 Blacksmith Mining Lease and pits layout from Options Study

Source: from Layout_PILBARA_385_Opt2.pdf

Key aspects reported for the base case that was developed as part of the Options Study are:

- Plant configuration – crush and screen; wet plant; product target grade of 58.5% Fe.
- Production rate of 25 Mtpa of product.
- Product rail and port costs based on the Alliance Agreement.
- Drill-and-blast, plus load-and-haul operating costs vary according to ore and waste, and pit distance from the plant, averaging around A\$3.25/t material mined.
- Processing plus general and administration operating cost of around A\$12.40/t.
- Ore mined of 301 Mt; waste mined 458 Mt; strip ratio 1.5:1 (waste t : ore t).
- Total mine operating cost of approximately A\$20/t of ore processed.
- Total life-of-mine production of 288 Mt of product grading 58.9% Fe, 5.8% SiO₂, 3.2% Al₂O₃.

AMC considers that the results of the Options Study provide a reasonable basis upon which to prepare a financial model for the purposes of assessing the economic viability of the PIOP. This matter is discussed further in Section 6 PIOP Financial Model of this report.

2.2.6 BFS suspended

Flinders announced on 11 May 2015 that it had entered into an Option Agreement with a subsidiary of Todd in relation to the purchase by Todd of the PIOP.

Further to the Option Agreement announced on 11 May 2015:

- Flinders issued a presentation on 29 May 2015 indicated that, inter alia, under the Alliance Agreement, and iron ore price outlook, the PIOP is uneconomic and is unlikely to be financed and developed.
- Flinders announced on 19 June 2015 “.... that in order to conserve funds, the Company’s activities to complete the Bankable Feasibility Study for the Pilbara Iron Ore Project under the Alliance Agreement, have been suspended until the outcome of the shareholders meeting in respect to the Option Agreement with Todd Corporation is known.”

3 PIOP geology and mineral resources

3.1 Regional geology

The geology of the PIOP is characterized by late Archaean-Lower Proterozoic age (2800-2300 Ma) sediments of the Mount Bruce Supergroup which form part of the Hamersley Province. The Supergroup lies between the Archaean granitoid basement complexes of the Yilgarn and Pilbara blocks and is comprised of the Fortescue, Hamersley and Turee Groups which are overlain by remnants of the Wyloo Group.

The Hamersley Group metasediments, including the banded iron formation (BIF) units, are described as moderately flat dipping along the northern boundary with outcrops becoming more complex at the southern boundary. The BIFs of the Hamersley Group are known to contain the highest iron content in the stratigraphic sequence and are the most widespread.

Flinders' PIOP 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.

The younger units are understood to be separated from the older Archaean-Lower Proterozoic rocks by an unconformity. Fluvial sediments occupying paleo-channels make up most of the Marillana Formation. These 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 of the Hamersley Ranges.

3.2 Local geology

Within the Blacksmith tenement five palaeochannels incised into the bedrock host the Ajax, Blackjack, Champion, Delta and Eagle prospects.

The mineralization has been shown by drilling to be dominated by detrital iron deposits (DID) as well as bedded iron deposits (BID) of the Brockman Iron Formation. CID mineralization forms part of a larger and older system which joins Fortescue Metals Group Limited's Serenity deposit. It is restricted to the deeper and more distal regions of the larger channels in Eagle, Delta and Champion.

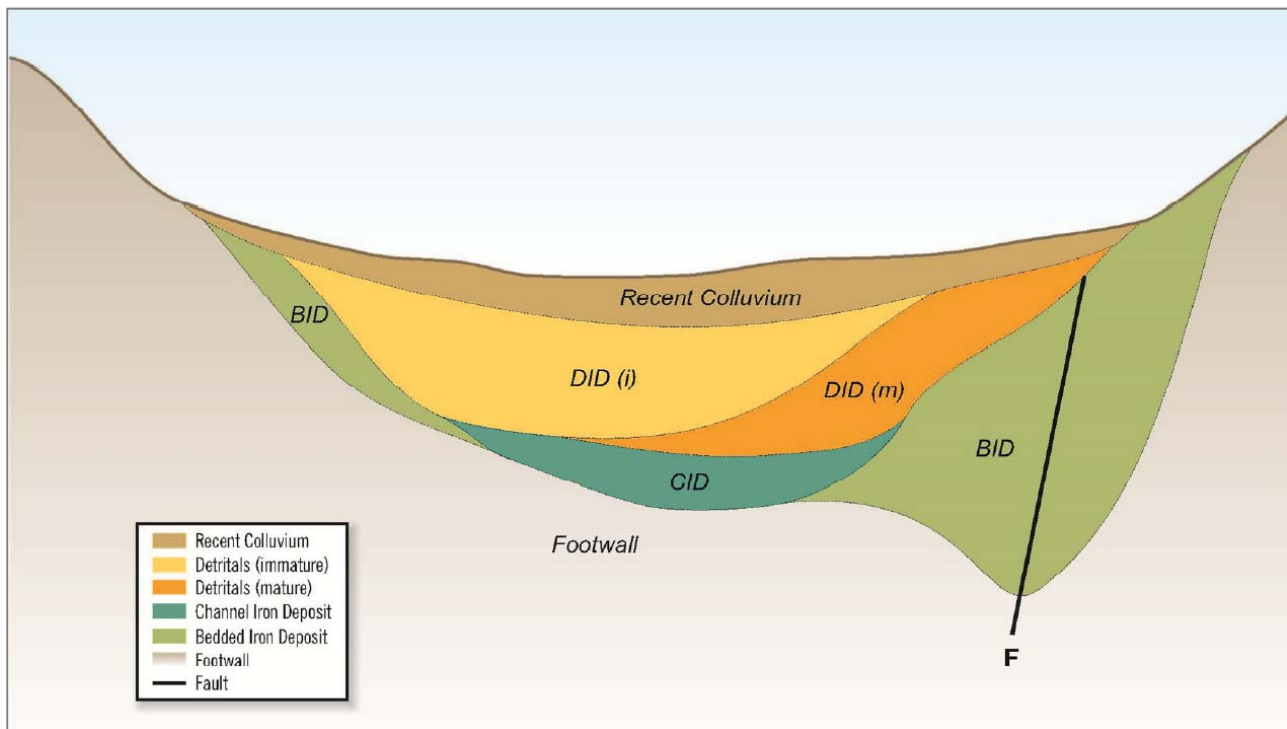
Outcrop geology on the hills between the channels is dominated by the Brockman Iron Formation (predominantly the Joffre and Whaleback Shale Members with the Dales Gorge Member occurring predominantly beneath the valley floors). BID has also been identified both beneath and on the margins of all channels.

The deposits contains mostly DID and BID, with minor CID as shown in Figure 3.1. The DID Mineral Resource is split between the two arms of the valley, and appears to have collected in a sediment traps formed by the underlying basement rock topography. Prominent 'canga' ramps in the headwaters of all valleys dip below the siliceous and ferruginous gravels which compose the recent sediments.

The DID mineralization begins in the headwaters of the five main valleys and continues into the main channels. Significant mineralization occurs close to the valley sides, where hematite clasts are cemented by hematite-goethite, and where the underlying basement topography creates potential trap sites.

CID has been identified within the Eagle, Delta and Champion valleys. Eagle deposit is best developed due to its size and proximity and continuity with the adjacent Serenity deposit of Fortescue Metals Group Limited. The internal stratigraphy of the CID appears to be comparable to the Robe and Marillana Formations, as well as the Solomon and Serenity CID.

The BIF and shale members of the Brockman Iron Formation are variably weathered with silica in the rock leached away leaving an iron-rich BID. The most dominant group comprises vitreous goethite and is porous and vuggy. The second BID is more massive and weakly to moderately banded with alternating haematitic and goethitic bands.

Figure 3.1 Schematic geological cross section

Source: Flinders Investor Presentation December 2014

3.3 Groundwater

Groundwater observations have been made for Champion, Delta and Eagle. Further investigations are required for Ajax, Blackjack, Badger or Anvil to be characterized.

At Champion a continuous CID unit contains most of the groundwater and drains to the north. Potentially confining clays present are not continuous and the aquifer is unconfined.

Groundwater in the CID unit at Delta drains to the north-east and is locally confined by clays.

The CID at Eagle comprises a discontinuous clay layer separating the upper and lower CID units. A second confining clay unit higher in the sequence creates a semi confined laterally continuous aquifer in the CID. Groundwater flows are to the north.

3.4 Mineral Resources

The most recent Mineral Resource estimate reports for the Blacksmith tenement were completed in November and December 2014. The Mineral Resources estimates included 2014 drilling and were to be included in the bankable feasibility study (BFS) as the basis of subsequent mine planning.

The Mineral Resources are based on drilling which for the most part are vertical holes. Drilling companies used include:

- 2008: RC – Silver City Drilling and Layne Drilling, DD – Silver City Drilling.
- 2009: RC – McKay Drilling, DD – Boart Longyear.
- 2010–2013: RC & DD – Boart Longyear.
- 2014: RC & DD – Layne Drilling.

Drilling at Blacksmith was carried out between 2008 and 2014 with most over two main periods: 2008 to 2012 and 2014. Drilling at Anvil was mostly in 2009 and 2010 with some additional holes drilled in 2014.

The Blacksmith Mineral Resources were estimated by independent mineral industry consultants. The estimate complied with the requirements for reporting under the JORC Code 2012³.

The most recent Mineral Resource estimation report for the Anvil Tenement was completed in October 2010. The Mineral Resource estimate used all drilling available at the time. The Mineral resources were estimated by independent mineral industry consultants. At the time of reporting the estimate it complied with the requirements for reporting under the JORC Code 2004⁴. There has been no material change in information since this report.

The total direct expenditure on exploration for the Blacksmith and Anvil tenements from 2008 to 2015 inclusive, including all work directly involved in activities such as drilling, assaying, and fieldwork upon which the Mineral Resource estimates are based, is in the range of A\$35M to A\$45M depending on whether some expenditure items are included in the assessment.

The Mineral Resource estimates are summarized by tenement in Table 3.1.

Table 3.1 Mineral Resource estimate by tenement as at January 2015 at 50% Fe cut-off

Resource Classification	Tonnes (Mt)	Iron (% Fe)	Silica (% SiO ₂)	Alumina (% Al ₂ O ₃)	Phosphorus (% P)	LOI (%)
Blacksmith – M47/1451						
Inferred	62.0	55.4	10.0	4.8	0.06	5.1
Indicated	792.2	55.7	8.9	4.5	0.07	6.0
Measured	105.3	56.4	10.5	5.1	0.05	2.8
Total Blacksmith	959.5	55.8	9.2	4.6	0.07	5.6
Anvil – E47/1560						
Inferred	82.4	53.6	11.4	5.8	0.05	4.9
Indicated	–	–	–	–	–	–
Measured	–	–	–	–	–	–
Total Anvil	82.4	53.6	11.4	5.8	0.05	4.9
PIOP Total						
Inferred	144.4	54.4	10.8	5.3	0.06	5.0
Indicated	792.2	55.7	8.9	4.5	0.07	6.0
Measured	105.3	56.4	10.5	5.1	0.05	2.8
Total PIOP	1,042	55.6	9.3	4.7	0.07	5.5

Source: Flinders ASX Announcement 9 January 2015

3.4.1 Data collection

Mineral Resource estimates were based mainly on reverse circulation (RC) drilling with some diamond drilling (DD) completed mainly for metallurgical samples. Most RC drillholes were vertical except near the edge of mesas where access was restricted. Vertical drillholes are appropriate reflecting the flat-lying nature of the CID mineralization.

Drillhole spacing ranges from 50 m x 50 m to 400 m x 100 m which is reflected in Mineral Resource classification. Measured Resources are typically drilled at 50 m by 50 m for most lithologies, and Indicated Resources are generally 100 m x 100 m and 50 m x 50 m where geological continuity is poorer.

Drillhole collars were surveyed but holes were not surveyed downhole which was reasonable given that vertical, reasonably short RC drillholes are unlikely to deviate significantly.

³ Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves, The JORC Code 2012 Edition. Effective 20 December 2012 and mandatory from 1 December 2013. Prepared by the Joint Ore Reserves Committee of the Australasian Institute of Mining and Metallurgy, Australasian Institute of Geoscientists and Minerals Council of Australia (JORC).

⁴ Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves, The JORC Code 2004 Edition, Effective December 2004, Prepared by the Joint Ore Reserves Committee of the Australasian Institute of Mining and Metallurgy, Australian Institute of Geoscientists and Minerals Council of Australia (JORC)

RC drillholes were mainly sampled on 2 m intervals. Samples were analysed following standard industry protocols at recognized commercial laboratories. Samples were assayed by SGS Laboratories in 2008. Between 2009 and 2014 Ultra Trace Analytical Laboratories were used for assay services. Analyses were completed using X-ray fluorescent spectrometry for major elements and oxides (Fe, SiO₂, Al₂O₃, CaO, Na₂O, K₂O, and MgO) and significant minor elements including P, S and Mn. Loss on ignition (LOI) was also determined.

3.4.2 Density

Density determinations were carried out on DD core samples that were collected for metallurgical purposes. The metallurgical laboratories submitted samples to independent third party laboratories for the density determinations. Laboratories used were Amdel, ALS and Ammtec from 2009 to 2013 and Nagrom in 2014.

The determinations followed standard industry protocols with samples that were described as wax coated, uncoated and plastic wrapped. Wax coating is generally considered to be the most reliable method. Paired testing of samples supported a bias between the three sample treatments. Non-wax samples demonstrated a bias of plus 3.5% due to porosity. Plastic wrap samples demonstrated a low bias which is expected due to trapped air.

Recognizing these biases, density data has been updated by applying bias factors to non-wax and plastic wrap samples. The assigned mean density value was used for the each domain except in two domains with a low number of samples in which case the density values typical of the material encountered rather than the sample mean were applied.

3.4.3 QAQC

An assay quality assurance and quality control (QAQC) protocol was in place that included certified reference materials and duplicate assays. The results from the 2013 and 2014 drilling programmes show that the frequency of QAQC checking and the outcomes are within acceptable limits.

Assay quality assurance was undertaken comparing twinned DD and RC drillholes. Correlation for each element within each lithology was very good with minor variance in some units justified by geological variation. In RC samples Fe was identified to be slightly elevated, and SiO₂ slightly low when compared with DD. The slight difference is considered to be of a small magnitude that will not impact the resource estimate significantly. It is also recognized by Flinders and in the Mineral Resource Estimate reports that it should be a consideration in any reserve assessment.

3.4.4 Grade estimation

Geological interpretations were developed into three-dimensional wireframes for the Mineral Resource estimate. Domains were developed based on lithology and grade conditions. The Mineral Resource estimates were developed within the domains interpreted at an iron cut-off grade of 50% Fe.

Estimation and search parameters and grade capping were determined from a study of variography, statistics and geostatistics. Each of the seven main analytes in each domain was assessed to determine if the mean grade would normalize based on grade top caps ranging across inflections in the normal probability grade distribution plot. Continuity patterns were assessed within subdivisions of each domain based on valley orientation. Directional control within valleys was not clear so variography was derived from data within the whole domain or the subdivision with most data.

The Mineral Resource estimates were developed from conventional block models. Grades of Fe, SiO₂, Al₂O₃, P, S, TiO₂ and LOI have been estimated into the block model using ordinary kriging and parameters derived from studies of variography. Downhole composite length was 2 m for each domain which is the same length as most of the sampling.

Assessment of the statistical outputs, visual assessment and validation plots from the block model against the equivalent composited drillhole data all indicate generally good conformance, validating the block models as being representative.

Mineral Resources have been reported at a cut-off grade of 50% Fe. The Mineral Resources have been classified as Measured, Indicated and Inferred Resources in accordance with the JORC Code 2012 based on confidence in the geological interpretation spacing of drillholes, the number of composites and drillholes used for estimation, and the distance to composites.

AMC considers that the Mineral Resource estimates have been completed using accepted industry practice with drillhole data supported by a quality control protocol. The estimates are appropriately classified as Measured, Indicated and Inferred Resources in accordance with the JORC Code.

3.4.5 Geology and Mineral Resource conclusions

AMC concludes that:

- Data collection for PIOP has been conducted following industry-accepted practices.
- Quality control protocols reviewed for 2013 and 2014 show the drilling was very well supported by quality control protocols, and any variable biases will have little impact on the Mineral Resource estimate.
- A bias in assay results between twinned RC and DD has been identified. In RC samples Fe grade had a high bias and SiO₂ was low. The slight difference is considered to be of a small magnitude that will not impact the Mineral Resource estimate significantly.
- The cross validation of density determinations using different sample preparation techniques supports the density information used in the estimates.
- The geological interpretation is appropriate for the Mineral Resource estimates. Grade estimation uses common industry practices.
- AMC concurs with the Mineral Resource classification.

4 PIOP Exploration valuation

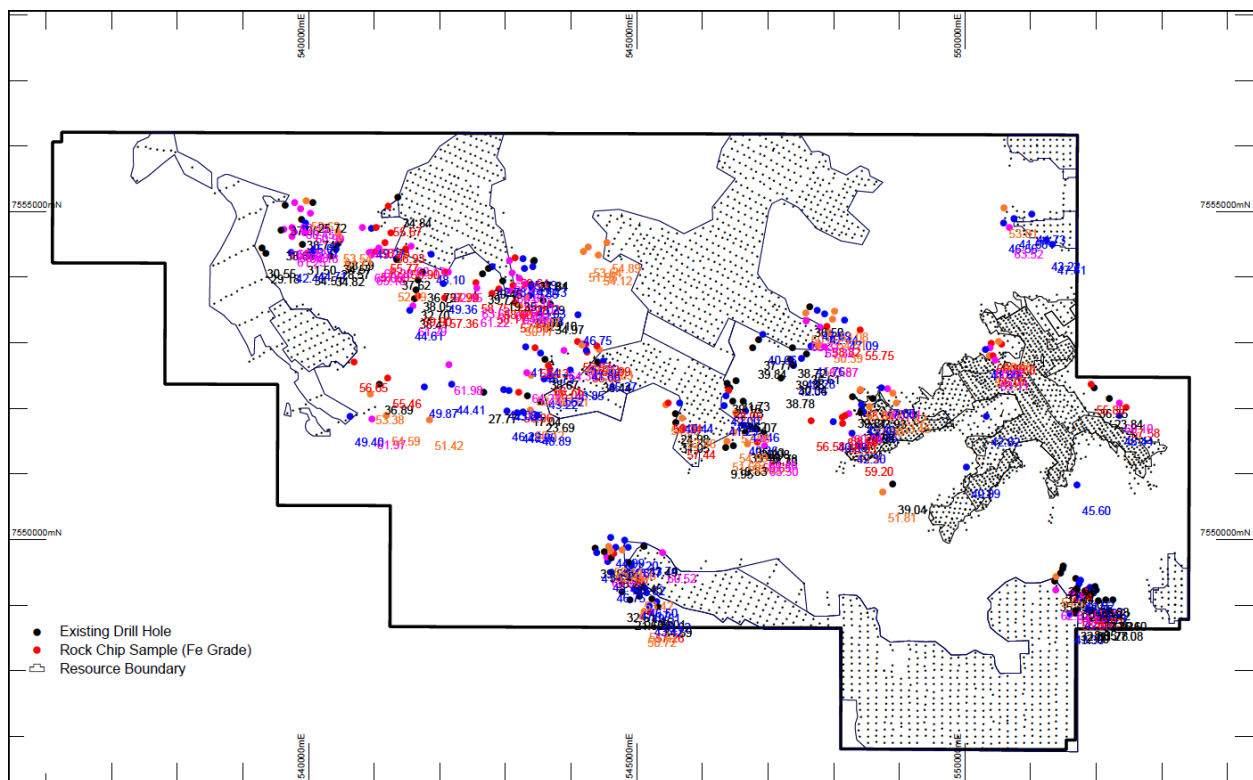
AMC has developed an exploration valuation for the Blacksmith and Anvil tenements, having considered methods commonly used in the industry and as described in Appendix D. The areas considered for the exploration valuation exclude areas within the tenements comprising the Mineral Resources reported in accordance with JORC Code, and the areas of drilling associated with defining the Mineral Resources.

AMC considers that the value of tenement areas without a Mineral Resource is reflected in the value of the exploration potential determined by applying a range of yardstick values.

AMC identified a number of recent transactions for tenements considered prospective for iron ore but without Mineral Resources in Western Australia. These transactions date from 2009 and apply to a range of land areas and stages of development. In considering ranges of yardstick values to apply to exploration potential not considered in the Mineral Resources, AMC discounted some upper and lower outlier yardstick values and considered the exploration potential identified for each tenement.

Evidence of exploration potential at Blacksmith includes rock chip sampling results with reasonable Fe grades. The result of rock chip samples within and beyond the current resource drilling is shown in Figure 4.1. This indicates a number of areas where further work may be warranted, particularly up-stream of some valley fill and between the southern margins of Ajax and Champion. Other areas are untested due to limited or no access.

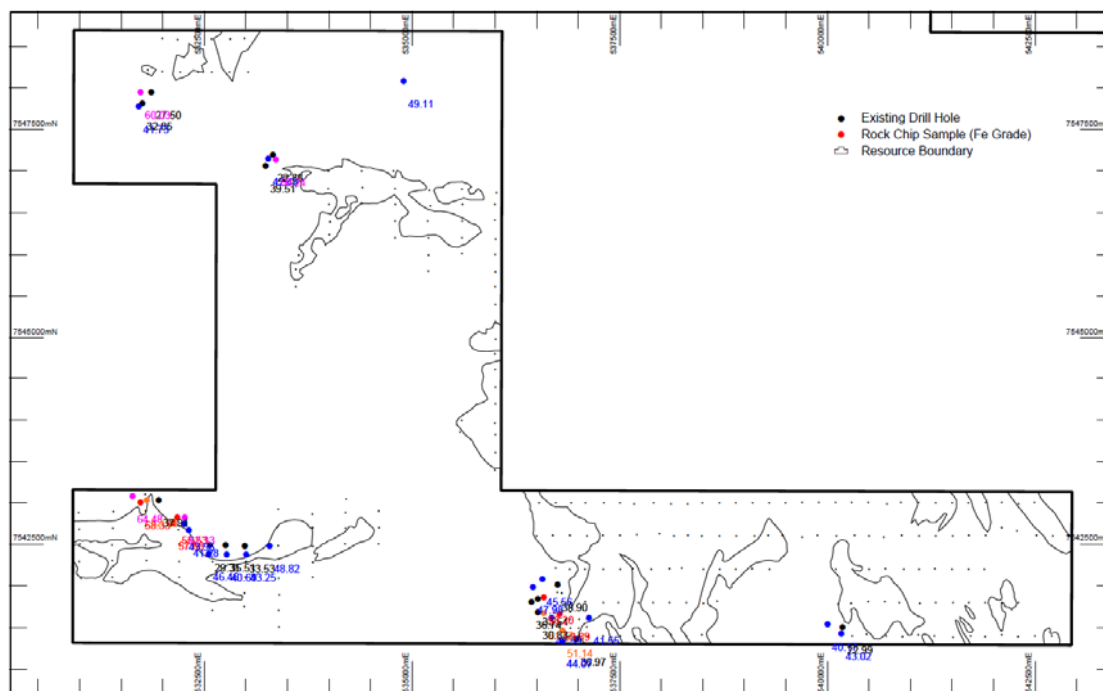
Figure 4.1 Blacksmith rock chip samples with grades above 50% in orange, red and pink



Source: Flinders document Blacksmith Rock chip.pdf

At Anvil, rock chip sampling has been generally limited to the margins of Mineral Resources with only one or two isolated high Fe grades beyond this (refer Figure 4.2). The Mineral Resources are discontinuous, particularly in Anvil J where drilling has been undertaken across a wide area. For these reasons Anvil is considered less prospective than Blacksmith for exploration.

Figure 4.2 Anvil rock chip samples with grades above 50% in orange, red and pink



Source: Flinders document Anvil Rock chip.pdf

AMC has based its valuation on the transactions as being in good standing. All transactions have been assessed on a value per square kilometre basis. The transactions date from 2009. However, commodity price variations since 2009 mean a more recent window of time is more applicable to this assessment. Transactions from 2013 to 2015 are considered by AMC to be more appropriate for current commodity prices.

On this basis, tenements considered in exploration potential are valued as listed in Table 4.1.

Table 4.1 Valuation of tenements considered in Exploration Valuation (by transaction date)

Date	Vendor	Purchaser	Value (\$M)	Area (km ²)	Value (Per km ²)
14 May 2015	Nexus Minerals Limited	Undisclosed	0.20	57	3,406
18 November 2014	Apollo Minerals	Private Company	0.50	227	2,203
8 August 2014	Chrysalis Resources	Flinders Pilbara	0.27	89	3,079
30 June 2014	Gondwana Resources	Atlas Iron	0.22	67	3,313
28 May 2014	Lithex Resources	Atlas Iron	0.08	182	412
17 April 2014	XFE	Coziron Res	4.02	1,022	3,931
29 January 2014	Glen Shivlock / Meteoric Resources	Padbury Mining	0.32	56	5,679
16 January 2014	Riedel Resources	Fortescue Metals	0.34	131	2,595
8 October 2013	Croydon Gold	Coziron Res	0.77	192	4,031
2 April 2013	Sheffield Resources	Brockman Mining	1.00	42	23,810

The data suggests reasonable exploration values for Blacksmith and Anvil are \$4,000/km² and \$2,200/km² respectively. The exploration values for these tenements (excluding mineral resource areas) are shown in Table 4.2.

Table 4.2 Valuation of tenements considered in Exploration Valuation (by transaction date)

Tenement	Area (km ²)	Approx. Res Area (km ²)	Approx. Expl Area (km ²)	Value (\$/km ²)	Total Expl Value (\$)
Blacksmith	111.45	40	71	4,000	284,000
Anvil	44.37	20	24	2,200	52,800
				Total	336,800

5 PIOP Environmental

5.1 Overview

The major “umbrella” statutory environmental approvals are in place, subject to conditions that AMC considers to be practicable, predictable and unlikely to prove onerous or financially demanding.

The project was assessed by the WA Environmental Protection Authority (EPA) under Part IV of the Environmental Protection Act (EP Act) at the comparatively low level of Assessment on Proponent Information (API); this process takes about six months, compared with the much more demanding Public Environmental Review, which can take up to two years. The Ministerial Statement of formal approval is considered a routine progression from EPA’s approval recommendation (June 2015), and likely to be issued in July 2015.

The project was also assessed and approved by the Commonwealth regulator under the Environmental Protection and Biodiversity Conservation Act (EPBC Act), in parallel with the State assessment.

Secondary approvals – EP Act Work Permit (to construct), EP Act Licence (to operate), Water Licences (for bore construction and dewatering) and other minor permits – are either in hand or can be expected to be obtained through normal bureaucratic liaison with the appropriate regulators. AMC anticipates no major difficulties in finalising these permits in a timely manner.

Technical environmental issues are generally without challenge. The major issue is impacts on Groundwater-Dependent Ecosystems (GDEs), but these impacts are likely to be either small or easily mitigated through proposed water-management programmes. Impacts on rare flora and fauna and the conservation estate are negligible, and acid and metalliferous drainage (AMD) is a very small risk – sulphidic material is not scheduled for mining, and the channel iron deposits are heavily leached. Tailings from the processing plant are to be deposited in mined-out pits, although some leaching testwork remains to be completed to confirm manageable risks of groundwater contamination.

AMC estimates closure liabilities at A\$25M to A\$30M.

5.2 Statutory approvals

The Stage 1 (initial) project proposal was approved in January 2013. The Stage 2 (modified) proposal was recommended for ministerial approval by the WA EPA in June 2015.

As noted above, the only significant environmental factor is GDEs and impacts of mine dewatering. EPA has proposed conditions to protect these systems: avoidance of impacts where practicable, and compensatory release of water as required. It is possible that at least some of the GDEs will be unaffected by the proposed dewatering of deeper aquifers under mine pits, as they may rely solely on perched aquifers.

5.3 Vegetation, flora and fauna impacts

Flinders is required to pay financial offsets (\$750/ha) for clearing of vegetation classified as “good to excellent”. AMC considers this cost is likely to total less than \$500,000 over the life of the project. Moreover, the offsets paid to the WA government will be reduced where those offsets duplicate those required as a condition of the EPBC approval. Offset payments will be reconciled biennially.

No Declared Rare Flora or significant Priority Flora Species is likely to be impacted by project operations, and no environmentally-sensitive Threatened Ecological Communities occur in the project area. Karijini and Millstream-Chichester National Parks are located about 50 km away, and the nearest nature reserve is 85 km distant.

No environmentally sensitive fauna species have been recorded on the project site. In any event, impacts would be minimal on a regional basis, as excellent and representative habitats exist elsewhere in the area and region. The stygofauna and troglafauna which do occur on the project area are considered to be well represented in other, undisturbed areas of the groundwater catchments in which the project will operate.

5.4 Acid and metalliferous drainage

AMD is a very small risk, as any sulphidic material occurs below the proposed mine-pits. A screening of the geological database has shown very few occurrences of sulphur above the 0.3%S rule-of-thumb threshold for AMD risk. Moreover, CIDs are characteristically well leached, so that most soluble metals have been removed over geological time. Tailings and mine waste have been subjected to preliminary screening for AMD risks, and no significant issue has emerged. Leach-testing of tailings is ongoing, to confirm preliminary results that indicate in-pit disposal of tailings is unlikely to risk contamination of groundwater.

5.5 Water management

Pit dewatering will produce up to 6 GL/year. Most will be used in processing, and there is at least notional provision for reinjection into the source aquifers. AMC is unaware of the likely success of water reinjection operations, having sighted no reports on test programmes. However, reinjection is practised elsewhere in the Pilbara, so it must be considered to be feasible in at least a theoretical sense; likely scale and costs are unknown.

5.6 Closure and rehabilitation

Flinders is required by conditions of approval to backfill mine pits above the likely water level following the cessation of dewatering and the re-establishment of groundwater equilibrium. Thus, only some 200 ha of waste rock stockpiles will be required over the life of the project.

Tailings will be deposited in mined-out pits, so that relatively expensive stabilization and rehabilitation of above-ground tailings storage facilities will not be necessary.

Flinders is committed to establishing safe, stable and non-polluting landforms at closure, although detailed rehabilitation prescriptions have yet to be developed. Using land disturbance data provided by Flinders, AMC estimates a closure liability of A\$25M to A\$30M. This is a “typical” estimate, assuming no AMD, no aboveground tailings storage facility, and no problems with recalcitrant substrates which make vegetation establishment difficult – such challenges as the latter are rare in the iron-ore province of the Pilbara.

6 PIOP Financial Model

Deloitte Corporate Finance and AMC were provided with a financial model for PIOP (Financial Model) as prepared by Flinders.

AMC reviewed the technical inputs to the Financial Model which include:

- Tonnes and grade of planned to be mined and processed, and the scheduled production.
- The initial capital expenditure estimate for construction of the PIOP.
- The operating cost and sustaining capital expenditure estimates for the PIOP.

The Financial Model technical inputs are based on the base case developed from the Options Study as described in Section 2.2.5 of this report. Key aspects reported for the base case are:

- Plant configuration – crush and screen; wet plant; product target grade of 58.5% Fe.
- Production rate of 25 Mtpa of product.
- Product rail and port costs based on the Alliance Agreement.
- Drill-and-blast, plus load-and-haul operating costs vary according to ore and waste, and pit distance from the plant, averaging around A\$3.25/t material mined.
- The capital and operating cost estimates are based on mining being undertaken by a contractor.
- Processing plus general and administration operating cost of around A\$12.40/t.
- Ore mined of 301 Mt; waste mined 458 Mt; strip ratio 1.5:1 (waste tonnes : ore tonnes).
- Total mine operating cost of approximately A\$20/t of ore processed.
- Total life-of-mine production of 288 Mt of product grading 58.9% Fe, 5.8% SiO₂, 3.2% Al₂O₃.

Based on its review, AMC updated the technical inputs to the Financial Model (updated Financial Model) according to the results of the latest work completed by Flinders, and AMC's opinion on operating costs, sustaining capital expenditure, and closure costs. AMC provided that updated Financial Model to Deloitte Corporate Finance.

Key technical inputs to the updated Financial Model are:

- Initial capital expenditure for construction of the project of A\$800M, with a foreign exchange adjustment for the cost of items sourced in US\$. It includes mine development and pre-strip, processing plant, outloading, mine infrastructure and services, water supply, airstrip, power generation (18 MW) construction indirects, project management, and owner's and other costs. This is a preliminary estimate with indications that the accuracy of the capital cost estimate for the scope of the project as defined for financial modelling purposes is in the order -15% to +35%. It does not include capital spares or contingency.
- A ramp-up of production starting at 15 Mt for the first year, 20 Mt for the second and third years, 22.5 Mt for the fourth year, and 25 Mtpa thereafter.
- Total wet (7% moisture) product sold of 288 Mt over a mine life of approximately 12 years.
- A mining waste to ore ratio of 1.5:1 based on pit optimization studies.
- Total mine operating cost (mining, processing, and general and administration) at a constant A\$23 per tonne of product sold. This includes a processing plus general and administration cost approximately A\$12/t of plant feed.
- Annual sustaining capital expenditure of 1% of initial capital expenditure, or A\$8Mpa, and totalling A\$100M over the mine life.
- Mine closure cost estimate of between A\$25M and A\$30M.

Based on its review, AMC concluded that the technical inputs to the updated Financial Model as provided to Deloitte Corporate Finance are reasonable for the purpose of assessing the economic viability of the PIOP.

7 Qualifications

AMC is a firm of mineral industry consultants whose activities include the preparation of due diligence reports on, and reviews of, mining and exploration projects for equity and debt funding and for public reports. In these assignments, AMC and its subconsultants have acted as independent parties. Neither AMC nor its subconsultants have any business relationship with Deloitte Corporate Finance, or Flinders other than the carrying out of individual consulting assignments as engaged.

While some employees of AMC and its subconsultants may have small direct or beneficial shareholdings in Flinders, neither AMC nor the contributors to this report nor members of their immediate families have any interests in Flinders that could be reasonably construed to affect their independence. AMC has no pecuniary interest, association or employment relationship with Deloitte Corporate Finance or Flinders.

AMC has had no part in formulation of the Proposed Transaction, and has no interest in the outcome of the Proposed Transaction. Prior to accepting the instruction to prepare this ITSr, AMC considered its independence with respect to ASIC Regulatory Guide 112: Independence of experts. In AMC's opinion, it is independent.

AMC is being paid a fee by Flinders according to its normal per diem rates and out-of-pocket expenses in the preparation of this report. AMC's fee is not contingent upon the outcome of the Proposed Transaction.

In correspondence relating to our engagement, Flinders agreed to comply with those obligations of the commissioning entity under the VALMIN Code including that to the best of its knowledge and understanding, complete, accurate and true disclosure of all relevant material information will be made. Flinders has represented in writing that to the best of its knowledge, it has provided AMC with all material information relevant to its projects as described in this report.

In preparing this report, AMC has relied on information provided by Flinders, and AMC has no reason to believe that information is materially misleading or incomplete or contains any material errors. Flinders has been provided with drafts of our report to enable correction of any factual errors and notation of any material omissions. The views, statements, opinions and conclusions expressed by AMC are based on the assumption that all data provided to it by Flinders are complete, factual and correct to the best of its knowledge. This report and the conclusions in it are effective at 24 July 2015. Those conclusions may change in the future with changes in relevant metal prices, exploration and other technical developments in regard to the projects and the market for mineral properties.

Flinders has provided AMC with indemnities in regard to damages, losses and liabilities related to or arising out of its engagement other than those arising from illegal acts, bad faith or negligence on its part or its reliance on unauthorized statements from third parties.

This report has been provided to Deloitte Corporate Finance for the purposes of forming its opinion in relation to the Proposed Transaction. AMC has given its consent for this report to be appended to Deloitte Corporate Finance's report and for it to be provided to Flinders shareholders and has not withdrawn that consent before their lodgement with the Australian Securities & Investments Commission. Neither this report nor any part of it may be used for any other purpose without written consent.

The signatories to this report are corporate members of the AusIMM and bound by its Code of Ethics.


The signatory has given permission to use their signature in this AMC document

Andrew Proudman
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Principal Geologist


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Appendix A

Principal sources of information

Flinders and Deloitte Corporate Finance have provided AMC with information for the purpose of preparing this report. AMC has also access publically available information.

In preparing this report, AMC has relied on information provided by Flinders including the documents and files listed below. The list is not exhaustive.

AMC has not audited the information provided by Flinders. AMC has, however, reviewed the information to the extent necessary to satisfy itself that the assessments presented in this report are based on reasonable grounds and assumptions, and that the information AMC has in relation to the valuation of the exploration properties, is sufficient.

Information from public sources:

Flinders Mines – PIOP Option and Sale Agreement, Shareholder Information Meeting, June 2015

Flinders Mines, ASX Announcement, 29 May 2015, Company Presentation and Todd Corporation Letter

Flinders Mines, ASX Announcement, 11 May 2015, Flinders signs option agreement with Todd Corporation for \$65m+ PIOP sale

Flinders Mines, ASX Announcement, 9 January 2015, Ajax Mineral Resource Update

Flinders Mines, Investor Presentation, UBS Australian Iron Ore & Coal Conference, December 2014

Flinders Mines, ASX Announcement, 3 December 2014, PIOP Mineral Resource increased to more than 1 Billion Tonnes

Investor Presentation, Flinders Mines Limited, Feb 2014

Flinders Mines, ASX Announcement, 26 February 2014, Flinders Signs Infrastructure Deal With Rutila and Todd

Flinders Mines Limited – Annual Report – 2011, 2012, 2013, 2014

Flinders Mines Limited - Pilbara Iron Ore Project – Pre-Feasibility Study, December 2010

Rutila Resources Ltd, December 2014 Project Update Presentation

Rutila – 2014 Annual Report

Rutila Resources Ltd, Investor Presentation – March 2014

Rutila Resources Ltd, ASX Announcement, Alliance Agreement Signed, February 2014

Information from Flinders Mines Limited:

Financial Model - FMS Model_20150617.xlsm

Flinders Exploration Expenditure summary.xlsx, and supporting documentation

Pilbara Iron Ore Project – Process Screening Options Study – Flinders Mines Limited, 22 January 2015, ORElogy

PIOP Geology, undated

Pilbara Iron Ore Project: Delta Pit Preliminary Geotechnical Investigation, Peter O'Bryan & Associates, 3 August 2012

Flinders Mines Limited - Pilbara Iron Ore Project – Processing Plant Specification, WorleyParsons, 16 Feb 2015

Flinders Mines Limited – Process Plant Block Flow Diagram

Various reports on Mineral Resource estimates (Ajax, Blackjack, Champion, Delta, Eagle, Paragon, Badger, Anvil)

Various reports on exploration activities and results (including QAQC)

Various reports on metallurgical testwork

Various pit optimization inputs and results files

Capital cost estimate - Flinders Mines Class 4Plus Estimate for MR 140915.xls

Grant of Mining Lease - 47-1451, Government of Western Australia, Department of Mines and Petroleum, 26 March 2012

Decision on approval - Blacksmith Pilbara Iron Ore Project, WA (EPBC 2011/6152), Australian Government, Department of Sustainability, Environment, Water, Population and Communities, 19 September 2012

Flinders Pilbara Iron Ore Project – Stage 1 (EPA Report 1456 Assessment 1903), Government of Western Australia, Office of the Appeals Convenor, Environmental Protection Act 1986

Pilbara Iron Ore Project Agreement - Flinders Mines Limited and Wintawari Guruma Aboriginal Corporation RNTBC, 13 March 2012

Report On Standing Of Mining Tenements Held By Flinders Mining Ltd, McMahon Mining Title Services Pty Ltd, 22 June 2015

Appendix B

Abbreviations

\$ or A\$	Australian dollar
%	percent
2004 JORC Code	Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves, The JORC Code 2004 Edition, Effective December 2004, Prepared by the Joint Ore Reserves Committee of the Australasian Institute of Mining and Metallurgy, Australian Institute of Geoscientists and Minerals Council of Australia (JORC).
2012 JORC Code	Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves, The JORC Code 2004 Edition, Effective December 2004, Prepared by the Joint Ore Reserves Committee of the Australasian Institute of Mining and Metallurgy, Australian Institute of Geoscientists and Minerals Council of Australia (JORC).
Al ₂ O ₃	alumina
AMC	AMC Consultants Pty Ltd
AMD	acid and metalliferous drainage
ASIC	Australian Securities and Investments Commission
ASX	Australian Securities Exchange
BID	bedded iron deposits
BIF	banded iron formation
CID	Channel Iron Deposit
DCF	discounted cash flow
DD	diamond drilling
DID	detrital iron deposits
dmt	dry metric tonne
dmtu	dry metric tonne (iron) unit
EP Act	Environmental Protection Act
EPA	Environmental Protection Agency
Fe	iron
GDEs	groundwater-dependent ecosystems
GL	giga litre
ITSR	independent technical specialist's report
km	kilometres
km ²	square kilometres
kt	thousand tonnes
ktpa	thousand tonnes per annum
LOI	loss on ignition
M	million
m	metres
m ²	square metre
m ³	cubic metres
mm	millimetres
mRL	reduced level
Mt	million tonnes
Mtpa	million tonnes per annum
Mwmt	million wet metric tonnes
Mwmtpa	million wet metric tonnes per annum
NAF	non acid forming
NPV	net present value

P	phosphorus
pa	per annum
PAF	potentially acid forming
PEM	Prospectivity Enhancement Multiplier
ppm	parts per million
QAQC	quality assurance/quality control
RC	reverse circulation
RG 111 and RG 112	Regulatory Guide 111 – Content of expert reports and Regulation Guide 112 – Independence of experts issued by the Australian Securities and Investments Commission (ASIC)
RL	reduced level
ROM	run-of-mine
S	sulphur
SiO ₂	silica
t	tonnes
tpa	tonnes per annum
tph	tonnes per hour
TSF	tailings storage facility
VALMIN Code	Code for the Technical Assessment and Valuation of Mineral and Petroleum Assets and Securities for Independent Expert Reports. The VALMIN Code 2005 Edition, Prepared by the VALMIN Committee, a joint committee of the Australasian Institute of Mining and Metallurgy, the Australian Institute of Geoscientists and the Mineral Industry Consultants Association with the participation of the Australian Securities and Investment Commission, the Australian Stock Exchange Limited, the Minerals Council of Australia, the Petroleum Exploration Society of Australia, the Securities Association of Australia and representatives from the Australian finance sector.
wmt	wet metric tonnes
wmtpa	wet metric tonnes per annum
WorleyParsons	WorleyParsons Limited

Appendix C

Report contributors

The contributors to this report include the following:

Name	Qualifications	Affiliations	Involvement
David Varcoe	BEng (Mining) (Hons)	AMC Principal Mining Engineer	Peer Reviewer.
Dean Carville	BSc (Geology) (Hons)	AMC Geology Manager/ Principal Geologist	Geology, Resources and Exploration Property Valuations.
Andrew Proudman	B App Sc (App. Geol) (Grad Dip) MSc	AMC Principal Geologist	Geology, Resources and Exploration Property Valuations
Chris John	BSc (Agric) (Hons) PhD	John Consulting Service, Director	Environment, Permitting and Hydrology
Lawrie Gillett	BEng (Mining)	AMC Practice Leader – Corporate Consulting – Australia	Project Manager and Review of Mining and General Aspects.
Brad Watson	BEng (Mining) (Hons)	AMC Principal Mining Engineer	Review of Financial Model, and technical support.

Appendix D

Exploration Valuation methods

Various methods have been traditionally used to value mineral exploration tenements that may or may not include a Mineral Resource.

In relation to the development status of a mineral asset, the VALMIN Code⁵ provides the following categories:

- Exploration areas: properties where mineralization may or may not have been identified, but where a Mineral Resource has not been estimated.
- Advanced exploration areas: properties where considerable exploration has been undertaken and specific targets have been identified that warrant further detailed evaluation, usually by drill testing, trenching, or some other form of detailed geological sampling. A Mineral Resource may or may not have been estimated but sufficient work will have been undertaken on at least one prospect to provide a good understanding of the type of mineralization present and encouragement that further work may lead to estimation of a Mineral Resource.
- Pre-development projects: properties where Mineral Resources have been estimated and their extent determined (possibly incompletely), but where a decision to proceed with development has not been made.
- Development projects: properties for which a decision has been made to proceed with construction or production, but which are not yet commissioned or are not yet operating at design levels.
- Operating mines: properties, particularly mines and processing plants which have been commissioned and are in production.

The valuation of exploration projects, particularly those for which it is not possible to quantify Mineral Resources, is very subjective. There are, however, several generally accepted procedures to value exploration projects and AMC has used such methods as appropriate to arrive at balanced judgments of value.

Where possible, AMC attempts to use more than one method before selecting the valuation appropriate to that project. Values have been rounded, outliers in contributing estimates sometimes excluded. AMC has considered the following methods of valuation:

The past expenditure method

A prospectivity enhancement multiplier (PEM) generally between 0.5 and 3.0 is applied to past expenditure which we judge to be effective in regard to future prospectivity.

The yardstick value method

Rules of thumb or yardstick values can be used for properties where a Mineral Resource has been quantified, particularly in the case of gold. A value per contained ounce of gold or gold equivalent (based on treatment recoveries and net smelter return factors) is assigned to an actual Mineral Resource or to a preliminary mineralization estimate. The yardstick values AMC has considered are based on our assessment of transactions in recent years.

Actual or comparable transaction method

A value is determined by reference to either actual transactions for the property in question or to recent transactions for projects considered to be similar to those under review. Comparable transactions are normally converted to a value per unit area.

⁵ Code for the Technical Assessment and Valuation of Mineral and Petroleum Assets and Securities for Independent Expert Reports. The VALMIN Code 2005 Edition, Prepared by the VALMIN Committee, a joint committee of the Australasian Institute of Mining and Metallurgy, the Australian Institute of Geoscientists and the Mineral Industry Consultants Association with the participation of the Australian Securities and Investment Commission, the Australian Stock Exchange Limited, the Minerals Council of Australia, the Petroleum Exploration Society of Australia, the Securities Association of Australia and representatives from the Australian finance sector.

Joint venture terms method

Many transactions on exploration tenements are of a farm-in nature and AMC assesses a "cash equivalent" value for them by assessing from the terms the "deemed expenditure" on the property at the time of the deal, discounted by a time and probability factor for the likelihood that the farm-in will complete its earning requirement. AMC adjusts the resulting value for any other terms of the joint venture or for the results of work carried out since the commencement of the farm-in.

Expected value method

Expected values are estimated where it is reasonably possible to target a range of economic parameters that can be applied to a project that may result from ongoing exploration, usually with allowance for the costs of that ongoing exploration and with a probability or risk factor for the chances of that exploration being successful.

Values for exploration properties vary widely with time and also with the nature of the deal, the purpose of the valuation and/or the strategic value of the property to the hypothetical buyer. A cash transaction will normally be at the low end of a value range obtained by methods discussed above. Share market values, as in a float, will often be at the higher end.

Valuation of mineral tenements is normally carried out for groups of tenements as small tenements may have almost no stand-alone value. An individual tenement holds its value as part of a group of tenements covering a larger area with exploration potential or covering a complete Mineral Resource rather than part of it.

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Statement by an Independent Concerned FMS Shareholder

Dear Fellow FMS Shareholders.

By now you will have received the Notice of Meeting from FMS regarding the Resolution to be put to shareholders, which seeks shareholder Approval of the Option Agreement between TIO (NZ) Limited and Flinders Mines Ltd.

Apparently this Option Agreement has already been executed, and is subject to certain Conditions.

One of those Conditions is approval of this transaction by FMS shareholders at a Meeting of Shareholders.

Since the announced Option Agreement, a number of individual shareholders of FMS who are like-minded in their concerns have sought to voice their collective sentiment. These individual shareholders have independently requested FMS to include this Statement of Concerns with the Notice of Meeting.

Importantly, these individual shareholders are free to deal with their shares and vote as they see fit. These shareholders have no agreement to act or to vote in any preconceived manner.

At the time of preparation of this Statement, approximately 230 shareholders representing ~359m shares, equating to ~16% of non-Todd shares, have previously indicated to me their intention to vote against this Option Agreement.

The concerns of these individual shareholders include but are not limited to:

1. The Option Agreement with Todd is ONLY "an option", there is no certainty.
2. No Certainty that Todd will actually exercise the Option and acquire PIOP for the stated A\$55m.
3. No certainty that FMS will receive any further Option fees other than the initial \$10m.
4. No certainty that Todd will develop PIOP or that FMS will receive any Royalties in the future.
5. Locked-in - FMS is potentially locked into the agreement until 2020 – with no certainty that PIOP will ever reach production.
6. With uncertain potential Option Fees and uncertain potential Royalties capped at Aus \$1.40/t, it appears that FMS will face the certain prospect of being locked out of any potential significant upside of the price of iron ore during the Option period. There are concerns that FMS only receives \$10m upfront, and possibly extension payments, which seems inadequate for quarantining PIOP until 2020.
7. No certainty or current proposal by FMS that the majority of proceeds of sale will be returned to long-suffering shareholders. Funds appear to be headed for corporate use, towards unknown investments.
 - According to a recent Sydney Morning Herald article, "...the company will use the \$10 million option payment to "find a new future" outside of iron ore..."
 - Would shareholders who invested in an iron ore project via FMS, wish to see the balance of any proceeds invested in an unnamed, "new future", in some mining quest outside of iron ore?

- Albeit FMS's recent announcement dated 24th July 2015, FMS has indicated that 70% of the initial Option fee of \$10m (\$7m) will now be distributed to shareholders, subject to ATO ruling. However there is no comment regarding the distribution to shareholders of any further Option fees, nor the distribution of any proceeds upon the exercise of the Option.
 - In addition, what happens if the ATO provides an unfavourable Ruling?
8. Many concerned FMS shareholders have stated to me that **the full proceeds of sale of FMS' principal asset should be distributed to shareholders.**
 9. At the date of this Statement the IER has not been released. The Directors of FMS have agreed to recommend the Option if the Independent Expert Report finds that the Option proposal is "Reasonable". Why is any Recommendation by the Board of FMS not based on the IER concluding that the Option proposal is both "Fair and Reasonable" to FMS shareholders?
 10. It appears that Todd views PIOP as a long term, high value opportunity. Similarly, many concerned FMS shareholders have stated to me that they also view PIOP in the same manner as Todd, hence are deeply concerned at the prospect of it being sold for a low value, at a subdued point in the iron ore cycle.

It appears that the general consensus amongst independent and like-minded concerned FMS shareholders have expressed to me is that they feel the proposed Option Agreement is a poor outcome for FMS shareholders.

Of course, shareholders should obtain their own advice on the merits of this proposal, and carefully read the IER.

This Statement is not intended to offer any advice, and is just the independent view of like-minded FMS shareholders.

Whilst I am just a "Mailbox" for FMS shareholders, it appears that, from the emails and phone calls received by me since the Option Agreement was announced, the indication is that the intention of concerned FMS shareholders who caused this Statement to be included with the Notice of Meeting, is that they intend to **VOTE "NO"**



Matthew Hester
Shareholder
mattncass@outlook.com

30th July 2015



Unlock the value of the PIOP

In relation to the proposed resolution on the PIOP, we (TIO (NZ) Limited a subsidiary of the Todd Corporation Limited) will be writing to you separately with some information about us and on our plans to unlock the value of the PIOP. We believe the proposal has the potential to facilitate a profitable long term future for the PIOP, even in today's depressed iron ore market, by providing an integrated infrastructure solution for what is currently otherwise a stranded asset.

We will be in touch with you shortly. For further information, please visit:

www.toddfmsshareholderinfo.com.au





www.toddfmsshareholderinfo.com.au