



ASX ANNOUNCEMENT

2 September 2019

Flinders enters non-binding Terms Sheet with BBIG

- An Independent Review by PwC concludes BBIG provides the most favourable PIOP infrastructure pathway
- Non-binding Terms Sheet to jointly develop PIOP agreed with BBIG
- Proposed Transaction to include Board governance protocols and minority shareholder protections
- To support working capital, Flinders has agreed a Loan Facility and Subscription Agreement with TIO
- Binding Transaction Documents, if negotiated, will be subject to minority shareholder approval with an independent expert to determine whether fair and reasonable

Flinders Mines Limited (**ASX:FMS**) (**Flinders** or the **Company**) is pleased to advise it has taken a significant step forward in the development of the Company's flagship Pilbara Iron Ore Project (**PIOP**).

The PIOP Infrastructure Committee (**Infrastructure Committee**), a Board committee independent of the Company's largest shareholder TIO (NZ) Limited (**TIO**), has completed the first phase of the strategic plan announced in June and announces the following:

- completion by PwC of an independent review of infrastructure alternatives (**Independent Review**), which concluded the Balla Balla Infrastructure Project (**BBIG Project**) was the most favourable infrastructure option for the PIOP;
- signing of a non-binding terms sheet (**Terms Sheet**) with BBI Group Pty Ltd (**BBIG**) in relation to a farm-in and joint venture arrangement for the PIOP development (the **Proposed Transaction**); and
- the Board has also entered into:
 - a \$5 million loan facility agreement (**Loan Facility**) with PIO Mines Pty Limited, a subsidiary of TIO; and
 - a subscription agreement (**Subscription Agreement**) with TIO for a maximum of \$6 million in relation to a future rights issue.

Flinders now intends to negotiate binding agreements to give effect to the principles in the Terms Sheet (**Transaction Documents**). Importantly, the Proposed Transaction will be subject to Flinders' shareholder approval, with TIO excluded from voting as it is a related party to BBIG. An independent expert's report will also be prepared, which will opine on whether the Proposed Transaction is fair and reasonable to all Flinders shareholders.

Flinders Deputy Chair and Chair of the Infrastructure Committee, Cheryl Edwardes, said:

“Today marks a significant step forward for our PIOP project and we are delighted with these outcomes. The Independent Review by PwC provides independent validation that the most favourable option for Flinders to unlock significant value for all its shareholders is pursuing an arrangement with BBIG. The non-binding arrangements announced today provide a framework for Flinders to engage further with BBIG while the agreements with PIO Mines Pty Limited and TIO underwrite critical funding requirements.

“The next stage of the process will involve negotiating binding agreements and comprehensive engagement with all of our shareholders to explain the proposed agreements and seek feedback prior to seeking shareholder approval for the Proposed Transaction. We are determined to strive for independence and transparency in our dealings with BBIG, which is a related party to our major shareholder TIO.”

Independent Review

The Infrastructure Committee engaged PwC to provide an independent assessment of the potential infrastructure alternatives available to Flinders.

The Independent Review assessed currently operating ports and proposed ports as well as associated rail infrastructure in the Pilbara region against key criteria, including timing, current and future port capacity, rail access and capacity, project approval status, upfront capital expenditure requirements and strategic importance of the PIOP to the potential infrastructure provider.

The Independent Review found the BBIG Project to be the most favourable transport option for the PIOP to meet its requirements.

“All other port and rail options have been excluded or discounted due to infrastructure shortcomings and through commercial issues identified, such as requirements on capital, or lack of strategic alignment,” the report said.

The key findings of the Independent Review are summarised in Appendix A.

Terms Sheet with BBIG

As previously advised to shareholders, Flinders has engaged in discussions with BBIG in relation to potential options to jointly progress the PIOP and BBIG Project. After consideration of the Independent Review, the Infrastructure Committee has determined that the BBIG Project is the most favourable infrastructure pathway for the PIOP.

Flinders has entered into the Terms Sheet with BBIG to establish a framework for a potential joint venture between Flinders and BBIG for the integrated development of the PIOP and BBIG Project. Key highlights of the Proposed Transaction as contemplated in the Terms Sheet include:

- Flinders’ interest in the joint venture to be free carried to Final Investment Decision (**FID**);
- provision of foundation customer status for the PIOP and an infrastructure solution to unlock the currently stranded PIOP orebody;
- BBIG to arrange all debt and equity financing for the integrated development;
- BBIG to secure long-term offtake agreements with customers;
- Flinders to retain control of the PIOP until FID; and, if FID does not occur in an agreed time frame, Flinders to retain 100% of the PIOP;
- provision of significant governance protocols and minority shareholder protections; and

- optionality for Flinders to convert to a royalty or other revenue stream at FID or continue to be free carried to first production (subject to pro rata responsibility for capital cost overruns above an agreed contingency during construction).

The Proposed Transaction would occur over two stages, outlined in further detail in Appendix B.

Loan Facility

Flinders has entered into a Loan Facility with PIO Mines Pty Limited, a subsidiary of TIO.

The \$5 million Loan Facility will assist Flinders in completing due diligence and negotiation of the Transaction Documents and to meet its short term capital requirements. Tranche 1 (\$2.5 million) is available for immediate draw down; and Tranche 2 (\$2.5 million) is available for draw down between 13 September and 20 September 2019. The Loan Facility is in addition to Flinders' existing \$3 million loan with PIO Mines Pty Ltd that is repayable on or before 30 June 2022.

The Loan Facility is unsecured, will carry an interest rate equivalent to the 6-month Bank Bill Swap Rate plus 2% per annum (with interest capitalised), with a maturity on the earlier of 30 April 2020 or within 14 days of the closing of any capital raising by Flinders by way of a pro rata rights issue.

Subscription Agreement

Flinders intends to undertake a pro rata rights issue post the shareholder meeting to seek approval for the Proposed Transaction, to repay the Loan Facility with PIO Mines Pty Limited and to fund working capital requirements. The issue price and entitlement ratio will be determined at the time.

Flinders and TIO have entered into a Subscription Agreement under which TIO has agreed to subscribe for the number of Flinders' shares under the pro rata rights issue equal to the lesser of its pro rata entitlement and \$6,000,000 divided by the issue price subject to (amongst other things):

- final TIO board approval once terms of the rights issue are determined; and
- launch of the rights issue no later than 30 April 2020.

Next Steps

The key provisions of the Terms Sheet are non-binding and shareholders should be aware there is no certainty that a binding agreement with BBIG will be achieved. Flinders will now commence negotiating binding Transaction Documents with BBIG. If agreed, Transaction Documents will be subject to approval by shareholders (with TIO excluded from voting). Shareholders will receive a Notice of Meeting including a detailed Explanatory Memorandum in advance of any vote, which will include an independent expert's report providing an opinion on whether the Proposed Transaction is fair and reasonable.

As part of its plan to engage more closely with all shareholders and improve transparency, Flinders intends to hold a number of information sessions to ensure shareholders are properly informed and provide shareholders with the opportunity to ask questions and provide feedback on the Proposed Transaction. Details of these sessions will be shared in due course. A shareholder hotline will also be established.

Flinders will provide a further update to shareholders on or before the AGM in November and is targeting finalisation of Transaction Documents before the end of calendar year 2019.

Flinders is being advised by Greenhill & Co. and MinterEllison on the Proposed Transaction.

For further information please contact:

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David McAdam
Chief Executive Officer
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30 August 2019

Dear David,

Re PwC Independent Study – Executive Summary

Flinders Mines Limited (**FMS**) engaged PricewaterhouseCoopers (**PwC**) to prepare a report on infrastructure options potentially available to FMS to transport iron ore from the Pilbara Iron Ore Project (**PIOP**) under an engagement letter with FMS dated 2 July 2019 and an addendum to that engagement letter dated 30 August 2019 (together the **Engagement Letter**). PwC reported its findings to the Board of FMS in its report dated 10 August 2019 (**Report**). At the request of FMS, PwC has prepared this executive summary of the Report.

The PIOP, consisting of two key tenements - the Blacksmith (M47/1451) and the Anvil (E47/1560) - is situated approximately 70km from the township of Tom Price and is relatively close to various existing integrated rail infrastructure.

Those lines connect to various existing dedicated iron ore export-orientated port infrastructure in the Pilbara. While this pre-existing transport infrastructure has been developed for the transportation of iron ore, they are scaled to support current mining operations and would require additional upgrades in order to accommodate the PIOP.

There are also proposed rail and port development options which could potentially provide new and additional iron ore export capacity.

The Report considered both existing (brownfield) and proposed new rail and port development options (greenfield) to identify the most favourable transport option for FMS for the PIOP, based on criteria agreed with FMS.

Specifically the Report considered four currently operating ports and three proposed ports as well as associated rail infrastructure in the Pilbara region. This included: Port Hedland, Port Dampier, Port of Cape Lambert, Cape Preston, Cape Preston East, Anketell and the Balla Balla Infrastructure Project (**BBI Project**).

PwC utilised a 3-step methodology to assess the above options to meet the PIOP's needs. This included:

Step 1 – Setting the performance requirements: the performance requirements for ore transport infrastructure to serve the PIOP's mining scenario of 50Mtpa were identified and agreed with FMS. These performance requirements included the provision of export capacity within 5 years.

Step 2 – Evaluation against criteria: assessment of options in accordance with criteria agreed with FMS, based on the performance requirements identified in Step 1. This criterion included current and future port capacity, rail access and capacity, pre- feasibility infrastructure projects,

project approval status and technology risks.

Step 3 – Further commercial assessment: the options were also assessed, as directed by FMS, on the likely ability of the developer/operator to provide upfront capital for financing of the port and rail infrastructure (as necessary), and well as a view as to the strategic importance of PIOP to the infrastructure provider.

A summary of the assessment of each port considered can be found in the table below:

Port Options	Findings of Step 2 assessment	Findings of Step 3 assessment
Port Hedland (existing)	Port Hedland is near capacity with expansion challenges around access to land and channel prioritisation due to tidal impact.	It is unlikely that any new capacity to this infrastructure would be made available to FMS as it has been earmarked for individual use.
Port Dampier (existing)	Port Dampier is near or at capacity with restrictions on land space and access.	There have been no reported plans for expansion. As such, any expansion plans are likely to require self-finance on FMS' part.
Cape Lambert (existing)	Access to Cape Lambert is unlikely as the port is privately operated and managed by another miner, which is using capacity to achieve growth of its own production targets.	There have been no reported plans for expansion. As such, any expansion plans would be likely to require self-finance on FMS' part.
Cape Preston (existing)	The port is at capacity, supporting peak production levels for a different commodity type.	There have been no reported plans for expansion. As such, any expansion plans would be likely to require self-finance on FMS' part.
Cape Preston East (proposed)	The port is proposed to be a very small operation that is insufficient for a 50Mtpa mining operation.	There have been no reported plans for expansion. As such, any expansion plans would be likely to require self-finance on FMS' part.
Anketell (proposed)	Anketell has potential to address capacity. However, the project is unlikely to be online within the next decade, falling out of the PIOP's timeframe of the next five years.	Plans for Anketell have been deferred for the time being due to regulatory and financing concerns.
BBI Project (proposed)	Balla Balla has indicated the potential to deliver the capacity required within FMS' timeframe.	Balla Balla has indicated that the financing for the BBI Project is being progressed.

Of the available options assessed, the proposed BBI Project had the most potential to meet both capacity and timing constraints. The BBI Project has also indicated to FMS that the financing for the BBI Project is being progressed and that they will not require upfront capital outlay from FMS. Furthermore, the BBI Project does not currently have committed iron ore at the level required to initiate investment. Partnering with FMS would provide enough volume to be the “foundation partner” - an indicator that strategic interests would be aligned between infrastructure developer and mine operator.

Given the criteria and performance requirements agreed with FMS for the PIOP and the publicly available data on Pilbara iron ore transport infrastructure at the point in time at which the Report was prepared, the findings indicated the BBI Project would be the most favourable transport option for the PIOP to meet FMS' criteria and performance requirements.

Disclaimer

PwC prepared this executive summary of the Report solely for FMS's use and benefit in accordance with and for the purpose set out in the Engagement Letter. In doing so,

we acted exclusively for FMS and considered no-one else's interests.

PwC accepts no responsibility, duty or liability:

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- even if we consent to anyone other than FMS receiving or using this executive summary.

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Appendix B

Proposed Transaction overview

Stage 1: Feasibility Study and Final Investment Decision

Flinders will establish a new subsidiary (**PIOP MineCo**). Following establishment, Flinders will transfer the PIOP assets into PIOP MineCo. BBIG will be appointed manager and will initially be issued a 10% voting interest (and no economic interest) in PIOP MineCo in exchange for:

- funding of a feasibility study of the PIOP (**Feasibility Study**) with a minimum spending obligation of \$10 million per annum (with any shortfall payable to Flinders subject to a roll forward mechanism) and prescribed milestones;
- providing a plan for development of the PIOP; and
- making available project finance (including debt and equity) for development of the PIOP and arranging offtake contracts.

Flinders is currently of the view that the Feasibility Study will cost at least \$40 – \$50 million.

A Final Investment Decision (**FID**) must occur within 4 years (subject to a 1 year extension in certain circumstances), otherwise the arrangement will be unwound and Flinders will retain 100% of the PIOP and access to the associated Feasibility Study work. If BBIG withdraws it must pay Flinders the greater of \$3 million or the unspent portion of the \$10 million minimum spending commitment remaining in the applicable 12 month period.

BBIG will be entitled to seek a FID where certain criteria are met and Flinders will be required to vote in favour of that FID. However, at FID Flinders will have the option to either:

- continue through construction and commissioning of the PIOP, as outlined below; or
- subject to minority shareholder approval, revert to a royalty or other revenue stream (the details of which will be agreed as part of the Transaction Documents).

Stage 2: Final Investment Decision through to Commissioning

At FID and assuming Flinders elects to continue in the joint venture (and not convert to a royalty or other revenue stream), BBIG will have a 60% economic interest in PIOP MineCo. BBIG may, at its discretion, introduce a third party to support funding for up to a 50% economic interest (the **Equity Funding Party**), leaving BBIG with a total economic interest of 10%. Flinders' voting and economic interest will reduce to 40%, in exchange for:

- Flinders being free carried through construction of the PIOP to commissioning (subject to capital cost overruns (proportional contribution) above an agreed contingency during construction);
- the Equity Funding Party (being either BBIG or a third party) providing all required equity funding for development of the PIOP; and
- BBIG arranging all other financing required to construct the PIOP.

Construction of the PIOP is intended to be funded through a project financing facility to be arranged by BBIG as an integrated package over both the PIOP and the BBIG Project. The financing package will include mutual security between each of the PIOP and the BBIG Project. BBIG has had preliminary discussions with potential financiers, although the precise terms of the financing will not be finalised until FID.

Through separate agreements (that are to be on an exclusive basis and contain terms customary for agreements of their nature), a related company of BBIG will be appointed:

- as the manager of PIOP MineCo, to undertake all activities associated with developing, mining and processing from the PIOP, reimbursed for its actual costs;
- to provide infrastructure services to transport PIOP MineCo's product via the BBI Project, charging PIOP MineCo a tariff consisting of a capacity charge and cost recovery and to include a variable commodity component to partially share the impact of commodity price movements between PIOP MineCo and BBIG; and
- as marketing agent for PIOP MineCo, reimbursed for its actual costs in providing marketing services, plus an agreed margin.

Governance & Minority Protections

Governance and minority shareholder protections are a fundamental consideration of the Infrastructure Committee. The Proposed Transaction will include the following features:

- Flinders will retain majority ownership of PIOP MineCo until FID;
- Flinders is protected by specified FID criteria and will retain optionality with the ability to convert to a royalty or other revenue stream at FID (with TIO nominee Directors excluded from voting on the decision as to whether to convert to a royalty or other revenue stream at FID);
- if FID does not occur within the designated period (or BBIG withdraws from the joint venture), Flinders will retain 100% of PIOP MineCo and access to all associated Feasibility Study work;
- following FID, unless Flinders converts to a royalty or other revenue stream, it will have veto control over certain key decisions of PIOP MineCo that are customary for a mining joint venture; and
- a conflict management procedure will be agreed for contracts between PIOP MineCo and related companies of its shareholders.

In addition, Flinders has in-principle agreement on a governance protocol that will be entered into with TIO concurrently with the Transaction Documents. The protocol will provide that:

- the decision to elect for the royalty or other revenue stream or mining option at FID will be made by the Flinders independent Directors, with TIO nominee Directors excluded from voting on the decision;
- TIO nominee Directors of Flinders will not vote on PIOP MineCo shareholder decisions where the matter involves a conflict; and
- for the duration of the PIOP, TIO will commit to the Flinders Board having sufficient independent Directors to ensure a quorum on the Board (subject to certain shareholding conditions and the number of other non-independent Directors on the Flinders Board).