

ASX ANNOUNCEMENT

21 December 2009



Flinders to list non-iron ore assets

highlights

- Flinders Mines to divest non-core assets in new IPO – Flinders Exploration Limited
- Priority Offer given to existing shareholders
- Flinders Mines to retain significant project and corporate holding in new entity

At its recent AGM, Flinders Mines Limited (FMS) announced its intention to divest its non-core diamond and phosphate exploration assets by way of an Initial Public Offering (IPO). FMS is pleased to now provide additional details of the proposed transaction.

TRANSACTION STRUCTURE

The spin-off will be undertaken via a series of joint ventures with a newly incorporated company, Flinders Exploration Limited (Flinders Exploration). Flinders Exploration will farm-in to the untapped diamond and phosphate exploration potential of FMS' tenement portfolio. It is anticipated the IPO will raise up to \$10m subject to market conditions.

The spin-off will allow FMS to focus on its Pilbara iron ore development project, while also retaining exposure to the diamond and phosphate assets (via both a shareholding in Flinders Exploration and a carried interest in the exploration program).

It is proposed that FMS will fund the exploration program in respect of the relevant assets until the Flinders Exploration IPO in early 2010 up to

a maximum of \$1.5 million. In exchange for this expenditure, FMS will receive shares in Flinders Exploration. It is expected that Flinders will emerge as a cornerstone investor in Flinders Exploration, holding approximately 20% of the new company, post-listing.

FMS' 13,000 shareholders will be given a priority offer under the IPO.

The proposed transaction will be subject to FMS shareholder approval at a general meeting to be convened in Adelaide in the first quarter of 2010. As part of the approval process, FMS shareholders will be provided with an independent expert's report, opining on the fairness and reasonableness of the proposed transaction.

Alongside the independent experts report, a prospectus relating to the Flinders Exploration IPO will be issued outlining the specific details and timeframe of the offer. FMS will continue to keep the market informed with respect to the planned offer.

ABOUT FLINDERS EXPLORATION LIMITED

Flinders Exploration will be headed by highly experienced current FMS diamond and phosphate exploration manager, Dr David Tucker, as Managing Director. Prior to joining Flinders Exploration Dr Tucker has worked with FMS's diamond and phosphate exploration program since 2007. Dr Tucker is a geophysicist with 35 years experience in multi-commodity mineral exploration in Australia and overseas.



Dr David Tucker

Mr Andrew Andrejewskis has been appointed as Chairman of Flinders Exploration. Mr Andrejewskis was until recently Managing Director of SAPEX Limited and is a former Director General and CEO of the department of Mines and Energy, South Australia (MESA). Flinders Exploration's third and non-executive director is Dr Kevin Wills, the Managing Director of FMS. Dr Wills has extensive diamond and South Australian Exploration Management experience which will be valuable to the new company.

The new diamond and phosphate explorer will have interests in large diamond and phosphate exploration licence areas in South Australia and Western Australia.

The Eurelia area of South Australia has been the State's most prospective area for diamonds in the primary source rock – kimberlite. Recently FMS announced its best ever microdiamond results in the Eurelia area. Flinders Exploration has identified a method of finding diamondiferous kimberlite dykes and fissures in this area. The key lies in testing 'bright spots' in subtle anomalies detected by ultra-detailed aeromagnetic surveys. Flinders Exploration believes that with this technique it can successfully retest for opportunities where previous exploration has failed.

Until Flinders undertook a regional soil sampling program in 2008, no large scale systematic exploration had been undertaken for phosphate in South Australia. A regional soil sampling program using an 800 x 400 metre grid was undertaken over a prospective area stretching approximately 70 kilometres by 2-8 kilometres wide extending south from Orroroo. This program showed two large zones each approximately 6-9 kilometres long and up to one kilometre wide, extending south from Orroroo and from Tarcowie. Subsequently, infill surveys using 400x200 metres closed up on targets South of Tarcowie.

Drilling is planned to test targets and obtain metallurgical samples for testing the commercial properties of phosphate in this area.



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