

Quarterly Report

For the quarter ending 30 June 2012

HIGHLIGHTS

THE PAST THREE MONTHS

- *Scheme Implementation Agreement (SIA) between Magnitogorsk Iron and Steel Works OJSC (MMK) and Flinders Mines faced legal challenges/court hearings in Russia, with a number of adjournments*
- *MMK terminated SIA with Flinders Mines (Flinders)*
- *Flinders reserves its rights under the SIA*

THE PATH AHEAD

- *Flinders immediately resumed project development discussions with third parties domestically and internationally*
- *Focus on delivering infrastructure and financing outcomes*
- *FMS available funds of A\$16.1 million at 30 June 2012*

FROM YOUR BOARD

After an extraordinary turn of events, the Company from early in July has been able to commence the new 2012-2013 financial year with no commercial impediments to the strategic development of its wholly-owned Pilbara Iron Ore Project (PIOP) in Western Australia.

While the decision by MMK to terminate the protracted eight month SIA after a series of Russian-initiated legal hurdles was disappointing, Flinders nonetheless remains advantaged by its decision during the SIA to pursue where practically possible, development and de-risking of the PIOP on a “business as usual” basis. While the failed MMK actions have temporarily impacted the pace and timing of the PIOP, Flinders has emerged in July with an iron ore deposit that is now significantly more advanced in its development path than at the commencement of the SIA. Those advances include:

- The Native Title Mining Agreement is in place;
- A Mining Lease has been granted;
- Environmental approvals processes have progressed on schedule;

- The WA Government has committed to Anketell Point, one of Flinders’ export gateway options.

It has been a trying time for our shareholders. The Board remains pleased in the strength of ongoing market interest in the key objectives now for the PIOP – financing, infrastructure solutions, ore marketing and product offtake agreements. Full focus is on engaging a strategic partner or partners with the ultimate aim of fully developing the PIOP and achieving production and positive cash flows in the shortest possible time whilst maximising shareholder returns.

Importantly, with a 917Mt JORC compliant iron resource, the Flinders PIOP remains unique amongst independent Pilbara based groups, offering multiple infrastructure and project development options, an ability to deliver 15Mt+ per annum of high quality ore, exceptional project economics and a large contiguous resource position. Flinders has resumed dialogue with third parties and a full data room has been made available to allow those interested groups to conduct due diligence as required. Your Board is confident that the strength of the PIOP resource places it in an excellent position to deliver positive shareholder outcomes.

CORPORATE

- The Scheme Implementation Agreement between Flinders Mines Limited and Magnitogorsk Iron & Steel Works OJSC was delayed by Russian domestic injunctive relief being granted to a minority MMK shareholder.
- MMK terminated the SIA with Flinders on 3 July 2012.

IRON ORE

PILBARA IRON ORE PROJECT

With the MMK Scheme Implementation Agreement in place, Definitive Feasibility Study (DFS) activities for the June quarter were restricted to those that did not breach the terms of the SIA.

Project work continued to focus on Mining, Processing and Marketing with the key activities during the June quarter summarised below.

Mining, Processing And Infrastructure

- A Phase 4 metallurgical testwork program was initiated with a total of 5 diamond drill holes planned for a total of 394 metres. The results of this program will form the basis of the DFS-level processing design.
- Preparation of sinter samples representative of potential PIOP products has commenced and will be dispatched for testing in China at the University of Science & Technology, Beijing. The results of this sinter program will be central to a final decision on the final product(s) strategy for the PIOP.
- Three rounds of China-based marketing activities have been completed with a total of 32 high potential steel mill customers having been visited. Feedback from these preliminary contacts with potential customers continues to be overwhelmingly positive with many requesting results of sinter testwork as it becomes available. Planning for follow up visits, post sinter testwork completion, has commenced and is expected to take place during October and November.
- The geotechnical study has been completed and supports PFS-level mine planning assumptions on which current DFS-level mine design work is based.
- Mine scheduling work has focussed two scenarios which reflect two different product mix strategies. Both of these options have been shown to be practical in achieving consistent product blend while at the same time reducing strip ratio to approximately 3:1 compared to 5.4:1 during the PFS. Mine planning activities have been placed on hold until results of the sinter test work are available and a final decision of PIOP product mix is made.

Environment And Approvals

- The WA and Commonwealth Government environmental assessment processes continued. Approvals for on-tenement (ML 47/1451) mining related activities are expected in Q3, 2012.
- A draft Groundwater Operating Strategy was furnished to the WA Department of Water for its consideration.
- Work has commenced integrating environmental factors into the DFS mine plan and schedule.
- Rehabilitation of exploration tracks and drill pads continued.

Future Work Program

The coming September quarter will see effort continued on critical path activities and a focus on infrastructure, including:

- Infrastructure negotiations.
- Phase 4 metallurgical testwork programme.
- Completion of China-based sinter testwork and finalising product specification.
- Planning for follow up marketing visits to high potential Chinese steel mills.
- Continuing focus on the critical environmental approvals.

Exploration And Evaluation Activities

During the quarter additional work was carried out on the PIOP geological model. Targets have been generated from field mapping and the geological model.

The geological model will also allow a re-estimation of the resource to be carried out to upgrade some of the Indicated Mineral Resource to Measured status, due to the increased geological confidence.

A balanced drilling programme is planned for the remainder of the year, targeting additional Brockman Iron Deposit (BID) DSO zones and upgrading some Inferred Mineral Resource to Indicated. The resource upgrade drilling will result in current inferred tonnages within the mine plan converting to reserve status upon completion of the DFS.

The first of two Programmes of Work were granted and received from the Western Australia Department of Mines & Petroleum, with the second awaited. Heritage site avoidance surveys commenced following the signing of the Native Title Agreements in March 2012.

No drilling was completed during the quarter.

Ongoing Exploration

New BID DSO targets will be generated from ongoing interpretation as well as new extensions based on existing drilling. As new BID DSO targets are generated they will be prioritised within the existing exploration programme.

CANEGRASS PROJECT

Exploration

The Canegrass Project has the potential for economic mineralisation of several different mineralisation styles and commodity types.

A thorough review of the historical exploration data has been carried out and has defined several targets. The geological team is currently devising an exploration programme for these targets, with the aim of generating drill targets late in 2012 or the first half of 2013. A second phase of targeting will be carried out during the second half of 2012 to start generating reconnaissance targets later in 2012.

SOUTH AUSTRALIA

No activities were carried out on any of the South Australia tenements during the June 2012 quarter.



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Qualifying Statements

^ Exploration Targets

Exploration targets are reported according to Clause 18 of the JORC Code. This means that the potential quantity and grade is conceptual in nature and that considerable further exploration, particularly drilling, is necessary before any Identified Mineral Resource can be reported. It is uncertain if further exploration will lead to a larger, smaller or any Mineral Resource.

JORC Compliance

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

Forward-looking statements

This release may include forward-looking statements. These forward-looking statements are based on Flinders Mines Limited's expectations concerning future events. Forward-looking statements are subject to risks, uncertainties and other factors, many of which are outside the control of Flinders Mines Limited and the Company makes no undertaking to subsequently update or revise the forward-looking statements made in this release to reflect events or circumstances after the date of this release.

Investment decisions should not be made based on production estimates for the Pilbara Iron Ore Project. Financial viability to be confirmed following further Mineral Resource conversion, consideration of the Modifying Factors in the JORC Code and final feasibility studies.