

11 May 2015

Flinders signs option agreement with Todd Corporation for \$65m+ PIOP sale

highlights

- Todd will pay Flinders A\$10m to purchase an option over PIOP
- Exercise price to acquire the project is A\$55m plus ongoing royalty
- Extensions of the option period would realise further A\$10m payments to Flinders
- Todd will pay Flinders an ongoing royalty of up to A\$1.40 per tonne linked to the iron ore price
- Agreement is subject to Flinders shareholder approval process and relevant consents



The Directors of Flinders Mines Limited ("Flinders" ASX:FMS) advise that Flinders has entered into a landmark option agreement with a subsidiary of TIO (NZ) Limited ("Todd"), an existing substantial shareholder and a subsidiary of New Zealand based The Todd Corporation Limited ("Todd Corporation"). Under the terms of the agreement, Todd will (subject to satisfaction of customary conditions precedent) pay Flinders A\$10m up-front cash consideration. If Todd exercises this option to purchase the Company's Pilbara Iron Ore Project ("PIOP"), it will be required to pay Flinders a further A\$55 million and enter into a royalty agreement.

With the significant downturn in the iron ore price adversely affecting the ability of Flinders to both raise the requisite capital for the PIOP and to generate economic operational returns, the Flinders board investigated all options available to it in relation to the best path forward for its shareholders in maximising the value of the PIOP asset. Flinders believes a process by which project ownership of PIOP is transferred to Todd and operated alongside Todd's ownership in the Balla Balla JV, in exchange for future cash and royalty payments, represents the most efficient method of adding value for its shareholders.

Todd Corporation, already a major shareholder of Flinders, has the balance sheet strength that Flinders believes will allow the PIOP the best possible chance of future development.

The agreement is subject to satisfaction of conditions precedent (described below) by 31 October 2015.

The terms include the following:

- An option payment of A\$10m, which amount will be secured by a bank guarantee until shareholder approval is received and the other customary conditions are satisfied.
- An exercise period from satisfaction of the conditions, 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 for A\$55 million and payment of a production royalty.
- Todd may extend the option for a further two (2) periods each of two (2) years subsequent to the initial option period upon payment of an additional A\$10m for each 2 year period.
- 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 Todd has not commenced construction of the project within 2 years of the date the sale completes (following exercise of the option), it must pay Flinders a further A\$20m. The future royalties are not affected by this further payment.

- In the event that the option lapses or Todd abandons the option, Flinders retains ownership of the PIOP.
- Conditional on statutory and regulatory approvals (including foreign investment approval), approval by Flinders' shareholders and relevant third party consents.

The Directors of Flinders will now work towards satisfying the conditions, including commissioning the preparation of an independent expert's report, and calling a shareholders' meeting to vote on the transaction.

The Directors of Flinders will recommend that shareholders approve the transaction, and will vote shares in which they have an interest, in favour of the transaction, in the absence of a superior proposal and provided that the independent expert report concludes that the transaction is reasonable.

Flinders Chairman, Robert Kennedy, said "*The Flinders team has worked tirelessly in examining every possible project development path with the aim of delivering shareholders the best returns without undue dilution. Todd's proposal of consolidating project ownership significantly improves overall operating efficiency thus lowering the ore price hurdle that is required to make PIOP an economic success. This, in conjunction with their very strong balance sheet, gives me great confidence that the option agreement will deliver significant benefits to our shareholders.*"



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QUALIFYING STATEMENTS

Forward-looking statements

This release may include forward-looking statements. These forward-looking statements are based on management's expectations and beliefs concerning future events as of the time of the release of this document. Forward-looking statements are necessarily subject to risks, uncertainties and other factors, some of which are outside the control of Flinders Mines Limited, that could cause actual results to differ materially from such statements. Flinders Mines Limited 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.