

Media Release

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FLINDERS MINES IRON ORE STUDY CONFIRMS STRONG ECONOMIC RETURNS

Flinders Mines today announced positive results from the Pre-Feasibility Study into the Company's 100%-owned Pilbara iron ore project in Western Australia.

The 13-month Prefeasibility Study (PFS), managed by WorleyParsons, concludes that a A\$488million first stage development of Flinders Mines Limited's (ASX: "FMS") Pilbara iron ore project is economically robust and technically viable.

The PFS findings include plans for the commencement of design and construction in Q1 2012, with first production starting early in 2014 from Flinders Mines' main Blacksmith tenement, one of its two, close-proximity tenements in the West Pilbara.

Blacksmith – which hosts the cornerstone Delta deposit targeted for Flinders' maiden production - is located between Rio Tinto's Caliwingina North iron ore resource, Fortescue Metals' Solomon iron ore hub, API's recently-approved West Pilbara Iron Ore Project to the west, and to the south, Rio's Brockman 2 iron operations.

Under the PFS Base Case results, a proposed \$488million Stage One development – producing 5 million tonnes per annum (Mtpa) from shallow depth via conventional truck and excavator method – would be expanded in year five to an annual output of 15 Mtpa.

The tripling of output under a Stage Two growth strategy is estimated at a capital cost of a further A\$640 million but the study also recognises Flinders Mines has the option of moving immediately to the higher 15 Mtpa output from start-up.

Key outcomes of the PFS announced today for the Flinders Mines Pilbara Iron Ore Project are:

- **A mine life of 20 years**
- Life-of-mine **revenue** of approximately **A\$25 billion**
- Average life-of-mine **cash operating costs** estimated at **A\$35.32 / tonne**
- Estimated Net Present Value (**NPV**) of **A\$2.2 billion**
- Economically robust and technically viable, large scale, high quality iron ore operation
- Subject to approvals, **construction** could commence as early as the **4Q in 2012** to secure **first production** by the **1Q, 2014**.

“Robust investment case”

“The outcomes of the prefeasibility study demonstrate a robust investment case and certainly underpin the potential for Flinders Mines to move to a Definitive Feasibility Study (DFS),” Flinders Mines’ Chief Executive Officer, Mr Gary Sutherland, said today.

“The PFS findings are comprehensive, they confirm that the Pilbara Iron Ore Project is economically viable, and reinforce our determination to become a substantial producer of iron ore from the Pilbara,” Mr Sutherland said.

“It is self evident that increasing the production rates of the project to 15Mtpa significantly enhances the financial outcome of the project,” he said.

“This project is ideally located within an active iron ore mining region of Western Australia and is in close proximity to existing and planned infrastructure – factors providing options for Flinders Mines in assessing product transport and export agreements.

“Our Board will now assess that ‘next step’ decision, with a view to determining in the opening half of the current calendar year whether to move to a DFS.

“In the meantime, the project team has commenced a series of value improvement studies that have potential to further enhance the project,” he said.

Top-10 Australian iron ore producer

Mr Sutherland said that if the project’s economic output was rated against current iron ore mine volumes in Western Australia, the 15 Mtpa objective would rank Flinders Mines in the top 10 Australian iron ore producers.

The Company’s Pilbara Iron Ore Project is located 175 kilometres south of Dampier in Western Australia and contains a current global Indicated and Inferred Resource of 748 million tonnes (Mt) at an average grade of 55.4% Fe.

The PFS found that the project could be commercialised by producing two fines products comprising Direct Shipping Ore (DSO) contained within Brockman Iron Deposit (BID) mineralisation and Detrital Iron Deposit (DID) ore, which requires minor beneficiation prior to export.

The mine would produce more than 229 Mt of final fines product at an average grade of 60.7% Fe and 57.0% Fe for DID and BID products respectively.

The estimated capital investment for Stage 1 of A\$488 million would cover all owner’s costs, EPCM (Engineering, Procurement, Construction Management) liabilities and contingency allowances.

Mr Sutherland said that the engineering work has incorporated flexibility so that the future expansion to 15 Mtpa can be easily integrated into the facilities established under the 5 Mtpa Base Case.

The PFS identified an ungeared Internal Rate of Return estimated at 40.8% and forecast that from the completion of a DFS, the capital payback would be approximately 5.5 years.

Flexibility in mining strategy

“The project benefits from having considerable flexibility in which way we approach mining operations and that allows for optimal ore blending from operating pits, backed by a competitive mining cost base as site geology and hydrogeological studies show mining will be shallow and predominantly above the water table,” Mr Sutherland said.

Of the likely costs for Stage One start-up, A\$152 million is for the processing plant.

“In terms of infrastructure, the financial analysis includes estimated operating costs for access to existing and proposed third party Pilbara rail and port systems (subject to successful negotiations on access with asset owners),” Mr Sutherland said.

“The infrastructure solution is still to be finalised and we continue to evaluate all options,” he said.

On the pending Federal Government’s Mineral Resource Rent Tax (MRRT) which is proposed to apply primarily to iron ore and coal producers, Mr Sutherland said the MRRT remained an unknown in real terms and had not been included in any financial analysis of the Company’s proposed new Pilbara iron ore mine.

“The impact of the MRRT will be considered once further details of the proposed but yet to be legislated tax, are understood,” he said.

Flinders Mines’ Chairman, Mr Bob Kennedy, said:- “Flinders Mines will be forging ahead with the Pilbara project’s work program, including optimisation studies ahead of any DFS decision, drilling to further define the resource and progress infrastructure solutions for product export.”

Media Contacts:

Gary Sutherland
Flinders Mines Limited
(08) 8132 7964 / 0419 851 608

Kevin Skinner
Field Public Relations
(08) 8234 9555 / 0414 822 631