# Quarterly Report

For the quarter ending 31 December 2012

## HIGHLIGHTS

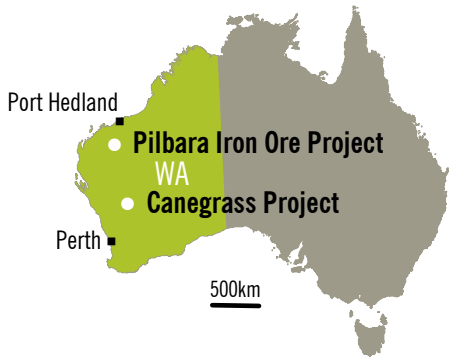
- *WA and Federal Government environmental approvals granted for the Pilbara Iron Ore Project (PIOP) on tenement activities*
- *PIOP product marketing campaign in China well advanced*
- *Maiden drilling on Canegrass nickel and copper targets discovers mineralised sulphide system*
- *Flinders Mines achieved 12 months without a recordable injury*
- *Strong cash position - Available funds of $10 million at 31 December, 2012*

## CORPORATE

The corporate focus of Flinders remains on two key issues, namely securing:

- A Strategic Development partnership for the PIOP; and
- Infrastructure access agreements.

The Company progressed discussions with a number of interested parties throughout the quarter with respect to de-risking the PIOP development path.




## PROJECTS

### PILBARA IRON ORE PROJECT - WA (PIOP)

The December 2012 quarter activities continued to be focussed on metallurgy and China marketing. The metallurgy in particular has a significant bearing on design of the processing circuit and is being finalised before commencing detailed engineering.

Key activities for the quarter are summarised below.

#### Mining, Processing And Infrastructure

- The phase 4 testwork programme has been completed with final reports currently being written. These results will form the basis of the selected process flow diagram for the Definitive Feasibility Study (DFS).
- Incorporating information gained from mine planning studies, marketing team evaluation and recently completed sinter testwork, Flinders has selected a single fines product as the basis for

all future studies. This has the potential to lower both operating and capital costs while at the same time increasing saleable tonnes.

- The next phase of the China marketing campaign has commenced with discussions moving to technical and commercial evaluation of the PIOP product. Over time, these discussions are expected to lead to the establishment of Memorandums of Understanding (MOUs) and Letters of Intent (LOIs) with foundation customers.

## Environment And Approvals

- Final approval from the Government of Western Australia's Environmental Protection Authority for the "on-tenement" component of the Pilbara Iron Ore Project was achieved post completion of the December quarter. Flinders now has both Federal and State environmental approvals for the "on-tenement" component of the PIOP – this represents significant de-risking for the project.
- A Groundwater Operating Strategy was provided to the WA Department of Water to support an existing application submitted for a Section 5C licence for four (4) gigalitres (Gl) per annum. The Section 5C licence is for the purpose of on-tenement (M47/1451) dewatering and water supply for PIOP mining and associated activities.
- FMS and the Wintawari Guruma Aboriginal Corporation participated in the inaugural liaison committee meeting in Tom Price.

## Future Work Programme

The PIOP DFS has progressed on-schedule with completion of mining, marketing and metallurgical studies. Outstanding components of the DFS are dependent on an infrastructure solution being finalised, and until this is resolved, ongoing DFS activities will be temporarily placed on hold. Presently, project commissioning timeframes are unaffected, however this will be dependent on the time taken to finalise an infrastructure solution. Updated project timeframes are expected to be provided in the March 2013 quarterly report. In the interim, the focus will be narrowed to:

- Infrastructure negotiations; and
- Technical and commercial evaluation of PIOP product with a focus on moving to MOUs and LOIs with foundation customers.

## Exploration And Evaluation Activities

During the quarter, work continued on preparing drill plans and approvals targeting higher grade Brockman Iron Deposit (BID) direct shipping ore (DSO). All drill targets are now "drill ready" with heritage site avoidance clearances completed and Programme of Works (PoW) obtained.

No exploration drilling was undertaken during the quarter. A substantial mineral resource base already exists, supporting a project with strong economics.

# CANEGRASS PROJECT

## Exploration

The Company discovered significant nickel and copper sulphide mineralisation in its maiden drilling program in 2012 at its wholly-owned Canegrass Project (Figure 1) in mid-west WA.

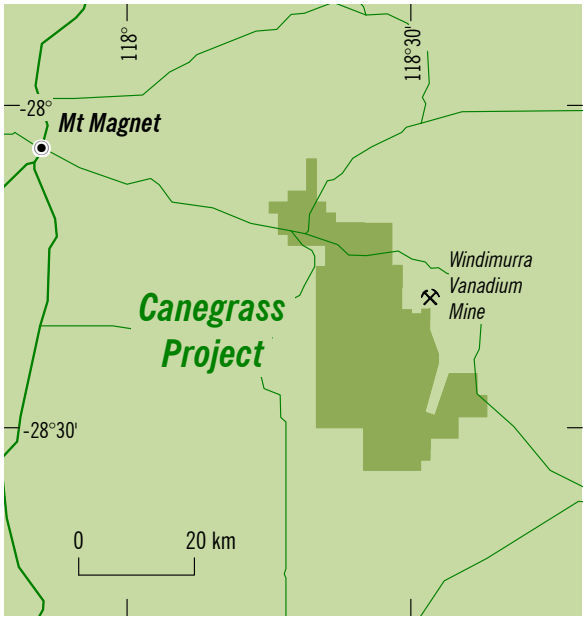



**Figure 1** *Canegrass Project located near Mt Magnet, WA.*

Targets were identified in an Airborne Electromagnetic (AEM) survey, flown by the previous tenement holder, Maximus Resources Limited. Follow-up ground electromagnetic (GEM) surveys confirmed the presence of discrete electromagnetic anomalies.

A total of 7 reverse circulation (RC) drill holes were completed at two discrete targets, CG02 and CG39. Drilling was undertaken with the support of the Western Australian Department of Mines and Petroleum via funding supplied as part of the Department's Exploration Incentive Scheme. All holes intersected sulphides and the results are shown in Table 1. The best intersection was from CPRC0004:

**Table 1** *Results of RC drilling at CG02 and CG39 AEM targets.*

| Hole ID | Easting (MGA Zone 50) | Northing (MGA Zone 50) | Azimuth | Dip | Depth From (m) | Depth To (m) | Interval (m) | Ni % | Cu % | Co % | Pt+Pd (ppb) |
|---|---|---|---|---|---|---|---|---|---|---|---|
| CPRC0001 | 647478 | 6843198 | 90 | -60 | 26 | 27 | 1 | 0.17 | 0.58 | 0.03 | 50 |
| and | | | | | 112 | 113 | 1 | 0.18 | 0.53 | 0.04 | 10 |
| and | | | | | 153 | 155 | 2 | 0.18 | 0.33 | 0.04 | 20 |
| CPRC0002 | 647400 | 6843300 | 90 | -60 | 198 | 201 | 3 | 0.06 | 0.71 | 0.01 | 3 |
| CPRC0003 | 648575 | 6846375 | 90 | -60 | 27 | 28 | 1 | 0.49 | 0.33 | 0.10 | 120 |
| and | | | | | 35 | 36 | 1 | 0.32 | 0.31 | 0.05 | 45 |
| CPRC0004 | 648575 | 6846375 | 90 | -90 | 69 | 70 | 1 | 0.12 | 0.46 | 0.02 | 13 |
| and | | | | | 76 | 77 | 1 | 0.41 | 0.15 | 0.10 | 125 |
| and | | | | | 87 | 90 | 3 | 0.58 | 0.17 | 0.07 | 83 |
| and | | | | | 104 | 117 | 13 | 0.91 | 0.58 | 0.08 | 150 |
| including | | | | | 112 | 116 | 4 | 1.23 | 0.69 | 0.10 | 176 |
| CPRC0005 | 648495 | 6846375 | 90 | -70 | 140 | 141 | 1 | 0.18 | 0.61 | 0.02 | 35 |
| and | | | | | 145 | 146 | 1 | 0.18 | 0.70 | 0.02 | 30 |
| and | | | | | 152 | 156 | 4 | 0.59 | 0.46 | 0.08 | 140 |
| CPRC0006 | 647440 | 6843250 | 90 | -65 | 102 | 104 | 2 | 0.48 | 0.11 | 0.10 | 25 |
| CPRC0007 | 647480 | 6843150 | 90 | -60 | NSI | | | | | | |

*Intersections determined using a 0.3% Ni and or Cu cut-off*
*NSI - No significant intersection*

- 13m at 0.91% Ni, 0.58% Cu, 0.08% Co from 104m, including
- 4m at 1.23% Ni, 0.69% Cu, 0.10% Co from 112m.

All drill holes intersected distinctive ultramafic (pyroxenite) units, which are host to a zone of disseminated to massive sulphides. Sulphide composition has been noted as being pyrrhotite dominant, with varying quantities of chalcopyrite, pyrite and pentlandite.

The similarity of geophysical responses, observed geology and sulphide mineralisation at CG02 and CG39 suggests that these targets may be part of a wider mineralised intrusive system. Indeed, reference to Figure 2, which displays Total Magnetic Intensity, highlights several other associated anomalies. These anomalies will be further investigated during upcoming field activities.

Further exploration work is planned to follow-up these drilling intersections. The exploration strategy will be twofold, following up the mineralisation at the existing targets and identifying additional targets.

The focus for immediate exploration activities in the area of targets CG02 and CG39 will be based on the interpretation of additional high quality down-hole electromagnetic (DHEM) and GEM data obtained late in 2012. This data will help to further constrain the location of any further associated sulphide mineralisation, for drill testing.

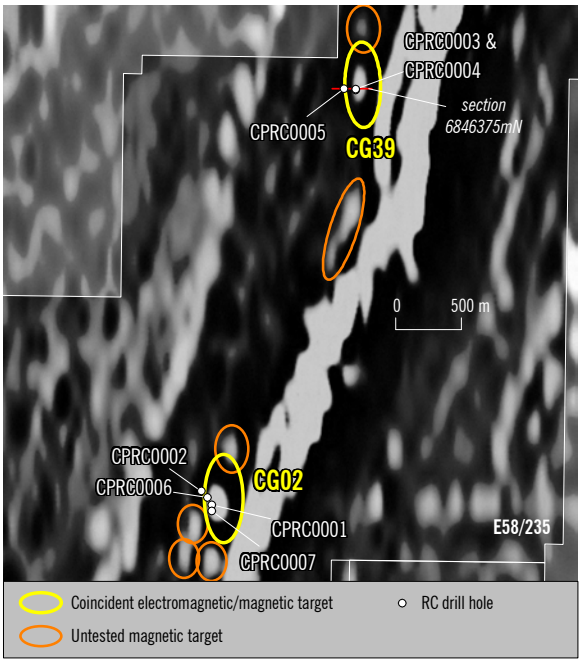



**Figure 2** *Total Magnetic Intensity image displaying anomalous areas targeted (CG02 & CG39), with additional anomalous zones yet to be investigated.*

Significant upside potential exists for the Canegrass Project. The AEM data set that was used to define first-pass targets, including CG02 and CG39, was flown at relatively broad spacing (400m lines), and low intensity in terms of its strength, having a maximum depth penetration of around 100m. Flinders recognises the potential exists to utilise a high powered versatile time domain electromagnetic (VTEM) system on tighter line spacing. A survey is planned to be flown early in the March 2013 quarter with follow up drilling, pending the results.

Greenfields exploration activities will continue on the Canegrass tenements. Exploration targets generated during the previous phase of data review and interpretation have been prioritised and remain the focus of a range of activities, including: geological mapping; soil sampling; and surface geophysical surveys.

## SOUTH AUSTRALIA

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

**Gary Sutherland**

Managing Director

31 January 2013

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## Qualifying Statements

### Competent Persons

*The information in this report that relates to Exploration Results is based on information compiled by Mr Nick Corlis who is a member of the Australian Institute of Geoscientists and a full-time employee of Flinders Mines Limited. Nick Corlis has sufficient experience that is relevant to the styles of mineralisation and types of deposits under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2004 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Nick Corlis consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.*

*The information in this report that relates to Mineral Resources is based on information compiled by Dr Graeme McDonald who is a member of the Australian Institute of Mining and Metallurgy and a full-time employee of Flinders Mines Limited. Graeme McDonald has sufficient experience that is relevant to the styles of mineralisation and types of deposits under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2004 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves. Graeme McDonald consents to the inclusion in the report of the matters based on his 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 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.*

*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.*

*Rule 5.3*

# Appendix 5B

## Mining exploration entity quarterly report

Introduced 1/7/96. Origin: Appendix 8. Amended 1/7/97, 1/7/98, 30/9/2001, 01/06/10.

Name of entity

Flinders Mines Limited

ABN

46 091 118 044

Quarter ended ("current quarter")

31 December 2012

## Consolidated statement of cash flows

| | **Cash flows related to operating activities** | Current quarter $A'000 | Year to date (6 months) $A'000 |
|---|---|---|---|
| 1.1 | Receipts from product sales and related debtors | | |
| 1.2 | Payments for | | |
| | (a) exploration & evaluation | (2,032) | (4,816) |
| | (b) development | | |
| | (c) production | | |
| | (d) administration | (1,244) | (2,484) |
| 1.3 | Dividends received | | |
| 1.4 | Interest and other items of a similar nature received | 148 | 395 |
| 1.5 | Interest and other costs of finance paid | | |
| 1.6 | Income taxes paid | | |
| 1.7 | Other (R&D concession) | - | 864 |
| | **Net Operating Cash Flows** | **(3,128)** | **(6,041)** |
| | **Cash flows related to investing activities** | | |
| 1.8 | Payment for purchases of: | | |
| | (a) prospects | | |
| | (b) equity investments | | |
| | (c) other fixed assets | (12) | (45) |
| 1.9 | Proceeds from sale of: | | |
| | (a) prospects | | |
| | (b) equity investments | | |
| | (c) other fixed assets | - | 16 |
| 1.10 | Loans to other entities | | |
| 1.11 | Loans repaid by other entities | | |
| 1.12 | Other (provide details if material) | | |
| | **Net investing cash flows** | **(12)** | **(29)** |
| 1.13 | Total operating and investing cash flows (carried forward) | **(3,140)** | **(6,070)** |

+ See chapter 19 for defined terms.

| | | | |
|---|---|---|---|
| 1.13 | Total operating and investing cash flows (brought forward) | **(3,140)** | **(6,070)** |
| | **Cash flows related to financing activities** | | |
| 1.14 | Proceeds from issues of shares, options, etc. | | |
| 1.15 | Proceeds from sale of forfeited shares | | |
| 1.16 | Proceeds from borrowings | | |
| 1.17 | Repayment of borrowings | | |
| 1.18 | Dividends paid | | |
| 1.19 | Other | | |
| | **Net financing cash flows** | | |
| | **Net increase (decrease) in cash held** | **(3,140)** | **(6,070)** |
| 1.20 | Cash at beginning of quarter/year to date | 13,141 | 16,071 |
| 1.21 | Exchange rate adjustments to item 1.20 | | |
| 1.22 | **Cash at end of quarter** | **10,001** | **10,001** |

## Payments to directors of the entity and associates of the directors
## Payments to related entities of the entity and associates of the related entities

| | | Current quarter $A'000 |
|---|---|---|
| 1.23 | Aggregate amount of payments to the parties included in item 1.2 | 250 |
| 1.24 | Aggregate amount of loans to the parties included in item 1.10 | |

1.25 Explanation necessary for an understanding of the transactions

## Non-cash financing and investing activities

2.1 Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows

2.2 Details of outlays made by other entities to establish or increase their share in projects in which the reporting entity has an interest

+ See chapter 19 for defined terms.

## Financing facilities available

*Add notes as necessary for an understanding of the position.*

| | | Amount available $A'000 | Amount used $A'000 |
|---|---|---|---|
| 3.1 | Loan facilities | | |
| 3.2 | Credit standby arrangements | | |

## Estimated cash outflows for next quarter

| | | $A'000 |
|---|---|---|
| 4.1 | Exploration and evaluation | 1,661 |
| 4.2 | Development | - |
| 4.3 | Production | - |
| 4.4 | Administration | 876 |
| | **Total** | **2,537** |

# Reconciliation of cash

| Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows. | | Current quarter $A'000 | Previous quarter $A'000 |
|---|---|---|---|
| 5.1 | Cash on hand and at bank | 473 | 1,041 |
| 5.2 | Deposits at call | 9,528 | 12,100 |
| 5.3 | Bank overdraft | | |
| 5.4 | Other (provide details) | | |
| | **Total: cash at end of quarter** (item 1.22) | **10,001** | **13,141** |

## Changes in interests in mining tenements

| | | Tenement reference | Nature of interest (note (2)) | Interest at beginning of quarter | Interest at end of quarter |
|---|---|---|---|---|---|
| 6.1 | Interests in mining tenements relinquished, reduced or lapsed | | | | |

+ See chapter 19 for defined terms.

| | | | | |
|---|---|---|---|---|
| 6.2 Interests in mining tenements acquired or increased | | | | |

## Issued and quoted securities at end of current quarter

*Description includes rate of interest and any redemption or conversion rights together with prices and dates.*

| | | Total number | Number quoted | Issue price per security (see note 3) (cents) | Amount paid up per security (see note 3) (cents) |
|---|---|---|---|---|---|
| 7.1 | **Preference +securities** *(description)* | | | | |
| 7.2 | Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions | | | | |
| 7.3 | **+Ordinary securities** | 1,821,300,404 | 1,821,300,404 | | |
| 7.4 | Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs | | | | |
| 7.5 | **+Convertible debt securities** (*description)* | | | | |
| 7.6 | Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted | | | | |
| 7.7 | **Options** *(description and conversion factor)* | 240,000<br>1,121,666<br>300,000<br>320,000 | | *Exercise price*<br>$0.084<br>$0.045<br>$0.055<br>$0.085 | *Expiry date*<br>05/03/2013<br>03/02/2014<br>26/08/2014<br>30/06/2015 |
| 7.8 | Issued during quarter | | | | |

+ See chapter 19 for defined terms.

| | | | | | |
|---|---|---|---|---|---|
| 7.9 | Exercised during quarter | | | | |
| 7.10 | Expired during quarter | | | | |
| 7.11 | **Debentures** *(totals only)* | | | | |
| 7.12 | **Unsecured notes** *(totals only)* | | | | |

## Compliance statement

1 This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Act or other standards acceptable to ASX (see note 4).

2 This statement does give a true and fair view of the matters disclosed.

Sign here: (Company Secretary) Date: 31 January 2013

Print name: David W Godfrey

## Notes

1 The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.

2 The "Nature of interest" (items 6.1 and 6.2) includes options in respect of interests in mining tenements acquired, exercised or lapsed during the reporting period. If the entity is involved in a joint venture agreement and there are conditions precedent which will change its percentage interest in a mining tenement, it should disclose the change of percentage interest and conditions precedent in the list required for items 6.1 and 6.2.

3 **Issued and quoted securities** The issue price and amount paid up is not required in items 7.1 and 7.3 for fully paid securities.

4 The definitions in, and provisions of, *AASB 1022: Accounting for Extractive Industries* and *AASB 1026: Statement of Cash Flows* apply to this report.

5 **Accounting Standards** ASX will accept, for example, the use of International Accounting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.

+ See chapter 19 for defined terms.