

30 April 2019

Quarterly Report

For the period ending 31 March 2019

Corporate Activities

During the March quarter, Flinders Mines Limited (**Flinders** or the **Company**) endeavoured to progress its proposed delisting of the Company from the ASX as this, in the judgement of the Board of Directors (in conjunction with the Company's independent corporate advisers) was considered the highest potential value creation development option to fund the Pilbara Iron Ore Project (**PIOP**).

The Company's proposed delisting was subject to applications to the Takeovers Panel (**Panel**). Issues identified by the Panel with the structure of the proposed delisting were subsequently resolved by the Company's undertakings to the Panel, as announced on 14 February 2019 (**Undertakings**). In accordance with the Undertakings, the Company made a revised application to the Australian Securities Exchange (**ASX**) to delist on 19 March 2019 (**Revised Application**). The Revised Application was withdrawn by the Directors on or about 10 April 2019 after taking into account the views expressed by shareholders. Subsequently, on 15 April 2019 the ASX published several changes to Guidance Note 33, "Removal of entities from the ASX Official List" which varied the procedures for delisting.

The Board of Directors are extremely disappointed in this outcome.

During the delisting process, it has become abundantly clear that certain minority shareholders hold a number of beliefs about the Company and its assets that are false. The Board is of the opinion that it is important to reiterate the facts, as previously detailed to the ASX, so that, going forward, shareholders are not operating on a range of damaging myths or mistruths. Set out below are some facts relating to key Company matters, and the myths and mistruths that the Board of Directors encourage all shareholders to ignore.

- **The Major Shareholder** – TIO (NZ) Limited (**TIO**) is the major shareholder of the Company and holds 55.6% of the shares of the Company. There have been assertions by some shareholders that TIO is manipulating the share price through various share trading activities. This is plainly not true. Other than through the regulated takeover transactions and equal access, pro-rata, non-renounceable, non-underwritten rights issues, TIO has not acquired any shares in Flinders either through TIO or any related party. In addition, TIO has never sold any shares in the Company.

TIO has been approached by the Company to ascertain its appetite to acquire the balance of the Company's issued capital (i.e. to make an offer for the shares in the Company it does not own) and TIO has advised that it is not inclined to do that.

As the major shareholder holding 55.6% equity in the Company, TIO has the right to vote its shares on certain matters such as ordinary resolutions at general meetings of shareholders.

TIO has been the only significant shareholder that has fully supported all capital raises but has advised that it does not wish to continue to be the funder of first or last choice. The ability for the Company to rely on the certainty of funds from TIO in the future is now in jeopardy. This is a significant concern for the Board of Directors as the Company's future funding requirements are significant, but funding options are limited.

- **Infrastructure Solution** – Despite a vocal group of minority shareholders asserting that there is a deal already done with BBI Group Pty Ltd (**BBIG**), the Board of Directors again advise all shareholders that there is no agreement or understanding between Flinders and BBIG for provision of infrastructure services either in written or verbal format. The Company was not ready to conduct any commercial discussions with any potential infrastructure provider prior to undertaking the delisting initiative, as it had not completed enough additional exploration drilling and subsequent analysis to enable the definition of an economic project.

The Company reminds shareholders of the obvious matters relating to infrastructure arrangements for the PIOP, which include that any such significant arrangement may require the approval of shareholders at an extraordinary general meeting. There are a number of theoretical options for infrastructure providers. Whilst TIO would be unable to vote on a shareholder resolution for an infrastructure arrangement that involved a related party such as BBIG, shareholders should also be aware that for any option that is not related to TIO,

For personal use only

then TIO could have negative voting control over such arrangement. The reality of how an infrastructure or logistics solution for PIOP is navigated is yet to be resolved by the Flinders Board. The Board recognises that BBIG has a Western Australian State Rail Agreement and that one of its options in the agreement that is stated (as an example) is to ship ore from PIOP. This does not mean the Company has an agreement with BBIG as noted above. The Board of Directors advises that it is unhelpful for future infrastructure negotiations if incorrect conclusions or statements are drawn or made about a “deal” having been done, when plainly there is no infrastructure agreement of any sort at this time.

- **The PIOP Resource** – Following the maturation work conducted on the PIOP resource, the Company released a revised JORC compliant Mineral Resource Statement on 1 March 2018. The Company urges shareholders to read this statement carefully and not to draw conclusions that have no scientific or mine planning basis. The substantially increased resource quantity compared to the prior JORC compliant Mineral Resource Statement should not be interpreted as resulting in a substantially increased potential for Ore Reserves, as defined in the JORC Code. The maturation project sought to determine if the low-grade detrital ores could be upgraded using a beneficiation process and, in doing so, the Company sought to understand how much low quality Fe ore could be introduced to a beneficiation plant whilst producing a potentially saleable product. This was done by introducing various Fe cut-off grades. The Company investigated cut off grades as low as Fe 40% in an endeavour to determine the effect of increased Fe ore quantity on final product grade and tonnage.

Suggestions have been made that the Company has been withholding information. The Board of Directors states that this is incorrect and the Directors take their continuous disclosure obligations very seriously. The release of information on potential production forecasts, Mineral Resources, Ore Reserves, and the like are highly regulated by the ASX and the application of the JORC Code. As the Company has been unable, due to a lack of funds, to complete the work required to determine an Ore Reserve or Production Target in accordance with the ASX and JORC disclosure requirements, the Company is constrained by the imposed rules not to release any forward looking information other than a Resource Statement.

The Company has expended considerable energy and effort informing shareholders of the implications of the maturation work and has done so to the absolute limit of the rules and regulations imposed by the relevant Regulators. Without the expenditure of considerable funds, the additional work required to advance PIOP cannot be completed, a bankable feasibility study cannot be performed and the PIOP will remain de-risked to the extent it is today and thus carry with it a risk reduction factor as the Company endeavours to find an alternate funding route. The PIOP Resource Statement should not be interpreted as indicating that there is an economic quantity and quality of product to support a large scale, long mine life and infrastructure solution. Shareholders should also read recent ASX announcements made by the Company that refer to the need to explore for additional resources.

- **The Bankable Feasibility Study (BFS)** – The Company advises that whilst a number of minority shareholders assert that the BFS has been done, these statements are incorrect and also without context. The JORC Code defines the requirements for a BFS and no BFS based on the latest Mineral Resource Statement has been completed, albeit that a BFS was underway in 2015 for a different quantity and quality of product. As announced in the results of the 2017 Strategic Review published on 31 March 2017, the development of the PIOP required a series of risks to be eliminated and needs to operate at the upper end of the proposed production scale to be considered economic. For the PIOP to be developed in a traditional manner requires a full BFS to be completed and the Company estimates that this work and additional drilling to support a conclusive BFS and funded development pathway would require circa A\$40-50 million.
- **PIOP Development and the Flinders Balance Sheet and Share Register** – Shareholders are reminded that Flinders does not have the prerequisite corporate structure to raise sufficient capital for the complete development of the PIOP. A project of this nature (excluding infrastructure from the mine gate) will need in the order of \$2.5 billion in capital. The balance sheet of Flinders is small by comparison to the project development needs and cannot support the attraction of the appropriate debt/ equity mix required to fully develop the project. It is also clear to the Board that the current shareholders of the Company do not have the necessary equity on offer to develop the project. This has been evidenced by the underperformance of the recent capital raises. As mentioned above, the Company also understands that TIO is not presently inclined to fund the equity to develop the project. With a shareholder registry with approximately 85% held by the top 20 holders and 78% held by 2 shareholders, it is unlikely that a substantial investor would seek to inject funds into this project with low free float and especially so when coupled with such low trading liquidity on the ASX. This view has been tested by globally experienced corporate advisers who have confirmed this position. With these real and significant constraints, the Board concluded (after taking into account the advice of highly experienced independent corporate and legal advisors) that the highest value available pathway to development was to delist from the ASX to attract large private equity pools. Unfortunately, and disappointingly, this option has been eliminated. Further, the injurious falsehood created

by a group of ill-informed shareholders' actions has, in the Directors' view, resulted in significant harm to the Company and its potential to attract investment capital. As a result of this position, the Board will have to move down the value accretion hierarchy and seek to implement an alternate strategy, which will potentially have a lower value return to all shareholders in the long run.

- **The current iron ore price** – It seems a number of shareholders believe that the PIOP should be developed immediately as the price of 62% Fe is relatively high and will stay that way. This is an ill-informed view of the iron ore market and, in fact, any global commodity market. When taking investment decisions, it is the long term view of pricing that is considered, along with probabilistic price and cost fluctuation factors that play out globally. In addition, the lead time from today to first ore is a substantial period and the current influences on product pricing may change in that time.
- **Canegrass Project** – It has been stated by some shareholders that the VTM deposits in the Canegrass tenements (**Canegrass**) are extremely valuable and should be developed immediately. This is a naïve view and the Board urges shareholders to consider some of the key facts about the Canegrass Project, including that the known VTM deposits at Canegrass are Inferred Resources only under the JORC Code. In addition, the extraction of titanium from a VTM complex is a highly complex processing operation that involves substantial capital and considerable operating and market related risks. There is no certainty that the Canegrass ore can be processed economically and there has been insufficient work completed to date to determine if this asset is of real future value. But the overwhelming development constraint on Canegrass is the lack of capital and the need to prioritise capital to the PIOP (after minimum tenement expenditures are met across all Flinders' tenements).
- **The current Flinders Board** – A number of minority shareholders have falsely alleged that the Flinders Directors are controlled by the major shareholder, TIO. Whilst TIO has the right to vote directors onto and off the Board through ordinary resolutions, they do not control the Board. All Directors are highly experienced and qualified directors in their own right. The non-TIO nominee Directors are independent of TIO and exercise their judgement based on the situations and facts presented, for the benefit of **all** shareholders.

It also seems that a number of minority shareholders feel that it is appropriate to personally harass, threaten, vilify, abuse and defame the Company, the Directors and their families, including children. These minority shareholders have inflicted considerable reputational and financial damage on the Company and have potentially reduced the future investment attractiveness of the Company.

The Board is now exploring alternative available options for the development of the PIOP and will announce the proposed way forward in the near future.

Operational Activities

During the quarter, the Company conducted limited operational activities as the next phase of work on the PIOP (and Canegrass) needs substantial working capital funding.

Financial

As at 31 March 2019, the Company had \$3.6 million in cash following the drawdown of \$3 million from the Loan facility from PIO Mines Pty Ltd, a subsidiary of the Company's major shareholder TIO, on 22 March 2019.

The Company confirms that, as a result of the withdrawal of the de-listing application, the Loan facility is not able to be further drawn down.

About Flinders Mines Limited

Flinders Mines Limited is an ASX-listed (ASX: FMS) exploration and development company focused on the commercialisation of its large, high quality hematite resource - the Pilbara Iron Ore Project (PIOP).

The PIOP is located approximately 70km from Tom Price in Western Australia's iron ore-rich Pilbara region. The project consists of two 100% owned tenements – M47/1451 (Blacksmith) and E47/1560 (Anvil). The project has received environmental approvals and the Company is currently determining the optimal development path.

Tenement Schedule
For the Quarter ending
31 March 2019

Tenement No.	Status	Tenement Name	Grant/ Application Date	Expiry Date	Area (Sq Km)	Registered Holder /Applicant	Interest	Related Agreement
--------------	--------	---------------	-------------------------	-------------	--------------	------------------------------	----------	-------------------

WESTERN AUSTRALIA

Canegrass Project¹

E58/232	Granted	Boulder Well	29/07/2002	28/07/2018	16.1	Flinders Canegrass Pty Ltd	100%	
E58/236	Granted	Challa	22/03/2002	21/03/2018	16.1	Flinders Canegrass Pty Ltd	100%	
E58/282	Granted	HoneyPot	3/05/2007	2/05/2018	27.2	Flinders Canegrass Pty Ltd	100%	
E58/520	Granted	Waramboo	14/09/2017	13/09/2022	3.1	Flinders Canegrass Pty Ltd	100%	
E58/521	Granted	Waramboo	14/09/2017	13/09/2022	15.1	Flinders Canegrass Pty Ltd	100%	
E58/522	Granted	Waramboo	14/09/2017	13/09/2022	24.1	Flinders Canegrass Pty Ltd	100%	

Pilbara Iron Ore Project²

E47/1560	Granted	Anvil	6/09/2007	5/09/2018	44.4	Flinders Mines Ltd	100%	Prenti Agreement
L47/728	Granted	PIOP Airstrip	29/05/2015	28/05/2036	3.0	Flinders Mines Ltd	100%	
L47/730	Granted	PIOP Village	29/05/2015	28/05/2036	0.1	Flinders Mines Ltd	100%	
L47/731	Application	Northern Road	1/09/2014		4.9	Flinders Mines Ltd	100%	
L47/734	Granted	Southern Road	29/05/2015	28/05/2036	4.2	Flinders Mines Ltd	100%	
M47/1451	Granted	Blacksmith ML	26/03/2012	25/03/2033	111.6	Flinders Mines Ltd	100%	Prenti Agreement

SOUTH AUSTRALIA

Jamestown Project

EL5557	Granted	Washpool	10/11/2014	9/11/2019	135.0	PNX Metals Limited	Gold, Copper	Phoenix Copper Agreement
--------	---------	----------	------------	-----------	-------	--------------------	--------------	--------------------------

1. E58/232, E58/236 and E58/282 are the subject of a current granted extension of term. A further extension of term will be applied for prior to the expiry of the current term.
2. E47/1560 is the subject of a current granted extension of term. A further extension of term will be applied for prior to the expiry of the current term.

For personal use only

Appendix 5B

Mining exploration entity and oil and gas exploration entity quarterly report

Introduced 01/07/96 Origin Appendix 8 Amended 01/07/97, 01/07/98, 30/09/01, 01/06/10, 17/12/10, 01/05/13, 01/09/16

Name of entity

Flinders Mines Limited

ABN

46 091 118 044

Quarter ended ("current quarter")

31 March 2019

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (6 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers		
1.2 Payments for		
(a) exploration & evaluation	(514)	(2,467)
(b) development		
(c) production		
(d) staff costs		
(e) administration and corporate costs	(1,713)	(3,377)
1.3 Dividends received (see note 3)		
1.4 Interest received	9	45
1.5 Interest and other costs of finance paid	-	(131)
1.6 Income taxes paid		
1.7 Research and development refunds		
1.8 Other (provide details if material)		
1.9 Net cash from / (used in) operating activities	(2,218)	(5,930)
2. Cash flows from investing activities		
2.1 Payments to acquire:		
(a) property, plant and equipment		
(b) tenements (see item 10)		
(c) investments		
(d) other non-current assets		

For personal use only

Mining exploration entity and oil and gas exploration entity quarterly report

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (6 months) \$A'000
2.2	Proceeds from the disposal of:		
	(a) property, plant and equipment		
	(b) tenements (see item 10)		
	(c) investments		
	(d) other non-current assets		
2.3	Cash flows from loans to other entities		
2.4	Dividends received (see note 3)		
2.5	Other (provide details if material)		
2.6	Net cash from / (used in) investing activities	-	-
3.	Cash flows from financing activities		
3.1	Proceeds from issues of shares		8,275
3.2	Proceeds from issue of convertible notes		
3.3	Proceeds from exercise of share options		
3.4	Transaction costs related to issues of shares, convertible notes or options		(45)
3.5	Proceeds from borrowings	3,000	3,000
3.6	Repayment of borrowings		(5,000)
3.7	Transaction costs related to loans and borrowings		
3.8	Dividends paid		
3.9	Other (provide details if material)		
3.10	Net cash from / (used in) financing activities	3,000	6,230
4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	2,819	3,301
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(2,218)	(5,930)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	-	-
4.4	Net cash from / (used in) financing activities (item 3.10 above)	3,000	6,230
4.5	Effect of movement in exchange rates on cash held	-	-
4.6	Cash and cash equivalents at end of period	3,601	3,601

5. Reconciliation of cash and cash equivalents at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	Current quarter \$A'000	Previous quarter \$A'000
5.1 Bank balances	3,601	2,819
5.2 Call deposits	-	-
5.3 Bank overdrafts		
5.4 Other (provide details)		
5.5 Cash and cash equivalents at end of quarter (should equal item 4.6 above)	3,601	2,819

6. Payments to directors of the entity and their associates	Current quarter \$A'000
6.1 Aggregate amount of payments to these parties included in item 1.2	606
6.2 Aggregate amount of cash flow from loans to these parties included in item 2.3	-
6.3 Include below any explanation necessary to understand the transactions included in items 6.1 and 6.2	

Non-Executive and Executive Directors Fees for the Mar 2019 quarter.

7. Payments to related entities of the entity and their associates	Current quarter \$A'000
7.1 Aggregate amount of payments to these parties included in item 1.2	246
7.2 Aggregate amount of cash flow from loans to these parties included in item 2.3	-
7.3 Include below any explanation necessary to understand the transactions included in items 7.1 and 7.2	

Non-Executive Directors fees paid to TIO (NZ) Limited) for the December 2018 quarter, a major shareholder of Flinders Mines Limited (\$188k).

Company Secretarial services paid to Evolution Corporate Services for the December 2018 quarter, a company related to Ms Shannon Coates (\$36k).

Professional advice and services related to tenement management to BBI Group Pty Limited for the December 2018 quarter, a company related to TIO (NZ) Limited (\$22k).

Mining exploration entity and oil and gas exploration entity quarterly report

8. Financing facilities available <i>Add notes as necessary for an understanding of the position</i>	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
8.1 Loan facilities	32,900	3,000
8.2 Credit standby arrangements	-	-
8.3 Other (please specify)	-	-
8.4 Include below a description of each facility above, including the lender, interest rate and whether it is secured or unsecured. If any additional facilities have been entered into or are proposed to be entered into after quarter end, include details of those facilities as well.		

As announced on 15 March 2019, an unsecured loan facility of up to A\$32.9m was provided by PIO Mines Pty Limited, a subsidiary of the Company's major shareholder TIO (NZ) Limited, at an interest rate of 3.88%pa (**Loan Facility**) and with a maturity date of 30 June 2022. A\$3m was drawn down from the Loan Facility on 22 March 2019. The Company notes that a further up to A\$29.9 was secured to fund the proposed off-market buy-back of up to approximately 10% of Flinders shares (up to A\$25.3m) and any potential franking deficit tax associated with the proposed off-market buy-back (up to A\$4.6m) however, as a result of the Company's withdrawal of its application to de-list from the ASX, as announced on 10 April 2019, these drawdowns are no longer available.

9. Estimated cash outflows for next quarter	\$A'000
9.1 Exploration and evaluation	(254)
9.2 Development	-
9.3 Production	-
9.4 Staff costs	-
9.5 Administration and corporate costs	(1,023)
9.6 Other (provide details if material)	-
9.7 Total estimated cash outflows	(1,277)

10. Changes in tenements (items 2.1(b) and 2.2(b) above)	Tenement reference and location	Nature of interest	Interest at beginning of quarter	Interest at end of quarter
10.1 Interests in mining tenements and petroleum tenements lapsed, relinquished or reduced				
10.2 Interests in mining tenements and petroleum tenements acquired or increased				

Compliance statement

- 1 This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.
- 2 This statement gives a true and fair view of the matters disclosed.



30 April 2019

Sign here:

Date:

(Company secretary)

Print name: Sarah Wilson

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 that wishes to disclose additional information is encouraged to do so, in a note or notes included in or attached to this report.
2. If this quarterly report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, AASB 6: Exploration for and Evaluation of Mineral Resources and AASB 107: Statement of Cash Flows apply to this report. If this quarterly report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standards apply to this report.
3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.

For personal use only