



# Unlocking value from the Pilbara Iron Ore Project

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16 September 2019

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This presentation includes information which summarises the terms of a non-binding Term Sheet that Flinders Mines Ltd ("Flinders" or "Company") has entered into with BBI Group Pty Ltd ("BBIG"). As a summary the information is not complete.

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## **Competent Persons Statement**

The information in this report that relates to Mineral Resources was released to ASX on 1 March 2018 and is based on information compiled by John Graindorge who is a Chartered Professional (Geology) and a Member of the Australasian Institute of Mining and Metallurgy (MAusIMM) and has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity to which he is undertaking to qualify as a Competent Person as defined in the 2012 Edition of the "Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves". John Graindorge is a full-time employee of Snowden Mining Industry Consultants Pty Ltd. The Company confirms that the form and context in which the Competent Person's findings are presented have not been modified from the original announcement and, in the case of estimates of Mineral Resources, all material assumptions and technical parameters underpinning the estimates in the initial announcement continue to apply and have not materially changed.

- Flinders owns the Pilbara Iron Ore Project (PIOP)
- Requires \$40-\$50 million investment to undertake Bankable Feasibility Study
- Flinders finally positioned with a preferred development pathway

## CORPORATE SNAPSHOT

ASX code – FMS

Shares on issue – 3.49 billion

Cash – \$1.7 million (at 30 June)

Major shareholders:

TIO (NZ) Limited (55.6%)

OCJ Investment Australia Pty Ltd (22.6%)

## DIRECTORS

**Neil Warburton** - Chair

**Cheryl Edwardes** – Deputy Chair

**Shannon Coates**

**Evan Davies**

**Michael Wolley**

# PIOP Overview

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- Large but relatively low-grade hematite resource, ~60km from Tom Price in Western Australia
- Requires significant investment in mining and processing (~\$3 billion) to deliver a saleable iron ore product
- Flinders earned a 100% stake in PIOP in November 2011<sup>1</sup>
- Strategic review in 2017 concluded:
  - Potential for economic asset, however
    - Suitable rail and port infrastructure solution fundamental for a viable development
    - Flinders unable to fund the project with its current balance sheet
- Maturation program announced May 2018:
  - Revised JORC Code 2012 Mineral Resource estimate
  - Recommendation to progress discussions on provision of a logistics solution



PIOP JORC Mineral Resource Estimate<sup>2</sup>

Area	Class	Tonnes (Mt)	Fe %	SiO <sub>2</sub> %	Al <sub>2</sub> O <sub>3</sub> %	P%	LOI %
Blacksmith	Measured	54.1	59.8	6.24	4.28	0.064	2.98
	Indicated	1,148.0	52.6	14.06	4.81	0.067	4.93
	Inferred	105.2	51.6	15.71	5.31	0.057	4.40
<b>Blacksmith Total</b>		<b>1,307.3</b>	<b>52.8</b>	<b>13.87</b>	<b>4.81</b>	<b>0.066</b>	<b>4.81</b>
Anvil	Inferred	176.9	47.0	21.38	6.04	0.045	4.15
<b>Anvil Total</b>		<b>176.9</b>	<b>47.0</b>	<b>21.38</b>	<b>6.04</b>	<b>0.045</b>	<b>4.15</b>
PIOP	Measured	54.1	59.8	6.24	4.28	0.064	2.98
	Indicated	1,148.0	52.6	14.06	4.81	0.067	4.93
	Inferred	282.1	48.7	19.26	5.70	0.049	4.24
<b>Grand Total</b>		<b>1,484.2</b>	<b>52.2</b>	<b>14.76</b>	<b>4.96</b>	<b>0.064</b>	<b>4.73</b>

Cut Off: Ore types DID1, DID2, DID3 reported using Fe>40% and Al<sub>2</sub>SO<sub>3</sub> <8%; ore types DID4, CID, BID reported using Fe>50% and AL<sub>2</sub>SO<sub>3</sub> <6%

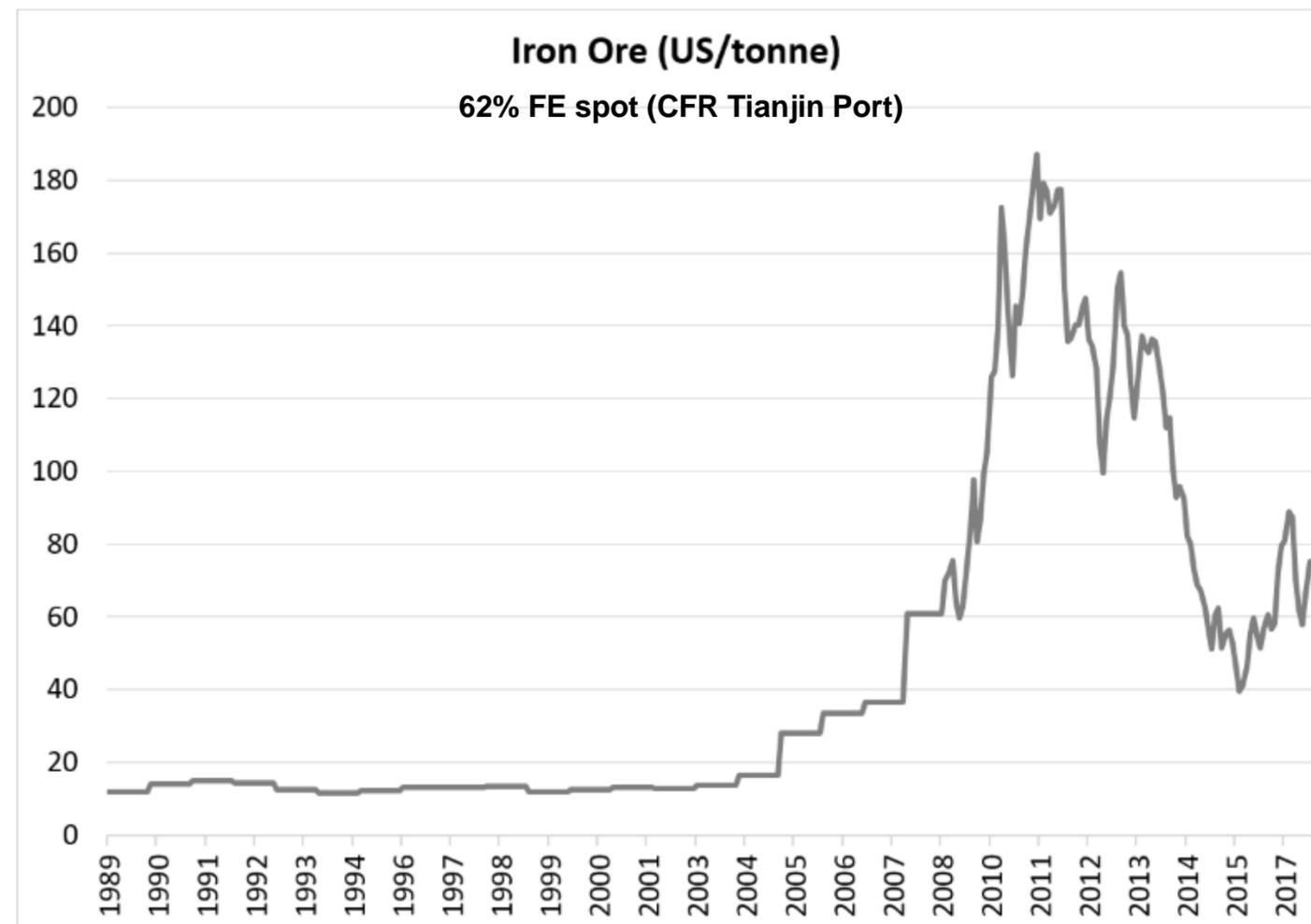
**Notes**

<sup>1</sup> Prenti Exploration Pty Ltd retains a 5% net profit production royalty in respect of non-iron ore commodities in the tenements

<sup>2</sup> As released to the ASX on 1 March 2018, there is no new information affecting that announcement and all material assumptions underpinning the resource estimates continue to apply and have not materially changed; small discrepancies may occur due to rounding

# The Iron Ore Market – Then and Now

- Iron ore market has changed dramatically since the 2008-14 'boom'
- Smaller players have left the industry or continue to struggle
- Large players dominate because iron ore requires fully integrated mining, processing and transport solutions
- Market shifts have resulted in an increased demand for higher quality iron ore



Source: [Marketindex.com.au](http://Marketindex.com.au)

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# The Challenges for Flinders

Developing the PIOP resource requires three key ingredients



## MONEY

- PIOP requires considerable funding to develop the mine, processing and infrastructure
- Flinders does not have the balance sheet to secure debt
- Shareholders do not have the capacity to provide equity



## MARKETS

- Minimal product marketing work has been conducted
- Significant sales and marketing investment required to secure offtakes to underpin development



## INFRASTRUCTURE

- PIOP is a 'stranded asset' without an infrastructure solution
- An integrated rail and port solution will cost +\$5 billion
- Accessing existing infrastructure is challenging given major producers seek maximum efficiencies from their own infrastructure networks
- A new rail and port development option, the Balla Balla Infrastructure Project (BBIG Project), is available to Flinders

Flinders needs a partner that brings the above and **strategic alignment**

PwC independently assessed current and proposed ports as well as associated rail infrastructure

## **PWC found the BBIG Project<sup>1</sup> to be the most favourable transport option for PIOP**

- 1** Of the options assessed, the proposed BBIG Project had the most potential to meet capacity and timing constraints
- 2** Currently available ports had limited or no capacity; those intending to expand would require a level of pre-funding from Flinders
- 3** BBIG Project has indicated that financing is being progressed and would not require upfront capital outlay from Flinders, subject to cost overruns above an agreed contingency
- 4** The BBIG Project does not have committed iron ore at the level required to initiate investment; partnering with Flinders would provide enough volume to be the foundation partner – an indicator that strategic interests would be aligned

### **Notes**

<sup>1</sup> Given criteria provided by Flinders and publicly available data on Pilbara iron ore transport infrastructure at the juncture at which the study was undertaken

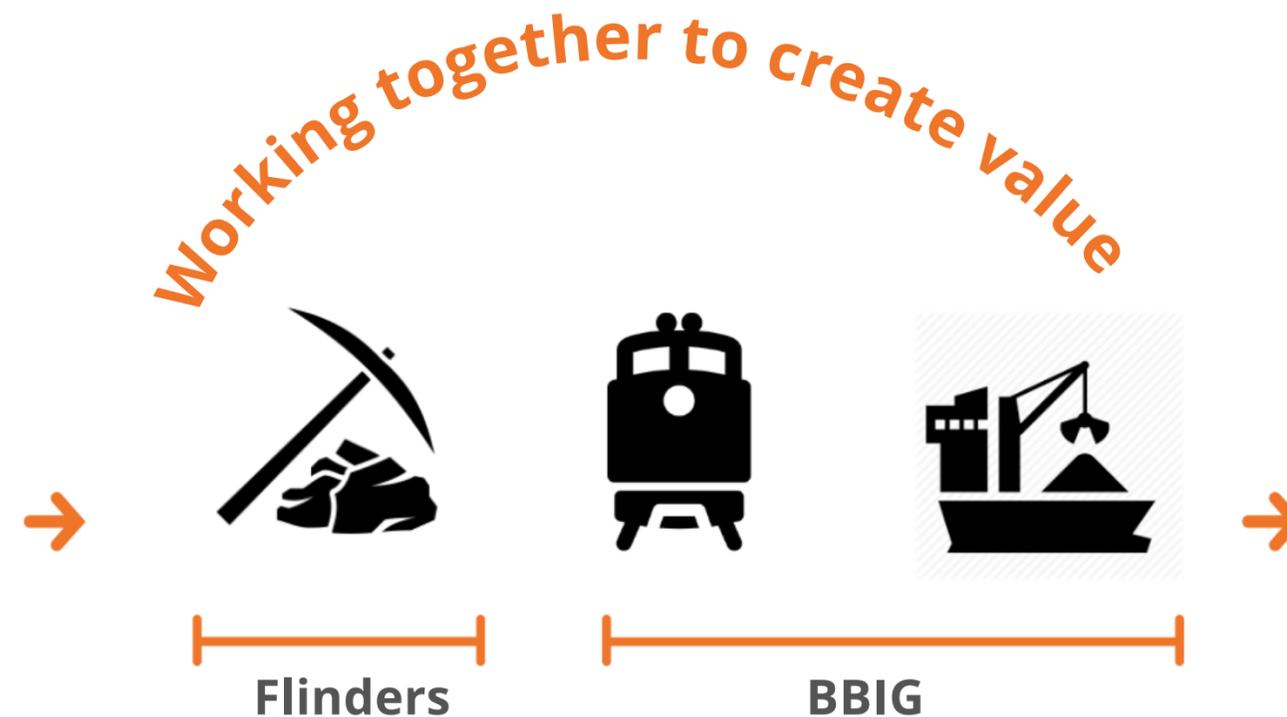
# Summary of PWC Findings

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Port Options	Findings of Step 2 assessment	Findings of Step 3 assessment
<b>Port Hedland (existing)</b>	Port Hedland is near capacity with expansion challenges around access to land and channel prioritisation due to tidal impact.	It is unlikely that any new capacity to this infrastructure would be made available to FMS as it has been earmarked for individual use.
<b>Port Dampier (existing)</b>	Port Dampier is near or at capacity with restrictions on land space and access.	There have been no reported plans for expansion. As such, any expansion plans are likely to require self-finance on FMS' part.
<b>Cape Lambert (existing)</b>	Access to Cape Lambert is unlikely as the port is privately operated and managed by another miner, which is using capacity to achieve growth of its own production targets.	There have been no reported plans for expansion. As such, any expansion plans would be likely to require self-finance on FMS' part.
<b>Cape Preston (existing)</b>	The port is at capacity, supporting peak production levels for a different commodity type.	There have been no reported plans for expansion. As such, any expansion plans would be likely to require self-finance on FMS' part.
<b>Cape Preston East (proposed)</b>	The port is proposed to be a very small operation that is insufficient for a 50Mtpa mining operation.	There have been no reported plans for expansion. As such, any expansion plans would be likely to require self-finance on FMS' part.
<b>Anketell (proposed)</b>	Anketell has potential to address capacity. However, the project is unlikely to be online within the next decade, falling out of the PIOP's timeframe of the next five years.	Plans for Anketell have been deferred for the time being due to regulatory and financing concerns.
<b>BBI Project (proposed)</b>	Balla Balla has indicated the potential to deliver the capacity required within FMS' timeframe.	Balla Balla has indicated that the financing for the BBI Project is being progressed.

# What is the deal and what does BBIG offer

- A farm-in agreement for the full development of PIOP
- BBIG brings to the table
  - money
  - infrastructure solution
  - access to markets
  - strategic alignment and ability to deliver
- For that they earn a 60% interest in PIOP (Two stages, 10% moving to 60%)
- PIOP is a stranded asset, but together with BBIG forms an +\$8 billion project that would be one of Australia's biggest infrastructure and mining developments



# Benefits for Flinders Shareholders



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## *Free Carry to Production*

Flinders shareholders **free-carried** through to Final Investment Decision (FID), then free-carried through construction to commissioning - **No Debt or Equity**<sup>1</sup>

## *Infrastructure Solution*

The most favourable infrastructure solution to de-strand PIOP. Ability to participate in a +\$8 billion integrated mining and infrastructure development

## *Financing and Marketing*

BBIG to arrange all debt and equity financing for the integrated development (including PIOP) and arrange long-term offtake agreements with customers

## *Governance Protection for Minorities*

Provision of significant governance protocols and minority shareholder protections. Independent expert's report to be commissioned

## *Optionality to Reduce Risk*

Option for Flinders to convert to a royalty or other revenue stream at FID or continue with PIOP ownership

### Notes

<sup>1</sup> At FMS parent level, subject to capital cost overruns above an agreed contingency during construction

# Transaction Overview

Flinders has entered into a non-binding term sheet with BBIG that establishes a proposed framework for the future development of the PIOP. A binding transaction would be subject to Flinders shareholder approval (with TIO excluded from voting)

## Stage 1

Pre-FID

Flinders transfers PIOP assets to a new subsidiary (**PIOP MineCo**)  
BBIG issued an initial 10% voting interest in PIOP MineCo for funding a feasibility study, arranging project finance and providing a plan for mine development, converting to a 10% voting plus economic interest<sup>1</sup> (refer to slide 12) upon delivering requirements

## Stage 2

Post-FID

Flinders free carried through construction to first production (subject to cost overruns beyond an agreed contingency) and will have 40% interest in PIOP MineCo (refer to slide 13)

**At FID<sup>2</sup>, Flinders can proceed to Stage 2 OR elect to convert to a royalty structure**

**Note**

<sup>1</sup> Leaving BBIG with a total economic and voting interest in PIOP MineCo of 10%

<sup>2</sup> FID = Final Investment Decision

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# BBIG and the BBI Project

## Project Overview

- BBIG is currently developing the BBIG Project, an ~\$5 billion integrated port and rail project
- BBIG Project will open a new iron ore province in the Pilbara
- Would connect PIOP to Balla Balla port<sup>1</sup>:
  - 29km of overland conveyor
  - 165km of single-track railway
  - Jetty, shiploader, transshipment vessels and other associated infrastructure
- Progress to date includes:
  - State Agreement for the infrastructure
  - Engineering design to definitive feasibility stage
  - Primary government and community approvals

### Note

<sup>1</sup> Based on current project design

## BBI Project Location

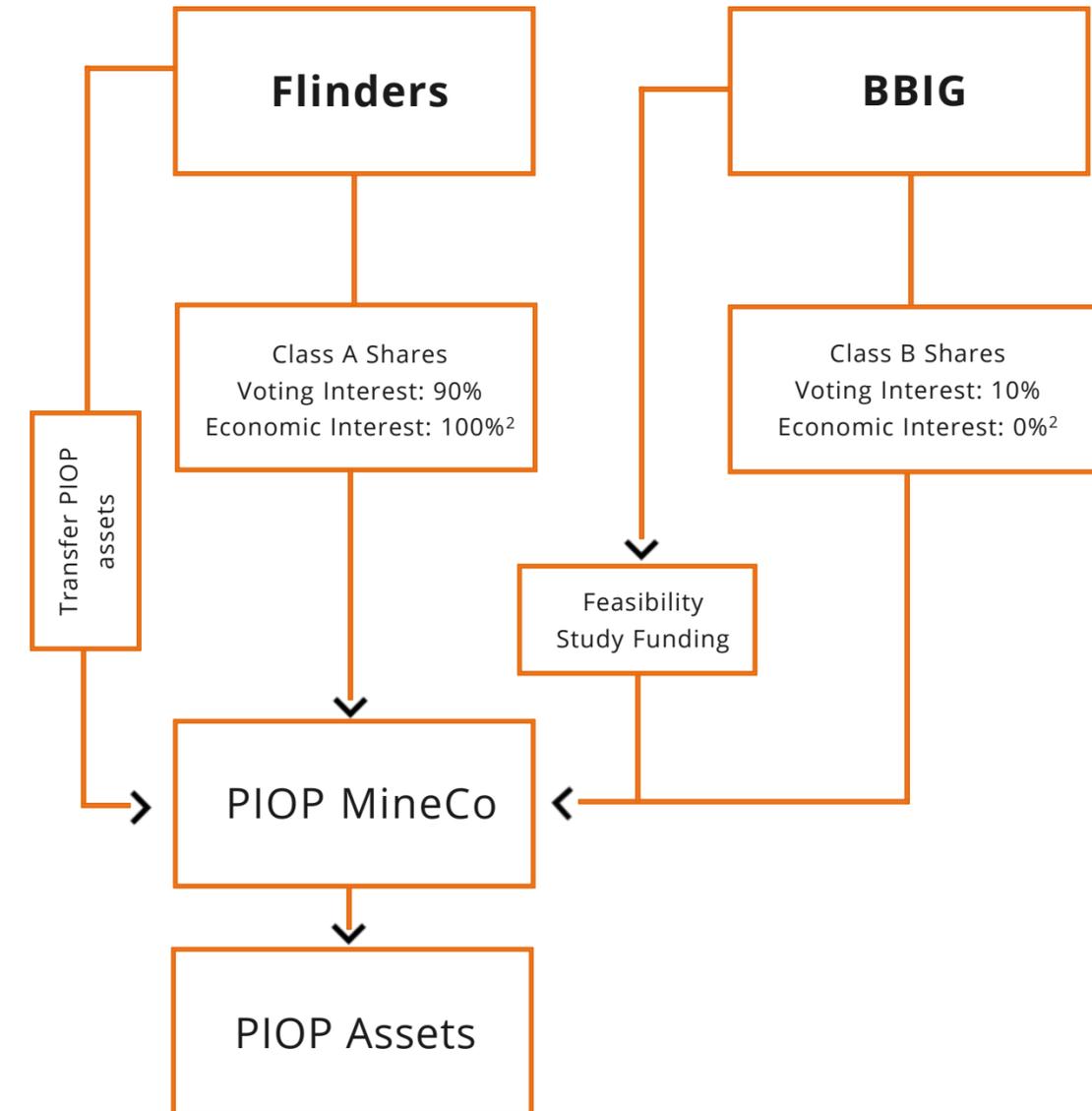


# Stage 1 Details – Pre-FID

## Overview

- Flinders to establish new subsidiary to hold PIOP assets
- BBIG issued with 10% voting interest in PIOP MineCo by:
  - Funding feasibility study; minimum spend of \$10m pa. and subject to milestones
  - Providing plan for PIOP development
  - Arranging debt and equity funding
- Activities to be completed within four years (unless extension granted), otherwise Flinders will retain 100% on MineCo
- BBIG can withdraw at any time, must pay Flinders greater of \$3m or spend commitment remaining for applicable 12-month period
- BBIG has discretion to bring FID (and earn 10% economic interest in PIOP MineCo) when certain criteria are met, Flinders obligated to vote in favour
- Upon a FID event, Flinders can proceed to Stage 2 or elect to convert to a royalty structure

## Ownership Structure



### Note

<sup>1</sup> All references to BBIG refer to BBIG or a related party

<sup>2</sup> Economic interest of the Class B Shares will be increased to 10% upon a FID event; economic interest of Class A Share decreased to 90%

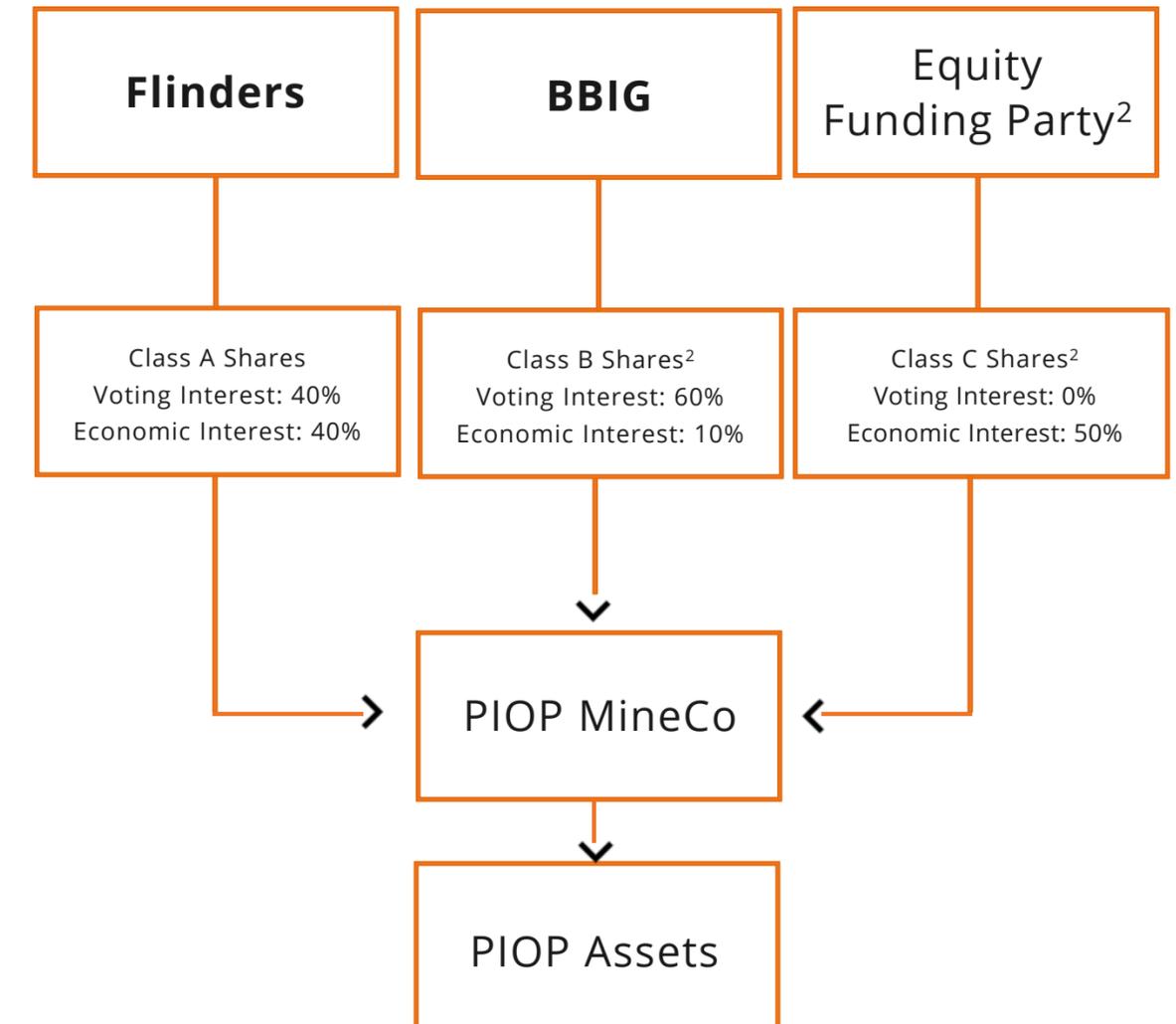
# Stage 2 Details – Post-FID

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## Overview

- If Flinders proceeds to Stage 2 and does not convert to a royalty:
  - Flinders free-carried through construction (subject to cost overruns beyond an agreed contingency)
  - Equity Funding Party (BBIG or a third party) provide equity funding for development
  - BBIG to arrange all debt
  - BBIG to simultaneously develop BBI Project
- Flinders ownership in PIOP MineCo reduced to 40%
- BBIG voting interest increases to 60%
- BBIG economic interest (in conjunction with Equity Funding Party) increases to 60%
- Financing for development will have mutual security between PIOP MineCo and BBI Project

## Ownership Structure



### Note

<sup>1</sup> All references to BBIG refer to BBIG or a related party

<sup>2</sup> How voting and economic interest will be allocated is to be determined

# Key Transaction Documents

Flinders will now seek to negotiate the key transaction documents detailed below in advance of seeking shareholder approval for the transaction (with TIO excluded from voting)

## Document

## Overview

*Farm-in Agreement*

- Key steps to achieve Stage 1 and 2 as outlined on the preceding slides
- Subject to shareholder approval (with TIO excluded from voting)

*Shareholders' Agreement (for PIOP MineCo)*

- Governs rights and obligations of PIOP MineCo shareholders at each stage of the transaction
- To include governance structures aimed to protect Flinders – future governance a fundamental priority

*Management Agreement*

- BBIG to manage all activities associated with developing, mining and processing from PIOP MineCo, costs reimbursed

*Infrastructure Services Agreement*

- BBIG to transport PIOP MineCo product via the BBI Project rail and port in exchange for infrastructure tariff - includes mechanism to share impact of commodity price movements

*Marketing and Sales Agency Agreement*

- BBIG marketing agent for PIOP MineCo, to arrange long term offtake agreements and spot transactions
- BBIG reimbursed for actual costs incurred, plus agreed margin

### Note

1 All references to BBIG refer to BBIG or a related party

## Activity

**Minority shareholder engagement** to explain the proposed transaction documents prior to requesting shareholder approval

Due diligence and negotiation of transaction documentation (refer slide 15)

Engage an independent expert to prepare a report and opine on whether the transaction is fair and reasonable for **non-associated Flinders shareholders**

Distribute notice of meeting and independent expert report to Flinders shareholders. **Further minority shareholder engagement**

Flinders shareholders (**excluding TIO**) to vote on proposed transaction

### Note

<sup>1</sup> Next steps are indicative only and subject to change

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- PIOP hosts a large, but low-grade orebody - the area's geology is well-understood and a significant increase in the resource is unlikely
- The low-grade orebody requires considerable investment in processing to produce a saleable iron ore product
- BBIG provides the most favourable transport option for PIOP
  - Balance sheet strength
  - The necessary infrastructure solution to monetise the resource
  - Access to offtake markets
  - Strategic alignment
- An exhaustive and independent search showed there is only one favourable infrastructure solution
- Flinders does not have the balance sheet or capability to raise the debt and/or equity to develop its mine
- Any integrated development proposal must provide fair value to ALL shareholders
- Flinders believes the Balla Balla Infrastructure Project represents the ONLY commercially-viable option to unlock value from PIOP for shareholders