30 January 2020 **ASX ANNOUNCEMENT**

Notice of Meeting for approval of the Proposed Transaction with BBIG

Flinders Mines Limited (**ASX:FMS**) (**Flinders**) is pleased to announce the release of the attached notice of meeting, including an explanatory memorandum and independent expert's report (**Notice of Meeting**) in respect of an Extraordinary General Meeting (**EGM**) to consider the proposed transaction with BBI Group Pty Ltd (**BBIG**) to form an incorporated joint venture for the development of Flinders' Pilbara Iron Ore Project (**PIOP**), as announced on 28 November 2019 (**Proposed Transaction**).

The Proposed Transaction represents the outcome of extensive commercial negotiations conducted by the Company's independent PIOP Infrastructure Committee with BBIG to provide an infrastructure solution, facilitate the development of the PIOP and provide a pathway to market.

Vote in favour of the Proposed Transaction

The Independent Flinders Directors (Neil Warburton, The Hon. Cheryl Edwardes AM and James Gurry) unanimously recommend that Flinders shareholders vote in favour of the Proposed Transaction in the absence of a superior proposal.

The Independent Flinders Directors appointed Grant Samuel as independent expert to consider and provide an opinion on the Proposed Transaction. The independent expert has concluded that the Proposed Transaction is fair and reasonable to non-associated Flinders shareholders, i.e. those shareholders other than TIO (NZ) Pty Ltd (**TIO**), Flinders' largest shareholder and also a shareholder of BBIG. TIO will also be excluded from voting in favour of the Proposed Transaction.

Ms Edwardes, Deputy Chair and Chair of Flinders' PIOP Infrastructure Committee, said: *"I am very pleased with the outcome of the negotiations with BBIG. I genuinely believe this is a very attractive deal for all shareholders. This puts us in a position where we can go mining and share in the potential upside of a major mining development."*

Mr Gurry said: *"I have scrutinised this deal with a firm eye on what is in the best interests of the minority shareholders. I believe this is a very good outcome for minorities, delivering the only feasible and realistic opportunity to go mining within an industry standard JV structure for introducing a larger well capitalised partner. The series of governance protocols in place to protect Flinders and its minority shareholders also provides reassurance. I think the transaction is fair based on the monetary value of what BBIG needs to contribute on our behalf and the fact Flinders shareholders can see this developed without having to provide their own project funding, barring limited circumstances."*

Extraordinary General Meeting

The EGM to consider the Proposed Transaction will be held at 10:00am WST on Tuesday, 3 March 2020 at the Theatrette Room, Level 2, QV1 Building, 250 St Georges Terrace, Perth WA 6000. All eligible Flinders shareholders are encouraged to vote by completing and lodging the proxy form that accompanies the Notice of Meeting or alternatively by attending and voting at the EGM in person. The proxy form will be included in the Notice of Meeting despatched to shareholders via their nominated communication means. For shareholders wishing to complete a proxy form online through InvestorVote, this site will be live from 2.00pm WST today, 30 January 2020.

The Notice of Meeting is an important document that Flinders shareholders should read in its entirety before voting. For proxy votes to be considered, they must be received by 10:00am WST on Sunday, 1 March 2020.

The results of the resolution to be put to shareholders at the EGM will be available shortly after the EGM's conclusion and released to the ASX.

Additional information and shareholder engagement

If after reading the Notice of Meeting you have any questions in relation to the Proposed Transaction or the Notice of Meeting, you are encouraged to submit your questions to Flinders' information email address, info@flindersmines.com. The Company will attempt to respond as soon as possible.

In addition, Flinders will be engaging with shareholders to explain the Proposed Transaction and answer shareholder queries. A Presentation follows this announcement and a corporate video of the Presentation, explaining the Proposed Transaction is available from the Investor/Company Presentations section of the Company's website at www.flindersmines.com.

The Management and Independent Directors of the Company are also planning to hold a series of briefings in Perth, Adelaide, Melbourne, Sydney and Brisbane beginning mid February 2020. Full details of the schedule and an invitation for shareholders to attend will be posted on the ASX market announcements platform. Shareholders are urged to monitor Flinders' ASX announcements for the invitation and are encouraged to attend.

Authorised by the Independent Directors of Flinders Mines Limited

For further information please contact:

Investors and Shareholders
David McAdam
CEO – 0407 708 875

Media
Michael Weir
Citadel-MAGNUS - 0402 347 032

NOTICE OF EXTRAORDINARY GENERAL MEETING AND EXPLANATORY MEMORANDUM

Flinders Mines Limited
ABN 46 091 118 044

The Independent Flinders Directors unanimously recommend that Flinders Shareholders

VOTE IN FAVOUR

of the Proposed Transaction at the Extraordinary General Meeting, in the absence of a superior proposal.

The Extraordinary General Meeting is to be held at 10.00am (WST) on Tuesday, 3 March 2020 at the Theatrette Room, QV1 Building, Level 2, 250 St Georges Terrace, Perth, WA 6000

The Independent Expert has concluded that the Proposed Transaction is fair and reasonable to non-associated Flinders Shareholders

Financial adviser to Flinders

Greenhill

Legal adviser to Flinders

MinterEllison

Important Notice

IMPORTANT INFORMATION

This Notice of Meeting, Explanatory Memorandum, Independent Expert's Report and proxy form are all important documents and require your immediate attention. They should be read carefully in their entirety before you make a decision on how to vote at the Extraordinary General Meeting. If you are in any doubt as to what you should do, please consult your financial or other professional adviser.

PURPOSE OF THIS EXPLANATORY MEMORANDUM

This Explanatory Memorandum, which forms part of the Notice of Meeting, contains an explanation of, and information about, the Proposed Transaction to be considered at the Extraordinary General Meeting of Flinders to be held on Tuesday, 3 March 2020. It is given to Flinders Shareholders to provide them with information that the Independent Flinders Directors believe to be material to Flinders Shareholders in deciding whether and how to vote on the Resolution. This Explanatory Memorandum is required by the Corporations Act in relation to the Proposed Transaction. Flinders Shareholders should read this Explanatory Memorandum in full because individual sections do not give a comprehensive review of the Proposed Transaction. If you are in doubt about what to do in relation to the Proposed Transaction, you should consult your financial or other professional adviser.

This Explanatory Memorandum does not take into account the individual investment objectives, financial situation and needs of individual Flinders Shareholders or any other person. Accordingly, it should not be relied on solely in determining how to vote on the Resolution. Flinders is not licensed to provide financial product advice in relation to Flinders Shares or any other financial products.

INVESTMENT DECISIONS AND FORWARD LOOKING STATEMENTS

This Explanatory Memorandum contains forward looking statements which have been based on current expectations about future events. These forward looking statements are, however, subject to risks, uncertainties and assumptions that could cause actual results to differ materially from the expectations described in such forward looking statements.

These factors include matters not yet known to Flinders or not currently considered by Flinders to be material.

Actual events or results may differ materially from the events or results expressed or implied in any forward looking statement. None of Flinders, nor any of their respective officers or any person named in this Explanatory Memorandum or involved in its preparation makes any representation or warranty (either express or implied) as to the accuracy or likelihood of fulfilment of any forward looking statement, or any events or results expressed or implied in any forward looking statement, and Flinders Shareholders are cautioned not to place reliance on those statements.

The forward looking statements in this Explanatory Memorandum reflect views held only as at the date of this Explanatory Memorandum.

Subject to any obligations under law or the Listing Rules, Flinders has no obligation to disseminate, after the date of this Explanatory Memorandum, any updates or revisions to any forward looking statements to reflect any change in expectation in relation to those statements or any change in events, conditions or circumstances on which any such statement is based.

NOTICE TO PERSONS OUTSIDE AUSTRALIA

This Explanatory Memorandum has been prepared in accordance with Australian laws, disclosure requirements and accounting standards. These laws, disclosure requirements and accounting standards may be different to those in other countries.

DISCLAIMER

No person is authorised to give any information or make any representation in connection with the Proposed Transaction which is not contained in this Explanatory Memorandum. Any information or representation not contained in this Explanatory Memorandum must not be relied on as having been authorised by Flinders, the Flinders Board or the Independent Flinders Directors in connection with the Proposed Transaction.

RESPONSIBILITY FOR INFORMATION

The information contained in this Explanatory Memorandum (except for the Independent Expert's Report and the BBIG Information described below) has been prepared by Flinders (**Flinders Information**) and is the responsibility of Flinders. None of BBIG, nor any of its related entities, directors, officers, employees, contractors, advisers or agents, assumes any responsibility for the accuracy or completeness of any information contained in this Explanatory Memorandum except the BBIG Information.

The BBIG Information has been prepared by BBIG and is the responsibility of BBIG. Neither Flinders, nor any of its related entities, directors, officers, employees, contractors, advisers or agents, assumes any responsibility for the accuracy or completeness of any BBIG Information.

Grant Samuel has prepared the Independent Expert's Report and has given, and has not withdrawn, as at the date of this Explanatory Memorandum, its written consent to the inclusion of the Independent Expert's Report, and the references to that report, in the form and context in which they are included in this Explanatory Memorandum. Grant Samuel takes responsibility for that report but is not responsible for any other information contained in this Explanatory Memorandum. Neither Flinders nor BBIG nor any of their respective related entities, directors, officers, employees, contractors, advisers or agents assumes any responsibility for the accuracy or completeness of the Independent Expert's Report. Flinders Shareholders are urged to read the Independent Expert's Report carefully to understand the scope of the report, the methodology of the assessment, the sources of information and the assumptions made.

DEFINITIONS

Defined terms are used in this Explanatory Memorandum. The defined terms are in the Glossary set out in Section 9.

ASIC and ASX

A copy of this Explanatory Memorandum was lodged with ASIC on 13 January 2020 in accordance with section 218 of the Corporations Act and for the purposes of ASIC Regulatory Guide 76 and provided to ASX on the same date in accordance with Listing Rule 10.1.

Neither ASIC, ASX nor any of their respective officers takes any responsibility for the contents of this Explanatory Memorandum.

DATE

This Explanatory Memorandum is dated 30 January 2020.

Key Dates

Date of this Explanatory Memorandum	**30 January 2020**
Deadline for returning proxy forms	**1 March 2020 at 10.00am (WST)**
Record date for determining Flinders Shareholders' entitlement to vote at Extraordinary General Meeting	**1 March 2020 at 7.00pm (WST)**
Extraordinary General Meeting of Flinders Shareholders	**3 March 2020 at 10.00am (WST)**

Contents

Letter from the Chair

30 January 2020

Dear Flinders Shareholder

On behalf of the Independent Flinders Directors, I am pleased to provide you with this Explanatory Memorandum for your consideration in relation to the Proposed Transaction with BBIG for development of the PIOP.

This Explanatory Memorandum contains important information to help you make an informed decision about how to vote at the Extraordinary General Meeting, including a description of the Proposed Transaction, the reasons why the Independent Flinders Directors consider that you should vote in favour of the Proposed Transaction, the various risks relating to the Proposed Transaction and the Independent Expert's Report. The Independent Flinders Directors urge you to read this Explanatory Memorandum (including the Independent Expert's Report) in its entirety.

On 2 September 2019, Flinders announced that it had entered into a non-binding Terms Sheet with BBIG relating to development of the PIOP. On 28 November 2019, Flinders announced it had entered into the Transaction Documents with BBIG, which include a condition that Flinders Shareholders approve the Proposed Transaction at the Extraordinary General Meeting. TIO (Flinders' major shareholder) is a related party of BBIG and is therefore excluded from voting in favour of the Resolution at the Extraordinary General Meeting.

The Proposed Transaction is described in detail in Section 2 of this Explanatory Memorandum. In summary, the Proposed Transaction provides a pathway for the financing and development of the PIOP, including an infrastructure solution to transport its iron ore to port and sale to end customers (in effect, unlocking the PIOP's route to market). It will involve Flinders and BBIG[1] forming an incorporated joint venture, PIOP Mine Co, to develop the PIOP. BBIH, a subsidiary of BBIG, will be appointed Manager. BBIG will initially fund a PIOP Feasibility Study in return for an initial 10% voting interest in PIOP Mine Co. If a FID proposal is made, BBIG and its funding partners (the Equity Funding Party) will then fund construction and development of the PIOP to production. At FID, Flinders can select the Mining Option, in which case it will continue as a free-carried[2] 40% shareholder in PIOP Mine Co; or (subject to Flinders Shareholder approval at that time, with TIO excluded from voting in favour of the resolution), select a Royalty Option, in which case Flinders will have no ownership interest in PIOP Mine Co but will receive an ongoing 2.5% gross revenue (FOB) royalty.

While the PIOP development is being progressed, BBIG will develop the BBIG Project, an integrated rail and port infrastructure solution. PIOP Mine Co will become a foundation customer for the BBIG Project under a long-term Infrastructure Services Agreement, thus providing an infrastructure solution for the PIOP development. As part of its foundation customer status, assuming Flinders selects to continue with the Mining Option, a rebate for third party use of the BBIG Project infrastructure and a post-PIOP mine life fee (capped on the total wet tonnes transported by PIOP Mine Co and at 50 million wet tonnes per year) have been negotiated, enabling Flinders to further share in the longer-term benefits of the infrastructure solution.

The Transaction Documents include a Farm-In Agreement, which outlines the key terms to establish the joint venture; an Infrastructure Services Agreement, which provides the terms (including pricing) under which PIOP Mine Co will have access to the infrastructure operated by BBIG; a Royalty Agreement, which provides the pre-agreed terms for the 2.5% gross revenue (FOB) royalty in the event that Flinders selects the Royalty Option (subject to Flinders Shareholder approval at that time, with TIO excluded from voting in favour of the resolution); and various ancillary documents. The Transaction Documents are summarised in Section 4 of this Explanatory Memorandum.

The Independent Flinders Directors commissioned Grant Samuel to prepare an Independent Expert's Report on the merits of the Proposed Transaction. Grant Samuel has concluded that the Proposed Transaction is fair and reasonable to the non-associated Flinders Shareholders.

For the reasons set out in Section 2.7 of this Explanatory Memorandum, the Independent Flinders Directors unanimously recommend that you vote in favour of the Resolution to approve the Proposed Transaction, in the

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[1] References to BBIG include BBIH, a subsidiary of BBIG. Refer to Section 4.1 for a proposed corporate structure.

[2] Subject to pro rata responsibility of Flinders for, in some circumstances, capital cost overruns above an appropriate contingency during construction and costs associated with provision of any required completion security. Refer to Section 4.

absence of a superior proposal. In reaching its recommendation, the Independent Flinders Directors have had regard to a range of factors including that:

- the Independent Expert has concluded that the Proposed Transaction is fair and reasonable to non-associated Flinders Shareholders;
- if the Proposed Transaction proceeds, it will provide an infrastructure solution for the currently stranded PIOP;
- Flinders will be free-carried to production, minimising future funding requirements and potential dilution to Flinders Shareholders;
- Flinders, and the Flinders' Shareholders, will have optionality at FID to choose between the Mining Option and Royalty Option;
- there is potential for Flinders shareholders to achieve an attractive value outcome;
- Flinders has no viable alternative to develop the PIOP and no superior proposal has emerged; and
- Flinders' share price may fall if the Proposed Transaction does not proceed.

There are also reasons why Flinders Shareholders may decide to vote against the Proposed Transaction. Some of these reasons are set out in Section 2.6 of this Explanatory Memorandum and include:

- you may disagree with the Independent Flinders Directors' recommendation and the Independent Expert's conclusion;
- you may consider there is potential for a superior proposal to emerge; and
- you may consider that Flinders retaining management rights and 100% ownership of the PIOP gives Flinders Shareholders greater potential to generate future financial returns than the Proposed Transaction.

Further information in relation to the Proposed Transaction is contained in this Explanatory Memorandum and in the Independent Expert's Report which is contained in Section 10. There are also various risks associated with the Proposed Transaction, which are summarised in Section 2.6.

I encourage you to vote on the Resolution. If you wish the Proposed Transaction to proceed, you should vote in favour of the Resolution. If you are unable to attend the Extraordinary General Meeting, please complete the enclosed proxy form and return it in accordance with the instructions on the form.

Please read all parts of this Explanatory Memorandum before making your decision on how to vote on the Resolution at the Extraordinary General Meeting. If you have any questions in relation to the Proposed Transaction or this Explanatory Memorandum, you are encouraged to submit questions to Flinders' information email address, info@flindersmines.com.

Yours sincerely

Neil Warburton
Independent Chair
Flinders Mines Limited

1 Summary of the Proposed Transaction

This Section is a summary only. Flinders Shareholders should read this entire Explanatory Memorandum before making a decision on how to vote on the Resolution.

1.1 KEY REASONS TO VOTE IN FAVOUR OF THE PROPOSED TRANSACTION

The Independent Flinders Directors unanimously recommend that you vote in favour of the Proposed Transaction in the absence of a superior proposal

The Independent Expert has concluded that the Proposed Transaction is fair and reasonable

If the Proposed Transaction proceeds, it will provide an infrastructure solution for the currently stranded PIOP

Flinders will be free carried to production, minimising future funding requirements and potential dilution to Flinders Shareholders

Flinders will have optionality at FID to select the Mining Option or Royalty Option

There is potential to achieve an attractive value outcome

Flinders has no immediate alternative to develop the PIOP and no superior proposal has emerged

Flinders' Share price may fall if the Proposed Transaction does not proceed

Further details of the benefits of the Proposed Transaction are set out in Section 2.4 of this Explanatory Memorandum.

1.2 KEY REASONS TO VOTE AGAINST THE PROPOSED TRANSACTION

You may disagree with the Independent Flinders Directors' recommendation and the Independent Expert's conclusion

You may consider there is potential for a superior proposal to emerge

You may consider there is an opportunity for increased value from Flinders retaining management rights and 100% of the PIOP

Further details of the potential reasons to vote against the Proposed Transaction and associated risks are set out in Sections 2.5, 2.6 and 5.9 of this Explanatory Memorandum.

2 The Proposed Transaction

2.1 BACKGROUND

Flinders' key asset is a development stage iron ore project, the PIOP. To attract the substantial capital necessary to develop and operate the PIOP, an infrastructure solution to transport its iron ore to port and subsequently market and sell to end customers is necessary.

TIO (Flinders' largest shareholder) owns approximately 94% of BBIG, which is separately developing a rail and port project with the objective of providing an infrastructure solution for undeveloped iron ore projects in the central and western Pilbara through the Balla Balla harbour (the **BBIG Project**). In August 2017, BBIG entered into a State Agreement with the Western Australian government in relation to its proposed rail corridor. The State Agreement contemplates the PIOP as a potential foundation customer for the BBIG Project.

The Board believes it would be challenging for Flinders to raise the required capital for development of the PIOP under its current structure and consequently Flinders is reliant on third parties to provide an infrastructure solution to the PIOP. Recognising the BBIG Project as a potential infrastructure solution and, given BBIG is a related party of its major shareholder (TIO), the Board established an infrastructure committee, comprising members of the Board and officers of the Company who are independent of TIO, to review the available infrastructure options to the PIOP (the **Infrastructure Committee)**. As part of its review, the Infrastructure Committee engaged PwC to undertake an independent review of infrastructure alternatives available to Flinders (**Independent Review**). Flinders also sought a proposal from BBIG in relation to a potential infrastructure solution and subsequently commenced discussions with BBIG concerning potential future arrangements to progress the PIOP. These initiatives were announced to Flinders Shareholders on 17 June 2019.

The Independent Review assessed existing ports and proposed ports as well as associated rail infrastructure in the Pilbara region against key criteria, including timing, current and future port capacity, rail access and capacity, project approval status, upfront capital expenditure requirements and strategic importance of the PIOP to the potential infrastructure provider. The Independent Review found the BBIG Project would be the most favourable transport option for the PIOP to meet Flinders' criteria and performance requirements.

After consideration of the Independent Review, the Infrastructure Committee determined that the BBIG Project was the most favourable infrastructure pathway for the PIOP.

Flinders has, over several years, considered various infrastructure alternatives for PIOP and other options that could be considered other than the Proposed Transaction as noted below.

- In March 2017, a strategic review was completed by Advisian, a global advisory firm and part of the Worley Parsons Group. The review concluded, among other things, that the economic development of PIOP was dependent on the development of a financeable infrastructure solution. Two viable alternatives were identified, the BBIG Project and existing infrastructure operated by another iron ore miner.
- Flinders engaged with the other iron ore miners throughout 2017/2018, following which it determined that it was unlikely that Flinders would be able to gain access to their infrastructure.
- In late 2018, the Board conducted another strategic review with an external independent financial adviser that considered various other alternatives to maximise value for shareholders and provide Flinders with a more sustainable future structure to develop the PIOP. This review considered a potential transaction with BBIG and various other strategic options, including de-listing to attract new funding and engaging with TIO in relation to an acquisition of the Company. Flinders explored these other strategic options and ultimately none, other than a potential transaction with BBIG, were found to be viable.
- Flinders undertook another internal review in May 2019 which culminated in the Company establishing the Infrastructure Committee; commissioning PwC to undertake the Independent Review; and engaging with BBIG in relation to the Proposed Transaction. These initiatives were announced in June 2019. PwC concluded that, given the criteria and performance requirements agreed with Flinders for the PIOP and the publicly available data on Pilbara iron ore transport infrastructure at the point in time at which the report was prepared, the BBIG Project would be the most favourable transport option for the PIOP to meet Flinders' criteria and performance requirements. Further information on the Independent Review is contained in Flinders' ASX announcement on 2 September 2019.

As announced on 2 September 2019, Flinders entered into a non-binding Terms Sheet with BBIG to develop and progress the PIOP in conjunction with the BBIG Project (**Integrated Project**). On 28 November 2019, Flinders announced it had entered into the Transaction Documents with BBIG to implement the Proposed Transaction. The Proposed Transaction is summarised in Section 2.2. The Transaction Documents to give effect to the Proposed Transaction are described in Section 4. These documents are subject to Flinders Shareholder approval of the Resolution.

The Independent Flinders Directors are committed to maximising value for all Flinders Shareholders. The Proposed Transaction with BBIG creates a framework for an incorporated joint venture between Flinders and BBIG for the integrated development of the PIOP and BBIG Projects, which the Independent Flinders Directors consider to be in the best interests of Flinders Shareholders.

2.2 OVERVIEW OF THE PROPOSED TRANSACTION

The Proposed Transaction is to be effected through the Transaction Documents and essentially involves Flinders and BBIG forming an incorporated joint venture, PIOP Mine Co, to develop the PIOP. BBIH, a subsidiary of BBIG, will be appointed as Manager of PIOP and will concurrently develop the BBIG Project, with PIOP Mine Co a foundation customer. The Transaction Documents are summarised in Section 4 and an overview is provided below.

2.2.1 Farm-in Agreement

Under the Farm-in Agreement, Flinders will form an incorporated joint venture entity, PIOP Mine Co, which will hold all the critical assets relating to the PIOP.

Flinders will initially retain control of PIOP Mine Co with a 100% economic interest and 90% voting interest. BBIG will initially be issued a 10% voting interest (and no economic interest) in exchange for:

- funding and preparing the Feasibility Studies, including a minimum spend commitment of $15 million per annum (which must be paid to Flinders if not met in a particular year); and
- performing other obligations under the Farm-in Agreement.

BBIG can deliver a proposal to bring the final investment decision (FID) for the PIOP. BBIG has discretion as to whether it will bring a FID, but it can only do so within 4 years (subject to a 1 year extension in certain circumstances) after the satisfaction of conditions precedent to the Farm-in Agreement. The conditions precedent have a 9 month sunset date from the date of the Farm-in Agreement (i.e. they must be satisfied or waived within this time) unless Flinders and BBIG agree to extend the sunset date.

Flinders will retain control of PIOP Mine Co until the FID, and, if the FID does not occur in the agreed timeframe or BBIG withdraws during the pre-FID period, the arrangements will be unwound with Flinders acquiring (for nominal consideration) 100% of PIOP Mine Co and access to the associated work for the PIOP, as well as having a right of first offer to acquire the BBIG Project should BBIG seek to dispose of its interest in the BBIG Project. BBIG will also be required to pay an early withdrawal fee (the greater of $3 million and the shortfall to the $15 million minimum spend for the year of withdrawal). Flinders has also agreed various customary exclusivity provisions with BBIG.

If a successful FID occurs, Flinders will be obliged to support the FID but must select to either:

1. continue as part of the joint venture, in which case Flinders' voting and economic interest in PIOP Mine Co will reduce to 40% and it will be 'free carried' through development and commencement of operations of the Integrated Project (subject to pro rata responsibility for capital cost overruns above, in some circumstances, an appropriate contingency during construction and costs associated with provision of any required completion security) (**Mining Option**); or

2. (subject to Flinders Shareholder approval at that time, with TIO excluded from voting in favour of the resolution) convert its entire interest (voting and economic) in PIOP Mine Co into a 2.5% gross revenue (FOB) royalty, described in further detail in Section 2.2.6 below (**Royalty Option**).

PIOP Mine Co will be required to grant security over all of the PIOP assets in favour of project financiers for the Integrated Project and it may have to secure the infrastructure debt. However, BBIG is obliged to use its reasonable endeavours to avoid such cross-collateralisation arrangements.

2.2.2 Infrastructure Services Agreement and Infrastructure Payment Deed

BBIH will concurrently develop the BBIG Project and PIOP Mine Co will be its foundation customer. The Infrastructure Services Agreement (described in Section 4.5) outlines the terms under which BBIH will provide infrastructure services to PIOP Mine Co under a take or pay arrangement. Under the agreement, PIOP Mine Co will pay BBIH a tariff for the services provided, which will consist of the actual ongoing operating costs of providing the services plus a capacity charge (escalated at CPI, capped at 3% per annum) and a commodity charge, which has been indicatively set to result in a tariff between A$10.25 – 19.25 / wmt[3] (**Tariff**). The capacity charge component of the Tariff is subject to a rebate of up to A$2.50/wmt (not subject to escalation) of product railed on and loaded using the infrastructure for third party customers of BBIH.

Assuming Flinders selects the Mining Option, Flinders will be entitled to a post-PIOP mine life fee from BBIG of $1/wmt of ore transported on the infrastructure, (capped on the total wet tonnes transported from PIOP Mine Co and at 50 million wet tonnes per year). The terms of this fee will be contained in a separate document in favour of Flinders (the **Infrastructure Payment Deed**).

2.2.3 Shareholders Agreement and constitution

The Shareholders Agreement and constitution (described in Section 4.3) govern the relationship between the shareholders in PIOP Mine Co.

As noted above, prior to FID, Flinders will hold a 100% economic interest / 90% voting interest and BBIG will hold a 10% voting interest in PIOP Mine Co. During the pre-FID period, Flinders will have the right to appoint 3 of the 4 directors to the board of PIOP Mine Co. BBIG will have the right to initially appoint 1 director.

On FID, if Flinders proceeds with the Mining Option, Flinders economic and voting interest will decrease to 40% of PIOP Mine Co and it will have the right to appoint 1 of the 4 directors to the board of PIOP Mine Co. BBIG and the Equity Funding Party together will hold a 60% economic and voting interest in PIOP Mine Co. It is currently envisaged that the Equity Funding Party will own 50% and BBIG will own 10%, although the precise arrangements between BBIG and the Equity Funding Party will be determined at FID.

Although Flinders will be free-carried to first production, it will be subject to pro rata responsibility for capital cost overruns above, in some circumstances, an appropriate contingency during construction and costs associated with provision of any required completion security. In addition, post construction, if PIOP Mine Co does not generate sufficient revenue to fund operations (including payment of the Tariff) – for example, in periods of iron ore price weakness - Flinders will be responsible for its pro rata share of cash calls as a shareholder of PIOP Mine Co. In either circumstance, if Flinders is unable to meet a cash call, the Shareholders Agreement contains a market value based dilution mechanism (with a 10% discount incentive for other shareholders to elect to contribute) in which Flinders' interest in PIOP Mine Co may be reduced.

2.2.4 Management Agreement

Under the Management Agreement (described in Section 4.4), BBIH will be appointed by PIOP Mine Co to manage and operate the PIOP on behalf of PIOP Mine Co. BBIH will be reimbursed at cost (with no margin) for providing management services to PIOP Mine Co.

2.2.5 Marketing and Sales Agency Agreement

Under the Marketing and Sales Agency Agreement (described in Section 4.6), BBIH will be appointed marketing agent and will put in place off-take agreements with end customers for PIOP product. BBIG will be reimbursed at

[3] The Tariff consists of an operating charge, capacity charge and commodity charge. The A$10.25 – 19.25 / wmt range relates to the capacity charge and commodity charge components, and is based on current assumptions with respect to various inputs, including the capital cost to develop the BBIG Project. The actual Tarff will vary depending on the prevailing iron ore price, the capital cost to develop the BBIG Project and a CPI-linked escalation. Refer to Section 4.5 for further information on the proposed Tariff.

cost plus a margin of 10% (on its reasonably incurred internal costs only) for providing marketing services to PIOP Mine Co.

2.2.6 Royalty Deed

The mechanics relating to the selection of the Royalty Option are set out in the Farm-in Agreement (described in Section 4.2).

At FID, if the Directors determine that the Royalty Option is preferred relative to the Mining Option, Flinders Shareholders will be given the opportunity to vote to select the Royalty Option or proceed with the Mining Option. If Flinders Shareholders vote to approve selection of the Royalty Option at that time, the rights attaching to the A class shares will be varied so that the Company will have no ongoing economic or voting interest in PIOP Mine Co. Instead the Company will be entitled to an ongoing revenue stream equal to 2.5% of the gross FOB (free on board) sale price for minerals extracted from the PIOP by PIOP Mine Co.

Selection of this option would be subject to a further Flinders Shareholder approval at the relevant time, with an independent expert's report to be provided to Flinders Shareholders and TIO being excluded from voting in favour of the resolution.

2.2.7 Governance Protocol Side Letter

Given TIO is a majority shareholder of both Flinders and BBIG, there may be circumstances in the future in which it is not appropriate for TIO to participate in decision making by Flinders.

Under the Governance Protocol Side Letter (described in Section 4.9), TIO has agreed a governance protocol under which it will, among other things, ensure that its nominee Directors on the Flinders Board do not vote on the decision to select the Mining Option or the Royalty Option or any decision that involves a conflict of interest.

2.2.8 Other Arrangements or Amendments

It should be noted that there are various arrangements relating to the Proposed Transaction (other than the Transaction Documents) that will not be finalised by the time of the Extraordinary General Meeting and may not be finalised until closer to the FID, which may be 4 years away (and up to 5 years in some circumstances). One example of this is the final terms of the debt and equity financing for the Integrated Project as well as the security arrangements (including the specifics of any cross collateral arrangements). It is not realistic for those arrangements to be finalised at the time of entering into the Proposed Transaction given:

- the current status of the PIOP and the BBIG Project and the required feasibility, design and procurement obligations in order to finalise the arrangements; and
- the necessity for the Proposed Transaction to be entered into to provide the degree of certainty required by BBIG (and potentially the proposed Equity Funding Party) and financiers to progress discussions on the potential arrangements.

There may also be circumstances that arise closer to, or as part of, FID which require the Transaction Documents to be amended to align or complement those arrangements that have not been finalised by the time of the Extraordinary General Meeting (e.g. the final terms of the debt and equity financing).

These arrangements have only been described in general terms in this Explanatory Memorandum. Assuming Flinders Shareholder approval of the Resolution, after the Proposed Transaction is commenced Flinders Shareholders will continue to be updated on the material developments regarding the Proposed Transaction. However, Flinders Shareholder approval will not be sought for the specific terms or details of those arrangements (including in relation to financing and construction) or amendments which are not finalised or will not be known at the time of the Extraordinary General Meeting.[4]

The Transaction Documents do not provide for any BBIG Group entity or any other Related Party of Flinders to be granted any security over PIOP to secure any debt facility for the PIOP Project. The Transaction Documents provide for security over PIOP assets in respect of project debt in favour of third party financiers (including as part of the cross-collateralisation arrangements referred to in Sections 2.2 and Section 4). If any security is at any time proposed to be granted in favour of any party who would fall within the ambit of Listing Rule 10.1, a separate agreement will be entered into with them and Flinders Shareholder approval would be sought for that separate agreement at the relevant time (with the relevant party not being able to vote in favour) or obtaining an appropriate ASX waiver (with no certainty of a waiver being granted).

For clarity this does not affect security and other arrangements in favour of BBIG Group entities in respect of rights and obligations under the Transaction Documents as summarised in this Explanatory Memorandum. In particular, PIOP Mine Co is required to provide BBIH a third ranking security (behind the project financing arrangements and any security granted to Flinders in respect of the Royalty Deed) over the PIOP assets to secure its payment and other obligations under the Infrastructure Services Agreement (further information regarding the Infrastructure Services Agreement and the security granted under it is set out in Section 4.5). Approval for such arrangements is being sought now as part of the Proposed Transaction (as it is for all other rights and obligations under the Transaction Documents as summarised in this Explanatory Memorandum).

2.2.9 Timetable

The arrangements for the Proposed Transaction are subject to different approvals and sunset dates but can be summarised at a high level as follows:

Event	Timing
Pre-Completion	
Signing of Transaction Documents	27 November 2019
Extraordinary General Meeting – Flinders Shareholder approval (with TIO and its Associates excluded from voting in favour of the Resolution) for the Proposed Transaction	3 March 2020
Assuming Flinders Shareholder approval is obtained, conditions precedent to the Farm-in Agreement have a 9 month sunset date for all conditions to be satisfied	No later than 27 August 2020 (unless Flinders and BBIG agree to extend the 9 month sunset date)
As part of satisfaction of the conditions precedent (if applicable), Flinders will transfer the PIOP assets to its wholly owned subsidiary, PIOP Mine Co	No later than 27 August 2020 (unless Flinders and BBIG agree to extend the 9 month sunset date)
Assuming all conditions precedent are satisfied within the 9 month sunset date, BBIG issued a B class share in PIOP Mine Co, which carries a 10% voting interest in PIOP Mine Co (**subscription completion**)	Scheduled date for subscription completion is 10 Business Days after the satisfaction or waiver of the conditions precedent (scheduled date therefore no later than 10 September 2020 provided no extension to 9 month sunset date for conditions precedent)
FID to Development	
If BBIG submits a FID proposal that satisfies the FID Criteria, PIOP Mine Co must approve FID. On FID occurring, BBIG's 10% economic interest becomes a 10% voting and economic interest in PIOP Mine Co.	A FID proposal can be submitted anytime up to 4 years from subscription completion, which may be extended by 1 year in certain circumstances. Latest date for submission of any FID proposal is 10 September 2024

[4] Flinders Shareholder approval will be sought if Flinders selects to convert its interest in PIOP Mine Co to the Royalty Option at FID as described at Section 4.8.

Event	Timing
The Equity Funding Party will be issued with a 50% voting and economic interest in PIOP Mine Co	(or 10 September 2025 if extended) assuming subscription completion occurs 10 September 2020 and unless Flinders and BBIG agree to extend.
If a FID proposal is received, Flinders Board may select whether to retain its 40% voting and economic interest in PIOP Mine Co (being the **Mining Option**), or to take a 2.5% gross royalty for the life of the mine (being the **Royalty Option**)	Up to 45 days from receipt of FID proposal to select and notify BBIG
If Flinders' Board selects and notifies the Royalty Option, Flinders has an additional 75 days to obtain Flinders Shareholder approval of the Royalty Option	Up to 75 days from the Royalty Option being selected and notified to BBIG
If Flinders does not notify BBIG of its decision within the 45 day period, or Flinders Shareholders do not approve the selection of the Royalty Option within the 75 days, Flinders will be taken to have selected the Mining Option	Either: • 45 days from receipt of FID proposal (if Flinders give no notice of any selection); or • 75 days from the Royalty Option being selected and notified to BBIG
PIOP Mine Co provides: • if the Royalty Option is selected and notified to BBIG, the General Security Deed – Royalty to Flinders to secure the payment and other obligations under the Royalty Deed, being second ranking; and • the General Security Deed – ISA to BBIH, being third ranking, each ranking in priority behind the project financing arrangements and being over the PIOP assets.	The security will be granted to BBIH on the date on which the project finance securities are granted to the project financiers, or if earlier, the date on which the Royalty Option is selected and notified to BBIG.

Please note the above dates are indicative and only set out the maximum periods for the relevant events. Flinders will update Flinders Shareholders as appropriate when the relevant events are reached or decisions made.

2.3 INDEPENDENT EXPERT'S CONCLUSION

The Independent Flinders Directors appointed Grant Samuel as the Independent Expert to prepare a report for the purposes of Listing Rule 10.1 and Chapter 2E of the Corporations Act stating whether, in the Independent Expert's opinion, the Proposed Transaction is fair and reasonable to the non-associated Flinders Shareholders.

The Independent Expert concluded that the Proposed Transaction is fair and reasonable to non-associated Flinders Shareholders.

The complete Independent Expert's Report is included in Section 10 of this Explanatory Memorandum.

2.4 DETAILED REASONS TO VOTE IN FAVOUR OF THE PROPOSED TRANSACTION

2.4.1 The Independent Flinders Directors unanimously recommend that you vote in favour of the Proposed Transaction in the absence of a superior proposal

As described in Section 2.7, the Independent Flinders Directors unanimously recommend that you vote in favour of the Proposed Transaction, having regard to the interests of Flinders Shareholders other than TIO and in the absence of a superior proposal.

In reaching their recommendation, the Independent Flinders Directors have assessed the Proposed Transaction having regard to the reasons to vote in favour of, or against, the Proposed Transaction, as set out in this Explanatory Memorandum.

None of the Independent Flinders Directors hold or control any Flinders Shares.

2.4.2 The Independent Expert has concluded that the Proposed Transaction is fair and reasonable

Flinders appointed Grant Samuel as Independent Expert to prepare an Independent Expert's Report in relation to the Proposed Transaction.

The Independent Expert has concluded that the Proposed Transaction is fair and reasonable to non-associated Flinders Shareholders i.e. those other than TIO and its Associates.

The Independent Expert specifically notes the following:

- "The Transaction taken in its entirety appears more favourable for Flinders shareholders than the uncertainty and potential value destruction that would follow if Flinders shareholders were to vote against the Transaction"
- "In Grant Samuel's view Flinders shareholders are likely to be better off if the Transaction proceeds than if it does not."
- "…there would be no basis for shareholders to vote against the Transaction unless they believed that there would be a realistic prospect of negotiating a clearly better arrangement with Todd Corporation, or concluding a superior transaction with some third party. Given the 55.6% shareholding in Flinders of TIO/Todd Corporation, there is no reason to believe that there is any meaningful prospect of a superior third party transaction. Nor is there any reason to expect that Flinders could negotiate a clearly improved set of arrangements with Todd Corporation"
- "Flinders' right to swap its 40% interest for a royalty interest has the potential to provide value protection for Flinders shareholders in circumstances in which the economics of the PIOP are less than compelling"
- "Grant Samuel's indicative financial analysis suggests that if Todd Corporation/BBIG does elect to proceed with development of the PIOP then, given current long term iron ore price expectations and the current preliminary forecasts of capital and operating costs for the PIOP and BBIP, both a 40% free carried interest in the PIOP and a royalty interest over the project could be substantially more valuable than Flinders' current market capitalisation."
- "The Transaction does involve disadvantages…however, these disadvantages are outweighed by the opportunity for Flinders shareholders to participate meaningfully in development of the PIOP on a free-carried basis (while recognising that there is no certainty that development of the PIOP will proceed)"
- "Arguably, if BBIG elects not to proceed, Flinders will have been no worse off than if the Transaction had not been approved, as 100% ownership of PIOP Mine Co will revert to Flinders. Flinders will have had the benefit of the feasibility study on the PIOP, indicatively costing in excess of $60 million[5], although in those circumstances that may not be reflected in any uplift in the value of the project."

The Independent Flinders Directors encourage you to read the Independent Expert's Report, which is set out in Section 10.

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[5] Flinders expects that a feasibility study for the PIOP would cost of the order of $40-50 million. Flinders understands that BBIG/Todd Corporation expects to undertake additional work, including the construction of a pilot processing plant, such that the total cost will exceed $60 million.

2.4.3 If the Proposed Transaction proceeds, it will provide an infrastructure solution for the currently stranded PIOP

The BBIG Project represents a potential infrastructure solution for the currently stranded PIOP orebody. The BBIG Project is proposed to include conveyor, rail and port infrastructure that has the potential to transport PIOP Mine Co product to end customers.

Flinders has, over several years, considered various infrastructure alternatives for PIOP and other options that could be considered other than the Proposed Transaction, as described in Section 2.1.

Most recently, Flinders commissioned PwC to complete the Independent Review. This concluded that the BBIG Project would be the most favourable transport option for the PIOP to meet Flinders' criteria and performance requirements. The Infrastructure Committee considered the available infrastructure options and also determined that the BBIG Project was the most favourable infrastructure pathway for the PIOP.

The Independent Flinders Directors believe it is critical to have a viable infrastructure solution in order to attract the substantial capital required to develop the PIOP. The Proposed Transaction represents the outcome of extensive commercial negotiations with BBIG to provide that solution and facilitate the integrated development of both the PIOP and BBIG Project. Flinders' negotiations with BBIG have been led by members of the Infrastructure Committee (who are independent of TIO) and supported by Greenhill as financial adviser and MinterEllison as legal adviser.

The Tariff for which BBIH will transport ore for PIOP Mine Co allows BBIH to recover the actual ongoing operating costs of providing the infrastructure services plus a capacity charge which has been indicatively set at between A$10.25 – 19.25 / wet tonne[6]. The Independent Flinders Directors believe this represents a good commercial outcome for Flinders, as a shareholder of PIOP Mine Co. The Independent Flinders Directors also believe that the proposed Tariff is attractive relative to the previous proposed arrangements between Flinders and BBIG (at the time known as Rutila Resources Ltd), which contemplated recovery of operating costs plus a service charge of A$25 / tonne, a foundation user rebate of A$5 / tonne for the first 20Mtpa commitment, plus 30% of revenue derived from ore sales in excess of A$60 / tonne[7].

2.4.4 Flinders will be free carried to production

The Proposed Transaction provides a pathway to the financing and development of the PIOP.

BBIG is required to arrange all necessary debt and equity financing for the Integrated Project (including the PIOP), on reasonable commercial terms.

If FID occurs and Flinders proceeds with the Mining Option, Flinders' retained 40% economic and voting interest in PIOP Mine Co will be free carried through to first production and Flinders will not be required to contribute any of the costs associated with future feasibility studies or development costs of the PIOP (subject to pro rata responsibility for capital cost overruns above, in some circumstances, a material contingency during construction and costs associated with provision of any required completion security).

The Independent Flinders Directors believe it would be challenging for Flinders to independently arrange financing to construct the PIOP, noting the current market capitalisation and ownership structure of the Company, particularly if Flinders was unable to demonstrate a viable infrastructure solution. Flinders expects it would require $2-3 billion to fund the PIOP's development, an amount the Directors consider beyond the ability of the current shareholder base to support.

BBIH will also be responsible for developing marketing strategies, customer engagement and identification, and entering into off-take sales contracts for PIOP Mine Co product.

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[6] Refer to comments on the Tariff at footnote 3 and Section 4.5 for a detailed description of the proposed Tariff.

[7] Per ASX announcement on 24 February 2014.

2.4.5 Optionality at FID

The Independent Flinders Directors have the option of proceeding with the Mining Option or instead seeking shareholder approval to select the Royalty Option at FID. TIO has confirmed in the Governance Protocol Side Letter (described in Section 4.9) that none of its nominee directors will vote on any decision whether to select the Royalty Option or proceed with the Mining Option.

The Mining Option consists of a 40% free carried economic and voting interest in PIOP Mine Co, as outlined above. The Royalty Option consists of a 2.5% gross revenue (FOB) royalty, described further in Section 4.

This provides optionality for Flinders to choose between holding a higher risk (but potentially higher return) shareholding in a mining company and the comparatively lower risk alternative of a royalty at FID, when project parameters and economics are better understood.

As indicated above, if the Independent Flinders Directors recommend the Royalty Option, the Royalty Option will be subject to a further Flinders Shareholders approval at the relevant time, with an independent expert's report to be provided to Flinders Shareholders and TIO being excluded from voting in favour of the resolution.

2.4.6 There is potential to achieve an attractive value outcome

To assist in arriving at its opinion, the Independent Expert undertook scenario analysis on the potential indicative value to Flinders of a 40% free carried interest in PIOP Mine Co; which noted that under certain scenarios the project could be substantially more valuable than Flinders' current market capitalisation. Please refer to Section 10.3 of the Independent Expert's Report for the indicative valuation range and Section 9 for the relevant assumptions and caveats.

2.4.7 Flinders has no immediate alternative to develop the PIOP and no superior proposal has emerged

If the Proposed Transaction does not proceed, the Independent Flinders Directors believe it will be challenging for Flinders to commercialise the PIOP in the medium term.

Development of the PIOP would require significant capital, initially for a feasibility study and then for development. As noted above, the Independent Flinders Directors believe it would be challenging for Flinders to raise the required capital for development of the PIOP under its current structure.

If the Proposed Transaction does not proceed, Flinders would need to either negotiate another potential infrastructure arrangement with BBIG in relation to the BBIG Project or identify another infrastructure solution, which would require further considerable time and costs and without any certainty. Flinders has, over several years, considered various infrastructure alternatives for the PIOP and options that could be considered other than the Proposed Transaction, those are referred to in Section 2.1.

Despite announcing on 17 June 2019 that Flinders had commenced preliminary discussions with BBIG concerning a potential infrastructure solution, the announcement of the Terms Sheet with BBIG on 2 September 2019 and the announcement of entry into the Transaction Documents with BBIG on 28 November 2019, no superior proposal for Flinders (be it an alternative infrastructure solution to de-strand the PIOP or otherwise) has emerged.

The Independent Flinders Directors are not aware of any superior proposal that may emerge.

2.4.8 The Flinders Share price may fall

If the Proposed Transaction is not approved by Flinders Shareholders, Flinders' Share price may fall as there are no ready and viable alternative infrastructure solutions available to progress the PIOP. Refer to Section 2.9 for an outline of the implications if the Proposed Transaction does not proceed.

2.5 DETAILED REASONS WHY YOU MAY CHOOSE TO VOTE AGAINST THE PROPOSED TRANSACTION

2.5.1 You may disagree with the Independent Flinders Directors' recommendation and the Independent Expert's conclusion

In recommending you vote in favour of the Proposed Transaction, the Independent Flinders Directors and Independent Expert have made judgements regarding future events which cannot be predicted with certainty and which may prove inaccurate.

You may hold a different view. You are not obliged to follow the recommendation of the Independent Flinders Directors or the conclusion of the Independent Expert that the Proposed Transaction is fair and reasonable to non-associated Flinders Shareholders.

2.5.2 You may consider there is potential for a superior proposal to emerge

If the Proposed Transaction is implemented, Flinders will have certain binding exclusivity arrangements with BBIG, PIOP will become an incorporated joint venture with BBIG and various complex arrangements will exist between Flinders and BBIG. This will make it unlikely that a superior proposal (be it an alternative infrastructure solution to de-strand the PIOP or otherwise) will emerge.

You may consider that it is possible that a proposal (be it an alternative infrastructure solution to de-strand the PIOP or otherwise) that is more attractive than the Proposed Transaction could materialise in the future.

The Independent Flinders Directors are, as at the date of this Explanatory Memorandum, not aware of any alternative or superior proposal.

2.5.3 You may consider there is an opportunity for increased value from Flinders retaining management rights and 100% of the PIOP

If the Proposed Transaction proceeds, BBIH will be appointed to be the manager of the PIOP and Flinders' interest in PIOP Mine Co will reduce to 90% voting (100% economic). If FID occurs and Flinders proceeds with the Mining Option, Flinders' voting and economic interest in PIOP Mine Co will reduce to 40%. If FID occurs and Flinders selects the Royalty Option, Flinders' interest in PIOP Mine Co will reduce to nil, but it will retain an ongoing royalty on all minerals mined at the PIOP.

You may consider that Flinders retaining management rights and 100% ownership of the PIOP gives Flinders Shareholders greater potential to generate future financial returns than the Proposed Transaction.

2.6 SPECIFIC RISKS IN RELATION TO THE PROPOSED TRANSACTION

In addition to the potential reasons to vote against the Proposed Transaction outlined above, the Flinders Shareholders should be aware of the following risks in relation to implementation of the Proposed Transaction (which are included in Section 5.9):

(a) Counterparty risk

BBIG or its major shareholder, TIO, have not previously developed an integrated mining and infrastructure project of this nature or scale. If the Proposed Transaction proceeds, BBIH will be appointed manager and will be responsible for delivering the Integrated Project and the provision of additional services on commencement of operations. Under the Infrastructure Services Agreement, Management Agreement and Marketing and Sales Agency Agreement, Flinders (via its interest in PIOP Mine Co) will be exposed to BBIG and BBIH's ability to, among other things:

- manage the end to end development of the Integrated Project, including feasibility studies, design and construction;
- arrange the necessary debt and equity funding required for development of the Integrated Project;

- enter into requisite off-take agreements to sell and market PIOP product;
- meet the project schedule including finalisation of project design to bring a FID proposal;
- meet its obligations under the State Agreement for the BBIG Project;
- acquire and attract the necessary people to deliver the integrated project, given the nature and scale of the proposed development and operations;
- deliver the infrastructure services necessary to transport PIOP product from the PIOP mine to ocean going vessels; and
- manage the mining operations of the PIOP.

(b) Uncertain FID proposal

BBIH has a significant amount of discretion as to whether and when it will bring a FID proposal (within the timeframes outlined above) and as to the content of that proposal. While the FID proposal is required to demonstrate certain criteria – including that the PIOP will be capable of achieving an operating margin that is reasonable for a project of its nature and that financing is on reasonable commercial terms for a project of its nature – BBIH has significant discretion on the content of the FID proposal.

Provided the FID proposal meets the high level criteria outlined in the Farm-in Agreement, Flinders will be obliged to vote in favour of the FID proposal. While obliged to vote in favour of FID (i.e. development of the PIOP), Flinders could, subject to shareholder approval, select the Royalty Option. The attractiveness of the project that will be described in the FID proposal is uncertain at this time.

(c) Uncertain capital and operating costs (BBIG Project)

Although BBIG has prepared capital and operating estimates for the BBIG Project, which are outlined in the Independent Technical Expert's Report, these estimates are not finalised and remain at a preliminary stage and it is likely that they will change.

If FID occurs and the Integrated Project is developed, the capacity charge component of the Tariff paid by PIOP Mine Co to BBIG will change depending on the capital cost of developing the BBIG Project. If the capital cost increases, the Tariff will also increase (and vice versa). In addition, BBIG will pass on substantially all of its operating costs to PIOP Mine Co through the operating charge component of the Tariff.

There is a risk that the final capital costs to develop the BBIG Project or its operating costs are higher than currently estimated and, as a result, PIOP Mine Co has to pay a higher Tariff. This would reduce the financial returns for Flinders from its interest in PIOP Mine Co and, in a worst case scenario, result in dilution (see Section 2.6(e) below).

(d) Uncertain capital and operating costs (PIOP)

Although BBIG has prepared capital and operating estimates for the PIOP, which are outlined in the Independent Technical Expert's Report, these estimates remain at an early stage and it is likely that they will change.

Under the terms of the Proposed Transaction, BBIG is required to arrange debt and equity funding to develop the PIOP and Flinders will be free-carried through construction of the PIOP, up to the estimated cost of construction under the FID proposal, plus contingency and a cost-overrun amount (in certain circumstances) and costs associated with provision of any required completion security.

There is a risk that the final capital cost to develop the PIOP is higher than currently estimated and, as a result, PIOP Mine Co incurs higher debt to develop the PIOP which will need to be serviced prior to any distribution to Flinders. There is also a risk that Flinders may be required to contribute additional funds proportionate to its shareholding in PIOP Mine Co. There is also a risk that the operating costs of the PIOP are higher than is currently estimated. In each case, this could reduce the financial returns for Flinders from its interest in PIOP Mine Co and, in a worst case scenario, result in dilution (see Section 2.6(e) below).

(e) Flinders' interest in PIOP Mine Co may be diluted

As outlined above, Flinders may be required – in certain circumstances – to contribute towards capital expenditure to develop the PIOP that is in excess of the estimate at FID, plus contingency and (in certain circumstances) a cost-overrun amount.

In addition, following construction and development of the Integrated Project, there may be circumstances where PIOP Mine Co has insufficient cash flow to meet its obligations. Under those circumstances, shareholders of PIOP Mine Co (including Flinders) may be required to contribute additional funding to PIOP Mine Co in proportion to their economic interests in PIOP Mine Co.

In either case, if Flinders, as shareholder of PIOP Mine Co, were unable to contribute its requisite proportion of the necessary funding and other shareholders do contribute, its economic and voting interest in PIOP Mine Co would be diluted.

(f) Project financiers will likely require the PIOP assets be used as security over the Integrated Project

Under the Proposed Transaction, PIOP Mine Co has agreed, if required, to provide security over the PIOP assets to the project financiers for the obligations of the Integrated Project (likely to be by way of secured guarantee in conjunction with one or more on-loans to PIOP Mine Co and other project companies through BBIH or other intermediate entities). Likewise, Flinders may be required to provide similar security over its shares in PIOP Mine Co (see under 'Additional Security' in Section 4.2) This exposes PIOP Mine Co (and Flinders' shares in PIOP Mine Co) to risks of the BBIG Project being unable to service its share of the Integrated Project financing and the project financiers calling on the PIOP Mine Co security for a BBIG Project default.

(g) The Integrated Project may not be feasible

While BBIG has undertaken significant work on the Integrated Project to date, the overall development of the project remains at an early stage with a number of uncertainties that will not be resolved until the feasibility studies are completed. As part of the Proposed Transaction, BBIG will fund feasibility studies on both the PIOP and the BBIG Project. Those studies may conclude that either the PIOP or BBIG Project (or both) are not viable projects. If this occurs, BBIG may choose to terminate the arrangements entered into under the Proposed Transaction. Under those circumstances, the arrangements will be unwound and Flinders will retain 100% ownership of the PIOP assets and any pre-FID studies conducted by BBIH, but there may be significant delay encountered.

(h) There is no guarantee the Integrated Project will be developed

BBIG may be unable to (or at its discretion decide not to) bring a FID proposal within the required timeframe and has limited positive obligations to progress development during this time. Under those circumstances, the Integrated Project will not be developed, the arrangements under the Proposed Transaction would be unwound and Flinders will retain 100% economic and voting interest in the PIOP assets, but there may have been a significant delay encountered.

(i) Take or pay obligations

If the PIOP is developed, PIOP Mine Co will have significant take or pay obligations in favour of BBIH for the life of Integrated Project. While these may be abated in certain limited circumstances and for a limited period of time, there is a risk that PIOP Mine Co does not generate sufficient revenue to fulfil these obligations and that Flinders is exposed to dilution as outlined above in Section 2.6(e).

(j) Uncertain time period between FID and financial close

While BBIG is obliged to establish financing arrangements on reasonable commercial terms in order to bring a FID Proposal, the time between FID and financial close (and project commencement) will likely be uncertain. This may result in an extended period where financing arrangements are finalised before development is commenced and could result in a delay in commencement of PIOP Mine Co operations.

(k) Potential for conflicts of interest

As a minority shareholder in PIOP Mine Co, Flinders will not be able to control decisions of PIOP Mine Co. BBIH, a company controlled by BBIG, is the counterparty to three critical services agreements for the PIOP – the Infrastructure Services Agreement, the Management Agreement and the Marketing and Sales Agency Agreement. It is possible that those three agreements will be operated in a way which is not in the best interest of PIOP Mine Co, and that the board of PIOP Mine Co may disagree on the actions required to protect the interests of PIOP Mine Co. This is mitigated through: (1) the likelihood that the 50% Equity Funding Party will be independent and, while also having an interest in the BBIG Project, should act to protect the interests of PIOP Mine Co; and (2) Flinders having the right to trigger a binding deadlock process in the event of dispute under an agreement with a related body corporate of a shareholder.

(l) Tax Risks

As part of the Proposed Transaction, Flinders will transfer the PIOP assets to a newly incorporated entity PIOP Mine Co, being a member of the Flinders tax consolidated group. The transfer of these assets may be dutiable, however PIOP Mine Co will apply for corporate reconstruction relief from the Commissioner of State Revenue. The Commissioner of State Revenue may choose to not grant reconstruction relief, in which case PIOP Mine Co will have the sole statutory and contractual liability to pay the relevant duty amount. PIOP Mine Co being granted reconstruction relief is a condition of the Proposed Transaction, however such condition can be alternatively satisfied through BBIG providing a reasonable funding proposal to Flinders.

Where PIOP Mine Co issues B class shares to BBIG, PIOP Mine Co will exit the Flinders tax consolidated group. This may result in a capital gains tax event and an assessable capital gain for Flinders in certain circumstances, however based on the proposed deal structure a gain is not expected to arise. Even where a capital gain arises, it is expected that Flinders should have sufficient tax losses available to offset any assessable gain.

As a result of the issue of C class shares to the Equity Funding Party, this will cause Equity Funding Party to acquire 50% or more in PIOP Mine Co. If this acquisition occurs within 3 years of the transfer of the PIOP assets from Flinders to PIOP Mine Co, and PIOP Mine Co received corporate reconstruction relief on the transfer, the share issue will trigger the revocation of the duty exemption.

The duty on the revocation of the relief should be the transfer duty that would have been payable on the transfer of the PIOP assets reduced by up to 50% on the basis that landholder duty will be payable by the Equity Funding Party on the share issue (for 50% of the shares in PIOP Mine Co). The statutory liability to duty on the revocation of the relief is payable, on a joint and several basis, by all parties to the exempt transaction (i.e. Flinders and PIOP Mine Co). However, PIOP Mine Co has the sole contractual liability to such duty on the revocation and must indemnify Flinders of same. The Commissioner may also impose penalty tax equal to the duty payable on the revocation. However, provided relevant disclosures are correctly made to the Western Australia Office of State Revenue, the Commissioner will not usually impose any penalty tax (however, this cannot be guaranteed).

On FID, Flinders will proceed with the Mining Option or instead select (subject to Flinders' Shareholder approval) the Royalty Option. If Flinders proceeds with the Mining Option, the Royalty Option will cease, which may give rise to a capital gains tax event for Flinders in relation to the cessation of the Royalty Option.

The value of the Royalty Option at that time, however, is expected to be negligible, meaning that it is not expected that Flinders will be assessable on any material capital gain.

If Flinders proceeds with the Royalty Option, Flinders will be assessable on future royalty payments, which can, subject to Corporations Act requirements, subsequently be paid as dividends to Flinders Shareholders.

2.7 INDEPENDENT FLINDERS DIRECTORS' RECOMMENDATION

Neil Warburton, Cheryl Edwardes and James Gurry (together, the Independent Flinders Directors) recommend, after carefully considering each of the advantages and disadvantages of, and risks associated with, the Proposed Transaction and having regard to the conclusion of the Independent Expert and independent financial, accounting and legal advice, that Flinders Shareholders should vote in favour of the Proposed Transaction, in the absence of a superior proposal.

The Independent Flinders Directors recommend that all Flinders Shareholders read and carefully consider all the material set out in this Explanatory Memorandum before deciding how they will vote.

None of the Independent Flinders Directors hold or control any Flinders Shares.

TIO holds approximately 55.56% of Flinders Shares and 94% of BBIG shares. TIO and its Associates are excluded from voting in favour of the Resolution (for the purposes of the ASX voting exclusion) and voting in any capacity on the Resolution (for the purposes of the ASIC voting exclusion). TIO has advised the Company that it will not cast *any* votes on the Resolution. Accordingly, Flinders Directors Michael Wolley and Evan Davies, given that they are the nominees of TIO, do not consider that it would be appropriate for them to make a recommendation to Flinders Shareholders on the Resolution.

2.7.1 Interests of Flinders Directors in the Resolution

None of Flinders Directors have any personal interest or relevant interest in Flinders Shares.

However, Michael Wolley and Evan Davies are nominees of TIO, which has an interest in the outcome of the Resolution.

2.8 TAX CONSEQUENCES

There will be no Australian capital gains tax consequences for Flinders Shareholders if the Proposed Transaction is implemented, as Flinders Shareholders will continue to hold their Flinders Shares, unless they elect to dispose of them.

This is a general statement as to the likely Australian tax consequences for Flinders Shareholders. However, it is not intended to provide taxation advice in respect of the particular circumstances of any Flinders Shareholder. Flinders Shareholders should obtain their own taxation advice.

Provided a reconstruction relief exemption is granted by the Commissioner for State Revenue, there will be no upfront duty payable by Flinders (or PIOP Mine Co) in respect of Flinders' transfer of the PIOP assets to PIOP Mine Co.

Refer to Section 2.6(l) for commentary relating to the specific tax risks of the Proposed Transaction.

2.9 IMPLICATIONS IF THE PROPOSED TRANSACTION DOES NOT PROCEED

If the Proposed Transaction does not proceed, it will be difficult to develop the PIOP without raising significant funds, initially for a bankable feasibility study which is likely to be dilutive to existing Flinders Shareholders if they do not fully participate. Moreover, Flinders will still need to secure an infrastructure solution to transport the iron ore from the PIOP area. As noted above, PwC and the Infrastructure Committee concluded that BBIG's infrastructure proposal (the BBIG Project) is the most favourable infrastructure option for the PIOP to meet its requirements.

The Company understands that if the Proposed Transaction is not approved by Flinders Shareholders, there is a risk that BBIG will not meet various deadlines in its State Agreement for the BBIG Project and it is unclear whether BBIG would receive an extension. If no extension to the State Agreement is granted, BBIG may be forced to abandon the development of the BBIG Project, excluding it as a viable future infrastructure solution for the PIOP.

Accordingly, if the Proposed Transaction is not approved, Flinders would proceed with an activity level commensurate with available funding and Flinders will need to consider other, potentially less optimal or suitable infrastructure alternatives with unknown timeframes. Flinders will also need to source further funding for the PIOP's development, which could require $2-3 billion, an amount the Directors consider beyond the ability of the current shareholder base to support.

Historically, Flinders has relied on funding support from its major shareholder, TIO. If the Proposed Transaction is not approved it is uncertain whether access to this funding would continue. Furthermore, if an equity raising of the required magnitude were sought, it has the potential to be significantly dilutive to existing Flinders Shareholders if they do not fully participate.

As noted above in Section 2.1, the Independent Review found the BBIG Project would be the most favourable transport option for the PIOP to meet Flinders' criteria and performance requirements. The Independent Expert in the Independent Expert's Report at Section 10 has noted the BBIG Project "appears to be the only credible infrastructure solution for the PIOP currently available" and "Development of the PIOP will not proceed without such an infrastructure solution." The Independent Expert has also noted "The lapsing of the only credible infrastructure option for the PIOP could see a reassessment of the PIOP as a stranded asset and a major fall in the value of both the PIOP and of Flinders. At a minimum, in the absence of some agreement with Todd Corporation to progress development of the PIOP, Flinders' current cash position, funding pressures and debt repayment obligations, together with a possible need to mothball the project, could be expected to result in a significant fall in the Flinders share price."

Finally, if the Proposed Transaction does not proceed neither the advantages of the Proposed Transaction outlined in Section 2.4, nor the potential reasons to vote against the Proposed Transaction outlined in Section 2.5, will be relevant to Flinders Shareholders.

3 Key Questions Answered

Question	Answer
Why have I received this Explanatory Memorandum?	The Proposed Transaction will establish an incorporated joint venture which includes transferring part of the economic and voting interest in the PIOP to BBIG (or its Associates). As BBIG is an Associate of Flinders largest shareholder TIO, the Proposed Transaction requires Flinders Shareholders approval. This Explanatory Memorandum is intended to help you, as a Flinders Shareholder, decide how to vote on the Resolution relating to the Proposed Transaction.
What is the Proposed Transaction?	The Proposed Transaction provides a pathway for the financing and development of the PIOP including an infrastructure solution to transport its iron ore to port and sale to end customers. It involves the proposed farm-in and incorporated joint venture arrangement for the development of the PIOP with BBIG, including the establishment by Flinders of a subsidiary as a joint venture vehicle which will become the holding company for the PIOP assets, PIOP Mine Co. If Flinders Shareholders approve the Resolution and the other conditions in the Farm-in Agreement are satisfied or waived, Flinders will commence implementation of the Proposed Transaction. BBIG will receive a 10% voting interest (and no economic interest) in PIOP Mine Co in exchange for funding a feasibility study (with minimum spend commitments) and complying with its other obligations under the Farm-in Agreement. The Transaction Documents will govern the joint venture and farm-in arrangements for the development of the PIOP, which will be developed and managed by BBIG and its related entities. The Farm-in Agreement is subject to conditions precedent, satisfaction of which have a 9 month sunset date. Thereafter, FID may take up to 4 years, subject to a 1 year extension in certain circumstances. At FID, Flinders may continue with the Mining Option in which case Flinders' economic and voting interest in the PIOP Mine Co joint venture will decrease to 40% and the Equity Funding Party's economic and voting interest will be 50%. BBIG's 10% voting interest will become a 10% voting and economic interest. If BBIG is the Equity Funding Party, its economic and voting interest will increase from 10% to up to 60%. Alternatively, at FID, Flinders may select to convert its total economic and voting interest in PIOP Mine Co into the Royalty Option under the Royalty Deed. Any such selection to convert to the Royalty Option would be subject to further Flinders Shareholder approval at the relevant time with an independent expert's report to be provided to Flinders Shareholders and TIO being excluded from voting in favour on that matter. See Section 2 for further information.
Who is BBIG?	BBI Group Pty Ltd (BBIG), formerly Rutila Resources Limited, is an Australian based resources and infrastructure company, currently focused on development of the Balla Balla Infrastructure Project (the BBIG Project) in the Pilbara region of Western Australia. TIO (Flinders' largest shareholder) owns approximately 94% of BBIG. Additional detail on BBIG is available in Section 6.
Who is the Equity Funding Party?	The Equity Funding Party is currently envisaged to be a consortium of Chinese partners of BBIG, although the agreements also allow BBIG to be the Equity Funding Party (which may involve the Chinese consortium investing in the PIOP Project via BBIG, BBIH, or both).

Question	Answer
	BBIG has signed a business contract with China State Construction Engineering Corporation that provides for China State Construction Engineering Corporation, under certain circumstances, to provide a progressive lump sum contract for the construction of the mine, port and rail. Associated with this, BBIG is in discussions with certain parties regarding the provision of debt and equity for project development.
Do the Flinders Directors recommend the Proposed Transaction?	The recommendations of the Independent Flinders Directors, and their reasons for those recommendations, are set out in Section 2.7. The Independent Flinders Directors unanimously recommend that Flinders Shareholders vote in favour of the Resolution to approve the Proposed Transaction, in the absence of a superior proposal.
What has the Independent Expert said?	The Independent Expert has concluded that the Proposed Transaction is fair and reasonable to non-associated Flinders Shareholders. The full report of the Independent Expert is set out in Section 10.
When will the Proposed Transaction be implemented?	Subject to the Resolution being passed and the satisfaction or waiver of any outstanding conditions under the Farm-in Agreement, the Proposed Transaction will be implemented as soon as practicable after the Extraordinary General Meeting.
Will Flinders remain listed on the ASX?	Yes, Flinders will remain listed on the ASX.
What are the tax implications of the Proposed Transaction for existing Flinders Shareholders?	There should be no immediate tax implications for the existing Flinders Shareholders as a result of the Proposed Transaction.
What are the tax implications of the Proposed Transaction for Flinders?	A general description of the tax implications of the Proposed Transaction are included in Section 2.8. A general description of the tax risks specific to the Proposed Transaction are included in Section 2.6(l).
Are there any potential disadvantages associated with the Proposed Transaction?	While the Independent Flinders Directors unanimously recommend you vote in favour of the Resolution approving the Proposed Transaction in the absence of a superior proposal, Flinders Shareholders should be aware of the potential reasons to vote against the Proposed Transaction and risks described in Sections 2.5, 2.6 and 5.9.
What happens if the Resolution is not approved?	If the Resolution is not approved by Flinders Shareholders, the Proposed Transaction will not be implemented and Flinders will continue to own PIOP but without an infrastructure solution. See Section 2.9 for further details.
What specifically are Flinders Shareholders voting on?	Flinders Shareholders will be voting to approve the Resolution in the Notice of Meeting which is detailed in Section 8 of this Explanatory Memorandum.
What is required for the Resolution to be approved?	The Resolution is an ordinary resolution. For the Resolution to be passed, 50% of eligible votes will need to be cast (in person or by proxy, corporate representative or attorney) in favour of the Resolution. Only TIO (and its Associates) are excluded from voting on the Resolution.

Question	Answer
Why are there two voting exclusion statements?	There are two separate voting exclusions relating to the Resolution due to different voting exclusion statements required under the Corporations Act and Listing Rules. TIO has advised the Company that it will not cast any votes on the Resolution despite its ability under the ASX voting exclusion statement to vote against the Resolution. See Section 8 of this Explanatory Memorandum for further information.
Has Flinders received an alternative proposal from another party?	No. As at the date of this Explanatory Memorandum Flinders has not received an alternative proposal to the Proposed Transaction from another party. Flinders appointed PwC to undertake an independent review of infrastructure solutions and also established the Infrastructure Committee to look at infrastructure solutions available for the PIOP. Both PwC and the Infrastructure Committee determined the BBIG proposed infrastructure solution, which is now the subject of the Proposed Transaction being put to Flinders Shareholders for approval, is the most favourable infrastructure pathway for the PIOP.
If I wish to support the Proposed Transaction, what should I do?	If you wish to support the Proposed Transaction, you should vote in favour of the Resolution to approve the Proposed Transaction, by attending the Extraordinary General Meeting in person, by corporate representative, attorney or by proxy.
What if I cannot attend the Extraordinary General Meeting?	If you cannot attend the Extraordinary General Meeting, you can still vote (if you are eligible to vote) on the Resolution by appointing an attorney or corporate representative or by completing, signing and returning your proxy form in accordance with the instructions on the form and the Notice of Meeting. Proxy forms must be received by the Share Registrar by no later than 10.00am (WST) on 1 March 2020 (being 48 hours before the commencement of the Extraordinary General Meeting).
When will the results of the Extraordinary General Meeting be known?	The results of the Extraordinary General Meeting will be available shortly after its conclusion and will then be released to the ASX.
What are my options?	As a Flinders Shareholder who is eligible to vote on the Resolution your options are to: ▪ vote (in person, by attorney or corporate representative or by proxy) in favour of the Resolution at the Extraordinary General Meeting to be held on 3 March 2020 to approve the Proposed Transaction; ▪ vote against or abstain from voting in respect of the Resolution at the Extraordinary General Meeting; or ▪ do nothing.
How do I know if I am eligible to vote on the Resolution?	You may vote at the Extraordinary General Meeting if you are on the Flinders Share Register at 7.00pm (WST) on 1 March 2020. Only TIO (and its Associates) have voting exclusions applied to their votes on the Resolution.
What should I do now?	You should:

Question	Answer
	▪ read this Explanatory Memorandum in full before making any decision on the Proposed Transaction; ▪ if necessary, obtain professional financial or legal advice, as this Explanatory Memorandum does not take into account the financial situation, investment objectives and particular needs of any individual Flinders Shareholder; ▪ determine whether and how you wish to vote on the Resolution; and ▪ if you wish to vote on the Resolution, vote at the Extraordinary General Meeting in person, or by attorney, corporate representative or proxy.
Further questions?	If you have any questions about the Proposed Transaction, or you would like additional copies of this Explanatory Memorandum or proxy form, please contact the Flinders information email, info@flindersmines.com

4 Transaction Documents

4.1 OVERVIEW

The Transaction Documents for the Proposed Transaction can be described and categorised as set out below. A more detailed summary of each Transaction Document is set out in the subsequent Sections. It should be noted that these are only the principal documents for the Proposed Transaction and there are or will be a number of ancillary or additional documents necessary to implement the Proposed Transaction.

Governance Documents

1. **TIO Governance Letter & Protocols**: a letter given in favour of Flinders under which TIO agrees to, and to procure any related entity to comply with, a set of protocols in relation to PIOP Mine Co. Further details are set out at Section 4.9.

2. **Shareholders Agreement**: an agreement governing the rights and obligations of PIOP Mine Co shareholders (initially being Flinders and BBIG) for the life of the PIOP. Further details are set out at Section 4.3.

3. **Constitution**: the constitution for PIOP Mine Co which governs the relationship and activities between PIOP Mine Co and its shareholders, in conjunction with the Shareholders Agreement. Further details are set out at Section 4.3.

Operative Agreements

4. **Farm-in Agreement**: an agreement which provides the framework to achieve the different stages of development of the PIOP. Further details are set out at Section 4.2.

5. **Infrastructure Services Agreement**: an agreement for BBIH to transport ore from the PIOP through its rail and port infrastructure under a take or pay arrangement; Flinders will pay BBIH a tariff for access to the infrastructure and transport of the ore. Further details are set out at Section 4.5.

6. **Marketing and Sales Agency Agreement**: an agreement appointing BBIH as marketing agent to sell all the iron ore produced by PIOP Mine Co. Further details are set out at Section 4.6.

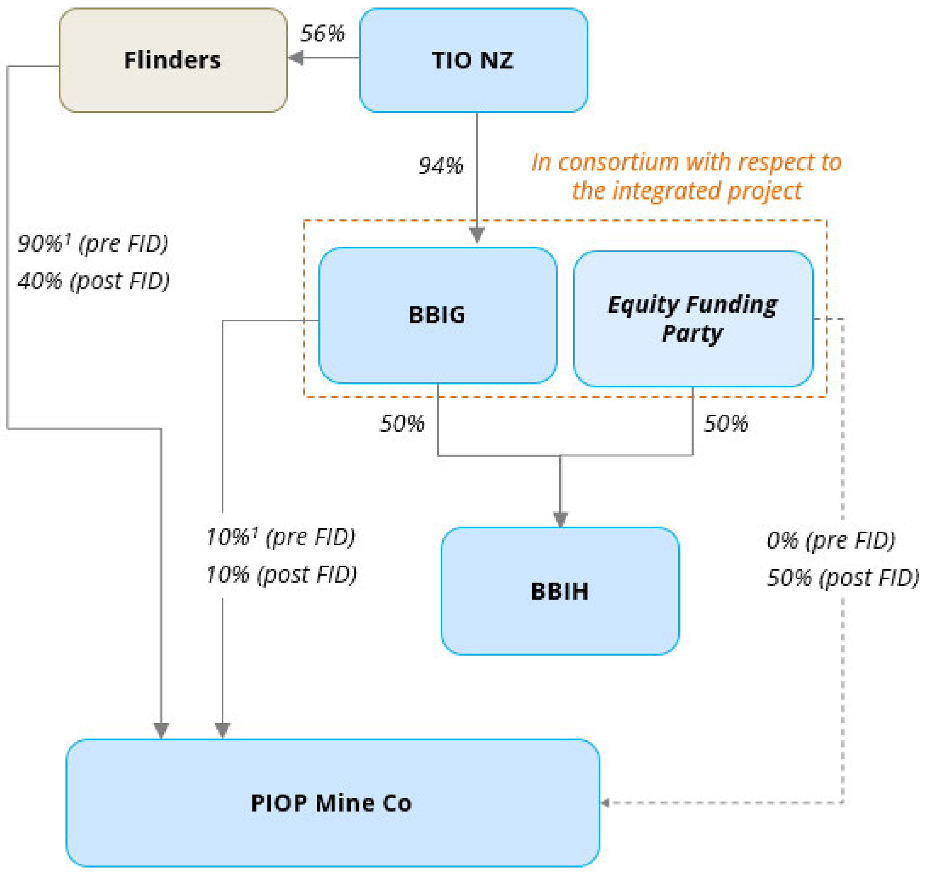
7. **Management Agreement**: an agreement for BBIH to manage and operate PIOP on behalf of PIOP Mine Co, in consideration for the reimbursements of its costs and conflict management protocols. Further details are set out at Section 4.4.

8. **Infrastructure Payment Deed**: an agreement that provides for payment to Flinders of $1/ tonne of ore transported or loaded for other customers using the conveyor, rail and terminal infrastructure after mining of iron ore at PIOP permanently ceases. Further details are set out at Section 4.7.

Alternative Structure Agreement

9. **Royalty Deed**: an agreement which provides for Flinders to receive 2.5% of gross revenue (FOB) if Flinders selects the Royalty Option. Further details are set out at Section 4.8.

The diagram below illustrates the relationship and documents between the relevant parties for the Proposed Transaction.



Notes: 1. Flinders will have 100% economic interest and 90% voting interest in PIOP Mine Co pre-FID; BBIG will have 0% economic interest and 10% voting interest in PIOP Mine Co pre-FID;

4.2 FARM-IN AGREEMENT

The Farm-in Agreement is between Flinders, BBIG and PIOP Mine Co under which BBIG agrees to procure that a feasibility study is undertaken for the PIOP and BBIG obtains the right to obtain shares in PIOP Mine Co and to cause a FID be taken for the PIOP Project (**FID proposal**). References to the Flinders Group in this Section 4.2 refer to Flinders and its subsidiaries and includes PIOP Mine Co prior to FID.

The Farm-in Agreement governs the Proposed Transaction as a whole up to the time when a FID proposal is made and provides that BBIG will initially be issued with an initial 10% voting (and non-economic) interest in PIOP Mine Co. In return, BBIG will fund the Feasibility Study, assign any assets associated with the Pre-Completion Work (described below) to PIOP Mine Co and performing BBIG's other obligations under the agreement.

Conditions precedent and initial steps

- The Farm-in Agreement is conditional on:
  - Flinders Shareholders approving the Proposed Transaction;
  - BBIG obtaining FIRB approval for the initial issue of B class shares in PIOP Mine Co to BBIG and (possible) further issue of C class shares in PIOP Mine Co to BBIG at the time of the FID proposal;
  - the PIOP assets being transferred to PIOP Mine Co, including:
    - a reconstruction relief exemption being granted by the Commissioner for State Revenue (or BBIG providing a funding proposal for any duty that is reasonably acceptable to Flinders); and
    - Ministerial approval being granted to the transfer of the tenements; and
  - PIOP Mine Co obtaining FIRB approval for the transfer of the PIOP assets;
  - the initial A class shares being issued to Flinders.
- If the conditions precedent are not satisfied or waived within 9 months of signing (i.e. the sunset date), either party may terminate the Farm-in Agreement (provided it has complied with its obligation to seek to satisfy the conditions precedent).
- On satisfaction of the conditions precedent, BBIG is issued with a B class share in PIOP Mine Co, which carries a 10% voting interest and no economic interest (**subscription completion**).
- PIOP Mine Co and Flinders have executed an intra-group sale agreement for the transfer of the PIOP assets to PIOP Mine Co.

Transfer of PIOP assets and warranties

- Flinders and PIOP Mine Co give warranties to BBIG:
  - in relation to the structure, ownership and liabilities of PIOP Mine Co;
  - in relation to the good standing of the tenements, and that the Flinders Group has not applied for any other tenement in the area;
  - that the Flinders Group is not party to any agreement which would prevent BBIG from carrying out the project on the tenements;
  - that Flinders and PIOP Mine Co have complied with all laws and obligations in respect of the PIOP project assets including performing and observing all obligations under any project assets agreements which are due to be performed before subscription completion;
  - that the information contained in the Flinders data room is complete and not misleading;
  - in relation to native title;
  - that there are no claims in relation to the PIOP tenements or PIOP; and
  - that there are no private royalties over the PIOP tenements (with the exception of the Royalty Deed).
- Flinders indemnifies BBIG for a breach of these warranties and for third party claims relating to the pre-subscription completion period.

- BBIG warrants that the information contained in the BBIG data room is complete and not misleading.

- The warranties are given subject to any matter that is disclosed, with a time limit of 18 months after the date of the agreement and with a cap on liability of $5 million (and $10 million for title warranties) for claims. Consequential loss is excluded.

Preparation and funding of feasibility studies

- The pre-FID period is for four years starting on subscription completion (following satisfaction of the conditions precedent). If BBIG is delayed in conducting the Feasibility Studies for reasons outside of its control, the pre-FID period may be extended by an additional year. The pre-FID period ends on the date FID is achieved.

- Between the date of the Farm-in Agreement and subscription completion (**Pre-Completion Work Period**), BBIG may begin preparing the Feasibility Studies (**Pre-Completion Work**).

- BBIG must fund a minimum spend of at least $15 million per year on the Feasibility Studies and PIOP operating and compliance costs. If less than this amount is spent in any year, BBIG must pay the shortfall to PIOP Mine Co which Flinders will be entitled to as a special dividend. Any amount paid by BBIG in funding any stamp duty for the transfer of the PIOP assets to PIOP Mine Co and in respect of any pre-completion work will count towards BBIG's minimum spend commitment. Any excess spend is rolled over to future years.

- BBIG will procure that BBIH will undertake the Feasibility Studies. BBIH will conduct the Feasibility Studies at its discretion but the studies must:

  - be of a standard that is sufficient to support project financing of the construction and development of the PIOP;

  - be sufficient to meet the FID criteria as described below;

  - be based on the assumption that PIOP development will utilise the BBIG Project under the Infrastructure Services Agreement;

  - include a work program and budget for the development of the PIOP Project (including a committed funding plan), with the funding to comprise:

    - external debt provided by project financiers;

    - equity funding by the Equity Funding Party; and

    - completion support from the shareholders in PIOP Mine Co; and

  - such other information as would typically be included for a comparable feasibility study of a similar project.

- The Equity Funding Party is currently envisaged to be a consortium of Chinese partners organised by BBIG, although the agreements also allow BBIG to be the Equity Funding Party (which may involve the Chinese consortium investing in the PIOP Project via BBIG, BBIH, or both) or other third parties.

- BBIG acknowledges that, during the pre-FID period, it will, or will procure that BBIH will, contemporaneously undertake a feasibility study for the BBIG Project.

- BBIG will provide to Flinders and PIOP Mine Co:

  - monthly updates on the progress and status of the Feasibility Studies;

  - quarterly updates on the progress and status of the feasibility study for the BBIG Project; and

  - draft versions of the Feasibility Studies and associated documents.

- The Feasibility Studies will become the property of PIOP Mine Co, with each of BBIG and Flinders having a no-cost licence to use the Feasibility Studies.
- During the pre-FID period, BBIG must fund the Feasibility Study costs and the ongoing compliance costs for PIOP Mine Co and the PIOP tenements.

Additional Security

- If FID occurs, BBIG will arrange the project financing arrangements for the external debt component of the integrated project finance on behalf of PIOP Mine Co.
- If during the FID Period, BBIH becomes aware that the project financiers or the Equity Funding Party require PIOP Mine Co or its Shareholders to provide financial support or security in support of the integrated project finance over and above:
    - the security to be given by the Shareholders over their shares; and
    - that to be provided by the Equity Funding Party,

  then BBIH will give notice of that requirement to the Shareholders (**additional security**).
- If either Flinders or BBIG (**first Shareholder**) demonstrates to the other party (**second Shareholder**) that it is incapable of providing its share of additional security, then it will not be required to provide additional security. However, the second shareholder may elect to provide the first Shareholders' share of additional security and the first Shareholder will be required to pay to the second Shareholder or Equity Funding Party (as applicable), the costs of providing and maintaining that additional security and all losses, damages, charges, costs and expenses (including legal costs on a full indemnity basis) reasonably incurred as a result of enforcement action in respect of that additional security. If the first Shareholder cannot meet those costs and other amounts, its shareholding may be diluted.

FID proposal

- At any time during the pre-FID period, BBIG or BBIH may notify PIOP Mine Co of a FID proposal. A FID proposal requires the following criteria (**FID Criteria**):
    - that the Equity Funding Party has committed to fund 100% of the equity component of the capital costs of the development (including if the Equity Funding Party is not BBIG, a material cost overrun cap);
    - a financial model and details of contractual arrangements that demonstrates, based on appropriate forward-looking assumptions, that the PIOP will be capable of achieving an operating margin that is reasonable for a project of its nature;
    - an estimate of the all-in costs through to completion and financing costs (with appropriate contingency);
    - BBIG or BBIH to establish that financing arrangements can be obtained on reasonable commercial terms and that the PIOP and BBIG Project will be financed on the same basis (including the same debt equity ratio), noting that these financing arrangements may provide for 'cross-collateralisation' of the security (likely to be by way of secured guarantee) for PIOP and the BBIG Project (with BBIG being obliged to use its reasonable endeavours to avoid such cross-collateralisation);
    - BBIG or BBIH to demonstrate that appropriate arrangements are in place for off-take and construction agreements and that key tenures, licence and approvals are capable of being obtained; and
    - the annual contract capacity for the purposes of, and an estimate of the operating charge under, the Infrastructure Services Agreement.

- If a FID proposal is given, PIOP Mine Co must approve the FID and Flinders' board has 45 days to decide whether to retain its shareholding in PIOP Mine Co (being the **Mining Option**), or to take a 2.5% gross royalty for the life of the mine (being the **Royalty Option**). If the Flinders' Board selects the Royalty Option, Flinders has an additional 75 days to obtain Flinders Shareholder approval of that selection. If Flinders does not notify BBIG of its decision within the 45 day period, or Flinders Shareholders do not approve the selection of the Royalty Option within the 75 day period, Flinders will be taken to have selected the Mining Option.

- Different obligations arise for the parties depending on whether it selects the Mining Option or Royalty Option:

  - if Flinders selects the Mining Option, the Royalty Deed will automatically terminate, and Flinders must remove associated caveats over the PIOP Tenements and the Royalty security in respect of the project assets;

  - if Flinders selects the Royalty Option, then BBIG and the Equity Funding Party must exercise their voting interests such that PIOP Mine Co fulfils its obligations to make reasonable endeavours to develop the mine as required under the Royalty Deed.

- After a FID proposal is made, BBIG's B class share in PIOP Mine Co converts into a 10% voting and economic interest and the Equity Funding Party is issued with C class shares carrying a 50% voting and economic interest. Flinders' A class shares in PIOP Mine Co dilutes to a 40% voting and economic interest. If Flinders selects the Royalty Option, Flinders' A Class Share terms will automatically be amended and varied in accordance with the constitution, including to remove dividends and voting rights.

- Under the terms of the Shareholders Agreement, if Flinders selects the Mining Option, Flinders will be free-carried through construction of the PIOP Project, up to the estimated cost of construction under the FID proposal, plus contingency and (if BBIG is not the Equity Funding Party) the cost-overrun cap amount. If the cost of construction exceeds the amount that is free-carried, Flinders must contribute additional funds pro-rata to its 40% shareholding in PIOP Mine Co. If it fails to meet a cash call, it will be diluted.

Withdrawal rights

- BBIG may withdraw from the agreement at any time prior to FID.

- Flinders may withdraw from the agreement if FID is not achieved by the end of the pre-FID period.

- If BBIG or Flinders withdraws from the agreement following subscription completion without a FID proposal occurring, BBIG must pay to PIOP Mine Co the greater of $3 million and the shortfall to the $15 million minimum spend for the year of withdrawal.

- If BBIG or Flinders withdraws:

  - the agreement terminates;

  - BBIG indemnifies PIOP Mine Co for any reasonable costs in terminating contracts entered into for the performance of the Feasibility Studies during the pre-FID period;

  - BBIG warrants to PIOP Mine Co and Flinders that BBIH have not done anything (or omitted to do anything) which would negatively affect the good standing of the PIOP tenements and that BBIG and BBIH have (and have procured that PIOP Mine Co has) complied with laws and material contracts applicable to the PIOP assets (with liability for breach of these warranties having a time limit for claims of 18 months after the date of withdrawal and with a cap on liability of $5 million);

  - BBIG must pay to a jointly held account (in the name of BBIG and Flinders) an amount equal to the rehabilitation liability estimate for activities undertaken during the pre-FID period (which will be released to BBIG to the extent not spent within 3 years);

  - BBIG retains a licence to use the Feasibility Studies; and

- If within 2 years of withdrawal by BBIG or Flinders, BBIG determines to sell the BBIG Project, BBIG must give Flinders the opportunity to make an offer to acquire the BBIG Project.

Other terms

- Flinders and PIOP Mine Co agree to BBIG lodging a consent caveat over the PIOP tenements, and to recording the Farm-in Agreement on the mining register (subject to Flinders' right to maintain caveats over the PIOP tenements as provided under the PIOP Royalty Deed and associated security documents).

- Flinders agrees to prioritise the PIOP Project over any other project during the pre-FID period, and if FID occurs, until practical completion of the PIOP Project.

- Flinders agrees to a 'no shop, no talk' exclusivity period for the Integrated Project during the pre-FID Period, which may expire 30 months after subscription completion if Flinders reasonably believes BBIG will not be capable of submitting a FID proposal by the end of the pre-FID period.

The Farm-in Agreement includes as annexures the other agreed form Transaction Documents required for the Proposed Transaction. Aside from the farm-in matters addressed in the Farm-in Agreement (primarily around the Feasibility Studies and the FID proposal), matters concerning PIOP Mine Co are addressed in the Shareholders Agreement.

4.3 SHAREHOLDERS AGREEMENT AND CONSTITUTION

The Shareholders Agreement is between Flinders, BBIG and PIOP Mine Co and sets out the terms that govern the relationship between the shareholders of PIOP Mine Co (Flinders and BBIG) and the terms on which the incorporated joint venture will be managed through PIOP Mine Co. The Shareholders Agreement will be executed when the conditions precedent to the Farm-in Agreement are satisfied. The Shareholders Agreement operates from the initial period when the Feasibility Studies on the PIOP Project are conducted to FID (**Feasibility Study Period**), through the development of the mine (**Development Period**) and then during mining operations (**Mining Period**).

- **Share capital and classes:** there are four PIOP Mine Co share classes:

  - A Class Shares – issued to Flinders. Following satisfaction of the conditions precedent in the Farm-in Agreement and until FID, Flinders will own 100% of the economic interest and 90% of the voting interest in PIOP Mine Co. After FID, Flinders will have a 40% economic and voting interest in PIOP Mine Co, unless Flinders decides to take the Royalty Option in which case the rights attaching to the A class shares will be automatically varied so that the A class shares have no economic or voting interest other than a right to 40% of distributions of capital on the winding up of PIOP Mine Co;

  - B Class Shares – issued partly paid to BBIG in accordance with BBIG's subscription under the Farm-in Agreement. Until FID, the B class share will have a 10% voting interest and no economic interest in PIOP Mine Co. After FID, the economic interest and voting interest in PIOP Mine Co will be 10%;

  - C Class Shares – issued partly paid following FID, the holder of the C class share (the Equity Funding Party), will have a 50% economic and voting interest in PIOP Mine Co; and

  - Preference Shares – potentially issued to the Equity Funding Party as part of the overall financing arrangement for development of the mining operations. The terms of such preference shares will be determined as part of the FID proposal but they will be only redeemable with the agreement of PIOP Mine Co, will be non-voting and will have a preferred dividend at a market-based coupon rate. There must be equivalent preference equity in the capital structure of both PIOP Mine Co and the BBIG Project.

  The terms of issue of the shares are set out in the proposed constitution of PIOP Mine Co (or, in the case of the preference shares, will be once determined). This constitution will be adopted by PIOP Mine Co before the issue of the B class shares.

- **Board:** the Board of PIOP Mine Co will be responsible for the overall governance of the PIOP. Day-to-day operational responsibility will be undertaken by BBIH, a wholly owned subsidiary of BBIG, in accordance with the Management Agreement.

- **Board composition:** each shareholder is entitled to the following appointments to the board of PIOP Mine Co:

  Pre-FID (Feasibility Study Period)

  - Flinders: 3 directors, with the right to appoint the chairperson; and
  - BBIG: 1 director.

  Post-FID (Development Period and Mining Period)

  - Flinders: 1 director (unless Flinders selects the Royalty Option, in which case it will have no director on the board); and
  - BBIG: 1 director, with the right to appoint the chairperson; and
  - Equity Funding Party: 2 directors.

- **Quorum**: under the Shareholders Agreement, a quorum will be:

  - during the Feasibility Study Period, at least 1 BBIG director and 2 Flinders Directors; and
  - during the Development Period and Mining Period, at least 1 Flinders Director (unless Flinders selects the Royalty Option, in which case it will have no director on the board), 1 BBIG director and 1 Equity Funding Party director.

- **Director voting power**: directors of PIOP Mine Co will have votes equivalent to the voting interest in PIOP Mine Co of the shareholder nominating the director.

- **Fundamental board matters**: A fundamental board matter relates to the enforcement of PIOP Mine Co's rights (including termination) under any related party agreement (such as the Management Agreement, Infrastructure Services Agreement and the Marketing and Sales Agency Agreement). A fundamental board matter requires an aggregate vote of 100% in favour of a resolution by directors entitled to vote at the board meeting.

- **Fundamental shareholder matters**: some decisions made at PIOP Mine Co shareholder level will be 'Fundamental Shareholder Matters' requiring unanimous or supermajority (approval by shareholders holding in aggregate 75% or more of the voting interest in PIOP Mine Co) approval.

- **Supermajority matters**: matters requiring at least 75% shareholder approval include matters such as:

  - approval of the work program and budget;
  - material adjustments to production levels from the mine from the target level in the work program and budget;
  - any substantial design changes during the Development Period;
  - financial accommodation exceeding $100m, other than to the extent contemplated by the other Transaction Documents;
  - other than in the ordinary course of business (or as contemplated by the Transaction Documents):
    - entering into any material transaction;

  - ♦ entering into or becoming liable under any guarantee or indemnity; or
  - ♦ creating any encumbrance (other than a permitted encumbrance);
- sale, transfer, disposal or acquisition of any item of the PIOP assets which exceeds 10% of the book value of the assets or would have a direct impact on the economic value of PIOP Mine Co of more than 10%;
- surrender of any part of the PIOP tenement area except as necessary for minor boundary adjustments or as may be required under the *Mining Act 1978* (WA);
- commencing or settling any litigation or proceedings which may cause PIOP Mine Co to incur liabilities or costs in excess of A$50 million;
- removal of directors (other than where a shareholder is replacing its own nominated director(s));
- appointment of a CEO; and
- payment of any fees or remuneration to directors.

■ **Unanimous matters**: matters requiring unanimous shareholder approval include matters such as:

- approval of a FID decision (subject to being required to be passed, see Section 4.2);
- new issues of securities (other than already contemplated as part of the Transaction Documents);
- undertaking a share buy-back or capital reduction;
- making a call on partly paid shares (but provided that the Equity Funding Party is unable to veto its funding obligations);
- a call for additional capital during the Feasibility Study Period (but subject to Flinders voting as directed by BBIG during that period);
- departure from the dividend policy;
- appointment of a new Manager or Marketing Agent;
- winding up of PIOP Mine Co;
- any amendments to the constitution of PIOP Mine Co or Shareholders Agreement;
- any amendments to the Royalty Deed (as defined in the Farm-in-Agreement), termination or variation of the Management Agreement, Infrastructure Services Agreement or the Marketing and Sales Agency Agreement for any reason (to the extent these are not a related party agreement the subject of a fundamental board matter);
- entry into, or material amendment of existing rights under, any related party agreement; and
- undertaking activities which are not within the objects of the joint venture as set out in the Shareholders Agreement.

■ **Work programs and budgets**: the agreement sets out the requirements for PIOP Mine Co to procure that the Manager prepares and submits to PIOP Mine Co and the board proposed work programs and budgets, as part of the FID proposal for the Development Period and during the Mining Period.

- **Capital contributions**: the capital required by PIOP Mine Co varies between the shareholders of PIOP Mine Co and will vary during the Feasibility Study Period, Development Period and Mining Period as set out below.
  - Feasibility Study Period:
    - BBIG must provide the funding required during the Feasibility Study Period.
  - Development Period:
    - the equity capital required will be provided by the Equity Funding Party (which may be BBIG or a third party), through responding to calls for capital on the C class share and by subscribing for preference shares, up to an agreed equity contribution level determined at FID; and
    - if there is a shortfall, beyond a pre agreed overrun cap, and a cost overrun contribution is required, PIOP Mine Co may then call on shareholders to contribute additional capital in proportion to their respective economic interest. If a shareholder does not respond to the call for capital, that shareholder's voting and economic interest will be diluted.
  - Mining Period:
    - equity capital required by PIOP Mine Co may be provided by the shareholders by subscribing for further shares in PIOP Mine Co or by means of third party financing;
    - a call for funding from shareholders will be made pro rata to their economic interest; and
    - if a shareholder does not meet a call for capital, that shareholder's interest will be diluted.
- **Restructure of capital**: on the Equity Funding Party satisfying in full its required equity funding contributions, the capital of PIOP Mine Co will be restructured so that the A class, B class and C class shares will be converted into ordinary shares on a pro rata basis to the economic interest in PIOP Mine Co conferred by the relevant class of shares. Any preference shares will not be affected. The A class shares will also not be affected if Flinders selects the Royalty Option (noting as referred to above that the rights of the A class shares will be automatically varied on selection of the Royalty Option).
- **Additional security**: If additional security is required from shareholders as contemplated by the Farm-in Agreement, and either Flinders or BBIG cannot provide that security and does not pay any costs of another party in providing additional security, then the voting and economic interest of that party will be diluted based on the cost relative to the fair value of PIOP Mine Co at the time.
- **Dilution**: if a call for capital is not met by the relevant shareholder in the Development Period or Mining Period, then the shortfall from that 'non-contributing shareholder' will be offered to contributing shareholders (with the opportunity to subscribe for additional shares at a 10% discount to that initially offered) and the 'non-contributing shareholders' economic interest will be diluted accordingly. If the call relates to part of the Equity Funding Party's required equity contribution and the Equity Funding Party defaults in making that contribution, the right to assume the outstanding funding obligations of the Equity Funding Party will be offered to BBIG, and then to Flinders if BBIG declines, and then to a third party if Flinders declines. The economic interest of the Equity Funding Party would be diluted by reference to the interest assumed by the other party, and relative to the proportional contribution made by the Equity Funding Party to its total equity commitment.
- **Dividends**: dividends can be paid out of the profits of PIOP Mine Co and shareholders must use reasonable endeavours to ensure that profits are distributed to the shareholders to the maximum extent and in accordance with each shareholders' economic interest, provided that PIOP Mine Co must have sufficient reserves to meet any necessary capital expenditure requirements and to provide appropriate cash reserves to reasonably manage volatility in revenues.
- **Deadlock**: the agreement includes a deadlock resolution regime applies in circumstances where the PIOP Mine Co board or shareholders (as applicable) are unable to reach agreement on any matter which is the subject of a PIOP Mine Co board meeting or shareholders meeting after 3 or more consecutive meetings or

within 6 months. A deadlock notice may then be sent and the shareholders must procure that their respective CEOs meet and use all reasonable endeavours in good faith to resolve the deadlock as soon as possible.

- If the deadlock is not resolved within 30 days of the issue of the deadlock notice:
  - If the deadlock relates to a matter that absent a decision would have a direct cost impact of more than $100 million and the Manager notifies PIOP Mine Co that a decision is required so that the business can continue in the normal and ordinary course, then the matter will be referred to the chairpersons of each shareholder to resolve, failing which the dispute may be referred by any party to an independent expert to resolve.
  - If the deadlock relates to a matter that absent a decision would have a direct cost impact of less than $100 million the status quo will prevail, unless the Manager has notified PIOP Mine Co that a decision is required so that the business can continue in the normal and ordinary course, in which case the dispute will be resolved by implementing the decision recommended by the Manager.
  - If the deadlock relates to a 'fundamental board matter', a party may refer the matter to the chairpersons of each shareholder to resolve, failing which the dispute may be referred by any party to an independent expert to resolve.
  - Otherwise, the status quo will prevail.

  Where the matter or resolution involves the approval of a proposed work program and budget, a deadlock will have occurred where:

  - the proposed work program and budget fails to be approved at 2 or more consecutive Shareholders meetings at which the particular matter is subject of a resolution proposed; or
  - the proposed work program and budget is not approved by the date it was supposed to come into the effect under the Shareholders Agreement.

  If such a deadlock cannot be resolved within 40 days of the issue of a deadlock notice then PIOP Mine Co will continue to be managed under the existing approved work plan and budget as adjusted for CPI plus 10% and any additional amount determined by the Manager and notified to PIOP Mine Co as being necessary to conduct safe and reliable baseload operations and maintenance required in respect of the project, until a new work program and budget is approved by the board.

- **Disposal of shares**: the Shareholders Agreement addresses the customary process by which a shareholder may be able to dispose of all or part of their shareholding in PIOP Mine Co, and includes pre-emptive rights. These pre-emptive rights require the shareholder wishing to dispose all or part of its shareholding to offer those shares to existing shareholders. The Shareholders Agreement also provides that if the existing shareholders do not exercise their right to buy the shares, a third party buyer may buy all the shares subject to notification and confirmation that the third party is able to perform its obligations as a shareholder of PIOP Mine Co.

- **Default events**: The Shareholders Agreement contains certain 'Default Events' which provides 'non-defaulting shareholders' with a call option over the 'defaulting shareholder's' shares. These 'Default Events' include:
    - material breach of a term of the Shareholders Agreement that is incapable of remedy or not remedied within 30 days of being notified of the breach (but excluding failure to meet a call for an equity contribution);
    - where the Shareholder commits persistent material breaches of a term of the Shareholders Agreement following remedying a material breach of the same term whether or not that breach is capable of remedy;
    - a change in law which prohibits the shareholder from being a shareholder in PIOP Mine Co;
    - an administrator, liquidator or provisional liquidator is appointed or a resolution passed to appoint any of those persons to the shareholder;
    - winding up of the shareholder;
    - a receiver, receiver and manager, trustee or similar officer is appointed over the assets of the shareholder;
    - any insolvency arrangements are entered into by the shareholder;
    - the shareholder disposes or purports to dispose of any shares in breach of the Shareholders Agreement;
    - during the Development Period or Mining Period, the shareholder ceases to hold a minimum economic interest of 5% in PIOP Mine Co;
    - failure by all directors appointed by the shareholder to attend a meeting of the PIOP Mine Co board 3 or more times in succession where the subject matter of a resolution concerns any fundamental board matter; or
    - failure by a shareholder to attend a meeting of the shareholders 3 or more times in succession where the subject matter of a resolution concerns any fundamental shareholder matter.
- Immediately on the occurrence of a 'Default Event', the call option for each non-defaulting shareholder will be enlivened and each non-defaulting shareholder will have an option to purchase the shares at the 'fair market value' of those shares less 10% (unless the 'Default Event' relates to holding less than a minimum economic interest of 5%, in which case there is no discount). Determination of the 'fair market value' will be determined by an independent expert.
- Under the Farm-in Agreement, if BBIG or BBIH requests, the parties must meet and discuss in good faith any amendments to the Shareholders Agreement to facilitate a FID proposal and the Equity Funding Party's subscription to PIOP Mine Co. Flinders may not unreasonably withhold consent to these amendments.

4.4 MANAGEMENT AGREEMENT

- The Management Agreement will be between PIOP Mine Co and BBIH under which BBIH is appointed the Manager of the PIOP Project. The Management Agreement will commence on signing (immediately following subscription completion under the Farm-in Agreement) and continue for the life of the PIOP Project, unless terminated earlier. BBIH as Manager is responsible for the management, supervision and conduct of all exploration, development, mining, treatment, mine closure and rehabilitation activities for the PIOP Project.

Functions of BBIH

- Under the Management Agreement, BBIH is responsible for the day-to-day operation of the mine (other than in relation to the marketing of product, which is separately addressed in the Marketing and Sales Agency

Agreement). BBIH will have operational control of the PIOP assets, while ownership of the assets will remain with PIOP Mine Co.

- The functions of BBIH include:
  - preparing mine plans and other management plans for the PIOP for approval by PIOP Mine Co;
  - preparing annual work programs and budgets for mining operations for approval by PIOP Mine Co in accordance with the Shareholders Agreement;
  - carrying out the work required for and preparing the feasibility studies under the direction of BBIG pursuant to the Farm-in Agreement, and implementing a development work program and budget as approved in a FID proposal under the Farm-in Agreement;
  - obtaining, evaluating and accepting quotes and tenders and contracting with third parties to undertake the mine development and operation activities;
  - engaging employees necessary for the performance of its activities under the Management Agreement;
  - undertaking foreign currency activities as necessary and determined by BBIH;
  - keeping the PIOP tenements in good standing and attending to tenement administration matters and other statutory reporting;
  - receiving, administering and managing proceeds received by or on behalf of PIOP Mine Co on account of sales of products from the PIOP;
  - payment on behalf of PIOP Mine Co of all costs and expenses incurred by BBIH in the conduct of its management activities;
  - acting as PIOP Mine Co's representative in respect of native title matters and Aboriginal cultural heritage issues and negotiating and entering into agreements with native title holders or claimants subject to a $500,000 limit unless approved in the approved work program and budget, or otherwise approved by PIOP Mine Co under the Shareholders Agreement;
  - effecting and maintaining appropriate insurances;
  - disposing of surplus equipment;
  - instituting and defending claims and legal proceedings or insurance claims in relation to the management activities or PIOP assets;
  - representing PIOP Mine Co in all dealings with government authorities;
  - reporting to the board of PIOP Mine Co; and
  - carrying out all other incidental things reasonably necessary or desirable in connection with its powers and duties.
- To the extent possible at law and otherwise commercially desirable, BBIH will enter into contracts on behalf of PIOP Mine Co as agent.
- BBIH's functions and obligations are effectively subject to it receiving the necessary funds to carry them out, through the payment of cash calls by the PIOP Mine Co shareholders.

Standard of performance

- BBIH must undertake its duties in accordance with:
  - good Australian mining practice;
  - the FID proposal approved under the Farm-in Agreement (for mine development);
  - the approved work programs and budgets;
  - all applicable laws, regulations and rules; and
  - lawful instructions from PIOP Mine Co given in accordance with the Management Agreement.
- In addition, BBIH must act in good faith in the conduct of its management activities and all its dealings as manager with PIOP Mine Co.

Limitations on BBIH's powers

- Unless specifically authorised through an approved work program and budget or under the Management Agreement, or otherwise in the case of emergency, BBIH must not carry any activity that would constitute a 'Fundamental Matter' requiring either unanimous or supermajority approval of the PIOP Mine Co shareholders under the Shareholders Agreement. These Fundamental Matters are listed in full in the separate summary of the Shareholders Agreement above at Section 4.3.

Cash calls and work programs and budgets

- BBIH will issue monthly cash calls to the PIOP Mine Co shareholders in accordance with approved work program and budgets. The initial work program and budget for mine development will be prepared by BBIH and be contained in the FID proposal under the Farm-in Agreement. The approval of the initial work program and budget is automatic if FID occurs.
- Subsequent work program and budgets will be prepared by BBIH for the approval of the PIOP Mine Co shareholders. If PIOP Mine Co does not approve the work program and budget for a year:
  - the approved work program and budget for the upcoming year will be deemed to be the approved budget from the previous year with a 10% increase. In other words, since the initial development work program and budget is 'locked-in' at FID, this means that Flinders (as a PIOP Mine Co shareholder) can never prevent there being an approved budget for a year without BBIG's agreement; and
  - BBIH will continue to undertake its fundamental duties under the Management Agreement subject to it receiving funding via cash calls made pursuant to the approved budget (i.e. the budget from the previous year).
- In addition, PIOP Mine Co must always approve sufficient expenditure to enable compliance with the contractual tenement and regulatory obligations of PIOP Mine Co and BBIH entered into in connection with BBIH's management activities.
- BBIH has additional powers to incur expenditure and carry out management activities exceeding the allowance in the approved work program and budget:
  - in the case of an emergency endangering life, property or the environment;
  - if BBIH expects there will be a cost overrun in carrying out activities for which provision was made in the approved work program and budget which cannot be avoided by the exercise of good Australian mining practice, provided that the additional expenditure must not exceed:

- ♦ 10% in respect of an individual line item of the approved budget; or
- ♦ 5% in respect of the total approved budget;
- to comply with law; or
- for minor or technical departures from the approved work program and budget, where the departure is in accordance with good Australian mining practice.

Payment and bank accounts

- BBIH will solely administer the bank accounts of PIOP Mine Co. All proceeds on product sales received by PIOP Mine Co will be held in an account administered by BBIH, who will apply the proceeds in accordance with the cash waterfall agreed under the Farm-in Agreement (subject to any amendments made by the project financiers).
- BBIH is not entitled to any remuneration, profit or margin for acting as manager but is entitled to reimbursement of all its reasonably and properly incurred costs incurred directly, or indirectly (to the extent attributable) to the conduct of its management activities.
- These indirect costs include an allowance for BBIH's office overhead and administrative costs.

Reporting and auditing

- In the pre-FID period, BBIH must deliver monthly reports to PIOP Mine Co on the progress of the Feasibility Studies, and must provide access to draft versions of the Feasibility Studies and associated documents at reasonable and appropriate times determined by BBIH.
- Following FID, BBIH must provide monthly financial reports and progress reports on work performed and upcoming planned work together with expenditure forecasts.
- BBIH will provide unaudited financial reports at the end of each calendar year, which BBIH must procure be audited within 23 months.

Liability

- BBIH will have no liability to PIOP Mine Co in respect of its management activities under the Management Agreement other than to the extent arising as a result of the fraud, wilful misconduct or gross negligence of the supervisory personnel of BBIH. In addition, BBIH will not be liable for consequential loss in any circumstances.
- PIOP Mine Co must indemnify BBIH against any loss it suffers in carrying out the management activities, except to the extent the loss is caused by the fraud, wilful misconduct or gross negligence of the supervisory personnel of BBIH.
- BBIH must indemnify PIOP Mine Co against any loss it suffers arising from the management activities, to the extent the loss is caused by the fraud, wilful misconduct or gross negligence of the supervisory personnel of BBIH.

Termination and assignment

- The Management Agreement will automatically terminate if Flinders or BBIG withdraw from the Farm-in Agreement.
- PIOP Mine Co or the Manager may only terminate if:
  - the other party suffers an insolvency event;

  - the other party commits a material breach that is not remedied within a permitted rectification period being not less than 60 days;
  - the other party has persistently committed material breaches of material terms; or
  - PIOP Mine Co may terminate if neither BBIG or a related body corporate of BBIG are a shareholder in PIOP Mine Co and if the Infrastructure Services Agreement has been terminated and not replaced by an equivalent agreement between BBIH and PIOP Mine Co.
- BBIH may terminate if PIOP Mine Co:
  - suffers an insolvency event;
  - commits a material breach that is not remedied within a permitted rectification period being not less than 60 days;
  - has persistently committed material breaches of material terms; or
  - purports to assign the agreement without permission.
- BBIH may not assign or transfer any of its rights or obligations under the agreement.
- PIOP Mine Co may assign its interest in the agreement if BBIH consents and the relevant third party has the financial capacity and operational capability to meet PIOP Mine Co's obligations under the agreement and acquires a corresponding interest in the PIOP.

4.5 INFRASTRUCTURE SERVICES AGREEMENT

- The Infrastructure Services Agreement will be between PIOP Mine Co and BBIH and will be entered into immediately following subscription completion under the Farm-in Agreement. The Infrastructure Services Agreement sets out the terms and conditions upon which BBIH will transport iron ore from the ore processing facility at the mine to the Balla Balla Port (**Port**) and load iron ore onto ocean going vessels.

Condition precedent

- The Infrastructure Services Agreement is conditional on FID being achieved.

Term and commencement of Services

- The Infrastructure Services Agreement commences on satisfaction of the condition precedent and ends on the date PIOP Mine Co permanently ceases mining iron ore at PIOP (**End of Mine Life**).
- BBIH must use reasonable endeavours to achieve commissioning and testing of the transport infrastructure by the later of the date nominated in the FID proposal and the date PIOP Mine Co advises BBIH it will have ore available and ready for shipment.
- The Infrastructure Services Agreement includes 'window' mechanisms obliging BBIH and PIOP Mine Co to specify narrowing periods for the date on which the services will commence (in the case of BBIH) and ore will be available and ready for shipment (in the case of PIOP Mine Co).

Services

- BBIH must:
  - operate the loading facility at the mine to transfer iron ore to the mine overland conveyor;
  - transport iron ore produced at the mine on the conveyor to the rail head stockyard;

- stockpile and blend product at the rail head stockyard;
- transport iron ore from the rail head stockyard to the Balla Balla Port using the rail infrastructure;
- stockpile and blend product at the port stockyard;
- transport the iron ore from the port stockyard to, and load iron ore onto, ocean going vessels using customised transhipment vessels,

(collectively the **Services**).

- PIOP Mine Co appoints BBIH to provide the Services for iron ore produced at the mine on an exclusive basis.

Annual Contract Tonnage

- The annual contract tonnage for each year (including for ramp up and down periods) is the amount specified for that year in the FID proposal. The Infrastructure Services Agreement includes an acknowledgement that, subject to the FID proposal, the targeted annual contract tonnage is 50 million wmt per annum when the mine is at full production.

Reduction of Annual Contract Tonnage

- The annual contract tonnage may be reduced by BBIH if PIOP Mine Co does not use at least 85% of its capacity made available by BBIH to PIOP Mine Co in a financial year and PIOP Mine Co does not demonstrate a sustained requirement for the annual contract tonnage.

Request to increase Annual Contract Tonnage

- PIOP Mine Co may request an increase to the annual contract tonnage. BBIH may, in its absolute discretion, allow or refuse an increase to the annual contract tonnage in whole or in part and for some or all of the period requested by PIOP Mine Co.

Obligation to offer Annual Contract Tonnage and Even Shipping

- PIOP Mine Co must use reasonable endeavours to make its annual contract tonnage of iron ore available to BBIH at the mine loading facility for handling and haulage each financial year at an even rate throughout the financial year.

Product Specifications

- PIOP Mine Co must ensure that the iron ore it makes available for transportation by BBIH:
  - complies with the product specifications (as specified in the FID proposal);
  - is suitable for loading and transportation by BBIH; and
  - complies with requirements with respect to the loading, transportation or handling of dangerous or hazardous goods at law, under any terminal regulations, port regulations or rules.

Third party use of infrastructure

- BBIH must not grant any third party access to the rail infrastructure or terminal facilities to the extent that the grant of that access would result in BBIH not having sufficient capacity on the infrastructure and facilities to provide the Services.

Rules

- BBIH will, acting reasonably and in good faith and in accordance with good industry practice, develop guidelines, policies, procedures, protocols and regulations (**Rules**) in relation to the infrastructure as necessary for the lawful, safe and efficient operation of that infrastructure.

- PIOP Mine Co must comply with the Rules.

Loading responsibilities

- PIOP Mine Co must ensure the ore processing and loading facilities are designed and constructed so as to compatibly interface with the overland conveyor as described in the FID proposal and in accordance with BBIH's reasonable requirements. PIOP Mine Co must operate the ore processing facility in a manner that is compatible with the conveyor and BBIH's loading requirements.

- BBIH is responsible for operating the loading facilities and mine overland conveyor, providing the rail head stockyard services and managing rolling stock operations on the balloon loop adjacent to the rail head stockyard.

Notification and impact of maintenance work.

- The parties have agreed to a regime to coordinate major shutdowns and minimise impact of scheduled maintenance and major shutdowns. BBIH's failure to provide the contracted capacity will not constitute a breach of the agreement to the extent that it is due to the performance of the scheduled maintenance and other activities notified to PIOP Mine Co in accordance with the agreed regime. BBIH will, however, have to make-up the shortfall, and if it does not, it may be required to refund PIOP Mine Co a portion of the capacity charge.

Interface of transhipment vessels and ocean going vessels

- PIOP Mine Co must ensure that each ocean going vessel (**OGV**) nominated by PIOP Mine Co to be loaded with iron ore:

  - complies with all applicable laws, port regulations and terminal regulations;

  - compatibly interfaces with BBIH's transhipment vessels (**TSVs**); and

  - is capable of sailing to the nominated port anchorage under its own propulsion, anchoring within the nominated port anchorage under its own efforts and is not tidally constrained maintaining a minimum under keel clearance of one metre at all times.

Forecasts, orders and scheduling

- Each month, PIOP Mine Co must provide BBIH with a forecast of the tonnage required to be hauled and a shipping schedule for the following 12 weeks. BBIH must use reasonable endeavours to haul and load iron ore onto ocean going vessels to meet PIOP Mine Co's schedule.

Infrastructure tariff

- PIOP Mine Co must pay to BBIH:

  - an operating charge, being a pass-through of BBIH's operating costs (including sustaining capital expenditure and general and administration costs) with no profit element for BBIH; and

  - a capacity charge, which, when taken together with the commodity charge, gives a range from A$10.25 to A$19.25/tonne of capacity, with the low based on a received CFR iron ore price of A$60 / dry metric tonne and the high based on a received CFR iron ore price of A$90 / dry metric tonne, escalated at CPI (capped at 3% per annum),

- with the capacity charge adjusted:
  - up or down based on the actual construction cost of the infrastructure (from a base of A$4,677 billion escalated at CPI and in a manner that shares the benefit / detriment between the respective parties for movements around this base); and
  - down based on a third party user rebate of up to A$2.50/tonne (not subject to escalation) for each tonne of product railed on the infrastructure and loaded using the terminal for others customer of BBIH,

(together, the **Tariff**).

- The capacity charge is on a 'take or pay' basis. That is, PIOP Mine Co will be required to pay the capacity charge irrespective of whether PIOP Mine Co makes ore available to BBIH for transportation.
- A capacity charge refund or credit will be given to PIOP Mine Co to the extent that BBIH fails to or is unable to haul or load the performance tonnage (including as a result of a force majeure event affecting BBIH), and does not subsequently make up those tonnages within the timeframes specified in the Infrastructure Services Agreement. An annual reconciliation of actual tonnage, performance tonnage, refunds and credits will be undertaken.
- A capacity charge refund or credit will not be given to PIOP Mine Co where it does not make iron ore available for transportation by BBIH (e.g. because production at the mine is suspended as a result of a force majeure event) or for other acts and omissions of PIOP Mine Co. If PIOP Mine Co does not make use of its infrastructure capacity in a month, BBIH has only a limited reasonable endeavours obligation to enable PIOP Mine Co to catch-up that capacity in the following month.
- The commodity charge will adjust the Tariff depending on the received iron ore price (plus the cost of shipping to the port of discharge). The commodity charge provides for PIOP Mine Co and BBIH to share some of the iron ore price risks (i.e. upside and downside). It does not apply to tonnes shipped in excess of the monthly contract capacity.
- If the End of Mine Life will be later than that specified in the FID proposal (**FID Mine End Date**), the parties will enter into good faith negotiations with a view to agreeing the Tariff to apply after the FID Mine End Date. If the parties do not reach agreement, then the Tariff and other charges will continue to apply unchanged after the FID Mine End Date.

Extensions of time to pay

- PIOP Mine Co's time for payment of the capacity charge and commodity charge for a month will be extended for 12 months if:
  - PIOP Mine Co does not have sufficient funds to pay in full the capacity charge and the commodity charge for a month;
  - PIOP Mine Co has paid the operating charge for that month and all principal and interest payable under the Integrated Project Finance has been paid for that month;
  - BBIH is not required to issue one or more cash calls to its shareholders in order to meet its repayment obligations for the month under the terms of the Integrated Project Finance; and
  - the aggregate of deferred capacity charges and commodity charges (plus interest) is less than $200 million (escalated at CPI, capped at 3% per annum).

Security

- PIOP Mine Co must provide BBIH third ranking security (behind the project finance and any security granted to Flinders in respect of the Royalty Deed) by way of a '**General Security Deed - ISA**' over all of its assets (being the PIOP assets) to secure all payment and other obligations to BBIH under the Infrastructure Services Agreement, which are broadly summarised in this Section.

- The payment obligations being secured under the ISA primarily relate to the Tariff, being the capacity charge, the commodity charge and the operating charge. As outlined above, the amount of the Tariff will vary depending on a number of factors, including BBIH's actual operating costs for the infrastructure (from which will be derived the operating charge); the capital costs to construct the infrastructure (from which will be derived the capacity charge); the prevailing iron ore price (from which will be derived the commodity charge); and CPI (from which will be derived the escalation factor for the Tariff). However, in any given month the Tariff will be a material quantum – based on current estimates and assuming an iron ore price of USD62.5 / dmt, the Tariff will be between approximately $80 – 130 million per month in the first 10 years of the project. As noted above, PIOP Mine CO will only be able to extend the time for meeting its payment obligations for the capacity charge and commodity charge (not the operating charge) if certain criteria are met and only up to a cap of $200 million (escalated at CPI, capped at 3% per annum).

- The General Security Deed – ISA will be granted to BBIH on the date on which the project finance securities are granted to the project financiers and will be subject to an intercreditor or priority deed on terms reasonably required by the project financiers. If Flinders selects the Royalty Option (and this is approved by Flinders Shareholders at that time) then the General Security Deed – ISA will be granted, along with the General Security Deed – Royalty, on the earlier of the date on which the Royalty Option is selected and the date on which the project finance securities are granted (and Flinders will be party to any intercreditor or priority deed).

Expansions

- Before undertaking any expansion of the infrastructure that may affect BBIH's provision of the Services under the Infrastructure Services Agreement, BBIH must give PIOP Mine Co reasonable notice of the proposed expansion and consult with PIOP Mine Co and use reasonable endeavours to coordinate the timing of the expansion so as to minimise impacts on the Services.

Insurance

- Each party is required to effect and maintain various insurances.

- BBIH is required to effect and maintain insurance covering:

  - loss, destruction or damage to iron ore while in its possession or control; and

  - loss, destruction or damage to plant and equipment comprised in the BBIG Project, train sets and transhipment vessels.

- PIOP Mine Co must effect and maintain insurance covering loss, destruction or damage to the ore processing facility, marine liability insurance and marine hull insurance .

- The terms and conditions of insurances to be effected and maintained are to be specified in a schedule to the Infrastructure Services Agreement on FID being achieved.

Limitations of liability

- The parties have agreed on the allocation of risk and liability in relation to various events:

  - *Loss of Product:* if any product becomes lost or irretrievable (while in the custody or control of BBIH), BBIH must notify PIOP Mine Co, make an insurance claim in respect of that lost product, progress the claim, and (if directed by PIOP Mine Co) pay the proceeds of the insurance to PIOP Mine Co.

  - *Clean-up:* if product is lost or becomes irretrievable while in the custody or control of BBIH as a result of BBIH's breach or negligence (except for where BBIH was following PIOP Mine Co's instructions), then BBIH is directly liable and indemnifies PIOP Mine Co for any resulting claims or fines by an authority or third party. BBIH will also be responsible for the costs of clean-up and disposal of the product, and remediating any damage caused by it.

- *Contaminated Product:* if product is contaminated while in the custody or control of BBIH, as a result of BBIH's breach or negligence (except for where BBIH was following PIOP Mine Co's instructions), then BBIH must indemnify PIOP Mine Co for the direct costs of rehandling the contaminated product (to the extent reasonably required and possible).

- *Demurrage:* BBIH is liable for claims for demurrage which are caused by the fraud, gross negligence or wilful misconduct of BBIH.

- *Third Party Claims:* BBIH indemnifies PIOP Mine Co against third party claims to the extent contributed to by BBIH or personnel. This includes claims relating to damage by a transhipment vessel to an ocean-going vessel. PIOP Mine Co indemnifies BBIH against third party claims to the extent contributed to by PIOP Mine Co or its personnel.

- *Personal Injury Claims:* both parties indemnify the other party against claims for personal injury to the extent caused by the party in connection with the Infrastructure Services Agreement.

- *Damage to a party's property:* if a party damages the infrastructure, plant or equipment of the other party, it indemnifies the other party for the cost of repairing or replacing the relevant item (limited to the insurance deductible of the other party except where the damage was a result of the wilful misconduct or gross negligence of the party).

- *Consequential Loss:* both parties mutually release the other party for consequential loss except in relation to BBIH's liability for demurrage (see above), liability to pay the infrastructure tariff, or payments of interest, rebates or credit amounts.

- Otherwise, BBIH's liability is generally limited to fraud, wilful misconduct or gross negligence (including of its personnel).

- PIOP Mine Co must use reasonable endeavours to procure for the benefit of BBIH certain claims releases from its contractors (including vessel operators) with the objective of limiting the liability of BBIH to those contractors on similar terms to BBIH's liability to PIOP Mine Co under the Infrastructure Services Agreement.

Variations to the Infrastructure Services Agreement

- The terms of the Infrastructure Services Agreement are subject to adjustment based on any changes to BBIH's State Agreement, the State Rail Licence or any access code for the railway.

- If BBIG or BBIH requests, under the terms of the Farm-in Agreement, the parties must meet and discuss in good faith any amendments to the Infrastructure Services Agreement to facilitate a FID proposal and the Equity Funding Party's subscription to PIOP Mine Co. Flinders may not unreasonably withhold consent to the amendments.

Other

- PIOP Mine Co may terminate the Infrastructure Services Agreement if BBIH suffers a force majeure event such that BBIH does not load 70% of the aggregate performance tonnage capacity over a rolling 12 month period.

- Subject to notice and remedy periods, PIOP Mine Co may terminate the agreement if BBIH fails to provide at least 70% of the aggregate target performance tonnage capacity over a rolling 12 month period except to the extent the failure is due to maintenance work, shutdowns or asset replacement and renewal, a force majeure event, weather conditions, conditions at sea or tidal conditions (which could not have been mitigated or overcome by good industry practice).

4.6 MARKETING AND SALES AGENCY AGREEMENT

- The Marketing and Sales Agency Agreement will be between PIOP Mine Co and BBIH under which BBIH will be appointed the sole and exclusive marketing agent in relation to the sale of products from the PIOP and the administration of all sales contracts for PIOP Mine Co.

- The Marketing Agreement will commence on signing (immediately following subscription completion under the Farm-in Agreement) and continue for the life of the PIOP (or until it is placed into care and maintenance for the foreseeable future), unless terminated earlier.

- The Marketing Agreement will largely remain conditional on FID being achieved. However, BBIH will perform marketing services required in connection with the Feasibility Studies, including marketing strategies, potential customer engagement and negotiation of sales contracts that are conditional on FID.

Marketing programs

- BBIH will prepare annual marketing programs having regard to the approved mine plan and budget for the PIOP Project (under the Management Agreement). The marketing program for the upcoming calendar year must be provided to PIOP Mine Co at least two months before the commencement of the year.

- The marketing program will include details of:

  - the quantity of products proposed to be sold;

  - product specifications and quality targets;

  - targeted sales prices; and

  - the expected costs associated with the marketing services for the applicable period.

- BBIH is responsible for preparing the marketing program but must have regard to reasonable requests or recommendations made by PIOP Mine Co.

- BBIH will carry out the marketing program, including by:

  - identifying and conducting commercial negotiations with prospective and existing customers, including proposed sales terms (and related documentation) as agent on behalf of PIOP Mine Co;

  - entering into sales contracts to meet the marketing program;

  - managing sales contracts to meet orders;

  - qualifying product with selected customers;

  - doing all such things as are reasonably necessary to maintain good relationships with prospective and existing customers;

  - ascertaining the financial capacity of customers; and

  - establishing the commercial strategy, markets, contract terms, contract period and sale prices at BBIH's discretion.

Sales Contracts

- BBIH will enter into, administer and perform sales contracts as agent for PIOP Mine Co. Sales contracts must be on arm's length terms. Without limiting this arm's length requirement, BBIH may enter into sales contracts with the Equity Funding Party (see Farm-in Agreement summary above) which contain market standard foundation customer terms, benefits or arrangements (**EFP Sales Contracts**) and which are approved by PIOP Mine Co as part of FID.

- The marketing services also include logistics services, including procuring shipping and freight and arranging ocean going vessels as required by customers under sales contracts.

- BBIH may engage affiliates and sub-agents in connection with the performance of the services, but no such affiliate or sub-agent may earn any commission or fee and if they do, BBIH must account for the benefit to PIOP Mine Co.

- BBIH must not enter into sales contracts with any BBIH affiliate (other than the EFP Sales Contracts) without the prior written consent of PIOP Mine Co, which may be withheld at absolute discretion where the sale contract is not on arms' length terms.

- BBIH will issue invoices to customers and the payments will flow into the bank account administered by BBIH under the Management Agreement.

Reimbursement of expenses

- PIOP Mine Co must reimburse BBIH for all reasonable costs, expenses, liabilities and claims by third parties, in each case to the extent reasonably and properly incurred by BBIH arising out of or in connection with the performance of the marketing services or in performing the sales contracts, including costs related to:

  - logistics costs, including shipping and freight;
  - contract drafting, negotiation, administration and enforcement;
  - assistance from China based marketing and sales agencies; and
  - customs and credit insurance.

- In addition to reimbursement of these amounts listed, BBIH will also be entitled to a marketing fee of 10% of BBIH's internal costs reasonably and properly incurred by BBIH in connection with the marketing services excluding any third party costs (such as logistics costs).

Records and payment disputes

- BBIH must keep sufficient records for its activities and provide monthly statements to PIOP Mine Co of its expenses, sale proceeds and other information reasonably required by PIOP Mine Co to calculate payments under the Marketing Agreement.

- In addition, the scope of the marketing services includes obligations to keep PIOP Mine Co informed of developments and conditions in the worldwide iron ore markets and to provide monthly reports summarising the month's activities including sales activity, samples provided, any proposed changes to existing strategies or deliveries and summaries of customer feedback.

- PIOP Mine Co may commence a payment dispute within 60 days of receiving the relevant monthly statement. If the dispute cannot be resolved through negotiation, a registered internationally recognised auditor will be appointed to review BBIH's calculations. If BBIH's calculation is less than 98% of the auditor's calculation, BBIH will reimburse PIOP Mine Co for the auditor's fees. Otherwise the fees of the auditor will be borne by PIOP Mine Co,

Standard of performance

- The scope of the marketing services and performance standard include the provision and performance of all things necessary that a competent and experienced sales and marketing agent would provide and do in conjunction with the performance of the marketing services and execution of the marketing program.

Liability

- BBIH will have no liability to PIOP Mine Co in respect of its marketing activities under the Marketing Agreement or in respect of sales contracts other than to the extent arising as a result of the fraud, wilful misconduct or gross negligence of the supervisory personnel of BBIH (or a BBIH affiliate). BBIH indemnifies

PIOP Mine Co against all loss and liability caused by its fraud or wilful misconduct or gross negligence of the supervisory personnel of BBIH (or a BBIH affiliate).

- PIOP Mine Co indemnifies BBIH against all loss and liability it suffers in carrying out the marketing activities, except to the extent the loss is caused by the fraud or wilful misconduct or gross negligence of the supervisory personnel of BBIH (or a BBIH affiliate).

- Neither BBIH nor PIOP Mine Co will be liable for consequential loss in any circumstances (except to the extent that BBIH is expressly entitled to be reimbursed for its costs under the agreement).

Termination and assignment

- PIOP Mine Co may only terminate if:
  - BBIH suffers an insolvency event;
  - BBIH commits a material breach that is not remedied within a permitted rectification period being not less than 60 days;
  - BBIG or a related body corporate of BBIG cease to hold an interest in PIOP Mine Co and the Infrastructure Services Agreement is terminated and not replaced with a similar arrangement between BBIH and PIOP Mine Co; or
  - BBIH has persistently committed material breaches of material terms

- BBIH may only terminate if PIOP Mine Co:
  - suffers an insolvency event;
  - is in default of its obligation to pay money and the default has not been remedied within 60 days after BBIH has given notice;
  - persistently defaults on its obligation to pay money over a period of 12 months; or
  - suffers a change in control or purports to assign the Marketing and Sales Agency Agreement other than as permitted.

- Neither party may assign the agreement without the prior written mutual consent of the parties, not to be unreasonably withheld where:
  - to the extent necessary to perfect a priority encumbrance (including in respect of the project financiers and the Royalty Deed);
  - where PIOP Mine Co's corresponding interest in the PIOP is also being disposed of and the relevant third party transferee has the requisite financial and operational capability; and
  - the transfer is to a related body corporate of BBIH who covenants in writing to be bound by the agreement.

Audit and records

- BBIH must keep correct and accurate books and records which fully and fairly explain any activity or transaction undertaken. At its own cost, PIOP Mine Co may engage a registered auditor to verify BBIH's compliance with the Marketing and Sales Agency Agreement, but an audit may only be conducted once per year.

4.7 INFRASTRUCTURE PAYMENT DEED

- The Infrastructure Payment Deed applies if at FID Flinders proceeds with the Mining Option. If the Royalty Option is selected, the Infrastructure Payment Deed will be terminated.

- Under the Infrastructure Payment Deed, after iron ore mining at PIOP has permanently ceased, BBIH must pay to Flinders $1/wet tonne (capped at the total volume of tonnes shipped by PIOP Mine Co prior to cessation of mining and at 50 million wet tonnes per annum, and not subject to escalation) for every tonne of product railed on or handled using the infrastructure used to provide the Services under the Infrastructure Services Agreement (including replacements or changes to that infrastructure).

4.8 ROYALTY DEED

- If Flinders selects the Royalty Option at FID, it will, instead of participating in PIOP Mine Co and the PIOP, receive a royalty under the Royalty Deed. If the Mining Option is selected, the Royalty Deed will automatically terminate.

- The royalty will be become operative if Flinders selects the Royalty Option after a FID proposal is put forward by BBIG (and that selection is approved by Flinders Shareholders).

- The royalty will apply to all minerals (not just iron ore) and all tenements held by the Producer within the external boundaries of the PIOP tenements as at the signing of the Royalty Deed and FID and any additional tenement areas identified in the FID proposal.

- The royalty is payable at 2.5% of the gross FOB (free on board) proceeds received by PIOP Mine Co.

- If PIOP Mine Co has insufficient cash to pay the royalty (after payment of operating expenses, including infrastructure operating expenses and Integrated Project Finance costs), the royalty payment may be deferred (with interest accruing and subject to a cap of $80 million).

- PIOP Mine Co must use reasonable endeavours to develop the PIOP generally in accordance with the FID proposal. The subsequent operation of the mine is at the discretion of PIOP Mine Co.

- The Royalty Deed will be secured by way of a '**General Security Deed – Royalty**' against all of the assets of PIOP Mine Co (being the PIOP assets). The security will have second priority with respect to, and rank second behind, the security of the project financiers (subject to an undertaking from the financiers to procure that the royalty remains following any enforcement of the project finance security) and in priority to the security of BBIH under the General Security Deed - ISA.

4.9 GOVERNANCE PROTOCOL SIDE LETTER

- The Governance Protocol Side Letter is given by TIO in favour of Flinders. As TIO has a majority shareholding in Flinders, TIO and Flinders have negotiated a governance protocol in a side letter to manage conflict of interest issues at the Flinders Board level regarding the development of the PIOP and operation of PIOP Mine Co.

- The side letter provides that TIO must, and must procure that any related body corporate of TIO that holds Flinders Shares, complies with the following protocol:

    - any TIO nominee Flinders Directors will not vote on any decision of the Flinders board requiring a choice between Flinders selecting the Mining Option or the Royalty Option under the Farm-in-Agreement;

    - any TIO nominee Flinders Directors will not vote on any PIOP Mine Co matter that is the subject of a decision of the Flinders board and where that matter involves a conflict of interest;

    - TIO will support, for the life of PIOP Mine Co where Flinders remains a shareholder of PIOP Mine Co, the Flinders Board having a sufficient number of independent directors such that the Flinders

Board can form a quorum even when the TIO nominated Flinders Directors are conflicted, provided that the protocol will cease to operate if:

- if TIO is no longer the largest shareholder in Flinders or its shareholding in Flinders drops below 30%; or
- if and when there are 2 or more non-independent directors on the Flinders board other than those who have been nominated by TIO. For these purposes, a Flinders director who has been nominated by another shareholder will be deemed not to be independent.

5 Profile of Flinders

5.1 INTRODUCTION

Flinders Mines Limited is an Australian Securities Exchange listed iron ore exploration and development company located in Perth, Western Australia. Flinders' primary focus is the development of the Pilbara Iron Ore Project (PIOP), situated in Western Australia's Pilbara region. Flinders was incorporated as Flinders Diamonds Limited in 2000, originally a diamond exploration company, before moving into iron ore exploration and development following discovery of iron ore prospects on its tenements in 2008, at which point it changed its name to Flinders Mines Limited.

5.2 HISTORY

Year	Event
2000	- Incorporated as Flinders Diamonds Limited
2002	- Listed on the ASX with code FDL
2003	- Entered into the PIOP joint venture with Prenti Exploration Pty Ltd
2005	- Agreed with Fortescue to swap certain iron ore mining rights for diamond tenements (Blacksmith tenement excluded)
2007	- Following discovery of the nearby Serenity and Caliwingina deposits by Fortescue Metals Group and Rio Tinto, decided to investigate potential of Blacksmith tenement
2008	- Changed company name to Flinders Mines Limited, ASX code changes to FMS - Purchased Anvil tenement from Cazaly Iron Pty Ltd
2009	- Maiden Inferred Resource of 476Mt at Blacksmith - Purchased the Canegrass Vanadium Project from Maximus Resources Ltd
2011	- Terminated the PIOP joint venture with Prenti Exploration Pty Ltd for a cash settlement and net profit royalty over non-iron ore commodities - In November, entered into a scheme implementation agreement with Magnitogorsk Iron and Steel Works OJSC ("MMK") to acquire 100% of issued shares in Flinders for $0.30 per share
2012	- In March, Flinders shareholders voted in favour of the proposed scheme with MMK - The proposed scheme was not implemented prior to the 30 June end date and MMK terminated the scheme implementation agreement - Mining licence at Blacksmith was granted by the Western Australian Government
2013	- Signed memorandum of understanding with Brockman regarding respective iron ore projects including infrastructure and transport solutions
2014	- Updated mineral resource estimate to over 1,000 Mt
2015	- Execution of option agreement with Todd Corporation over PIOP for $10 million upfront plus $55 million and ongoing royalty on exercise - Shareholders vote against the proposed option transaction with Todd Corporation
2016	- Unconditional off-market takeover bid by TIO for $0.013 cash per share in March - In May, TIO increased its offer to $0.025 per share; ultimately acquired c.53% of Flinders
2017	- Strategic review of PIOP completed, concluding potential for PIOP to be an economic asset, dependent on development of a financeable infrastructure solution
2018	- Updated PIOP mineral resource estimate of 1,484Mt announced to ASX - Announced an intention to delist from the ASX
2019	- Withdrew the delisting proposal - Formed PIOP Infrastructure Committee - Commissioned PwC to undertake independent review of development options for the PIOP - Signed non-binding Terms Sheet in relation to a farm-in and joint venture arrangement with BBIG
2020	- Flinders announces scoping study results, including consideration of an indicative production target of approximately 657Mt (wt) over the life of mine at the PIOP at a grade greater then 60% Fe

5.3 OVERVIEW OF OPERATIONS

PIOP

The PIOP is located in the Pilbara region of Western Australia, approximately 60km north-west of the town of Tom Price. The PIOP consists of the Blacksmith and Anvil tenements. The Blacksmith tenement is located between a number of existing and proposed developments. To the north is Rio Tinto's Caliwingina iron ore resource, to the east is Fortescue Metals Group's (**FMG**) Solomon iron ore hub, to the west is FMG's Eliwana development project and API's West Pilbara Iron Ore Project and to the south, Rio Tinto's Brockman 2 operations. The Anvil tenement is located approximately 10km to the south-west of Blacksmith. The PIOP commenced in May 2003 as a joint-venture between Flinders and Prenti Exploration Pty Ltd which included the Blacksmith tenement; the Anvil tenement was acquired separately in 2008 from Cazaly Iron Pty Ltd.

Drilling first commenced on the Blacksmith tenement in 2008, leading to a maiden inferred resource in 2009. Further exploration drilling occurred, during which Flinders eventually earned a 100% stake in the PIOP tenements and an unencumbered ownership of the iron ore in the PIOP tenure in November 2011[8].

A strategic review of the PIOP was conducted in 2017, concluding there was potential for the PIOP to be an economic asset but a commercially viable mine to port infrastructure arrangement was fundamental. The results of a further PIOP maturation program were announced in May 2018, which resulted in a revised JORC Code 2012 Mineral Resource estimate and included a recommendation to progress discussions on provision of a logistics solution for the PIOP.

On 7 and 9 January 2020, Flinders announced results of a scoping study for the PIOP, identifying a viable and significant open cut mining opportunity at the PIOP. The scoping study assessed the mining potential using the PIOP measured, indicated and inferred mineral resources of 1,484 Mt (as announced to the market on 1 March 2018). The results of the scoping study included consideration of an indicative production target of approximately 615 Mt (dry) / 675 Mt (wet)[9] over the life of mine at the PIOP, based on an assumed grade greater than 60%[10] Fe. Flinders confirms that all the material assumptions underpinning the indicative production target and any forecast financial information derived from the indicative production target referred to in the scoping study continue to apply and have not materially changed. Flinders also confirms that it is not aware of any new information or data that materially affect the mineral resource and all material assumptions and technical parameters underpinning the mineral resource continue to apply and have not materially changed.

Canegrass

Flinders' Canegrass tenement package is located approximately 60km south-east of Mt Magnet and 15km south-west of Atlantic Limited's Windimurra Vanadium Project, in the emerging Mid-West Iron Ore Province of Western Australia. The tenement package comprises six granted exploration licences.

Prior to Flinders holding tenure at Canegrass, the tenements were part of a joint venture from 2001, between Windimurra Resources Ltd, Apex Minerals NL and Mark Creasy, and comprised the Windimurra Complex Project (combined reporting number C29/2003). Maximus Resources Ltd joined the joint venture in 2005 and subsequently purchased all rights in 2007. In May 2009, Flinders reached an agreement with Maximus Resources Ltd (**Maximus**) to purchase the Canegrass Project, with Maximus retaining a 2% net smelter royalty.

On 10 August 2011, Flinders announced a maiden inferred resource, calculated based on drilling conducted in 2008 on two zones on E58/232 and E58/282. On 30th January 2018 Flinders announced to the ASX a re-estimate of the Canegrass Project Vanadium Mineral Resource Estimate.

5.4 FLINDERS BOARD

As at the date of this Notice of Meeting Flinders Board comprises the persons noted below. If the Proposed Transaction is implemented, the PIOP Mine Co Board will likely comprise 3 of these directors. However, no changes

[8] Prenti Exploration Pty Ltd retains a 5% net profit production royalty in respect of non-iron ore commodities in the tenements

[9] Figures have been rounded to reflect an appropriate level of confidence for a scoping study

[10] Figures have been rounded to reflect an appropriate level of confidence for a scoping study

are proposed to Flinders' board or senior management in connection with, or as a consequence of, the Proposed Transaction.

- Neil Warburton (Independent Non-Executive Director, Chair);
- Cheryl Edwardes (Independent Non-Executive Director, Deputy Chair);
- James Gurry (Independent Non-Executive Director);
- Evan Davies (Non-Executive Director); and
- Michael Wolley (Non-Executive Director).

The biographies of the Flinders Board are below.

Neil Warburton (Independent Non-Executive Director, Chair)

Mr Neil Warburton was appointed to the Board on 19 October 2017.

Mr Warburton has over 38 years' experience in corporate and all areas of mining operations. Mr Warburton held senior positions with Barminco Limited culminating in being the Chief Executive Officer from August 2007 to March 2012. He successfully grew Barminco Limited into Australia and West Africa's largest underground hard rock mining contractor before expanding to non-executive director roles on ASX listed and private mining companies.

Mr Warburton currently acts as Chair of the Nominations and Remuneration Committee and member of the Audit and Risk Committee and PIOP Infrastructure Committee.

Mr Warburton has held directorships in other ASX listed entities in the last three years: Non-Executive Director of Independence Group Limited (October 2015 to date), previously a Non-Executive Director of Australian Mines Limited (April 2003 to December 2017), Peninsula Energy Limited (February 2013 to April 2016), Namibian Copper NL (September 2014 to December 2016), Red Mountain Mining Limited (May 2006 to July 2016) and Coolgardie Minerals Limited (July 2017 to March 2019).

Qualifications: Assoc. MinEng WASM, MAusIMM, FAICD.

Cheryl Edwardes (Independent Non-Executive Director, Deputy Chair)

The Honourable Cheryl Edwardes, AM was appointed to the Board on 17 June 2019.

A lawyer by training, Hon. Ms Edwardes is former Minister in the Western Australian Legislative Assembly with extensive experience and knowledge of WA's legal and regulatory framework relating to mining projects, environmental, native title and heritage and land access. Hon. Ms Edwardes was appointed in August 2017 as a part-time member of the Foreign Investment Review Board for a five-year period. Hon. Ms Edwardes assists the clients of FTI Consulting within a range of complex statutory approvals required for resources and infrastructure projects. She also chairs the Port Hedland International Airport and is a Commissioner of the WA Football Commission.

Hon. Ms Edwardes currently holds positions as Chair of Vimy Resources Limited; Chair of the Port Hedland International Airport; Director, AusCann; Commissioner of the West Australian Football Commission and part time member of the Foreign Investment Review Board. Hon. Ms Edwardes has held former positions of Attorney General for Western Australia; Executive General Manager – External Affairs with Hancock Prospecting and as Chair of Atlas Iron Limited. The Board notes that several years ago Hon. Ms Edwardes assisted BBIG in relation to native title negotiations, however the Board is satisfied that this does not impact her independence.

Hon. Ms Edwardes is currently Chair of the PIOP Infrastructure Committee and Audit and Risk Committee and member of Nominations and Remuneration Committee.

Qualifications: LLM, B. Juris, BA.

James Gurry (Independent Non-executive Director)

Mr James Gurry was appointed to the Board on 18 September 2019.

Mr Gurry is a leading equity analyst with extensive research experience in the iron ore sector. His most recent role was as Director – Corporate & Investment Bank, and Head of Natural Resources Equity Research with Deutsche Bank Equities Australia, and previous roles have included equity research with Credit Suisse Equities in both Sydney and London where he was Head of Mining Company Research. He started his career in the Transaction Advisory Services Division of Ernst & Young, Melbourne.

My Gurry is also a Member of the Institute of Chartered Accountants in Australia. Mr Gurry is currently a member of the PIOP Infrastructure Committee and Audit and Risk Committee and member of the Nominations and Remuneration Committee.

Qualifications: B.Com (Hons), CA (ANZ).

Evan Davies (Non-executive Director)

Mr Evan Davies was appointed to the Board on 19 October 2017 and is a nominee of TIO.

Mr Davies has previously held leadership roles in Rainbow Corporation and Brierley Properties Group (New Zealand). Mr Davies was Managing Director of Sky City Entertainment Group (New Zealand) from 1996 to 2007, which he grew from a single site to have business operations through New Zealand and Australia. Mr Davies has been Managing Director of Todd Properties Group since 2008.

Mr Davies is currently a member of the Nominations and Remuneration Committee and Audit and Risk Committee.

Qualifications: BTP, MSc, MPhil.

Michael Wolley (Non-Executive Director)

Mr Michael Wolley was appointed to the Board on 19 October 2017 and is a nominee of TIO.

Mr Wolley had a 15-year career with Mobil Oil Australia Pty Ltd in a range of roles including engineering, operations, strategic planning and business development. Mr Wolley was previously Chief Operating Officer for Lynas Corporation and is currently Vice President Minerals for the Todd Group.

Mr Wolley is currently a member of the Nominations and Remuneration Committee and Audit and Risk Committee.

Qualifications: BE (Chemical and Materials, 1st Class Hons), MMan.

5.5 FLINDERS MANAGEMENT

David McAdam, Chief Executive Officer

In the past 20 years, Mr McAdam has been focused on senior management leadership roles in design and construction organisations that focus on the resource and infrastructure industries. In these roles he has led the creation and re-establishment of a series of highly successful engineering companies across a range of industries in a variety of locations. These roles have included responsibilities as a director in listed and private organisations.

Mr McAdam is currently a member of PIOP Infrastructure Committee.

Qualifications: BE (Chemical, 1st Class Hons), MBA, FAICD, FIEAust.

5.6 IMPACT OF PROPOSED TRANSACTION

- There should be no immediate material financial impact of the Proposed Transaction on Flinders given its structure as outlined in this Explanatory Memorandum. However, it should be noted that Flinders has incurred or will incur financial, accounting and legal costs to develop and put the Proposed Transaction to Flinders Shareholders for approval of approximately $4.6 million, which will or have been paid regardless of whether Flinders Shareholders approve the Proposed Transaction.

- There should be no Australian capital gains tax consequences for Flinders Shareholders if the Proposed Transaction is implemented, as Flinders Shareholders will continue to hold their Flinders Shares, unless they elect to dispose of them. Flinders may experience tax consequences, Flinders Board has consulted tax advisors in relation to the Proposed Transaction.

- As noted above at Section 2.2.8, debt and equity financing for the Integrated Project is not yet finalised or arranged at the time of the Extraordinary General Meeting and may not be finalised until closer to FID which may be up to 4 years away. Under the Farm-in Agreement BBIG is responsible for arranging this financing and Flinders will be 'free carried' through to production, but assuming Flinders does not select the Royalty Option at FID (which would be subject to Flinders Shareholder approval), Flinders economic and voting interest in PIOP Mine Co will be reduced to 40%.

- It should also be noted that, if there are capital calls under the Shareholders Agreement which Flinders does not meet, Flinders' economic and voting interest in the Integrated Project may be further diluted. There are also other events under the Shareholders Agreement which may trigger a loss of some or all of Flinders' interests in the PIOP.

5.7 DETAILS OF ANY CHANGES TO FLINDERS' BUSINESS MODEL

The changes below will occur as a result of the implementation of the Proposed Transaction in relation to Flinders' business model.

- BBIH will be appointed as manager of the PIOP and the Flinders Board and its management will no longer undertake functions relating to managing the development of the PIOP.

- Activities and responsibilities currently undertaken by Flinders, relating to the management, supervision, and conduct of all exploration, development, mining, treatment, mine closure and rehabilitation activities for the PIOP will transfer to BBIH. For a detailed list of the functions that will be undertaken by BBIH as manager, see Section 4.4.

- Flinders will continue as a publicly listed company on the ASX. Flinders will maintain a Board and management team to oversee BBIH's performance as manager of PIOP Mine Co as well as a supervisory role in relation to its shareholding in PIOP Mine Co. Flinders will continue to notify and communicate with shareholders in respect of important information and developments relating to the PIOP through the ASX platform, in accordance with its continuous disclosure obligations.

- The Flinders Board and management will continue exploration and development activities in relation to Flinders' Canegrass tenement.

5.8 HISTORICAL FINANCIAL INFORMATION

This Section sets out a summary of historical financial information for the purposes of this Explanatory Memorandum. The financial information has been extracted from Flinders 2019, 2018 and 2017 Annual Reports.

The financial statements of Flinders for the financial years ending 30 June 2017, 30 June 2018 and 30 June 2019, including all notes to those accounts can be found in:

- the 2017 Flinders Annual Report (released to ASX on 15 September 2017);

- the 2018 Flinders Annual Report (released to ASX on 20 September 2018); and

- the 2019 Flinders Annual Report (released to ASX on 19 September 2019).

5.8.1 Summary P&L for FY17, FY18 and FY19

Year ended 30 June	**2017**	**2018**	**2019**
	$'000	**$'000**	**$'000**
Finance income	43	105	56
Other income	-	49	1
Administrative expenses	(2,070)	(1,718)	(5,434)
Other expenses	(167)	(117)	(25)
Finance costs	(27)	(112)	(55)
Loss before income tax	**(2,221)**	**(1,793)**	**(5,457)**
Income tax (expense)/benefit	(43)	(17)	(13)
Loss for the year	**(2,264)**	**(1,810)**	**(5,470)**
Loss per share attributable to ordinary equity holders:	Cents	Cents	Cents
Basic and diluted loss per share	(0.073)	(0.058)	(0.159)

5.8.2 Balance Sheet at 30 June 2017, 2018 and 2019

Year ended 30 June	**2017**	**2018**	**2019**
	$'000	**$'000**	**$'000**
Current assets			
Cash and cash equivalents	10,067	3,301	1,700
Trade and other receivables	127	84	83
Other current assets	467	468	379
Total current assets	**10,661**	**3,853**	**2,162**
Non-current assets			
Available-for-sale financial assets	3	-	-
Exploration and evaluation	48,890	58,461	61,126
Plant and equipment	72	4	1
Other non-current assets	7	-	-
Total non-current assets	**48,972**	**58,465**	**61,127**
Total assets	**59,633**	**62,318**	**63,289**
Current liabilities			
Trade and other payables	941	436	672
Loans and borrowings	-	5,000	-
Total current liabilities	**941**	**5,436**	**672**

Non-current liabilities			
Loans and borrowings	-	-	3,000
Total non-current liabilities	-	-	3,000
Total liabilities	**941**	**5,436**	**3,672**
Net assets	**58,692**	**56,882**	**59,617**
Equity			
Contributed equity	138,859	138,859	147,064
Accumulated losses	(80,167)	(81,977)	(87,447)
Total equity	**58,692**	**56,882**	**59,617**

5.8.3 Cash flow for FY17, FY18 and FY19

Year ended 30 June	**2017 $'000**	**2018 $'000**	**2019 $'000**
Cash flows from operating activities			
Payments to suppliers and employers	(2,387)	(1,687)	(5,034)
Interest expense	(24)	-	(131)
Interest received	43	105	56
Net cash outflow from operating activities	**(2,368)**	**(1,582)**	**(5,109)**
Cash flows from investing activities			
Proceeds from sale of plant and equipment	1	14	-
Proceeds from sales of available-for-sale financial assets	-	73	-
Payments for exploration activities	(1,695)	(10,219)	(2,722)
Net cash outflow from investing activities	**(1,694)**	**(10,132)**	**(2,722)**
Cash flows from financing activities			
Proceeds from issues of shares	13,670	-	8,275
Transaction costs	(92)	(52)	(45)
Proceeds from borrowings	2,000	5,000	3,000
Repayment from borrowings	(2,000)	-	(5,000)
Net cash inflow from financing activities	**13,578**	**4,948**	**6,230**
Net decrease in cash and cash equivalents	9,516	(6,766)	(1,601)
Cash and cash equivalents at the beginning of the year	551	10,067	3,301
Cash and cash equivalents at the end of the year	10,067	3,301	1,700

5.8.4 Substantial shareholders as at 4 October

	Number of Ordinary Shares	**Percentage**
TIO (NZ) Limited	1,936,250,459	55.56
OCJ Investment (Australia) Pty Ltd[11]	788,468,000	22.62
Various Requisitioning Shareholders[12]	210,302,405	6.03

[11] Includes shareholding of associated party, Mr Chunlei Ouyang.

[12] Per substantial notice lodged with ASX on 13 March 2019

5.9 RISK FACTORS

As with all investments, investors should be aware that the market price of Flinders Shares may fall as well as rise. The potential returns of Flinders will be exposed to risks specific to Flinders and to general investment risks. While it is impossible to identify all risks, the attention of investors is drawn to the following particular risks relating to Flinders.

5.9.1 General risks

(a) Future capital requirements

Flinders will require additional capital to fund further exploration and development of its existing or new projects. Flinders' ability to raise sufficient further capital within an acceptable time frame and on terms acceptable to it will vary according to a number of factors including (without limitation) the prospects of new projects (if any), the results of exploration and subsequent feasibility studies, stock market and industry conditions and the price of relevant commodities.

(b) Commodity prices

Flinders is exploring for commodities, predominantly iron ore. Any decision to mine ore containing economic quantities of iron ore will be closely related to the price of iron ore. The demand for and price of iron ore is influenced by a variety of factors including the level of forward selling by producers, costs of production, general economic conditions, the level of inflation, interest rates and currency exchange rates.

(c) Exploration and development

Exploration by its nature contains elements of significant risk. Ultimate success depends on the discovery of economically recoverable resources, obtaining the necessary titles and governmental regulatory approvals and obtaining and servicing of funding for mining operations if and when a decision to mine is made.

There can be no assurance that Flinders' existing projects or any other projects or tenements that Flinders may acquire in the future will result in the discovery of significant resources. Even if significant resources are identified, there can be no guarantee that they will be able to be economically exploited.

The current and future operations of Flinders, including exploration, appraisal and possible production activities may be affected by a range of factors, including:

- geological conditions;
- limitations on activities due to seasonal weather patterns;
- alterations to exploration programs and budgets;
- the availability of drilling rigs and other machinery necessary for Flinders to undertake its activities;
- unanticipated operational and technical difficulties encountered in survey, drilling and production activities;
- mechanical failure of operating plant and equipment, adverse weather conditions, industrial and environmental accidents, industrial disputes and other force majeure events;
- unexpected shortages or increases in the costs of consumables, spare parts, plant and equipment; and
- prevention or restriction of access by reason of political unrest, outbreak of hostilities, and inability to obtain consents or approvals (including clearance of work programs pursuant to existing, and any future access agreements entered into with the traditional land owners).

5.9.2 Specific risks associated with the Proposed Transaction

(a) Counterparty risk

BBIG or its major shareholder, TIO, have not previously developed an integrated mining and infrastructure project of this nature or scale. If the Proposed Transaction proceeds, BBIH will be appointed manager and will be responsible for delivering the Integrated Project and the provision of additional services on commencement of operations. Under the Infrastructure Services Agreement, Management Agreement and Marketing and Sales Agency Agreement, Flinders (via its interest in PIOP Mine Co) will be exposed to BBIG and BBIH's ability to, among other things:

- manage the end to end development of the Integrated Project, including feasibility studies, design and construction;
- arrange the necessary debt and equity funding required for development of the Integrated Project;
- enter into requisite off-take agreements to sell and market PIOP product;
- meet the project schedule including finalisation of project design to bring a FID proposal;
- meet its obligations under the State Agreement for the BBIG Project;
- acquire and attract the necessary people to deliver the integrated project, given the nature and scale of the proposed development and operations;
- deliver the infrastructure services necessary to transport PIOP product from the PIOP mine to ocean going vessels; and
- manage the mining operations of the PIOP.

(b) Uncertain FID proposal

BBIH has a significant amount of discretion as to whether and when it will bring a FID proposal (within the timeframes outlined above) and as to the content of that proposal. While the FID proposal is required to demonstrate certain criteria – including that the PIOP will be capable of achieving an operating margin that is reasonable for a project of its nature and that financing is on reasonable commercial terms for a project of its nature – BBIH has significant discretion on the content of the FID proposal.

Provided the FID proposal meets the high level criteria outlined in the Farm-in Agreement, Flinders will be obliged to vote in favour of the FID proposal. While obliged to vote in favour of FID (i.e. development of the PIOP), Flinders could, subject to shareholder approval, select the Royalty Option. The attractiveness of the project that will be described in the FID proposal is uncertain at this time.

(c) Uncertain capital and operating costs (BBIG Project)

Although BBIG has prepared capital and operating estimates for the BBIG Project, which are outlined in the Independent Technical Expert's Report, these estimates are not finalised and remain at a preliminary stage and it is likely that they will change.

If FID occurs and the Integrated Project is developed, the capacity charge component of the Tariff paid by PIOP Mine Co to BBIG will change depending on the capital cost of developing the BBIG Project. If the capital cost increases, the Tariff will also increase (and vice versa). In addition, BBIG will pass on substantially all of its operating costs to PIOP Mine Co through the operating charge component of the Tariff.

There is a risk that the final capital costs to develop the BBIG Project or its operating costs are higher than currently estimated and, as a result, PIOP Mine Co has to pay a higher Tariff. This would reduce the financial returns for Flinders from its interest in PIOP Mine Co and, in a worst case scenario, result in dilution (see Section 5.9.2(e) below).

(d) Uncertain capital and operating costs (PIOP)

Although BBIG has prepared capital and operating estimates for the PIOP, which are outlined in the Independent Technical Expert's Report, these estimates remain at an early stage and it is likely that they will change.

Under the terms of the Proposed Transaction, BBIG is required to arrange debt and equity funding to develop the PIOP and Flinders will be free-carried through construction of the PIOP, up to the estimated cost of construction under the FID proposal, plus contingency and a cost-overrun amount (in certain circumstances) and costs associated with provision of any required completion security.

There is a risk that the final capital cost to develop the PIOP is higher than currently estimated and, as a result, PIOP Mine Co incurs higher debt to develop the PIOP which will need to be serviced prior to any distribution to Flinders. There is also a risk that Flinders may be required to contribute additional funds proportionate to its shareholding in PIOP Mine Co. There is also a risk that the operating costs of the PIOP are higher than is currently estimated. In each case, this could reduce the financial returns for Flinders from its interest in PIOP Mine Co and, in a worst case scenario, result in dilution (see Section 5.9.2(e) below).

(e) Flinders' interest in PIOP Mine Co may be diluted

As outlined above, Flinders may be required – in certain circumstances – to contribute towards capital expenditure to develop the PIOP that is in excess of the estimate at FID, plus contingency and (in certain circumstances) a cost-overrun amount.

In addition, following construction and development of the Integrated Project, there may be circumstances where PIOP Mine Co has insufficient cash flow to meet its obligations. Under those circumstances, shareholders of PIOP Mine Co (including Flinders) may be required to contribute additional funding to PIOP Mine Co in proportion to their economic interests in PIOP Mine Co.

In either case, if Flinders, as shareholder of PIOP Mine Co, were unable to contribute its requisite proportion of the necessary funding and other shareholders do contribute, its economic and voting interest in PIOP Mine Co would be diluted.

(f) Project financiers will likely require the PIOP assets be used as security over the Integrated Project

Under the Proposed Transaction, PIOP Mine Co has agreed, if required, to provide security over the PIOP assets to the project financiers for the obligations of the Integrated Project (likely to be by way of secured guarantee in conjunction with one or more on-loans to PIOP Mine Co and other project companies through BBIH or other intermediate entities). Likewise, Flinders may be required to provide similar security over its shares in PIOP Mine Co (see under 'Additional Security' in Section 4.2). This exposes PIOP Mine Co (and Flinders' shares in PIOP Mine Co) to risks of the BBIG Project (and vice versa) being unable to service its share of the Integrated Project financing and the project financiers calling on the PIOP Mine Co security for a BBIG Project default (and vice versa).

(g) The Integrated Project may not be feasible

While BBIG has undertaken significant work on the Integrated Project to date, the overall development of the project remains at an early stage with a number of uncertainties that will not be resolved until the feasibility studies are completed. As part of the Proposed Transaction, BBIG will fund feasibility studies on both the PIOP and the BBIG Project. Those studies may conclude that either the PIOP or BBIG Project (or both) are not viable projects. If this occurs, BBIG may choose to terminate the arrangements entered into under the Proposed Transaction. Under those circumstances, the arrangements will be unwound and Flinders will retain 100% ownership of the PIOP assets and any pre-FID studies conducted by BBIH, but there may be significant delay encountered.

(h) There is no guarantee the Integrated Project will be developed

BBIG may be unable to (or at its discretion decide not to) bring a FID proposal within the required timeframe and has limited positive obligations to progress development during this time. Under those circumstances, the Integrated Project will not be developed, the arrangements under the Proposed Transaction would be unwound and Flinders will retain 100% economic and voting interest in the PIOP assets, but there may have been a significant delay encountered.

(i) Take or pay obligations

If the PIOP is developed, PIOP Mine Co will have significant take or pay obligations in favour of BBIH for the life of Integrated Project. While these may be abated in certain limited circumstances and for a limited period of time, there is a risk that PIOP Mine Co does not generate sufficient revenue to fulfil these obligations and that Flinders is exposed to dilution as outlined above in Section 5.9.2(e).

(j) Uncertain time period between FID and financial close

While BBIG is obliged to establish financing arrangements on reasonable commercial terms in order to bring a FID Proposal, the time between FID and financial close (and project commencement) will likely be uncertain. This may result in an extended period where financing arrangements are finalised before development is commenced and could result in a delay in commencement of PIOP Mine Co operations.

(k) Potential for conflicts of interest

As a minority shareholder in PIOP Mine Co, Flinders will not be able to control decisions of PIOP Mine Co. BBIH, a company controlled by BBIG, is the counterparty to three critical services agreements for the PIOP – the Infrastructure Services Agreement, the Management Agreement and the Marketing and Sales Agency Agreement. It is possible that those three agreements will be operated in a way which is not in the best interest of PIOP Mine Co, and that the board of PIOP Mine Co may disagree on the actions required to protect the interests of PIOP Mine Co. This is mitigated through: (1) the likelihood that the 50% Equity Funding Party will be independent and, while also having an interest in the BBIG Project, should act to protect the interests of PIOP Mine Co; and (2) Flinders having the right to trigger a binding deadlock process in the event of dispute under an agreement with a related body corporate of a shareholder.

(l) Tax Risks

As part of the Proposed Transaction, Flinders will transfer the PIOP assets to a newly incorporated entity PIOP Mine Co, being a member of the Flinders tax consolidated group. The transfer of these assets may be dutiable, however PIOP Mine Co will apply for corporate reconstruction relief from the Commissioner of State Revenue. The Commissioner of State Revenue may choose to not grant reconstruction relief, in which case PIOP Mine Co will have the sole statutory and contractual liability to pay the relevant duty amount. PIOP Mine Co being granted reconstruction relief is a condition of the Proposed Transaction, however such condition can be alternatively satisfied through BBIG providing a reasonable funding proposal to Flinders.

Where PIOP Mine Co issues B class shares to BBIG, PIOP Mine Co will exit the Flinders tax consolidated group. This may result in a capital gains tax event and an assessable capital gain for Flinders in certain circumstances, however based on the proposed deal structure a gain is not expected to arise. Even where a capital gain arises, it is expected that Flinders should have sufficient tax losses available to offset any assessable gain.

As a result of the issue of C class shares to the Equity Funding Party, this will cause Equity Funding Party to acquire 50% or more in PIOP Mine Co. If this acquisition occurs within 3 years of the transfer of the PIOP assets from Flinders to PIOP Mine Co, and PIOP Mine Co received corporate reconstruction relief on the transfer, the share issue will trigger the revocation of the duty exemption.

The duty on the revocation of the relief should be the transfer duty that would have been payable on the transfer of the PIOP assets reduced by up to 50% on the basis that landholder duty will be payable by the Equity Funding Party on the share issue (for 50% of the shares in PIOP Mine Co). The statutory liability to duty on the revocation of the relief is payable, on a joint and several basis, by all parties to the exempt transaction (i.e. Flinders and PIOP Mine Co). However, PIOP Mine Co has the sole contractual liability to such duty on the revocation and must indemnify Flinders for this liability. The Commissioner may also impose penalty tax equal to the duty payable on the revocation. However, provided relevant disclosures are correctly made to the Western Australia Office of State Revenue, the Commissioner will not usually impose any penalty tax (however, this cannot be guaranteed).

On FID, Flinders will proceed with the Mining Option or instead select (subject to Flinders' Shareholder approval) the Royalty Option. If Flinders proceeds with the Mining Option, the Royalty Option will cease, which may give rise to a capital gains tax event for Flinders in relation to the cessation of the Royalty Option.

The value of the Royalty Option at that time, however, is expected to be negligible, meaning that it is not expected that Flinders will be assessable on any material capital gain.

If Flinders proceeds with the Royalty Option, Flinders will be assessable on future royalty payments, which can, subject to Corporations Act requirements, subsequently be paid as dividends to Flinders Shareholders.

5.9.3 Specific risks associated with Flinders

(a) Market grade discount

In recent times the seaborne iron ore market has seen a widening discount for iron ore product with a grade of less than 62% Fe. This discount impact and the associated impurity penalties represent a risk to the market acceptance and pricing of the potential product from the PIOP. The discount and penalty structures in the market may or may not increase or decrease and such fluctuations will have a material impact on the viability of the PIOP.

The Company is exploring and developing potential mining and processing options that could improve PIOP product grade and that preliminary work is being undertaken by BBIG with industry consultants that suggest it may be possible to increase the product grade of Fe subject to:

- the impact on mine life and other impurities;
- capital and operating costs and project returns.

(b) Native Title and Aboriginal Heritage

Some of the Company's tenements are located within areas that are the subject of claims or applications for native title determination. The *Native Title Act 1993* (Cth) and related State native title legislation and aboriginal heritage legislation may affect the Company's ability to obtain access to certain of its exploration areas or to obtain mining production titles. Settling any such claims will incur costs to the Company. The degree to which this may impact on the Company's activities will depend on a number of factors, including the status of particular tenements and their locations. At this stage, the Company is not able to quantify the impact, if any, of such matters on its operations.

(c) Title, Environmental Bonds and Conditions

All mining tenements which the Company may acquire either by application, sale and purchase or farm-in are regulated by applicable state mining legislation. There is no guarantee that applications as applied for will be granted. Various conditions may also be imposed as a condition of grant. In addition the relevant minister may need to consent to any transfer of a tenement to the Company.

(d) Environment

The Company's projects are subject to State and Federal laws and regulations regarding environmental matters. Many of the activities and operations of the Company cannot be carried out without prior approval from and compliance with all relevant authorities. Resource activities can be environmentally sensitive and can give rise to substantial costs for environmental rehabilitation, damage control and losses. The Company intends to conduct its activities in an environmentally responsible manner and in accordance with all applicable laws.

(e) Resource estimates

Resource estimates are expressions of judgement based on knowledge, experience and industry practice. Estimates which were valid when made, may change significantly when new information becomes available. In addition, resource estimates are imprecise and depend to some extent on interpretations, which may prove to be inaccurate. Should the Company encounter mineralisation or formations different from those predicted by past sampling and drilling, resource estimates may have to be adjusted and mining plans altered in a way which could impact adversely on the operations of the Company.

(f) Agreements with third parties

The Company is and will be subject to various contracts and agreements with third parties. There is a risk of financial failure or default by counterparties to those arrangements. Any breach or failure may lead to penalties or termination of the relevant contract. In addition, the Company's interest in the relevant subject matter may be jeopardised.

6 Profile of BBIG

6.1 INTRODUCTION

BBI Group Pty Ltd (BBIG), formerly Rutila Resources Limited, is an Australian based resources and infrastructure company and the Australian holding company of the BBI Group.

6.2 HISTORY

BBIG is currently owned by TIO (as to approximately 94%) and entities associated with Mr Nicholas Curtis, the managing director of BBIG (as to approximately 6%).

TIO is an investment holding company with a focus on the metals and mining sector. TIO is incorporated in New Zealand and is an indirectly wholly-owned subsidiary of Todd Group. TIO is also a majority shareholder in Flinders and holds 55.56% of Flinders' Shares on issue as at the date of this Explanatory Memorandum.

Todd Group has been in business in New Zealand since 1884 and is one of New Zealand's largest companies. It is privately owned and has approximately 1,050 employees, along with interests in New Zealand, Australia, USA, UK and Canada.

6.3 BBIG'S BUSINESS

BBIG's primary focus is the development of the BBIG Project, comprising the Balla Balla Port and the Balla Balla Rail Project.

The BBIG Project is intended to be a world-class infrastructure development in a safe and stable jurisdiction. When constructed it will comprise an integrated port and rail infrastructure system that will represent a new and independent gateway to the iron ore rich province of the Central and Western Pilbara region in Western Australia. The development of the BBIG Project is expected to allow independent producers of iron ore access to essential infrastructure to enable development of new projects, competing with the existing dominance of the iron ore majors in the region.

The BBIG Group also owns the Balla Balla Mine Project, a potential vanadium-titanium-magnetite development, located 8km south of the proposed Balla Balla Port. It also holds interests in the Eucla West Mineral Sands Project.

6.4 BBIG'S BOARD

Brief profiles of the directors of BBIG as at the date of this Explanatory Memorandum are as follows:

Jon Young	Jon holds a Bachelor of Engineering (Chemical) and Bachelor of Science (Mathematics) from the University of Sydney. After university, Jon spent seventeen years with Mobil Oil in a wide range of international management roles. Jon's last role with Mobil was as Chief Executive Officer of Indo Mobil Ltd, based in New Delhi, India. In 2000, Jon joined Santos Ltd, and as Executive Vice President Operations was responsible for the company's onshore Australian assets. Jon joined Todd Group in January 2011 as Group CEO, and was appointed as a director of BBIG in August 2015. Jon is also a director of TIO.

Nicholas Curtis AM, BA (Hons), FAICD	Nick is the Founding Director of BBIG. Nick now serves as Managing Director. His career spans more than 30 years in the resources and finance industries. Following his tenure as Executive Director of Macquarie Bank Limited, Nick established Sino Mining International in 1994, a wholly owned subsidiary of the State-owned China National Non Ferrous Metals Corporation. In 2000, Nick founded Sino Gold Limited as Executive Chairman, which operated gold mines in China and listed on the ASX in 2001. Nick retired from Sino Gold Limited in 2006. Nick was appointed Managing Director of ASX listed Lynas Corporation Limited in 2001 and developed Lynas Corporation into a significant producer of rare earths minerals, retiring from the company in 2013. In 2011 Nick founded Forge Resources Ltd, a junior ASX-listed mining exploration company. This company acquired the Balla Balla Mine in the Pilbara in Western Australia. It was privatised by him and Todd Group in 2014, and is now BBIG, focussed on building a large scale integrated iron ore system in the Pilbara in Western Australia.
Paul Moore	Paul has a Masters in Business Administration, a Bachelor of Science in Civil Engineering (2:1 honours) and a Diploma of Engineering (Southampton, UK). Paul has held a number of senior executive positions in the international oil and gas sector during the last thirty years including at Otto Energy, Woodside and Santos. Paul joined Todd Group in 2011 as Executive Vice President Upstream Energy and Resources. In August 2014, Paul was appointed to the positions of Executive Vice President Todd Energy International, CEO Todd Energy International and CEO South Louisiana Methanol. Paul was appointed as a director of BBIG in August 2015.

6.5 BBIG'S KEY MANAGEMENT

Brief profiles of the key members of BBIG's management team as at the date of this Explanatory Memorandum are as follows:

Nicholas Curtis AM, BA (Hons), FAICD *Managing Director*	See profile in Section 6.4 above.
Chris Colbourne *Vice President, Mining*	Chris is a mining professional with 30 years' experience and a proven leadership record at senior levels in Australia and internationally across multiple commodities and aspects of mining from concept to closure. Chris has deep expertise in business, mining operational and technical leadership, technical risk, joint venture management, technology, innovation and project execution. Prior to joining BBIG, Chris spent 14 years with Rio Tinto as a Chief Advisor Mining & Geosciences from 2012-2017, General Manager /

	Operations / Project Director from 2006-2012 and Mine Manager – Tom Price from 2004-2006.
Shane Hartwig *CFO and Company Secretary*	Shane is a Certified Practising Accountant and Chartered Company Secretary and holds a Bachelor of Business degree, majoring in Accounting and Taxation from Curtin University of Technology in Western Australia. Shane has extensive experience in the areas of initial public offerings, capital raisings, prospectus and information memorandum preparation and project management, company assessments and due diligence reviews, mergers and acquisitions and providing general corporate advice.
Angela Johnson *Vice President, Social and External Relations*	Angela holds a Bachelor of Science in Metallurgy and Chemistry from Murdoch University in Perth, Australia. Angela comes from an agricultural background and has over 18 years of experience in the resource and industry sectors. She previously worked for Atlas Iron where she held the role of General Manager Land Access, Heritage and Approvals. Prior to this she was Project Manager of the Balla Balla Project for Aurox Resources and previous to this spent eight years in operational roles in northern Western Australia, Queensland and the Northern Territory with WMC Resources and Alcan Gove. Angela has been working in the social and external relations space for some eight years now, combining her technical skills and operational experience with identifying opportunities for BBIG and the regional community, including traditional owner groups, pastoral, State and local government, contractors and business. Angela has been part of the BBIG team since October, 2012.
Julian Mizera *Vice President, Project Development*	Julian has an MBA from University of Western Australia and a Bachelor of Engineering (Mechanical) from Curtin University. Julian has over 30 years' experience in large resource related projects with BHP, API, Sinosteel Midwest Corporation, Alcoa, Worley Parsons, Hatch and Worsley Alumina. He has been involved in the development of numerous projects across various industry sectors including infrastructure, general mining & minerals processing, iron ore, alumina, lateritic nickel and gold. Prior to joining BBIG, Julian managed the completion of a comprehensive Definitive Feasibility Study for the CleanTeq Sunrise Nickel and Cobalt project.
Deborah Saunders *Manager, People and Project Services*	Deborah is finalising a Master of Applied Project Management (**MPM**) from the University of South Australia and holds a Graduate Diploma in Project Management, Diplomas in Business Management and Human Resource Management, and is a bilingual speaker. Deborah is a strategic organisational project manager with 20 years' experience in the development and optimisation of business start-ups and capital project organisations. Deborah's focus is on governance, business value, and change management to drive positive project outcomes and consensus solutions to people and process complexity.

	Prior to joining BBIG, Deborah held senior project positions within FMG's greenfields, operations and major projects and was chief operating officer of the Australian Employment Covenant initiative.

6.6 PUBLICLY AVAILABLE INFORMATION ABOUT BBIG

Further information about BBIG and the BBIG Group is available in electronic form from www.bbig.com.au

7 Proposed Transaction Resolution

The Resolution seeks the approval of Flinders Shareholders to the Proposed Transaction, for the purposes of Listing Rule 10.1 and Chapter 2E of the Corporations Act.

Listing Rule 10.1

Listing Rule 10.1 requires shareholder approval for an acquisition of a 'substantial asset' from or disposal to a 'related party' (or its associate) or 'substantial holder' of a listed entity. A 'substantial asset' is something that is 5% or more of the listed entity's equity value. TIO holds approximately 55.56% of Flinders Shares and is therefore a 'related party' and 'substantial holder' of Flinders and owns approximately 94% of the shares in BBIG, which controls BBIH.

Given that the Proposed Transaction includes initially issuing 10% of the voting interests in PIOP Mine Co to BBIG and, after FID, at least 10% and potentially up to 60% of the voting and economic interests in PIOP Mine Co, those elements would likely amount to the disposal of a 'substantial asset' to a related party (or its Associate) for the purposes of Listing Rule 10.1. Additionally, PIOP Mine Co is required to provide BBIH a third ranking security (behind the project financing arrangements and any security granted to Flinders in respect of the Royalty Deed) over the PIOP assets to secure its payment and other obligations under the Infrastructure Services Agreement which is also likely to constitute the disposal of a 'substantial asset' for the purposes of Listing Rule 10.1. Other elements of the various proposed arrangements between Flinders and BBIG (and its Associates) described in or contemplated by this Explanatory Memorandum which comprise the Proposed Transaction could also give rise to the application of Listing Rule 10.1.

The Resolution therefore seeks the approval under Listing Rule 10.1 of Flinders Shareholders (other than TIO and its Associates) of the Proposed Transaction in its entirety and as described in or contemplated by this Explanatory Memorandum.

ASX Listing Rule 10.5.10 requires a notice of meeting containing a resolution under Listing Rule 10.1 to include a report on the transaction from an independent expert. The Independent Expert's Report is contained in Section 10. ASX Listing Rule 10.5.9 requires a different voting exclusion statement from the Corporations Act voting exclusion statement requirement. It permits votes to be cast *against* the resolution in question by the excluded parties. To comply with this ASX requirement, the Company has included both voting exclusion statements to accommodate the technical differences. Despite TIO and its Associates' ability to vote against the Resolution under the ASX voting exclusion statement, TIO has advised the Company that it will not cast *any* votes on the Resolution.

Grant Samuel has concluded that the Proposed Transaction is fair and reasonable to the non-associated Flinders Shareholders.

It is noted that FID is potentially up to 4 years away (subject to a 1 year extension in certain circumstances) from being reached and Flinders Shareholders are being asked to approve those (potential) disposals now. Flinders Shareholders approval will be sought if the Flinders' Board recommends conversion of its interest in PIOP Mine Co to the Royalty Option at FID as described in the Royalty Deed.

Chapter 2E of the Corporations Act

Chapter 2E of the Corporations Act requires a public company to obtain shareholder approval to give a 'financial benefit' to a 'related party', unless an exception applies. The 'financial benefit' must also be given within 15 months of the shareholder approval. Although Flinders considers the Proposed Transaction may fall within the 'arm's length' exception contained in Chapter 2E of the Corporations Act because it has been negotiated at 'arm's length', Flinders is also seeking Flinders Shareholder approval of the Proposed Transaction under Chapter 2E of the Corporations Act.

As 'financial benefit' is a very broad concept it is likely that the Proposed Transaction or various elements of it would constitute 'financial benefits'. For example, the Proposed Transaction involves initially issuing 10% of the voting interest in PIOP Mine Co (which will hold the PIOP) to BBIG and BBIH is also receiving various benefits, rights and entitlements under the Transaction Documents and the broader Proposed Transaction, such as the infrastructure tariff under the Infrastructure Services Agreement and the cross-collateralisation arrangements referred to in

Sections 2.6(f), 4.2 and 5.9.2(f). Please refer to Section 2.2 and Section 4 for further details of benefits, rights and entitlements that BBIG (and its Associates) may receive.

Given that TIO is Flinders majority shareholder (with approximately 55.56% of Flinders Shares) and would be considered a 'related party' of Flinders and TIO holds approximately 94% of the shares in BBIG (which in turn also controls BBIH), the 'financial benefits' noted above would be considered to be given to a 'related party' requiring Flinders Shareholder approval.

As the Proposed Transaction will be implemented shortly after any Flinders Shareholder approval at the Extraordinary General Meeting, the 'financial benefit' will be given within 15 months of that shareholder approval, even if certain aspects of the Proposed Transaction will not take effect for potentially up to 4 years after satisfaction of the conditions precedent to the Farm-in Agreement which has a 9 month sunset date, plus a potential 1 year extension.

All other information that is reasonably required by Flinders Shareholders in order to decide whether or not it is in Flinders' interests to pass the Resolution and is known to Flinders or to any of the Flinders Directors is contained in this Explanatory Memorandum including the Independent Expert's Report.

Voting exclusion

As noted above, in order to comply with ASX Listing Rules and the Corporations Act requirements, the Company has included two different voting exclusion statements. TIO has advised the Company that it will not cast *any* votes on the Resolution despite its ability under the ASX voting exclusion statement to vote *against* the Resolution.

In accordance with section 224 of the Corporations Act, no votes may be cast (in any capacity) on the Resolution by or on behalf of TIO or any of its Associates.

In accordance with Listing Rules 10.1 and 14.11, no votes may be cast in favour of the Resolution by or on behalf of TIO or any of its Associates.

7.1 CONSENTS AND DISCLAIMERS

The following parties have given, and have not withdrawn as at the date of this Explanatory Memorandum, their written consent to be named in this Explanatory Memorandum in the form and context in which they are named:

- Greenhill & Co. as financial adviser to Flinders;
- MinterEllison as legal adviser to Flinders;
- Computershare Investor Services Pty Limited as Flinders' share registrar; and
- Grant Samuel as Independent Expert.

BBIG has given, and has not withdrawn as at the date of this Explanatory Memorandum, its written consent to the inclusion of the BBIG Information, in the form and context in which it is included in this Explanatory Memorandum.

Each party referred to in this Section 7.1:

- does not make, or purport to make, any statement in this Explanatory Memorandum or any statement on which a statement in this Explanatory Memorandum is based other than a statement included in this Explanatory Memorandum with the consent of that party; and
- to the maximum extent permitted by law, expressly disclaims and takes no responsibility for any part of this Explanatory Memorandum, other than as described in this Explanatory Memorandum with the consent of that party.

8 Notice of Meeting

Notice is given that an Extraordinary General Meeting of Flinders Mines Limited ABN 46 091 118 044 (**Flinders** or **Company**) will be held on Tuesday, 3 March 2020 at 10.00am (WST) at the Theatrette Room, QV1 Building, Level 2, 250 St Georges Terrace, Perth, WA 6000 for the purpose of considering and if thought fit passing the following proposed Resolution.

Unless otherwise defined, terms used in this Notice of Meeting have the meaning given in the Explanatory Memorandum of which this notice forms part.

The Resolution: Proposed Transaction

To consider and, if thought fit, to pass the following ordinary resolution:

'That, for the purposes of Listing Rule 10.1 and Chapter 2E of the Corporations Act, and for all other purposes, Shareholder approval is given:

(a) to approve; and

(b) for the Company and its subsidiaries to enter into arrangements to give effect to, and to implement,

the Proposed Transaction and any related or connected transaction or arrangement, subject to any non-substantive amendments agreed by the Company.'

Voting exclusion statement – ASIC

In accordance with section 224 of the Corporations Act, no votes may be cast (in any capacity) on the Resolution by or on behalf of TIO or any of its Associates.

However, the above does not prevent the casting of a vote if:

- it is cast by a person as a proxy appointed by writing that specifies how the proxy is to vote on the Resolution; and
- it is not cast on behalf of TIO or any of its Associates.

Voting exclusion statement – ASX

In accordance with Listing Rules 10.1 and 14.11, the Company will disregard any votes cast in favour of the Resolution by or on behalf of:

- TIO; or
- any of its Associates.

However, this does not apply to a vote cast in favour of the Resolution by:

- a person as proxy or attorney for a person who is entitled to vote on the Resolution, in accordance with directions given to the proxy or attorney to vote on the Resolution in that way; or
- the Chair of the Meeting as proxy or attorney for a person who is entitled to vote on the Resolution, in accordance with a direction given to the Chair to vote on the Resolution as the Chair decides; or
- a holder acting solely in a nominee, trustee, custodial or other fiduciary capacity on behalf of a beneficiary provided the following conditions are met:
  - the beneficiary provides written confirmation to the holder that the beneficiary is not excluded from voting, and is not an associate of a person excluded from voting, on the Resolution; and

- the holder votes on the Resolution in accordance with directions given by the beneficiary to the holder to vote in that way.

Attendance and Voting

Entitlement

You will be entitled to attend and vote at the Extraordinary General Meeting if you are registered as a Flinders Shareholder on the Record Date as at 7.00pm (WST) on 1 March 2020.

How to vote

Voting entitlement on a poll

On a poll, each Flinders Shareholder present (in person, by proxy, attorney or corporate representative) has one vote for each Share they hold.

The Chair will put the Resolution to a poll.

Required voting majority

The Resolution must be approved by Flinders Shareholders whose Shares in aggregate account for greater than 50% of the votes cast on the Resolution (whether in person, by proxy, attorney or corporate representative)

Appointment of a corporate representative

Corporate representatives are requested to bring appropriate evidence of appointments as a representative. Proof of identity will be required for corporate representatives.

Voting by proxy

A Flinders Shareholder entitled to attend and vote at this Extraordinary General Meeting is entitled to appoint a proxy to attend and vote on the Flinders Shareholder's behalf. If the Flinders Shareholder is entitled to cast two or more votes at the Extraordinary General Meeting, the Flinders Shareholder may appoint up to two proxies to attend and vote on the Flinders Shareholder's behalf.

If a Flinders Shareholder appoints two proxies, each proxy may be appointed to represent a specified proportion or number of the Flinders Shareholder's votes. Absent this specification, on a poll, each proxy may exercise half the votes. A proxy can be either an individual or a body corporate and need not be a Flinders Shareholder. If a Flinders Shareholder appoints a body corporate as proxy, the body corporate will need to appoint an individual as its corporate representative and provide satisfactory evidence of this appointment.

If a Flinders Shareholder's instruction is to abstain from voting for a particular item of business, the Flinders Shareholder's votes will not be counted in computing the required majority on a poll.

To appoint a proxy, a proxy form must be signed by the Flinders Shareholder or the Flinders Shareholder's attorney duly authorised in writing. If the Flinders Shareholder is a corporation, the proxy form must be signed in accordance with section 127 of the Corporations Act. To be effective, a proxy form (and, if it is signed by an attorney, the authority under which it is signed or a certified copy of the authority) must be received by the Company not later than 48 hours prior to the commencement of the Extraordinary General Meeting. Proxy form and authorities may be lodged:

- by post to Computershare Investor Services Pty Ltd, GPO Box 242, Melbourne VIC 3001, or;
- by facsimile to Computershare on (within Australia) 1800 783 447 or (outside Australia) +61 3 9473 2555 or the Company on +61 8 8132 7999; or
- electronically by casting votes online at www.investorvote.com.au and follow the prompts. To use this facility you will need your holder number (SRN or HIN), postcode and control number as shown on the proxy form. You will be taken to have signed the proxy form if you lodge it in accordance with the instructions on the website.

Custodian voting – For Intermediary Online subscribers only (custodians), please visit www.intermediaryonline.com to submit your voting intentions.

Flinders Shareholders who forward their proxy forms by fax must make available the original executed form of the proxy for production at the Extraordinary General Meeting, if called on to do so.

To be effective for the Extraordinary General Meeting, a proxy appointment (and any power of attorney or other authority under which it is signed or otherwise authenticated, or a certified copy of that authority) must be received at an address or fax number set out below no later than 10.00am (WST) on 1 March 2020 (being 48 hours before the commencement of the Extraordinary General Meeting). Any proxy appointment received after that time will not be valid for the Extraordinary General Meeting.

Voting by attorney

Attorneys are requested to bring a power of attorney under which they are appointed. Proof of identity will also be required for attorneys.

Chair acting as proxy

Flinders Shareholders may appoint the Chair as their proxy. Where the Chair is appointed as a proxy by a Flinders Shareholder entitled to cast a vote the Resolution and the proxy form specifies how the Chair is to vote on the Resolution (that is, a directed proxy), the Chair must vote in accordance with that direction.

In relation to the Resolution, if a Flinders Shareholder has appointed the Chair as their proxy and no voting direction has been given, the Flinders Shareholder will be expressly authorising the Chair to exercise the undirected proxy in favour of the Resolution. Please read the directions on the proxy form carefully, especially if you intend to appoint the Chair of the Meeting as your proxy. The Chair intends to vote all undirected proxies in favour of the Resolution.

If you do not want the Chair of the Meeting to vote, as your proxy, in favour of the Resolution, you need to direct your proxy to vote against, or to abstain from voting on, the Resolution by marking the appropriate box on the proxy form.

By Order of the Board

Shannon Coates
Company Secretary
Flinders Mines Limited
30 January 2020

9 Glossary

Defined term	Meaning
$ or A$	Australian dollars.
ASIC	Australian Securities and Investments Commission.
Associate	has the meaning given in Division 2 of Part 1.2 of the Corporations Act as if: (a) section 12(1) of that Act included a reference to this Explanatory Memorandum; and (b) Flinders was the designated body.
ASX	ASX Limited ABN 98 008 624 691 or the financial market operated by ASX, as the context requires.
Australian Accounting Standards	the Australian Accounting Standards as issued by the Australian Accounting Standards Board.
Balla Balla Port	the proposed export facilities and associated infrastructure in the Balla Balla Harbour in the Pilbara, Western Australia.
Balla Balla Rail Project	the proposed rail line and conveyor system and associated infrastructure designed to transport iron ore from the Central Pilbara region to the Balla Balla Port.
BBIG	BBI Group Pty Ltd ACN 139 886 187.
BBIG Group	BBIG and its subsidiaries.
BBIG Information	information provided by BBIG to Flinders in writing for inclusion in the Explanatory Memorandum contained in Section 6.
BBIG Project	rail and port project with the objective of providing an infrastructure solution for undeveloped iron ore projects in the central and western Pilbara being developed by BBIG.
BBIH	the entity nominated by BBIG to be the manager of the PIOP under the Management Agreement which must be a directly related entity or indirectly wholly owned subsidiary of BBIG.
Board	the board of Directors.
CEO	chief executive officer.
Chair	the chairperson of Flinders.
Commencement Time	has the meaning given in Section 2.6.
Company or Flinders	Flinders Mines Limited ABN 46 091 118 044.
Constitution	the constitution of the Company.
Control	the meaning given to that term in section 50AA of the Corporations Act (and **Controlled** and **Controlling** have corresponding meanings).
Corporations Act	the *Corporations Act 2001* (Cth).
Corporations Regulations	the *Corporations Regulations 2001* (Cth).
CPI	consumer price index.
Development Period	has the meaning given in Section 4.3.
Director	a director of the Company.

Defined term	Meaning
dmt	dry metric tonnes.
Equity Funding Party or Equity Funding Partner	BBIG, or a third party or third parties which commit to fund the amounts required under the Farm-In Agreement and Shareholders Agreement.
Explanatory Memorandum	this document including the Notice of Meeting.
Extraordinary General Meeting or Meeting	the meeting convened by the Notice of Meeting and proposed to be held on Tuesday, 3 March 2020.
Farm-in Agreement	the agreement so called and described in Section 4.2.
Fe	means iron.
Feasibility Studies	all feasibility studies in respect of the development and construction of the PIOP Project and considered necessary for a FID proposal, including but not limited to all exploration activities and works aimed at the appraisal of discovered minerals, feasibility studies, assessments, assays and metallurgical work and design, construction and operation of pilot plants and bulk sampling facility.
Feasibility Study Period	has the meaning given in Section 4.3.
FID	final investment decision.
FID proposal	has the meaning given in Section 4.2.
FIRB	the Foreign Investment Review Board.
Flinders Board	the board of Directors.
Flinders Directors or Directors	the directors of Flinders.
Flinders Group	Flinders and its subsidiaries.
Flinders Information	all information in this Explanatory Memorandum other than the BBIG Information.
Flinders Shareholder	a person who is registered in the Flinders Share Register as the holder of at least one Flinders Share.
Flinders Share Register	the register of members of Flinders maintained by Flinders in accordance with the Corporations Act.
Flinders Shares	fully paid ordinary shares in the capital of Flinders.
FOB	free on board.
Governance Protocol Side Letter	the agreement so called and described in Section 4.9.
Grant Samuel	Grant Samuel & Associates Pty Limited ABN 28 050 036 372.
General Security Deed - ISA	the agreement so called and described in Section 4.5.
General Security Deed - Royalty	the agreement so called and described in Section 4.8.
Greenhill & Co.	Greenhill & Co. Australia Pty Limited ABN 89 086 678 346.
Independent Expert	Grant Samuel & Associates Pty Limited ABN 28 050 036 372.
Independent Expert's Report	the report prepared by Grant Samuel & Associates Pty Limited which is contained in Section 10.
Independent Flinders Directors	Neil Warburton, Cheryl Edwardes and James Gurry.
Independent Review	has the meaning given in Section 2.1.

Defined term	Meaning
Independent Technical Expert's Report	the report prepared by SRK Consulting (Australasia) Pty Ltd and included as an annexure to the Independent Expert’s Report in Section 10.
Infrastructure Committee	the infrastructure committee established 31 May 2019 who are independent of TIO, being Cheryl Edwardes (Chair), Neil Warburton, and David McAdam.
Infrastructure Payment Deed	the agreement so called and described in Section 2.2.2.
Infrastructure Services Agreement	the agreement so called and described in Section 4.5.
Integrated Project	has the meaning given in Section 2.1.
Integrated Project Finance	project financing arrangements in respect of (a) the external debt component to be provided by project financiers (but not BBIG) to fund the development of the PIOP, and (b) project financing arrangements for the Balla Balla Port export project.
Listing Rules	the listing rules of the ASX.
Manager	BBIH.
Management Agreement	the agreement so called and described in Section 4.4.
Marketing Agent	the marketing agent under the Marketing and Sales Agency Agreement.
Marketing and Sales Agency Agreement	the agreement so called and described in Section 4.6.
Mining Option	has the meaning given in Section 2.2.1.
Mining Period	has the meaning given in Section 4.3.
non-associated Flinders Shareholders	all Flinders Shareholders other than TIO and its Associates.
Notice of Meeting	the notice of Extraordinary General Meeting included in this Explanatory Memorandum.
OGV	has the meaning given in Section 4.5.
PIOP	the Pilbara Iron Ore Project.
PIOP Mine Co	PIOP Mine Co NL ACN 637 106 873 which is a subsidiary of Flinders.
Proposed Transaction	the transaction (and other arrangements) summarised in Section 2.2.
PwC	PricewaterhouseCoopers.
Related Party	has the meaning given in the Corporations Act.
Resolution	the resolution set out in the Notice of Meeting.
Royalty Option	has the meaning given in Section 2.2.1.
Royalty Deed	means the deed so called and described in Section 4.8.
Section	a section in this Explanatory Memorandum.
Share Registrar or Computershare Investor Services	Computershare Investor Services Pty Limited (ABN 48 078 279 277).
Shareholders Agreement	the agreement so called and described in Section 4.3.
State Agreement	means the Railway (BBI Rail Aus Pty Ltd) Agreement 2017 pursuant to the *Railway (BBI Rail Aus Pty Ltd) Agreement Act 2017* (WA)

Defined term	Meaning
Subscription Completion	has the meaning given in Section 4.2.
Tariff	has the meaning given in Section 4.5.
Terms Sheet	means the non-binding terms sheet between Flinders and BBIG dated 1 September 2019.
TIO	TIO (NZ) Limited.
Todd Group	Todd Corporation Limited.
Transaction Documents	has the meaning given in Section 4.1.
TSVs	has the meaning given in Section 4.5.
wmt	wet metric tonnes.
WST	Western Standard Time.

10 Independent Expert's Report

13 January 2020

The Directors
Flinders Mines Limited
45 Ventnor Avenue
West Perth, Western Australia 6005

Dear Directors

BBIG Transaction

1 Introduction

Flinders Mines Limited ("Flinders") is a Western Australian iron ore development company. Its major asset is the Pilbara Iron Ore Project ("PIOP"), a large hematite iron ore project located in the Pilbara, Western Australia, approximately 160km south-west of the port of Balla Balla. TIO (NZ) Limited ("TIO") holds a 55.6% interest in Flinders and is ultimately controlled by the Todd Corporation group of companies ("Todd Corporation"). The family-owned Todd Corporation is one of New Zealand's largest companies, with interests in oil and gas, electricity generation, energy retailing, property development, minerals, healthcare and technology.

On 2 September 2019, Flinders announced that it had entered into a non-binding terms sheet ("Terms Sheet") with BBI Group Pty Ltd ("BBIG") in relation to arrangements designed to facilitate the development of the PIOP. Todd Corporation has a 94% shareholding in BBIG and, accordingly, BBIG is a related party of Flinders.

On 28 November 2019, Flinders announced that it had entered into binding agreements ("Agreements") to give effect to the principles in the Terms Sheet. In particular:

- the PIOP will be transferred into a new subsidiary of Flinders, PIOP Mine Co NL ("PIOP Mine Co");
- BBIG will be granted a shareholding in PIOP Mine Co that will confer a 10% voting interest but no economic interest in PIOP Mine Co ("Stage 1 Transfer"), in exchange for funding a feasibility study for the project, with a minimum spending commitment of $15 million per annum for four years (subject to various provisions). Flinders will be free carried during this period;
- if a final investment decision ("FID") is not made by BBIG within four years (extendable by a year in certain circumstances), the arrangements will be unwound and Flinders will revert to holding a full 100% interest in PIOP Mine Co;
- if BBIG elects to proceed with development of the PIOP:
  - BBIG's 10% voting interest will convert into a full 10% voting and economic interest in PIOP Mine Co;
  - BBIG or, at BBIG's nomination, another party ("Equity Funding Party") will acquire a 50% voting and economic interest in PIOP Mine Co ("Stage 2 Transfer") in exchange for:
    - free-carrying the holders of the remaining 50% interest in the PIOP in respect of their equity funding obligations through to project commissioning; and
    - arranging the debt funding for the development of the PIOP;
  - as a result, Flinders will be free carried to the point of project commissioning in respect of its remaining 40% interest in the PIOP (except to the extent that capital cost overruns exceed a

material over-run amount, in which case such overruns will be funded pro-rata by the parties, along with costs associated with provision of any required completion security);

- if the PIOP proceeds, PIOP Mine Co will be required to grant security over all the project assets in favour of project financiers for the PIOP and may be required to (and most likely will) grant security over all the PIOP assets in favour of the project financiers for the BBIP infrastructure project. BBIG has agreed to use commercially reasonable endeavours to agree terms which limit recourse to the PIOP assets to the PIOP Mine Co portion of the proposed financing. The project financiers will not include BBIG;
- at FID for the PIOP, Flinders may elect to convert its equity interest in PIOP into a royalty or other revenue stream, in which case it will have no further funding commitments to the project. The royalty election would be put to minority shareholders in Flinders for approval at that time;
- BBIG holds the development rights for the Balla Balla Infrastructure Project ("BBIP") through a State Rail Agreement. If development of the PIOP proceeds, BBIG and its partners, who constitute the consortium that is the proposed Equity Funding Party, will develop the BBIP to allow the transport of iron ore from the PIOP to the Port of Balla Balla and its loading onto ocean going vessels. Effectively, the PIOP and the BBIP will be developed as a single integrated project, although Flinders will have no economic interest in the BBIP. The proposed ownership interests in the two projects are as follows:
  - PIOP Mine Co will be held as to 40% (equity free carried) by Flinders, 10% (equity free carried) by BBIG and 50% by the Equity Funding Party; and
  - the BBIP will be held as to 50% by BBIG and 50% by the Equity Funding Party;
- the infrastructure will include a conveyor from the mine to the rail head, a railway line from the PIOP to new port facilities to be built at Balla Balla, and related ore handling facilities at the mine and the port. Pursuant to an Infrastructure Services Agreement, Flinders and BBIG have agreed, amongst other matters, on a tariff structure that will determine the basis on which BBIP will charge the PIOP for access to/use of BBIP infrastructure. The tariff structure has been designed to deliver a commercial return to BBIG and the Equity Funding Party as owners of the BBIP infrastructure, while ensuring some risk and upside sharing (including in relation to iron ore price) between the PIOP and the BBIP; and
- BBIG (or its nominees) will provide certain management and marketing services, on a cost recovery basis.

The proposed Equity Funding Party is currently envisaged to be a consortium of Chinese companies, although the agreements also allow BBIG to be the Equity Funding Party. The consortium will potentially include China State Construction Engineering Corporation, with which BBIG has signed a contract that provides for China State Construction Engineering Corporation, under certain circumstances, to provide a progressive lump sum contract for the construction of the mine, port and rail. It is envisaged that the other members of the consortium will be a Chinese steel producer and a Chinese financier.

In addition to their proposed collective 50% interests in the PIOP and the BBIP and provision of design, engineering and construction management services for the development of the PIOP and the BBIP, it is expected that the consortium constituting the Equity Funding Party would enter into offtake arrangements for iron ore product and would provide or arrange equity and debt financing for the development of the projects, although there is no undertaking that the Equity Funding Party will provide these services and arrangements. (BBIG, whether it were the Equity Funding Party or not, would not provide project finance).

Concurrent with the announcement on 2 September 2019 of the Terms Sheet, Flinders also announced that the company had entered into the following funding arrangements:

- a $5 million loan facility with PIO Mines Pty Limited ("PIO"), a subsidiary of TIO. This funding is to allow Flinders to complete due diligence and negotiation of final transaction documents, and to meet short term working capital requirements; and
- a subscription agreement in relation to a proposed future rights issue, in terms of which TIO would subscribe for up to $6 million (but not more than its pro-rata entitlement) in relation to a proposed rights issue, subject (amongst other things) to a Flinders shareholder vote on the proposed arrangements between Flinders and the Todd Corporation entities and to such rights issue being launched no later than 30 April 2020. Proceeds from the rights issue will be used to repay amounts due under the loan facility from PIO Mines Pty Limited and to fund ongoing working capital requirements.

On 20 December 2019, the terms of the above funding arrangements were varied such that PIO will make available an additional $2 million under the loan facility and TIO has agreed to subscribe for a further $2 million (maximum of $8 million) under the subscription agreement.

For the purposes of this report, the overall suite of transactions, potential transactions and contractual agreements between Flinders, BBIG, BBIH (a subsidiary of BBIG), PIOP Mine Co and Todd Group is referred to as the "Transaction". The Transaction is described in Section 2.2 of the Notice of Meeting. Most notably, the Transaction includes, but is not limited to, the Stage 1 Transfer, the potential Stage 2 Transfer and the granting of security to BBIG under the Infrastructure Services Agreement.

As BBIG is a related party of Flinders, the Transaction will require the approval of Flinders shareholders other than TIO/Todd Corporation under Australian Securities Exchange Ltd ("ASX") Listing Rule 10.1.

The Directors of Flinders not associated with TIO have engaged Grant Samuel & Associates Pty Limited ("Grant Samuel") to prepare an independent expert's report in relation to the Transaction setting out whether, in Grant Samuel's opinion, the Transaction is fair and reasonable having regard to the interests of shareholders other than those associated with TIO. This letter contains a summary of Grant Samuel's opinion and main conclusions.

2 Summary of Opinion

The Transaction comprises an unusual and highly complex set of arrangements. At its core are an option (but not obligation) for BBIG to elect to proceed with the PIOP project development and acquire an interest in the PIOP, and contractual agreements that seek to regulate the relationships of the parties through feasibility study, development and many years of operations into the future.

Evaluation of whether the Transaction is fair requires a comparison of:

- **the value of BBIG's option to proceed with the PIOP development and acquire a project interest ("BBIG Call Option"); and**
- **the value of the effective consideration to be paid by BBIG for that option ("Consideration"), being the annual payments of not less than $15 million each to be made over a four year period to fund the feasibility study for the PIOP.**

Grant Samuel has attributed a value of $50-52 million to the Consideration. Grant Samuel has adopted an indicative valuation range for the BBIG Call Option of $40-80 million. Because the value of the Consideration falls within the range of values attributed to the BBIG Call Option, in Grant Samuel's view the Transaction is fair.

Valuation of the BBIG Call Option is not straightforward. In particular, the valuation requires judgements regarding the likely distribution of future iron ore prices, project life and project economics, capital structure and other matters in respect of which there is fundamental uncertainty. Different assumptions on these matters could yield different conclusions as to the value of the BBIG Call Option. However, in Grant Samuel's opinion there are in any event compelling reasons for Flinders to enter into the Transaction.

Todd Corporation has both a 55.6% controlling interest in Flinders and (through BBIG) the development rights for BBIG's proposed Balla Balla Infrastructure Project, which appears to be the only credible infrastructure solution for the PIOP currently available. Development of the PIOP will not proceed without such an infrastructure solution.

Flinders is a relatively small company (with recent market capitalisation of around $190 million) and is incapable of raising significant amounts of capital without the support of its major shareholder, TIO/Todd Corporation. It has no income and only modest cash reserves, which are not sufficient to fund ongoing expenditure commitments.

The dual development of the PIOP and the BBIP will require substantial capital, with indicative capital costs[1] of $3.1 billion for the PIOP and $4.2 billion for the BBIP. Even disregarding Flinders' ownership structure, Flinders would have little prospect of independently funding the development of the PIOP. At best, Flinders would need to find substantial external equity capital and Flinders shareholders would face material dilution of their effective project interest through any funding solution.

Failure to progress with a development plan for PIOP could result in the termination of BBIG's State Rail Agreement for the BBIP infrastructure project. The lapsing of the only credible infrastructure option for the PIOP could see a reassessment of the PIOP as a stranded asset and a major fall in the value of both the PIOP and of Flinders. At a minimum, in the absence of some agreement with Todd Corporation to progress development of the PIOP, Flinders' current cash position, funding pressures and debt repayment obligations, together with a possible need to mothball the project, could be expected to result in a significant fall in the Flinders share price.

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[1] Excluding financing costs or any capitalised interest during construction

The Transaction provides an opportunity for Flinders shareholders to participate in a development of the PIOP through a 40% free-carried interest. (It should be recognised that there can be no guarantee that development will proceed, and a positive development approval will depend on factors beyond Flinders' control, including the iron ore price outlook in four/five years' time, ultimate assessment of PIOP and BBIP capital and operating costs and other factors bearing on project economics, and the state of capital markets at the time).

Indicative financial analysis suggests that the value of Flinders' 40% free carried interest in PIOP Mine Co, if development does proceed, could be significantly greater than Flinders' current market capitalisation. Flinders' shareholders will have exposure to iron ore price upside. Flinders' right to swap its 40% interest for a royalty interest has the potential to provide value protection for Flinders shareholders in circumstances in which the economics of the PIOP are less than compelling.

Arguably, if BBIG elects not to proceed, Flinders will have been no worse off than if the Transaction had not been approved, as 100% ownership of PIOP Mine Co will revert to Flinders. Flinders will have had the benefit of the feasibility study on the PIOP, indicatively costing in excess of $60 million[2], although in those circumstances that may not be reflected in any uplift in the value of the project.

The Transaction does involve disadvantages, including the dilution of Flinders' interest in PIOP Mine Co and risks arising through the complex set of contractual arrangements that are intended to regulate the relationship of the parties many years into the future.

In Grant Samuel's view, however, these disadvantages are outweighed by the opportunity for Flinders shareholders to participate meaningfully in development of the PIOP on a free-carried basis (while recognising that there is no certainty that development of the PIOP will proceed). There is no alternative currently available to Flinders shareholders (and, given Todd Corporation's controlling shareholding, no realistic prospect of some third party proposal). The Transaction taken in its entirety appears more favourable for Flinders shareholders than the uncertainty and potential value destruction that would follow if Flinders shareholders were to vote against the Transaction.

Accordingly, Grant Samuel has concluded that the Transaction is fair and reasonable having regard to the interests of shareholders other than TIO/Todd Corporation. In Grant Samuel's view Flinders shareholders are likely to be better off if the Transaction proceeds than if it does not.

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2 Flinders expects that a feasibility study for the PIOP would cost of the order of $40-50 million. Flinders understands that BBIG/Todd Corporation expects to undertake additional work, including the construction of a pilot processing plant, such that the total cost will exceed $60 million.

3 Key Conclusions

- **Flinders' major asset is the Pilbara Iron Ore Project.**

  The PIOP is located in the Hamersley Ranges in the Pilbara region in north-west Western Australia. It consists of two separate tenement packages (the Blacksmith and Anvil areas) that are in close proximity to iron ore operations of Rio Tinto and Fortescue Mining. Total iron ore resources across the project are 1.484 billion tonnes, generally at medium grades (50-60%). Given these grades and the level of impurities in the ore, the ore would need to be upgraded through various processing routes to produce a marketable product. Studies completed to date suggest a development concept that would involve pre-commissioning capital costs (for the PIOP itself) of around $3 billion and indicative production rates of approximately 45 million tonnes per annum.

  There is no infrastructure currently available to transport ore from the PIOP to the coast for shipment to Asian customers. BBIG's proposed Balla Balla Infrastructure Project would comprise an overland conveyor, a 165 kilometre single track standard gauge heavy haul railway and port facilities at the Balla Balla port, at an estimated total cost of $4.2 billion[3]. Absent the BBIP, there is no obvious infrastructure solution available for the PIOP.

- **Flinders does not have the financial capacity to undertake development of the Pilbara Iron Ore Project on an independent basis.**

  Further studies, including a definitive feasibility study, will be required before the PIOP is ready for a final investment decision. Flinders has estimated that these studies would cost $40-50 million. Based on Flinders' understanding of the scope of BBIG's intended feasibility study (which is expected to include development of a pilot plant), Flinders expects that BBIG will incur total costs on the feasibility study of at least $60 million. Given Flinders' current cash position, its market capitalisation of around $190 million and the structure of its share register, it appears highly unlikely that Flinders could fund these studies without the support of Todd Corporation. On the basis of current iron ore prices and market conditions, Flinders would clearly not be able to fund the subsequent development of the PIOP without raising substantial external equity and/or introducing a development partner.

- **The Transaction has the potential to deliver the technical, financing and infrastructure solutions required to support the development of the Pilbara Iron Ore Project.**

  The Transaction will address many of the challenges associated with development of the PIOP. In particular:

  - Todd Corporation/BBIG would fund the completion of the definitive feasibility study and other work required to reach a development decision for the PIOP. Flinders would be free carried through this process. In parallel, BBIG would fund further studies required to advance the BBIP infrastructure project to the point where an integrated development decision could be made for both the PIOP and the BBIP; and
  - if Todd Corporation/BBIG then elected to proceed with development of the PIOP, it would be obliged to:
    - procure/arrange all the debt and equity financing for development of the PIOP. It is expected that this would involve the introduction of the Equity Funding Party, which would acquire a 50% interest in the PIOP and would free carry Flinders for its residual 40% equity interest and BBIG for its 10% interest in the project, up to the point of commissioning;

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3 Excluding financing costs and interest capitalised during construction.

- procure/arrange the debt and equity financing for the BBIP infrastructure project and deliver the proposed infrastructure, which the PIOP would access on a long-term take-or-pay basis; and
- manage the construction process and commissioning of the PIOP and the BBIP infrastructure.

- **The Transaction effectively constitutes the granting of a valuable option to BBIG. Assessment of whether the Transaction is fair requires a comparison of the value of that option with the value of the consideration to be paid by BBIG.**

Under the regulatory framework, assessment of the Transaction requires separate consideration of whether the Transaction is "fair" and whether it is "reasonable". Evaluation of fairness is focussed exclusively on issues related to value. The analysis is required to assume that Flinders is free to deal with its assets without any limitations resulting from TIO's 55.6% shareholding in Flinders.

Assessment of precisely what it is that Flinders is transferring to BBIG is not straightforward. Pursuant to the Transaction, Flinders is not transferring any direct economic interest in the PIOP to BBIG. Rather, in the first instance at least, Flinders will be granting to BBIG:

- a shareholding in PIOP Mine Co that will confer a 10% voting interest in the company but no economic interest in the PIOP. This shareholding will effectively lapse unless BBIG subsequently elects to proceed with development of the PIOP;
- the right to convert this 10% voting interest to a full economic interest, and to acquire (or have the Equity Funding Party acquire) a further 50% full (economic and voting) interest in PIOP Mine Co. This right needs to be exercised within four years (or in certain circumstances may be extended by a year), failing which 100% ownership of the PIOP will revert to Flinders; and
- the right to offer security over the PIOP to support the debt financing of the PIOP and the BBIP infrastructure development.

If BBIG elects to proceed with the project development, Flinders will have the right to convert its 40% equity interest into a revenue-based royalty ("Flinders Put Option").

If the Equity Funding Party was to acquire the further 50% interest in the PIOP, BBIG would be free carried for its 10% interest. If BBIG acquired the further 50% interest directly, it would be obliged to free carry Flinders in respect of its 40% share of the equity component of project development costs up to the point of project commissioning.

Essentially, therefore, Flinders is granting to BBIG a call option in favour of BBIG ("BBIG Call Option"), exercisable not later than in five years' time. This call option is either:

- an option to acquire a 10% free carried interest in the PIOP, exercisable at no cost; or
- an option to acquire a 60% interest in the PIOP, at an exercise price equal to 40% of the equity component of project development costs.

Flinders understands that the current expectation is that if the BBIG Call Option is exercised it will be on the basis that the Equity Funding Party acquires a 50% interest and free carries BBIG and Flinders for their 10% and 40% project interests. However, there are no binding commitments from the Equity Funding Party and it would be open for BBIG and the Equity Funding Party to negotiate alternative arrangements as between themselves. BBIG could stand in the place of the Equity Funding Party and assume the 50% free carry commitment itself (although this outcome is not expected). Regardless, the rights of Flinders to be free carried for its 40% interest would not be affected.

For the Transaction to be "fair", the value of the consideration to be paid by BBIG must be equal to or greater than the value of the BBIG Call Option[4].

- **Grant Samuel has valued the Consideration in the range $50-52 million.**

  The consideration for the package of rights to be granted to BBIG (primarily the BBIG Call Option) consists of the four annual payments of at least $15 million each ("Consideration") to be made by BBIG to fund the PIOP feasibility study. If the amounts paid to fund the feasibility study in any one year are less than $15 million, the shortfall must be paid directly to Flinders. It is conceivable that in some years the amounts paid to fund the feasibility study may exceed $15 million, and Flinders believes that the total cost of the feasibility study and related work may exceed $60 million. Nonetheless, for the purpose of valuing the Consideration, Grant Samuel has taken into account only the contractually required minimum amounts of $15 million per annum.

  Grant Samuel has valued the Consideration in the range $50-52 million. The valuation range is based on discounting the four payments of $15 million to a present value at discount rates of 4-5%.

- **Grant Samuel has attributed an indicative range of values of $40-80 million to the BBIG Call Option. Given that the Consideration of $50-52 million falls within this range of values, the Transaction is fair.**

  Valuation of the option arrangements is problematic. The ultimate value of the BBIG Call Option will depend on factors including iron ore price expectations in four to five years' time (i.e. at the time the BBIG Call Option is to be exercised), the ultimate mining inventory and mine life for the PIOP, capital and operating costs for the PIOP and the BBIP (as determined by the feasibility study that is still to be completed) and their impact on expected PIOP free cash flows, and the funding structure for the PIOP development. These matters are subject to fundamental uncertainty.

  These and other factors will also determine whether it is more advantageous for BBIG to hold a 10% free carried interest in PIOP Mine Co, or to hold a 60% interest and free carry Flinders for its 40% shareholding. Grant Samuel's analysis suggests that BBIG is likely to be better off holding a 10% free carried interest (except for very high iron ore prices or where the project economics are particularly favourable) and Flinders understands that this is the funding outcome that BBIG currently envisages.

  Notwithstanding the nature and extent of the uncertainties relating to the valuation of the BBIG Call Option, it is self-evident that the BBIG Call Option will be more valuable for higher iron ore prices and for more favourable expected project economics. Conversely, it will be less valuable for lower iron ore prices and poorer expected project economics.

  In particular, assuming an outcome in which BBIG holds a 10% free carried interest in the PIOP Co (and based on current cost estimates and other technical assumptions for the PIOP and BBIP):

  - for iron ore prices that broadly reflect current long term price expectations (i.e. in the approximate range US$60-70 per tonne (real terms) and for a project life consistent with BBIG's current planning), it appears that project development would deliver attractive (but not compelling) returns to BBIG as holder of a free carried interest. On that basis (subject to the Equity Funding Party's commitment to free carrying BBIG and Flinders in relation to their share of the equity funding) the BBIG Call Option is likely to be "exercised" and the PIOP development will proceed;

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[4] For the sake of simplicity, this analysis ignores the value to Flinders of the Flinders Put Option.

- for iron ore price expectations at the time of BBIG Call Option exercise that are meaningfully above current long term price expectations (e.g $70-80 per tonne in real terms) and a project life consistent with BBIG's current planning, the project development economics for BBIG would be compelling; and
- for iron ore price expectations at the time of Option exercise that are below current market long term price expectations (say, in the range US$50-60 per tonne in real terms), the economics of project development for a free carried party would be marginal. The economics would be strongly negative for the Equity Funding Party, having regard to its obligation to free carry BBIG and Flinders and provide the full equity funding for the PIOP development. In these circumstances the Equity Funding Party is unlikely to be prepared to proceed. Equally, the economics for BBIG of providing the equity funding in exchange for a 60% interest would likely be unattractive. BBIG would presumably choose not to proceed with the development of the PIOP and the Call Option would effectively lapse.

The value of a free carried interest in the PIOP will also depend on other factors bearing on project economics (including mining inventory and project life, and capital and operating costs for both the PIOP and BBIP), as well as the funding structure for the PIOP. In particular, current expectations for the mining inventory and project life for the PIOP are based on an assumption that a significant volume of mineralised material that is currently classified as inferred resource will ultimately be converted into reserves and form part of the mining inventory. A failure to achieve this conversion of inferred resource to reserves would shorten the project life and diminish the financial returns. At worst, shortening of the project life could mean that it would be impossible to recover the costs of the BBIP infrastructure project, and the combined PIOP and BBIP would not be economic.

Grant Samuel has estimated NPV outcomes for a variety of scenarios and probability distributions in relation to iron ore prices and project life. In addition, Grant Samuel has considered the impact of changes in the capital structure on the value of a free carried interest in the PIOP. On the basis of this analysis, Grant Samuel has estimated an indicative value for the BBIG Call Option of $40-80 million.

The value attributed to the Consideration of $50-52 million falls within the estimated valuation range for the BBIG Call Option of $40-80 million. Accordingly, the Transaction is fair.

- **In Grant Samuel's view there are compelling reasons for Flinders to enter into the Transaction. Flinders shareholders are likely to be better off if Flinders proceeds with the Transaction than not. Accordingly, in Grant Samuel's view, the Transaction is reasonable.**

Valuation of the BBIG Call Option is subject to fundamental uncertainty and the valuation range of $40-80 million should be viewed as no more than indicative. However, estimates of the value of the option (and conclusions regarding fairness) are arguably of limited relevance for Flinders shareholders. In any event, in Grant Samuel's view, there are compelling reasons for Flinders to enter into the Transaction: it provides a real opportunity for Flinders shareholders to participate in a valuable development of the PIOP, while the alternative risks significant value destruction.

Assessment of whether the Transaction is reasonable requires an evaluation of factors relevant to a shareholder decision that are unrelated to the value of the BBIG Call Option, including:

- Flinders' current financial position;
- the 55.6% shareholding held by TIO/Todd Corporation in Flinders;
- the position of Todd Corporation/BBIG as holder of the development rights for the BBIP infrastructure project;
- alternatives that are or credibly may be available to Flinders;

- the potential consequences if shareholders were to vote against the Transaction; and
- other advantages and disadvantages of the Transaction.

The choice for Flinders shareholders is whether to vote in favour of the Transaction or to vote against the Transaction and accept the uncertain consequences of that vote:

- there would be a risk that a failure to secure a development agreement for the PIOP would result in a lapsing of the State Rail Agreement for the development of the BBIP infrastructure project. The result would be that the PIOP would become a stranded asset. Much or all of the "development option" value that is currently reflected in the Flinders share price could be expected to evaporate and the value of both the PIOP and Flinders could be expected to fall materially;
- in the absence of Todd Corporation support, there is no reason to believe that Flinders would be able to raise the sums required to fund a feasibility study for the PIOP. There is no evidence that the current shareholders (other than Todd Corporation) would have the capacity to provide equity of this quantum. Third party investors are unlikely to provide any material additional equity to Flinders given the position of Todd Corporation on the register and the reliance of the PIOP on the Todd Corporation controlled BBIP infrastructure development. In this context, even if future commodity price conditions were supportive of project development, Flinders would not be able to proceed, given the absence of a feasibility study; and
- given Flinders' modest cash reserves, absence of any ongoing sources of income and limited capacity to raise fresh equity, there would be a real risk that the PIOP would need to be put on care and maintenance.

Overall, the consequences of an outcome that reduced the probability of medium term development of the PIOP are not clear. Almost certainly, however, there would be a significant reduction in the value of the PIOP and a significant fall in the Flinders share price.

Accordingly, there would be no basis for shareholders to vote against the Transaction unless they believed that there would be a realistic prospect of negotiating a clearly better arrangement with Todd Corporation, or concluding a superior transaction with some third party. Given the 55.6% shareholding in Flinders of TIO/Todd Corporation, there is no reason to believe that there is any meaningful prospect of a superior third party transaction.

Nor is there any reason to expect that Flinders could negotiate a clearly improved set of arrangements with Todd Corporation. The terms of the Transaction are the result of extensive negotiations between Flinders and BBIG/Todd Corporation over many months. In any renewed negotiations that might hypothetically follow a Flinders shareholder vote against the Transaction, Flinders would be negotiating with Todd Corporation from a position of considerable weakness. Overall, the prospects of Flinders negotiating a materially better transaction with Todd Corporation appear remote.

On the other hand, the Transaction provides Flinders shareholders with a genuine opportunity to realise significant value through exposure to the PIOP. In particular:

- the arrangements are expected to result in the completion of a detailed feasibility study for the PIOP (without any direct cost to Flinders), which will allow for a development decision for the project over the next four to five years[5];
- if the iron ore price environment and ultimate project economics are supportive of project development and Todd Corporation elects to proceed with development of the PIOP (and, on an

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[5] There cannot be absolute assurance that the feasibility study will be completed, as BBIG has the right to withdraw from the arrangements at any time

integrated basis, the BBIP), Flinders will be free carried through to commissioning in respect of its 40% interest in the project. BBIG and/or the Equity Funding Party will fund Flinders' share of the equity capital requirement and will arrange the debt financing for the PIOP, as well as procure the equity and debt funding for the BBIP; and

- Flinders at that time will be entitled to swap its 40% interest for a revenue royalty on the PIOP, which would substantially reduce its exposure to adverse shifts in the economics of the PIOP.

Grant Samuel's indicative financial analysis suggests that if Todd Corporation/BBIG does elect to proceed with development of the PIOP then, given current long term iron ore price expectations and the current preliminary forecasts of capital and operating costs for the PIOP and BBIP, both a 40% free carried interest in the PIOP and a royalty interest over the project could be substantially more valuable than Flinders' current market capitalisation.

If, ultimately, Todd Corporation were to decide not to proceed with the development of the PIOP (for example, because of a depressed iron ore price outlook at the time), 100% ownership of the project would revert to Flinders. Flinders would have had the benefit of the feasibility study, at a total cost expected to be at least $60 million, although in that context the study may have added little or no value. In any event, Flinders would be unlikely to be any worse off than if it had not entered into the Transaction.

The Transaction does involve disadvantages:

- Flinders' ownership interest in the PIOP will be diluted from 100% to 40%. However, the reality is that, given Flinders' modest size and lack of financial capacity, any financing of the PIOP would always require the injection of substantial third party equity and a corresponding dilution of the position of existing shareholders;
- the differing ownership interests in the PIOP and the BBIP infrastructure project create a risk of conflicts of interest and an incentive for the BBIP participants over time to seek to shift value from the PIOP to the BBIP. The Flinders Put Option provides a valuable risk mitigant in this regard;
- management of the PIOP and the overall development and operation of the integrated iron ore mining and infrastructure project will be the responsibility of BBIG. Flinders will have limited influence;
- the relationships between the parties will be governed by a complex set of contractual agreements that attempt to define their rights, responsibilities and behaviours many years into the future. There is a risk that these contractual arrangements will prove deficient or unwieldy in the face of changing circumstances in the future;
- especially for higher iron ore price expectations at the time of FID, the Transaction is likely to lead to poorer outcomes than if Flinders was free to negotiate arrangements at that time. However, the reality is that without the feasibility study to be funded by BBIG, Flinders would have no opportunity to benefit in any development at all.

In Grant Samuel's view, these disadvantages are outweighed by the opportunity for Flinders shareholders to meaningfully participate in development of the PIOP (while recognising that there is no certainty that development of the PIOP will proceed). The Transaction taken in its entirety appears more favourable for Flinders shareholders than the uncertainty and potential value destruction that would follow if Flinders shareholders were to vote against the Transaction.

Accordingly, Grant Samuel has concluded that the Transaction is fair and reasonable having regard to the interests of shareholders other than TIO/Todd Corporation. In Grant Samuel's view Flinders shareholders are likely to be better off if the Transaction proceeds than if it does not.

4 Other Matters

This report is general financial product advice only and has been prepared without taking into account the objectives, financial situation or needs of individual Flinders shareholders. Accordingly, before acting in relation to their investment, shareholders should consider the appropriateness of the advice having regard to their own objectives, financial situation or needs. Shareholders should read the Notice of Meeting issued by Flinders in relation to the Transaction.

A decision as to whether to vote in favour of the Transaction is a matter for individual shareholders, based on their own views as to value, their expectations about future market conditions and their particular circumstances including risk profile, liquidity preference, investment strategy, portfolio structure and tax position. Shareholders who are in doubt as to the action they should take in relation to the Transaction should consult their own professional adviser.

Similarly, it is a matter for individual shareholders as to whether to buy, hold or sell securities in Flinders. This is an investment decision upon which Grant Samuel does not offer an opinion and is independent of a decision as to whether to vote in favour of the Transaction. Shareholders should consult their own professional adviser in this regard.

Grant Samuel has prepared a Financial Services Guide as required by the Corporations Act, 2001. The Financial Services Guide is included at the beginning of the full report.

This letter is a summary of Grant Samuel's opinion. The full report from which this summary has been extracted is attached and should be read in conjunction with this summary.

The opinion is made as at the date of this letter and reflects circumstances and conditions as at that date.

Yours faithfully
GRANT SAMUEL & ASSOCIATES PTY LIMITED

Grant Samuel & Associates

FINANCIAL SERVICES GUIDE

AND

INDEPENDENT EXPERT'S REPORT

IN RELATION TO THE PROPOSED TRANSACTIONS WITH BBI GROUP PTY LTD

GRANT SAMUEL & ASSOCIATES PTY LIMITED

ABN 28 050 036 372

13 JANUARY 2020

GRANT SAMUEL

FINANCIAL SERVICES GUIDE

Grant Samuel & Associates Pty Limited ("Grant Samuel") holds Australian Financial Services Licence No. 240985 authorising it to provide financial product advice on securities and interests in managed investments schemes to wholesale and retail clients.

The Corporations Act, 2001 requires Grant Samuel to provide this Financial Services Guide ("FSG") in connection with its provision of an independent expert's report ("Report") which is included in a document ("Disclosure Document") provided to members by the company or other entity ("Entity") for which Grant Samuel prepares the Report.

Grant Samuel does not accept instructions from retail clients. Grant Samuel provides no financial services directly to retail clients and receives no remuneration from retail clients for financial services. Grant Samuel does not provide any personal retail financial product advice to retail investors nor does it provide market-related advice to retail investors.

When providing Reports, Grant Samuel's client is the Entity to which it provides the Report. Grant Samuel receives its remuneration from the Entity. In respect of the report for Flinders Mines Limited ("Flinders") in relation to certain proposed related party transactions with BBI Group Pty Ltd ("the Report"), Grant Samuel will receive a fixed fee of $375,000 plus reimbursement of out-of-pocket expenses for the preparation of the Report (as stated in Section 11.3 of the Report).

No related body corporate of Grant Samuel, or any of the directors or employees of Grant Samuel or of any of those related bodies or any associate receives any remuneration or other benefit attributable to the preparation and provision of the Report.

Grant Samuel is required to be independent of the Entity in order to provide a Report. The guidelines for independence in the preparation of Reports are set out in Regulatory Guide 112 issued by the Australian Securities & Investments Commission on 30 March 2011. The following information in relation to the independence of Grant Samuel is stated in Section 11.3 of the Report:

> *" Grant Samuel and its related entities do not have at the date of this report, and have not had within the previous two years, any business or professional relationship with Flinders or Todd Corporation or any financial or other interest that could reasonably be regarded as capable of affecting its ability to provide an unbiased opinion in relation to the Transaction.*
>
> *Grant Samuel commenced analysis for the purposes of this report in the months prior to the announcement of the Transaction, but following the announcement on 2 September 2019 of the non-binding Terms Sheet between Flinders and BBIG. This work did not involve Grant Samuel participating in setting the terms of, or any negotiations leading to, the Transaction.*
>
> *Grant Samuel had no part in the formulation of the Transaction. Its only role has been the preparation of this report.*
>
> *Grant Samuel will receive a fixed fee of $375,000 for the preparation of this report. This fee is not contingent on the conclusions reached or the outcome of the Transaction. Grant Samuel's out of pocket expenses in relation to the preparation of the report will be reimbursed. Grant Samuel will receive no other benefit for the preparation of this report."*

Grant Samuel has internal complaints-handling mechanisms and is a member of the Australian Financial Complaints Authority, No. 11929. If you have any concerns regarding the Flinders Report, please contact the Compliance Officer in writing at Level 19, Governor Macquarie Tower, 1 Farrer Place, Sydney NSW 2000. If you are not satisfied with how we respond, you may contact the Australian Financial Complaints Authority at GPO Box 3 Melbourne VIC 3001 or 1800 931 678. This service is provided free of charge.

Grant Samuel holds professional indemnity insurance which satisfies the compensation requirements of the Corporations Act, 2001.

Grant Samuel is only responsible for the Report and this FSG. Complaints or questions about the Disclosure Document should not be directed to Grant Samuel, which is not responsible for that document. Grant Samuel will not respond in any way that might involve any provision of financial product advice to any retail investor.

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Appendix

1 Terms of the Proposed Transaction

On 2 September 2019, Flinders Mines Limited ("Flinders") announced that it had entered into a non-binding terms sheet ("Terms Sheet") with BBI Group Pty Ltd ("BBIG") in relation to arrangements designed to facilitate the development of Flinders' Pilbara Iron Ore Project ("PIOP"). BBIG is a subsidiary of TIO (NZ) Limited ("TIO"). TIO is a 55.56% shareholder in Flinders and subsidiary of The Todd Corporation Limited ("Todd Corporation"). BBIG is therefore a related party of TIO, and accordingly BBIG is a related party of Flinders.

On 28 November 2019, BBIG, Flinders and a new Flinders' subsidiary (PIOP Mine Co) signed a binding Farm-in Agreement, based on the terms of the Terms Sheet.

The key provisions of the Farm-in Agreement and related documents are:

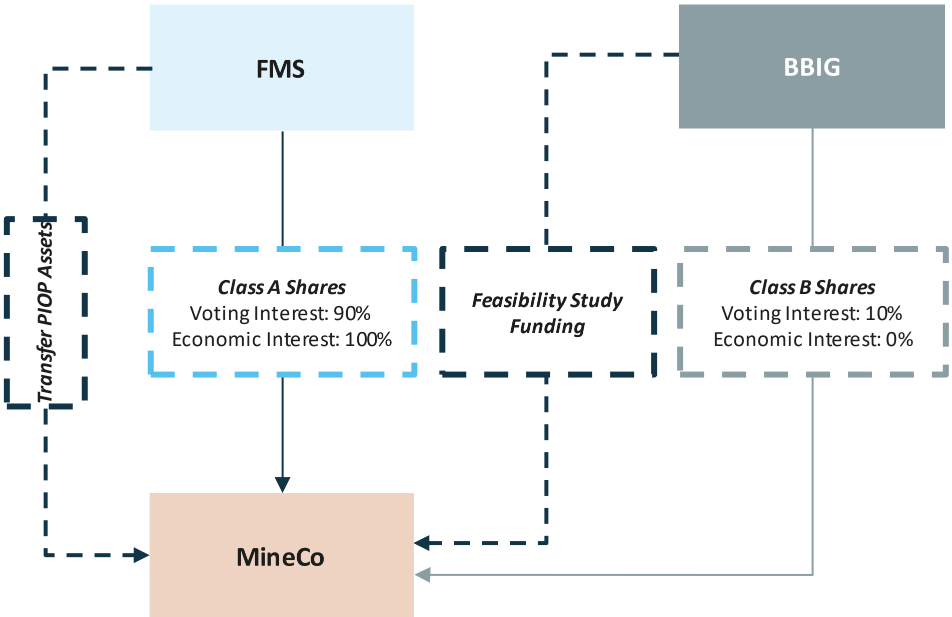
- Flinders has created a new subsidiary, PIOP Mine Co, into which it will transfer the PIOP assets;
- on the transfer of the PIOP to PIOP Mine Co, Flinders will be issued A class shares which will confer a 90% voting and 100% economic interest in PIOP Mine Co;
- BBIG will be issued B class shares which will confer a 10% voting and non-economic interest in PIOP Mine Co ("Stage 1 Transfer"), in exchange for committing to fund a feasibility study for the project, with a minimum spending commitment of $15 million per annum (subject to various provisions). Flinders will be free carried during this period;
- if a final investment decision ("FID") is not made within four years (extendable by a year in certain circumstances), the arrangements will be unwound and Flinders will retain a 100% voting and economic interest in PIOP Mine Co and PIOP Mine Co will retain the feasibility studies;
- if BBIG elects to proceed with a development of the PIOP, then following FID:
  - the economic and voting interest of the B class shares issued to BBIG will be 10%; and
  - BBIG (or another equity funding party introduced at its discretion) will be issued C class shares which will have a 50% economic and voting interest in PIOP Mine Co,

  (together, "Stage 2 Transfer"),
- in exchange for the Stage 2 Transfer, BBIG will be obliged to arrange the funding (debt and equity) of the construction of PIOP, through to project commissioning. In particular, BBIG (or another equity funding party) will be obliged to fund Flinders' share of the equity funding required for the project development: Flinders will be free carried in respect of its remaining 40% interest in PIOP Mine Co (subject to pro rata responsibility of Flinders for capital cost over runs above, in some circumstances, a material over run threshold and costs associated with provision of any required completion security, noting that if BBIG is the sole equity funding party, the material over run threshold will not apply to the pro rata funding requirement);
- if the PIOP proceeds, PIOP Mine Co may be required to grant security over all of the project assets in favour of project financiers for the PIOP and the related port and rail project. BBIG has agreed to use commercially reasonable endeavours to agree terms which limit recourse to the PIOP assets to the PIOP Mine Co portion of the proposed financing;
- at FID for the PIOP, Flinders may elect to convert its equity interest in PIOP Mine Co into a 2.5% royalty, in which case it will have no further funding commitments to the project. The election to convert its equity interest in PIOP Mine Co would be put to shareholders other than TIO for approval at that time;
- if development of the PIOP proceeds, BBIG and its partners will develop an infrastructure solution ("Balla Balla Infrastructure Project" or "BBIP") to allow the transport of iron ore from the PIOP to ocean going

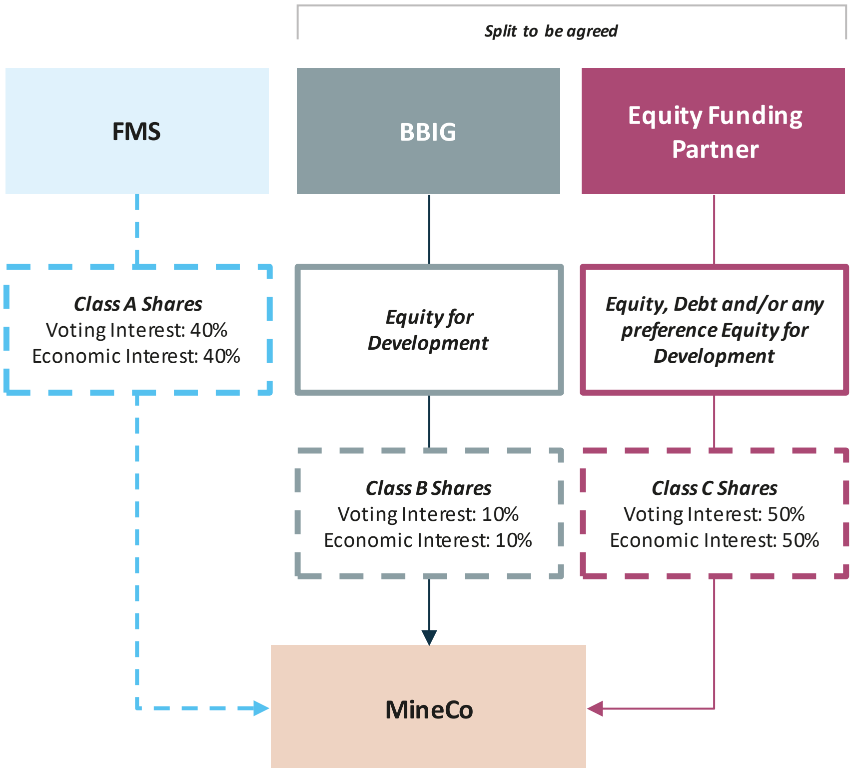
vessels. The infrastructure will include a conveyor and railway line from the PIOP to a new port to be built at the Balla Balla harbour and related ore handling facilities at the mine and at the port. Flinders will have no economic or other interest in the BBIP. Pursuant to an infrastructure services agreement, Flinders and BBIG have agreed, amongst other matters, on a tariff structure that will determine the basis on which BBIP will charge PIOP Mine Co for access to/use of BBIP infrastructure; and

- BBIG (or its nominees) will provide certain management and marketing services, on a cost recovery basis.

The structure of PIOP Mine Co before FID is set out below:



The structure of PIOP Mine Co following FID (unless Flinders elects the royalty option) is set out below:



Flinders also announced that it had entered into the following funding arrangements:

- a $5 million loan facility with PIO Mines Pty Limited ("PIO"), a subsidiary of TIO. This funding is to allow Flinders to complete due diligence and negotiation of final transaction documents, and to meet short term working capital requirements; and

- a subscription agreement in relation to a proposed future rights issue, under which TIO would subscribe for up to $6 million (but not more than its pro-rata entitlement) in relation to a proposed rights issue, subject (amongst other things) to such rights issue being launched no later than 30 April 2020. Proceeds from the rights issue will be used to repay amounts due under the loan facility from PIO Mines Pty Limited and to fund ongoing working capital requirements.

On 20 December 2019, the terms of the above funding arrangements were varied such that PIO will make available an additional $2 million under the loan facility and TIO has agreed to subscribe for a further $2 million (maximum of $8 million) under the subscription agreement.

Details of the various agreements and their key provisions are set out in Section 8 of this Report.

For the purposes of this report, the overall suite of transactions, potential transactions and contractual agreements between Flinders, BBIG, BBIH, PIOP Mine Co and Todd Group is referred to as the "Transaction". The Transaction is described in more detail in Section 2.2 of the Notice of Meeting. Most notably, the Transaction includes, but is not limited to, the Stage 1 Transfer, the potential Stage 2 Transfer and the granting by Flinders of security to BBIG under the Infrastructure Services Agreement.

Given that BBIG is a related party of Flinders, the Transaction will require the approval of Flinders shareholders other than TIO under ASX Listing Rule 10.1. Flinders is also seeking approval from shareholders under Chapter 2E of the Corporations Act given the related party transactions arising as a result of the Transaction may constitute a 'financial benefit'. Under Listing Rule 10.10, the notice of meeting for the shareholders' meeting at which this approval is to be sought is required to include an independent expert's report in relation to the Transaction.

The independent expert's report is required to state whether the Transaction is fair and reasonable having regard to the interests of shareholders other than TIO.

2 Scope of the Report

2.1 Purpose of the Report

Listing Rule 10.1 prohibits an entity from disposing an asset worth more than 5% of its net assets to a related party without the approval of non associated shareholders. Under the Transaction the right of BBIG to acquire interests in the PIOP via economic and voting rights in the newly incorporated PIOP Mine Co amounts to a disposal of greater than 5% of Flinders' net assets. Therefore, approval of shareholders not associated with TIO (the "non associated shareholders") is required. Listing Rule 10.10 requires the notice of meeting at which such approval is sought to include an independent expert's report on whether the transaction is fair and reasonable to the non associated shareholders.

The directors of Flinders who are not associated with TIO ("the independent directors") have engaged Grant Samuel & Associates Pty Limited ("Grant Samuel") to prepare an independent expert's report for the purposes of Listing Rule 10.1 and Chapter 2E stating whether, in Grant Samuel's opinion, the proposed Transaction is fair and reasonable to the non associated shareholders. A copy of this report is to accompany the Notice of Meeting and Explanatory Memorandum ("the Explanatory Memorandum") to be sent to shareholders by Flinders.

This report is general financial product advice only and has been prepared without taking into account the objectives, financial situation or needs of individual Flinders shareholders. Accordingly, before acting in relation to their investment, shareholders should consider the appropriateness of the advice having regard to their own objectives, financial situation or needs. Shareholders should read the Explanatory Memorandum issued by Flinders in relation to the Transaction.

Voting for or against the Transaction is a matter for individual shareholders based on their views as to value and business strategy, their expectations about future economic and market conditions and their particular circumstances including risk profile, liquidity preference, investment strategy, portfolio structure and tax position. Shareholders who are in doubt as to the action they should take in relation to the Transaction should consult their own professional adviser.

Similarly, it is a matter for individual shareholders as to whether to buy, hold or sell securities in Flinders. This is an investment decision upon which Grant Samuel does not offer an opinion and independent of a decision on whether to vote for or against the Transaction. Shareholders should consult their own professional adviser in this regard.

2.2 Basis of Evaluation

Listing Rule 10 applies to transactions between an entity and persons in a position to influence the entity. In certain circumstances, such transactions may also require shareholder approval under Chapter 2E.

The ASX does not provide specific guidance as to the analysis required in assessing whether a proposed transaction is fair and reasonable to non associated shareholders for the purposes of Listing Rule 10. However, the Australian Securities & Investments Commission ("ASIC") has issued Regulatory Guide 111 ("RG111") which establishes guidelines in respect of independent expert's reports under the Corporations Act. RG111 differentiates between the analysis required for control transactions and other transactions. In the context of control transactions (whether by takeover bid, by scheme of arrangement, by the issue of securities or by selective capital reduction or buyback), the expert is required to distinguish between "fair" and "reasonable". A proposal that was "fair and reasonable" or "not fair but reasonable" would be in the best interests of shareholders. For most other transactions the expert is to weigh up the advantages and disadvantages of the proposal for shareholders. If the advantages outweigh the disadvantages, the proposal would be in the best interests of shareholders.

RG111 provides that where an expert assesses whether a transaction with a person in a position of influence requiring approval of shareholders under Listing Rule 10 or Chapter 2E is "fair and reasonable", this involves a separate assessment of whether the transaction is "fair" and "reasonable", as in a control transaction.

A transaction under Listing Rule 10 or Chapter 2E will be "fair" if the value of the financial benefit to be provided by the company to the person in a position of influence is equal to or less than the value of the consideration being provided to the company. For this comparison, value is determined assuming 100% ownership of the target and a knowledgeable and willing, but not anxious, buyer and a knowledgeable and willing, but not anxious, seller acting at arm's length. In valuing the financial benefit given and the consideration received by the company, all material terms of the proposed transaction should be taken into account.

Reasonableness involves an analysis of other factors that shareholders might consider prior to voting for a proposal such as:

- the financial situation and solvency of the company (including, where the consideration for the financial benefit is cash, benefits such as new capital to exploit business opportunities, a reduction in debt and interest or an injection of working capital);
- opportunity costs;
- the alternative options available to the entity and the likelihood of those options occurring;
- the company's bargaining position;
- whether there is selective treatment of any shareholder, particularly the related party;
- the related party's pre-existing voting power in the securities in the company;
- any special value of the transaction to the company such as particular technology or the potential to write off outstanding loans from the target; and
- the liquidity of the market in the company's shares.

Fairness is a more demanding criteria. A "fair" proposal will always be "reasonable" but a "reasonable" proposal will not necessarily be "fair". A proposed transaction under Listing Rule 10 or Chapter 2E could be considered "reasonable" if there were valid reasons to accept or vote in favour notwithstanding that it was not "fair".

Grant Samuel has determined whether the Transaction is fair by comparing the estimated value of the financial benefit provided to BBIG with the value of the consideration being provided to Flinders. The Transaction will be fair if it is equal to or less than the value of the consideration. In considering whether the Transaction is reasonable, the factors that have been considered include:

- Flinders' current financial position;
- the 55.56% shareholding held by TIO/Todd Corporation in Flinders;
- alternatives that are or credibly may be available to Flinders;
- the potential consequences if shareholders were to vote against the Transaction; and
- other advantages and disadvantages of the Transaction.

2.3 Sources of the Information

The following information was utilised and relied upon, without independent verification, in preparing this report:

Publicly Available Information

- the Notice of Meeting and Explanatory Memorandum (including earlier drafts);
- annual reports of Flinders for the five years ended 30 June 2019;

- press releases, public announcements, media and analyst presentation material and other public filings by Flinders including information available on its website;
- press articles on Flinders and the iron ore industry; and
- information relating to the Australian and international iron ore market including supply/demand forecasts and regulatory decisions and price forecasts.

Non Public Information provided by Flinders

- detailed cash flows models including projections for the development of the PIOP; and
- other confidential documents, board papers, presentations, working papers and final transaction documents.

Grant Samuel has also held discussions with, and obtained information from, senior management of Flinders and its advisers.

2.4 Limitations and Reliance on Information

Grant Samuel believes that its opinion must be considered as a whole and that selecting portions of the analysis or factors considered by it, without considering all factors and analyses together, could create a misleading view of the process employed and the conclusions reached. Any attempt to do so could lead to undue emphasis on a particular factor or analysis. The preparation of an opinion is a complex process and is not necessarily susceptible to partial analysis or summary.

Grant Samuel's opinion is based on economic, share market, business trading, financial and other conditions and expectations prevailing at the date of this report. These conditions can change significantly over relatively short periods of time. If they did change materially, subsequent to the date of this report, the opinion could be different in these changed circumstances.

This report is also based upon financial and other information provided by Flinders and its advisers. Grant Samuel has considered and relied upon this information. Flinders has represented in writing to Grant Samuel that to its knowledge the information provided by it was then, and is now, complete and not incorrect or misleading in any material respect. Grant Samuel has no reason to believe that any material facts have been withheld.

The information provided to Grant Samuel has been evaluated through analysis, inquiry and review to the extent that it considers necessary or appropriate for the purposes of forming an opinion as to whether the Transaction is fair and reasonable having regard to the interests of the non associated shareholders of Flinders. However, Grant Samuel does not warrant that its inquiries have identified or verified all of the matters that an audit, extensive examination or "due diligence" investigation might disclose. While Grant Samuel has made what it considers to be appropriate inquiries for the purposes of forming its opinion, "due diligence" of the type undertaken by companies and their advisers in relation to, for example, prospectuses or profit forecasts, is beyond the scope of an independent expert. Grant Samuel advises that it is not in a position nor is it practicable to undertake its own "due diligence" investigation of the type undertaken by accountants, lawyers or other advisers.

Accordingly, this report and the opinions expressed in it should be considered more in the nature of an overall review of the anticipated commercial and financial implications rather than a comprehensive audit or investigation of detailed matters.

An important part of the information used in forming an opinion of the kind expressed in this report is comprised of the opinions and judgement of management. This type of information was also evaluated through analysis, inquiry and review to the extent practical. However, such information is often not capable of external verification or validation.

Preparation of this report does not imply that Grant Samuel has audited in any way the management accounts or other records of Flinders. It is understood that the accounting information that was provided was prepared in accordance with generally accepted accounting principles and in a manner consistent with the method of accounting in previous years (except where noted).

SRK Consulting (Australasia) Pty Ltd ("SRK") was appointed as technical specialist to review the PIOP for Grant Samuel. SRK's review included a review of the resource, capital costs, production estimates and operating costs for PIOP. The report prepared by SRK is attached to and forms part of this report (see Appendix 1).

The information provided to Grant Samuel and SRK included mine development plans, forecasts, feasibility studies and a detailed cash flow model. Flinders is responsible for the information contained in the mine development plans, forecasts, feasibility studies and detailed cash flow model ("the forward looking information"). Grant Samuel and SRK have considered and, to the extent deemed appropriate, relied on this information for the purpose of their analysis.

On the basis of the information provided to Grant Samuel and SRK, and the review conducted by Grant Samuel and SRK of such information, Grant Samuel and SRK have concluded that the forward looking information was prepared appropriately and accurately based on the information available to management at the time and within the practical constraints and limitations of such forward looking information. Grant Samuel and SRK have concluded that the forward looking information does not reflect any material bias, either positive or negative. Grant Samuel has no reason to believe otherwise. However, the achievability of the forward looking information is not warranted or guaranteed by Grant Samuel. Future profits and cash flows are inherently uncertain. They are predictions by management of future events that cannot be assured and are not necessarily based on assumptions, many of which are beyond the control of the company or its management. Actual results may be significantly more or less favourable. Moreover, the forward looking information provided by Flinders was not originally generated for, and may not be appropriate in the context of, a valuation of the PIOP.

As part of its analysis, Grant Samuel has considered cash flow models on the basis of the technical valuation assumptions deemed appropriate by SRK. Grant Samuel has reviewed the sensitivity of net present values to changes in key variables. The sensitivity analysis isolates a limited number of assumptions and shows the impact of the expressed variations to those assumptions. No opinion is expressed as to the probability or otherwise of those expressed variations occurring. Actual variations may be greater or less than those modelled. In addition to not representing best and worst case outcomes, the sensitivity analysis does not, and does not purport to, show all the possible variations to the business model. The actual performance of the business may be negatively or positively impacted by a range of factors including, but not limited to:

- changes to the assumptions other than those considered in the sensitivity analysis;
- greater or lesser variations to the assumptions considered in the sensitivity analysis than those modelled; and
- combinations of different assumptions may produce outcomes different to those modelled.

In forming its opinion, Grant Samuel has also assumed that:

- matters such as title, compliance with laws and regulations and contracts in place are in good standing and will remain so and that there are no material legal proceedings, other than as publicly disclosed;
- the assessments by Flinders and its advisers with regard to legal, regulatory, tax and accounting matters relating to the transaction are accurate and complete;
- the information set out in the Explanatory Memorandum sent by Flinders to its shareholders is complete, accurate and fairly presented in all material respects;
- the publicly available information relied on by Grant Samuel in its analysis was accurate and not misleading;

- the Transaction will be implemented in accordance with its terms; and
- the legal mechanisms to implement the Transaction are correct and will be effective.

To the extent that there are legal issues relating to assets, properties, or business interests or issues relating to compliance with applicable laws, regulations, and policies, Grant Samuel assumes no responsibility and offers no legal opinion or interpretation on any issue.

3 Overview of the Iron Ore Industry

3.1 Overview

Iron is one of the most abundant rock-forming elements, constituting approximately 5% of the Earth's crust. Iron ores are rocks and minerals from which metallic iron can be economically extracted. The iron is most often found in the form of hematite and magnetite, though goethite, limonite, itabirite, pisolite and siderite are also common. Approximately 98% of global iron ore production is used to make steel and demand for iron ore is therefore underpinned by growth in steel production. Steel is widely used in construction, infrastructure, machinery, automobiles, home appliances and a range of other industries and demand for steel is therefore primarily driven by global economic conditions.

High grade hematite ore, also referred to as direct shipping ore ("DSO"), has traditionally accounted for the majority of the iron ore mined globally as it requires a relatively simple crushing and screening process before being exported for use in steel mills. Australia's hematite DSO from the Pilbara averages from 56% to 62% iron. Depletion of high grade material globally combined with increased demand for iron ore has resulted in mining of lower grade hematite (<56% Fe) and magnetite deposits. However low grade deposits (<56% Fe) typically require beneficiation to improve the grade and quality of the product, which increases production costs.

Iron ore is a fairly homogeneous product with limited substitutes. However, it is a relatively low value-to-weight ratio product which necessitates bulk mining and supporting infrastructure and therefore substantial investment in mining and infrastructure.

Iron ore is produced by a range of independent producers and fully integrated steel makers. Most of the iron ore that is exported and traded internationally is produced by independent iron ore producers and sold to large international steel makers. The major iron ore exporting countries are Australia and Brazil, accounting for more than 70% of globally traded iron ore.

3.2 Australian Iron Ore Industry

Iron ore is Australia's largest export commodity and is estimated to account for $75.2 billion or 27.2% of exports by value during FY2019[1]. Australia produced about 890 million tonnes of iron ore during this period, and exported 806 million tonnes, 91% of the ore produced. Most of Australia's iron ore exports were sourced from the Pilbara region in north-west Western Australia. The top four producers, Rio Tinto, BHP, Fortescue Metals Group ("FMG") and Hancock Prospecting, accounted for over 80% of the industry revenue.

Australia's iron ore production has more than doubled since 2009, increasing at a cumulative average growth rate ("CAGR") of approximately 10% between 2009 and 2019. Australian iron ore production is forecast to reach around 912 million tonnes by 2021.

Australia is the world's largest iron ore exporter and accounted for 53% of global export volumes during 2019. This was significantly higher than its 38% contribution in 2009, and underlines Australia's growing importance to world iron ore trade. Approximately 81% of Australia's iron ore exports during 2018 were to China with Japan (8%) and South Korea (6%) being the other major customers. Australia also has the world's largest share of Economic Demonstrated Resources ("EDR"), with 48.0 billion tonnes representing 28% of the world's EDR of iron ore in 2017[2]. Iron ore resources in Australia are mainly found in the form of Brockman ore, Pisolitic ore, Marra Mamba ore and magnetites. The chemical properties of these ores are outlined in the following table:

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1 Office of the Chief Economist, Resources and Energy Quarterly June 2019

2 Geoscience Australia

AUSTRALIA IRON ORE TYPES – TYPICAL SPECIFICATIONS

PRODUCT TYPE	ORE SPECIFICATIONS	DEPOSITS
Premium Brockman	65% Fe, 0.05% P, 4.3% SiO2, and 1.7% Al2O3	Mount Whaleback and Mount Tom Price
Brockman	62.7% Fe, 0.10% P, 3.4% SiO2, 2.4% Al2O3 and 4.0% LOI	Channar, Paraburdoo, and Jimblebar
Marra Mamba	62% Fe, 0.06% P, 3% SiO2, 1.5% Al2O3, and 5% LOI	Nammuldi, West Angelas, Mining Area C, Marandoo, Hope Downs, Cloud Break and Christmas Creek
Channel Iron Deposit (CID) / Pisolites	58% Fe, 0.05% P, 4.8% SiO2, 1.4% Al2O3 and 10% LOI	Robe River and Yandicoogina
Other Hematite	63.8% Fe, 0.017% P, 6.13% SiO2, 1.01% Al2O3 and 0.46% LOI 57.4% Fe, 0.09% P, 7.07% SiO2, 2.4% Al2O3 and 4.0% LOI	Koolan Island Pardoo
Magnetite	(after beneficiation) 66.3% Fe, 0.02% P, 1.9% SiO2, 0.4% Al2O3 and 1.0% LOI	Balmoral, Cape Lambert, Karara and Savage River

Source: Geoscience Australia
Note: LOI means loss on ignition

3.3 Pilbara Region

Western Australia produces 99% of Australia's iron ore production, the bulk of which comes from the Pilbara region of the state. The average iron content of ore produced in Western Australia ranges from 56-62%, which is around the world average of 60% but lower than Brazil's average of 63%. Iron ore content of Western Australia's reserves is 48%, lower than both the world average (49%) and Brazil's average (53%). The cash cost of Western Australia's iron ore exports was US$31.50/t in 2018, lower than the world average of US$31.90/t but higher than Brazil's US$30.60/t.

Major mines currently producing more than 50 million tonnes per annum of iron ore in the Pilbara region are:

- Mount Whaleback mine, Area C mine, and Yandi Mine operated by BHP;
- Nammuldi mine and Yandicoogina mine operated by Rio Tinto;
- Solomon Hub mine and Chichester Hub mine operated by FMG; and
- Roy Hill mine operated by Hancock Prospecting.

Major projects that are committed or under construction include FMG's Eliwana mine, BHP's South Flank mine and Rio Tinto's Koodaideri mine. While there are numerous projects announced and in development, the completion of these projects is highly dependent on prevailing iron ore prices. In the decade following the year 2000, many miners were incentivised by record high iron ore prices to explore and develop projects. Those with lower grade deposits and higher cost of operations and freight were subsequently forced to operate at a loss or downsize and suspend operations when prices reverted to pre-boom levels. Examples include Sinosteel Midwest Corp suspending production at Blue Hills mine in 2015, Arrium entering voluntary administration before it was acquired by GFG Alliance in 2017, and Atlas Iron operating at a cash loss before it was acquired by Hancock Prospecting in 2018. Others streamlined operations and optimised mine plans to reduce costs of production.

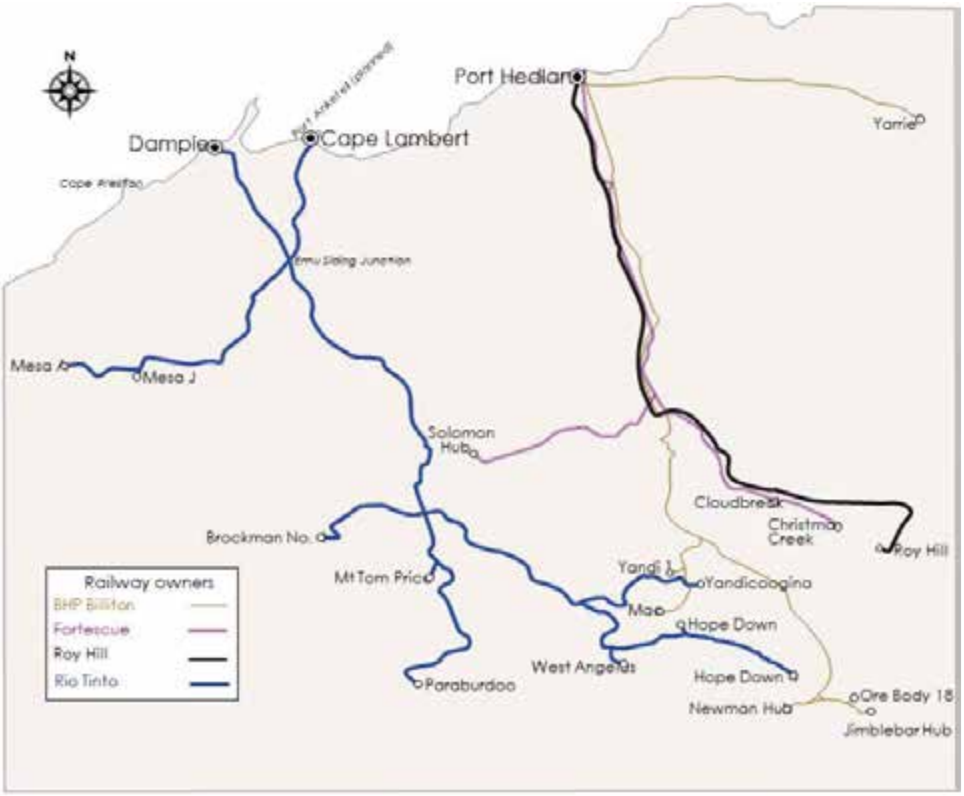
In addition to the grade and quality of the iron ore resource, the location of the resource and the availability of infrastructure to deliver the iron ore to end users are important considerations in the feasibility of a project. Projects that do not have access to infrastructure are effectively "stranded" with no means to export their products. For most of the larger iron ore mines, ore is railed direct from mine to port where it is loaded onto bulk carriers for export. For other producers, transport may initially be by road or conveyor to nearby rail infrastructure or direct to port. Due to the significance of the iron ore industry in the Pilbara region, a comprehensive network of infrastructure is in place to facilitate the export of iron ore.

3.3.1 Rail Infrastructure

Almost all of Australia's seaborne iron ore export is transported to port by rail, with only two percent transported by road[3]. Railway infrastructure in Pilbara is owned by four operators, being:

- Rio Tinto – the Robe River to Cape Lambert railway and the Hamersley to Port Dampier railway.
- BHP – the 426 kilometre Newman line to Port Hedland. BHP also owns the Goldsworthy line which ceased operations in 2014 following the suspension of mining at the Yarrie iron ore operation.
- FMG – the 620 kilometre Fortescue Hamersley line from Solomon Hub and the Christmas Creek line to Port Hedland.
- Roy Hill Holdings – a 344 kilometre railway from Roy Hill to Port Hedland.

PILBARA RAIL INFRASTRUCTURE



Source: Bureau of Infrastructure, Transport and Regional Economics

Historically it has been difficult for third parties to access the privately owned transport infrastructure network across the Pilbara. The major iron ore producers that own the railway networks consider railway assets integral to the shipment of their own products and have vigorously opposed attempts by third parties to access their networks, arguing that allowing third parties to use their tracks could cause delays, disrupt operations and complicate future expansion of production capacity.

During the 2000s, FMG applied to the National Competition Council to have four heavy haulage railways (designed to transport iron ore) declared under the access regime[4] to enable it to run its own trains on the lines. Two of the railways were operated by BHP Billiton and two by Rio Tinto Iron Ore. FMG argued that these rail

[3] Bureau of Infrastructure, Transport and Regional Economics

[4] The National Access Regime found in Part IIIA of the Trade Practices Act 1974 (now the Competition and Consumer Act 2010) is a set of statutory provisions that enables a third party to obtain access to services provided by 'essential facilities'

lines were the only viable means of transporting iron ore for most junior miners in the Pilbara. The dispute between FMG and the railway asset owners lasted for nine years before FMG finally abandoned its effort to seek access and constructed its own railway.

More recently, Brockman Iron Pty Ltd ("Brockman") lodged a proposal under the Railway (Access) Code 2000 (WA) to negotiate access to the Pilbara railway network managed and controlled by The Pilbara Infrastructure Pty Ltd, a subsidiary of FMG. FMG attempted to prevent Brockman on the basis that Brockman did not have the financial capacity to execute on its plans and questioned the economic viability of Brockman's Marillana project. After a three year battle, in 2016 the Court found in favour of Brockman ruling that its access proposal was valid. Brockman subsequently announced a joint venture with Mineral Resources to develop a light rail network and associated berth to connect the stranded and undeveloped Marillana project to the new port facilities at Port Hedland[5].

In December 2018, the Western Australian state government announced plans to make it easier for third parties to access privately owned transport infrastructure networks by amending the rail access regime.

3.3.2 Port Infrastructure

There are three operational ports in Pilbara overseen by the Pilbara Ports Authority ("PPA"): Port of Ashburton, Port of Dampier, and Port of Port Hedland. The ports of Dampier and Port Hedland are responsible for approximately 75% of Western Australia's seaborne iron ore exports. The port of Port Hedland has 19 operational berths, of which eight are owned and operated by BHP, five by FMG, two by Roy Hill Infrastructure, and the remainder by PPA. PPA owns and operates three berths at the Port of Dampier, which also has private facilities operated by Rio Tinto, Woodside Energy, LINX, Toll, and Qube. Iron ore is not exported from Port of Ashburton.

There are also two privately owned ports in Pilbara that ship iron ore. The port at Cape Lambert (also known as Port Walcott) is owned and operated by Rio Tinto, while CITIC Pacific Mining owns and operates the port of Cape Preston.

To meet potential future export requirements, several new ports have been proposed:

- The Port of Anketell, with an export capacity of not less than 350 million tonnes per annum, was to have been developed by Aquila Resources as part of the West Pilbara Iron Ore Project. However, the project and development of the port have been suspended.
- The Port of Cape Preston East is located approximately 60 kilometres south west of Dampier and was granted State and Commonwealth environmental approvals in 2013. However, development of the port is uncertain, as owner BCI Minerals is seeking to divest its iron ore asset portfolios, which include the rights to the Port of Cape Preston East.
- In October 2017 the Port of Balla Balla was proclaimed for development as an iron ore export port. A description of the Balla Balla Infrastructure Project is set out in Section 6 of this Report.

Given the close proximity of the major ports in the Pilbara to the iron ore markets of Asia, shipping costs borne by Pilbara miners are generally lower than shipping costs for international competitors. A new global emissions standard[6] put in place by the International Maritime Organisation will come into effect from 1 January 2020. The new standards are expected to further increase the competitiveness of the Pilbara iron ore industry as the increase in iron ore shipping costs from the Pilbara to China (by an estimated US$2/t to US$3/t) is lower than the increase in costs from Brazil to China (an estimated US$4/t to US$6/t)[7].

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5 Brockman Mining previously signed a non-binding term sheet with BBIG to construct a rail solution to support the Marillana Project in 2017. Brockman Mining later opted for a JV with Mineral Resources, as it offered a faster route to market.

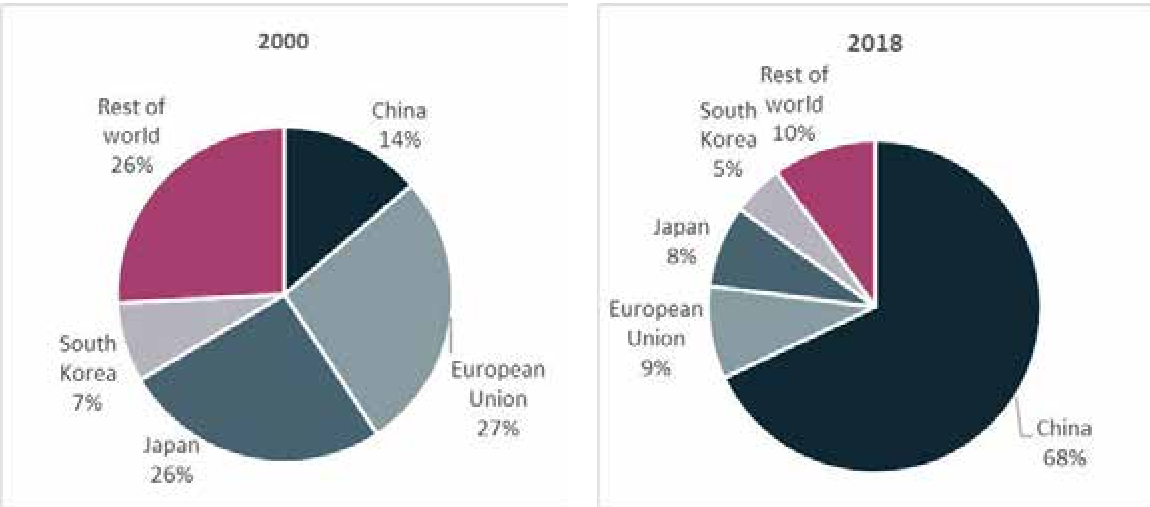
6 This new International Maritime Organisation rule require an 80% reduction in sulphur emissions from shipping fleets.

7 BHP and Wood Mackenzie estimates. The existing freight differential between Australia and Brazil is already significant at US$10.9/t in 2018, to Australian producer's advantage

3.4 Global Trade in Iron Ore

World steel production increased from around 850 million tonnes in 2000 to around 1,808 million tonnes in 2018[8]. China is the world's largest steel producer and accounted for approximately 51% of global steel production in 2018. China's steel production increased sevenfold between 2000 and 2018 as its economy continued to industrialise and urbanise. However, steel production in the rest of the world increased by a relatively modest 20% over the same period. The wide disparity in growth rates underlines China's overwhelming impact over the last two decades on the demand for iron ore and coal, the primary raw materials used in steel production.

IRON ORE IMPORTS BY COUNTRY IN 2000 AND 2018



Source: Office of the Chief Economist, World Steel Association

Global trade in iron ore is primarily through the seaborne market. Global iron ore trading volumes more than tripled between 2000 and 2018, with China being the primary driver of the growth in seaborne traded iron ore. China is currently the world's largest iron ore importer, accounting for approximately 68% of the global iron ore trade[9]. Accordingly, even minor fluctuations in China's demand are likely to have a significant impact on the global demand/supply balance.

The rapid increase in Chinese iron ore demand in the decade to 2010 significantly outpaced growth in supply, resulting in a substantial increase in global iron ore prices. This encouraged sizeable investment in new projects and associated infrastructure, particularly by the large iron ore producers in Australia and Brazil. Consequently, iron ore production from Australia and Brazil has increased considerably over the last couple of decades. Australia and Brazil are the world's largest exporters of iron ore and together accounted for approximately 78% of global exports during 2018. China is also a substantial producer, with annual production of approximately 350 million tonnes of usable ore[10], but almost all of its production is consumed domestically. The majority of China's domestically produced iron ore is of low grade and has a relatively high production cost.

Iron ore supply was disrupted in the first seven months of 2019 as a result of a tailings dam collapse at a Brazilian mine operated by Vale, which resulted in a 90 million tonne output loss. Production in the Pilbara in Western Australia has recently been reduced as a result of adverse weather conditions, particularly at mines operated by FMG and BHP.

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8 World Steel Association

9 IBISWorld Global Iron Ore Mining Industry 2019

10 U.S. Geological Survey

In the medium term, Australia's iron ore exports are expected to continue to grow as a number of major new projects are developed and brought into production to replace those mining operations nearing completion.

A summary of world iron ore imports and exports between 2014 and 2018 is set out below:

WORLD IRON ORE IMPORTS AND EXPORTS (MT)

	2014	2015	2016	2017	2018
IMPORTS					
China	933	953	1,035	1,075	1,065
European Union	158	153	140	144	148
Japan	136	131	131	127	129
South Korea	74	73	75	72	73
India	7	10	3	5	16
Rest of world	127	145	145	154	117
Total imports	**1,435**	**1,465**	**1,528**	**1,578**	**1,608**
EXPORTS					
Australia	717	767	809	827	835
Brazil	344	366	364	384	390
Ukraine	41	46	38	33	35
India	10	4	9	29	18
Rest of world	377	329	366	367	317
Total exports	**1,488**	**1,512**	**1,586**	**1,640**	**1,595**

Source: Office of the Chief Economist, World Steel Association

Any slow down in global economic growth, which could potentially be brought about by rising trade tensions between the US and China and high debt in China, would be expected to weigh on industrial production and, in turn, Chinese demand for iron ore. China's population is projected to peak in the coming decades and the rates of industrialisation and urbanisation are likely to slow as the economy matures. Since the early 2010s, Chinese GDP growth has gradually slowed from around 10% in 2011 to 6.6% in 2018. Government policies have sought to transition the Chinese economy to more balanced and sustainable growth.

The Chinese government has also adopted emissions reduction policies that incentivise steel mills to use scrap steel as an alternative steel input and limit capacity expansions. Steel production using scrap steel is less energy intensive and scrap steel is abundant in China as a result of demolition and replacement of construction works.

While these factors may reduce China's demand for iron ore, economic growth in emerging markets, particularly in India (expected to be the most populous country by 2030), is expected to continue to contribute to growth in demand for iron ore.

3.5 Iron Ore Prices

There are four core iron ore products sold internationally: lump ore, pellets, sinter fines and concentrates. Lump ore is a high grade, hard ore, between 6-32 mm in diameter, which is used as direct feed for steel plants.

Pellets are a high grade premium iron product. Pellets are made from very fine or powdery fines ore, which are agglomerated into small balls of around 0.15 mm diameter by first grinding and heating in a furnace with a binder material. Other compounds, such as silica (acid pellets) and flux (flux pellets) are added during processing to tailor pellets to individual customer specifications. Pellets are ideal feed for steel plants because they are hard and of regular size and shape.

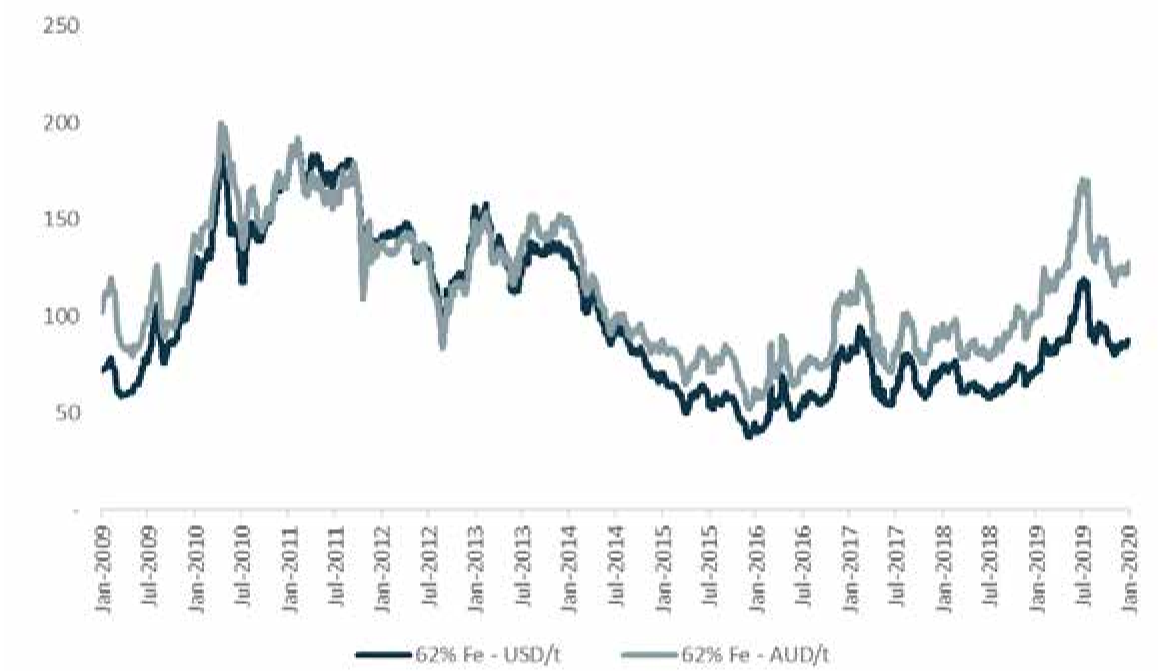
Sinter fines are a powdery form of iron ore and tend to be of lower grade but often have lower quantities of impurities. Sintering is a heating process using coke fuel to agglomerate iron fines in preparation for blast furnace smelting. Sintering normally takes place at steel plants where coke and other materials are more freely available. Sinter fines are the most commonly traded product, accounting for approximately 70% of global iron ore imports.

Concentrate is a beneficiated form of very low grade fines ore. Depending on the type of ore, beneficiation methods vary from simple crushing and screening, to processes based on gravity, magnetic separation and floatation to recover contained iron and remove waste products such as gangue. Concentrate is generally sold as sinter feed along with fines.

The primary factor in determining the value of iron ore is its iron content in percentage terms, although other chemical, physical and metallurgical properties, which affect the performance of steel blast furnaces and the quality of steel products, are also relevant. The most common impurities or contaminants in iron ore are silicon dioxide, phosphorous, aluminium oxide and sulphur, along with loss on ignition. Steel mills have varying levels of tolerance to these impurities and generally there is a negotiated adjustment to the iron ore price to reflect impurity levels. These adjustments can have a material impact on the commercial viability of ore resources. Ore with 62% iron content is the most regularly quoted benchmark for pricing.

Historical iron ore fine prices in US$ and A$ terms are illustrated below:

IRON ORE FINES SPOT - 62% FE



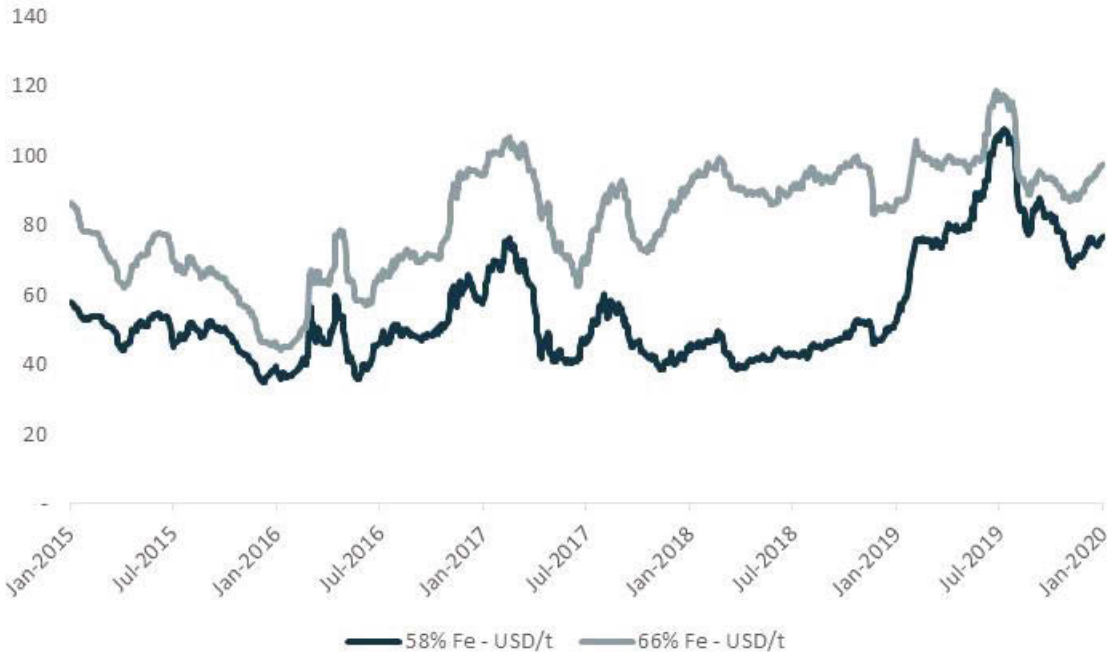
Source: Bloomberg as at 8 January 2020

Iron ore prices for the past twelve months have been extremely volatile, primarily due to global production disruptions but also to a lesser extent increased demand. The supply disruptions in the first seven months of 2019 and renewed demand from China's steel sector culminated in iron ore prices rising to a five year high of US$119/t in July 2019. However, easing supply concerns and a slowdown in global economic growth placed downward pressure on the iron ore price, which fell by approximately 25% in August 2019.

Environmental controls in China have incentivised steel mills to use higher grade iron ore to reduce carbon emissions. This in turn has increased the pricing spread between high and low grade ores over the past three years. However, disruption of the supply of high grade iron ore from Brazil in the first half of 2019 resulted in steel makers turning to lower grade ores, leading to a more recent reduction in the price premium for high grade ores.

Historical high grade (66% Fe) and low grade (58% Fe) iron ore fines prices in US$ are illustrated below:

IRON ORE FINES SPOT - 58% FE AND 66% FE



Source: Bloomberg as at 8 January 2020

For more than two decades until the end of 2009, the majority of iron ore traded in international markets was bought and sold pursuant to long term contract arrangements and only a small quantity was settled on spot basis. The contract typically specified factors such as term, volumes, cargo size, quality specifications and delivery arrangements and included provision for the purchaser to marginally increase or decrease contract volumes depending on demand. Pricing was generally based on an annually negotiated benchmark price, normally negotiated before the start of the Japanese Financial Year ("JPY") on 1st April and the first agreed price between a global steel mill and a major iron producer established the benchmark price for the other participants for the remainder of the JPY.

The annually negotiated contracts did not reflect market conditions in a timely manner and this became apparent during the global financial crisis when the spot iron ore price declined rapidly, creating a wide disparity between spot iron ore prices and contracted prices. This encouraged some of the Chinese steel mills to default on their commitments and switch to cheaper spot purchases. As a consequence, the pricing negotiations saw a move away from the traditional system to shorter term contracts. In the first quarter of 2010 BHP Billiton announced a new quarterly pricing mechanism based on average spot prices.

Currently most of the iron ore traded globally is settled on a monthly basis. Settlements are based on the daily prices set by agencies such as The Steel Index and Metal Bulletin. These agencies review price and specification data of spot market transactions, standardise the different traded products and produce a volume weighted average daily reference price.

4 Profile of Flinders

4.1 Overview

Flinders is an iron ore company based in Western Australia, focused on the development of its flagship asset, the PIOP, situated in the Pilbara region. A description of the PIOP is set out in Section 5. Flinders also owns the Canegrass vanadium project, which consists of six exploration licenses situated in Western Australia.

Flinders was incorporated in 2000 as Flinders Diamonds Limited and changed its name to Flinders Mines Limited in 2008. It listed on the ASX in 2002 and had a recent market capitalisation of approximately $190 million.

Key events in Flinders' history are summarised below.

FLINDERS BACKGROUND

DATE	EVENT
2000	Incorporated as Flinders Diamonds Limited in West Perth, Australia
2002	Listed on the ASX with code FDL
2003	Entered into the PIOP joint venture with Prenti Exploration Pty Ltd
2005	Agreed with Fortescue to swap certain iron ore mining rights for diamond tenements (Blacksmith tenement excluded)
2007	Decided to investigate the iron ore potential of Blacksmith following discovery of the nearby Serenity and Caliwingina deposits by Fortescue and Rio Tinto
2008	Changed company name to Flinders Mines Limited (ASX:FMS) Purchased Anvil tenement from Cazaly Iron Pty Ltd
2009	Announced first Inferred Resource of 476Mt at Blacksmith Purchased the Canegrass Vanadium Project, comprising six exploration licences, from Maximus Resources Ltd
2011	Terminated the PIOP joint venture with Prenti Exploration Pty Ltd for a cash settlement In November, announced it had entered into a scheme implementation to sell all its shares to Magnitogorsk Iron and Steel Works OJSC ("MMK") for $0.30 per share
2012	In March, Flinders shareholders voted in favour of the proposed scheme with MMK The proposed scheme was not implemented prior to the 30 June end date Mining licence at Blacksmith was granted by the Western Australian Government
2013	Signed memorandum of understanding with Brockman regarding respective iron ore projects including infrastructure and transport solutions
2015	In May, announced execution of an option agreement with Todd Corporation under which Todd was to pay $10 million upfront consideration. To exercise the option to acquire the PIOP, Todd was to pay $55 million plus an ongoing royalty. In September, shareholders voted against the proposed option transaction
2016	In March, announced that Todd Corporation had made a takeover bid to acquire all the shares in Flinders for $0.013 cash per share. In May, Todd increased its offer to $0.025 per share and ultimately acquired c.53% of Flinders
2018	Announced updated JORC Resource, following on-ground, laboratory and engineering 'maturation work', of 1,484Mt Announced a proposal to delist from the ASX via a on-market buyback funded by a shareholder loan from Todd Corporation
2019	Withdrew the delisting proposal following feedback from shareholders Signed the Terms Sheet with BBIG in relation to the Transaction

4.2 Financial Performance

The historical financial performance of Flinders for the five years ended 30 June 2019 is summarised below:

FLINDERS - FINANCIAL PERFORMANCE ($ MILLIONS)

	YEAR ENDED 30 JUNE				
	2015 ACTUAL	2016 ACTUAL	2017 ACTUAL	2018 ACTUAL	2019 ACTUAL
REVENUE					
Other income	**0.1**	**0.0**	**-**	**0.0**	**0.0**
Administrative expenses	(3.1)	(4.0)	(2.1)	(1.7)	(5.4)
Exploration expenditure	(0.1)	(0.1)	(0.2)	(0.1)	(0.0)
Impairment	(26.8)	(0.8)	(0.0)	-	-
Other expenses	(0.1)	-	-	(0.1)	-
EBIT[11]	**(29.9)**	**(4.9)**	**(2.2)**	**(1.8)**	**(5.5)**
Finance income	0.2	0.1	0.0	0.1	0.1
Finance costs	(0.0)	(0.0)	(0.0)	(0.1)	(0.1)
Operating profit before tax	**(29.7)**	**(4.8)**	**(2.2)**	**(1.8)**	**(5.5)**
Income tax expense	0.5	0.7	(0.0)	(0.0)	(0.0)
NPAT[12] attributable to Flinders shareholders	**(29.2)**	**(4.1)**	**(2.3)**	**(1.8)**	**(5.5)**
STATISTICS					
Basic earnings per share (cents)	(1.12)	(0.14)	(0.07)	(0.06)	(0.16)

Source: Flinders annual reports and Grant Samuel analysis

The following should be noted in relation to Flinders' financial performance over the period:

- the Company does not have an interest in any producing assets that generate operating income;
- financial income predominantly relates to interest received on cash balances;
- the increase in administrative expenses in 2019 largely relates to increases in salaries and wages (including directors' fees), consultants' fee, and legal fees. These additional costs reflected the increase in corporate activity, including the strategic review, undertaken during the year; and
- impairment of $26.8 million in 2015 relates to a write down of the carrying value of the PIOP following a significant drop in the iron ore price.

11 EBIT is earnings before net interest, tax, share of profits of equity accounted associates, investment income and significant and non-recurring items (including fair value adjustments)

12 NPAT is net profit after tax.

4.3 Financial Position

The financial position of Flinders as at 30 June 2019 is summarised below:

FLINDERS - FINANCIAL POSITION ($ MILLIONS)

	AS AT 30 JUNE 2018 ACTUAL	AS AT 30 JUNE 2019 ACTUAL
Debtors and prepayments	0.6	0.5
Creditors, accruals and provisions	(0.4)	(0.7)
Net working capital	**0.1**	**(0.2)**
Property, plant and equipment (net)	0.0	0.0
Exploration and evaluation	58.5	61.1
Total funds employed	**58.6**	**60.9**
Cash and deposits	3.3	1.7
Bank loans, other loans and finance leases	(5.0)	(3.0)
Net borrowings	**(1.7)**	**(1.3)**
Net assets	**56.9**	**59.6**
Equity attributable to Flinders shareholders	**56.9**	**59.6**
STATISTICS		
Shares on issue at period end (million)	3,336.95	3,485.17
Net assets per share	0.02	0.02
Gearing[13]	3%	2%

Source: Flinders annual reports and Grant Samuel analysis

Flinders capitalises, rather than expenses, most of its exploration expenditure. Capitalised exploration and evaluation only increased by $2.7 million in FY19 as exploration spending fell significantly ($2.7 million compared to $9.6 million in 2018), while Flinders focussed on the progression of an infrastructure solution for the PIOP.

Flinders completed a rights issue in August 2018, issuing 118,218,625 fully paid ordinary shares at $0.07 per share. The proceeds ($8.3 million before costs) were used to fully repay a $5 million unsecured loan facility that had been provided by PIOP Mines Pty Ltd (a subsidiary of TIO).

In accordance with undertakings provided to the Takeovers Panel in relation to its proposed delisting from ASX, in March 2019 Flinders announced amendments to its previously announced loan facility with PIO Mines Pty Limited. The key terms of the revised loan facility were:

- the facility was unsecured;
- a total amount of up to $32.9 million was available to be drawn down, with the proceeds to be used to fund a proposed buy-back (up to $25.3 million) to give minority shareholders an opportunity to exit prior to delisting, plus working capital ($3 million) and potential tax liabilities associated with the buy-back ($4.6 million);
- interest was to be capitalised quarterly at a rate of Bank Bill Swap Rate ("BBSW") plus a 2% margin; and
- amounts drawn against the facility were repayable on or before 30 June 2022.

As a result of the withdrawal of the delisting proposal, the proposed buy-back was cancelled in April 2019. Accordingly, the component of the facility of up to $29.9 million that related to the buy-back and associated tax liabilities was not available to be drawn by Flinders. At 30 June 2019, the remaining $3 million loan was fully drawn.

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13 Gearing is net borrowings divided by net assets plus net borrowings.

On 2 September 2019 (and therefore not reflected in the above summary balance sheet), Flinders entered into a $5 million unsecured loan facility with PIO, maturing on the earlier of 30 April 2020 or within 14 days of the closing of any capital raising. The facility was fully drawn as at 19 September 2019 and attracts an interest rate of 6 month BBSW plus a margin of 2%.

Flinders has entered into a subscription agreement with TIO for a maximum of $6 million in relation to a future rights issue, subject to final TIO board approval once the terms of the rights issue are determined and a launch date of no later than 30 April 2020.

On 20 December 2019, the terms of the above funding arrangements were varied such that PIO will make available an additional $2 million under the loan facility and TIO has agreed to subscribe for a further $2 million (maximum of $8 million) under the subscription agreement.

As at 30 June 2019, Flinders had no contingent assets or liabilities.

Under the Australian tax consolidation regime, Flinders and its wholly owned Australian resident entities have elected to be taxed as a single entity.

At 30 June 2019, Flinders had carried forward capital losses of $2.1 million, carried forward income tax losses of approximately $127.4 million, and temporary deductible differences of approximately $1.7 million, none of which were recognised in the balance sheet.

4.4 Capital Structure and Ownership

Flinders has 3,485,170,081 ordinary shares on issue.

At 5 September 2019 there were 4,028 registered shareholders in Flinders. The number of shareholders holding less than a marketable parcel was 1,194.

The top two shareholders accounted for approximately 77% of the ordinary shares on issue. Flinders has received substantial shareholder notices from the following shareholders:

FLINDERS - MAJOR SHAREHOLDERS

	NUMBER OF SHARES	PERCENTAGE
TIO (NZ) Limited (wholly-owned subsidiary of Todd Corporation)	1,936,250,459	55.56%
OCJ Investment (Australia) Pty Ltd	758,160,000	21.75%
Various requisitioning shareholders[14]	210,302,405	6.03%

Source: Flinders 2019 annual report

4.5 Share Price Performance

A summary of the price and trading history of Flinders since 1 January 2010 is set out below:

FLINDERS - SHARE PRICE HISTORY

	SHARE PRICE ($)			AVERAGE WEEKLY VOLUME (000'S)	AVERAGE WEEKLY TRANSACTIONS
	HIGH	LOW	CLOSE		
Year ended 31 December					
2010	0.16	0.08	0.14	43,178	730
2011	0.28	0.10	0.27	55,936	1,121
2012	0.29	0.06	0.07	52,173	1,207

[14] On 13 March 2019, various shareholders lodged a substantial shareholder notice with ASX disclosing an association by reasons of notices requiring the Company to call and arrange to hold a general meeting to consider certain resolutions around the composition of the Board of Directors

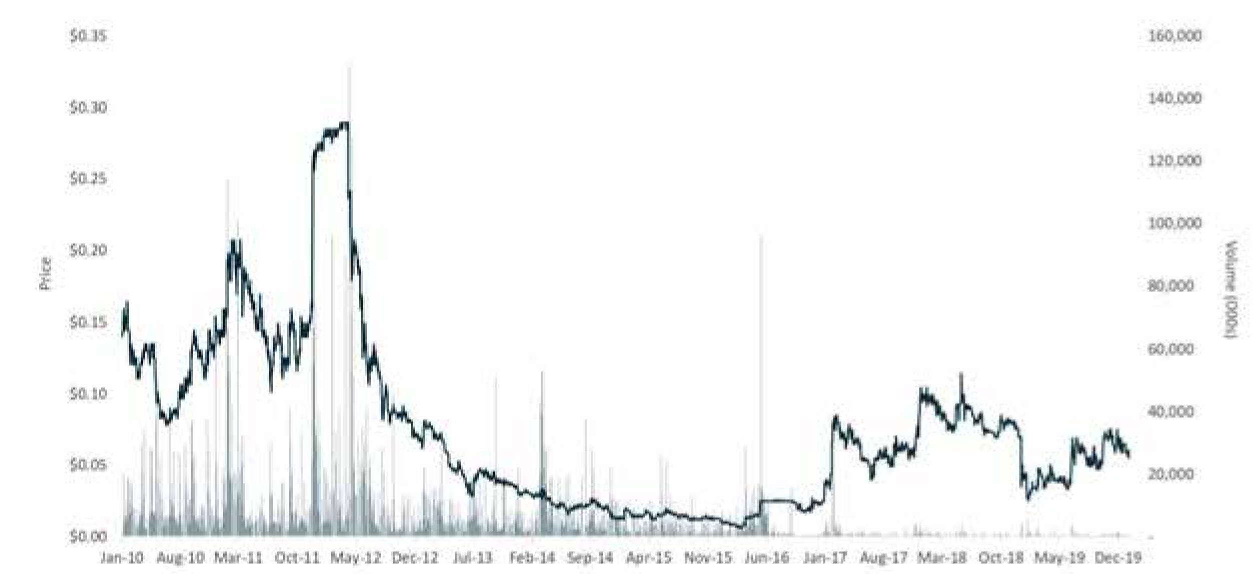
2013	0.08	0.03	0.03	28,024	737
2014	0.04	0.01	0.01	29,456	305
2015	0.02	0.01	0.01	14,121	92
2016	0.04	0.01	0.03	13,144	61
2017	0.11	0.03	0.10	4,364	97
2018	0.11	0.03	0.04	1,628	68
Quarter ended					
31 March 2019	0.05	0.03	0.05	2,302	65
30 June 2019	0.07	0.03	0.06	1,553	52
30 September 2019	0.07	0.05	0.05	848	29
Month ended					
31 October 2019	0.08	0.05	0.08	1,383	54
30 November 2019	0.08	0.06	0.07	2,043	64
31 December 2019	0.07	0.06	0.06	826	24

Source: IRESS

Flinders is an illiquid stock with a restricted free float of less than 23%. Average weekly volumes over the twelve months prior to the announcement of the Transaction represented approximately 0.05% of average shares on issue or annual turnover of around 2.4% of total average issued capital.

The following graph illustrates the movement in the Flinders share price and trading volumes since 1 January 2010:

FLINDERS - SHARE PRICE AND TRADING VOLUME



Source: IRESS

The following graph illustrates the performance of Flinders relative to the S&P ASX All Ordinaries Index and the benchmark iron ore fines grading 62% iron (CFR) index since 1 January 2010:

FLINDERS VS. S&P/ASX ALL ORDINARIES INDEX VS. IRON ORE PRICE

Source: IRESS

Flinders' shares have generally underperformed both the S&P ASX All Ordinaries index and the benchmark iron ore fines grading 62% iron ("CFR") index over the period. Between 1 January 2010 and late 2011, the Flinders share price fluctuated between approximately $0.08 and $0.20. On 25 November 2011, Flinders announced that it had received an all cash offer of $0.30 per share from Magnitogorsk Iron and Steel Works OJSC ("MMK"). The offer represented a 92% premium over a 30 day volume weighted average price. The Flinders share price reached an all time high of $0.29 on 29 February 2012. However, the failure of the proposed takeover following legal action from a minority MMK shareholder resulted in a sharp decline in the Flinders share price, which closed at $0.12 on 29 June 2012.

Despite announcing an increase in the PIOP resource to over 1 billion tonnes, challenging market conditions and investor perceptions of PIOP development risk continued to place downward pressure on the Flinders share price, which fell to almost $0.01 at the end of 2014. Iron ore prices had weakened significantly from their all-time highs in 2011 as global demand waned, primarily due to a slowdown in steelmaking growth in China.

The Flinders share price remained subdued during 2015, with Flinders' shares trading in the range $0.01-$0.02, notwithstanding Flinders' announcement in May 2015 of a proposed option agreement with the Todd Corporation. Further falls in the iron ore price resulted in the Flinders' share price falling to below $0.01 at the start of 2016, and closing at an all time low of $0.006 on 12 February 2016. Following the announcement of the takeover bid by Todd Corporation in March 2016, the Flinders share price strengthened, with Flinders' shares trading above $0.02 for much of the remainder of 2016.

In line with improvements in the iron ore price outlook, the Flinders share price climbed through 2017 as the company completed a strategic review of the PIOP and BBIG reached agreement with the Western Australian government for the Balla Balla Infrastructure Project. The share price closed the year at around $0.09. The share price declined during 2018. In particular, following the announcement of the delisting proposal in December 2018, the Flinders share price fell 50% to $0.03.

The Flinders share price closed at $0.05 immediately before the announcement of the Transaction. Since then, Flinders shares have traded between approximately $0.04 and $0.075.

5 The Pilbara Iron Ore Project

Overview

The PIOP is located in the Hamersley Ranges approximately 70 kilometres northwest of the town of Tom Price in the Pilbara, Western Australia. The project consists of the Blacksmith and Anvil tenements, both of which are 100% owned by Flinders.

The Blacksmith area contains seven deposits and is located between several developments – Rio Tinto's Caliwingina iron ore resource to the north, FMG's Solomon iron ore hub to the east, FMG's Eliwana project and API's West Pilbara Iron Ore Project to the west and Rio Tinto's Brockman 2 operation to the south. The Anvil area is located approximately 5 kilometres to the southeast of Blacksmith and contains four deposits.

The tenements are located approximately 20 kilometres west of Rio Tinto's Paraburdoo Dampier rail track. The project has received environmental approvals for the development of an expanded operation at the PIOP, including the development of additional infrastructure.

THE PIOP AND BBIP IN THE PILBARA REGION

Source: Flinders

Geology

Iron ore mineralisation within the PIOP area is found within the Brockman Iron Formation of the Hamersley Group, with iron mineralisation on the main Blacksmith tenement laterally associated with both Rio Tinto's Caliwingina North deposit and FMG's Serenity deposit.

The area consists of large channel systems that contain significant tonnages of detrital and channel iron deposits ("DID" and "CID"), along with bedded iron deposits ("BID") below the channel. DID is characterised by hematite rich mineralisation that has been eroded from surrounding banded iron formation. DID is subdivided into four units, with the upper unit, DID1, being the least mature and with the lowest iron content. The iron content increases from DID1 to DID4.

The BID mineralisation lies beneath the DID units.

Mineral Resource

The PIOP's resource statement as at 1 March 2018 is as follows:

PIOP MINERAL RESOURCE ESTIMATE

AREA	CLASSIFICATION	TONNES (mt)	Fe (%)	SiO_2 (%)	Al_2O_3 (%)	P (%)	LOI (%O)
Blacksmith	Measured	54	59.8	6.2	4.28	0.064	2.98
	Indicated	1,148	52.6	14.1	4.81	0.047	4.93
	Inferred	105	51.6	15.7	5.13	0.057	4.40
Blacksmith total		**1,307**	**52.8**	**13.9**	**4.81**	**0.066**	**4.81**
Anvil	Inferred	176	47.1	21.3	6.05	0.044	4.13
Anvil total		**176**	**47.1**	**21.3**	**6.05**	**0.044**	**4.13**
PIOP (Blacksmith and Anvil)	Measured	54	59.8	6.2	4.28	0.064	2.98
	Indicated	1,148	52.6	14.1	4.81	0.067	4.93
	Inferred	282	48.8	19.2	5.70	0.049	4.23
Total		**1,484**	**52.2**	**14.8**	**4.96**	**0.064**	**4.73**

Source: Flinders

Mining and processing

The Mineral Resource for the PIOP has been reported above the following cut-off grades, which are based on product optimisation carried out by Snowden based on two ore processing facilities:

- DID1, DID2, and DID3 (Ore Processing Facility 2, "OPF2"): Fe>40% and Al_2O_3<8%
- Flinders proposes to beneficiate the lower grade DID1, DID2, and DID3 mineralisation using the OPF2 processing route, which includes crushing, scrubbing, wet screening, and dense media separation.
- DID4, CID, BID (Ore Processing Facility 1, "OPF1"): Fe>50% and Al_2O_3<6%
- The OPF1 processing route includes crushing, wet scrubbing, wet screening and hydrocyclone desliming.

A strategic review conducted by Advisian in early 2017 recommended that Flinders undertake a maturation program to confirm a number of technical assumptions and uncertainties to assist in progression to a pre-feasibility study and bankable feasibility study ("BFS"), including studies of metallurgical upgrade risk, geotechnical pit slope risk and geohydrological risk. Flinders completed site-based activities by late November 2017, which included metallurgical, geotechnical and hydrogeological drilling and related sampling as well as downhole geophysical testing.

Currently focussed on the progression of an infrastructure solution, Flinders has not materially progressed on ground work or in house technical work since the completion of the asset maturation phase on 21 May 2018. Flinders estimates that significant capital of at least $40 to $50 million will be required to progress additional drilling and metallurgical work and complete a BFS for the PIOP.

On 7 January 2020, Flinders released the results of a scoping study to assess the possible size and form of the PIOP, with the aim of reporting a production target and validating Flinders' assumptions around finance, development, infrastructure and marketing.

The study contemplates a nominal 45 Mtpa operation producing an average 60% Fe product, with an indicative production target of approximately 615 Mt(dry) / 675 Mt(Wet) over the life of the mine.

Current development concepts are based on indicative estimates of pre-commissioning capital costs in the order of $3.1 billion, of which $160 million would relate to earthworks, $50 million would relate to material handling conveyors and machines, $2 billion would relate to the process plant and around $270 million would relate to establishment of site infrastructure (e.g. camps, non-process infrastructure).

6 The Balla Balla Infrastructure Project

Overview

The BBIP is a potential c.$4.7 billion integrated rail and port project proposed to be developed by BBIG. The BBIP represents a potential transport infrastructure solution for the PIOP.

TIO is the majority shareholder of BBIG, holding approximately 94% of BBIG shares. The remaining stake in BBIG is held by entities associated with Nicholas Curtis, the founder and Managing Director of BBIG.

Rail

The existing BBIP design connects the PIOP to the Balla Balla port stockyard by a 165 kilometre single track standard gauge heavy haul railway. Product will be transferred from the PIOP to the stockyard at the southern end of the rail system via a 29 kilometre overland conveyor. The heavy haul railway is typical of the Pilbara and has the ability to carry 40 tonne axle loads. The 170 wagon trains will be hauled by three diesel locomotives and will be capable of holding approximately 23,100 tonne of iron ore. A round trip from mine to port will take an average of 11 hours.

Port

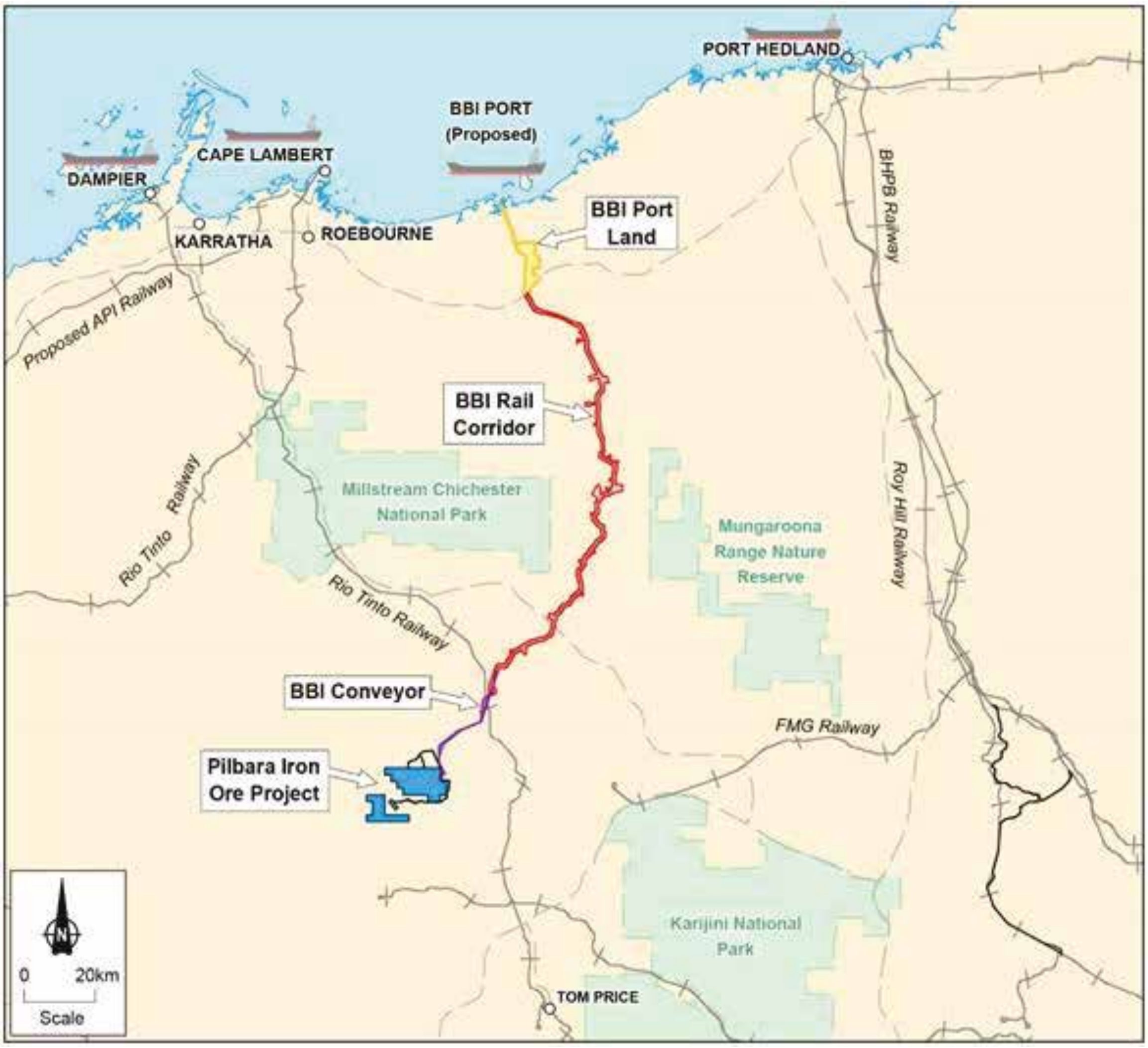
The Balla Balla port is situated on the Pilbara coast between Port Hedland and Karratha. The Balla Balla Harbour was established in 1898 as a commercial harbour for goods from Pilbara. It continued to be active until the 1930s when the Whim Creek copper mine ceased operations. BBIG expects to lease and operate the port, which is owned by the Pilbara Port Authority, building out the export facility to accommodate an initial capacity of 50 million tonnes per annum. There is potential to expand capacity through installation of additional transhipment vessels and shore side loading facilities.

The proposed port facility has been designed to operate as a transhipment export facility with 30,000 tonne capacity to facilitate the transfer of ore via transhipment vessels to bulk carriers. These transhipment vessels will be loaded at a rate of up to 11,500 tonnes per hour by a ship loader, located on a purpose built wharf at the end of a 2.8 kilometre trestle jetty. Iron ore will be transported to the ship loader from port stockyards by a 13 kilometre overland conveyor, crossing the inter-tidal zone atop an 8.6 kilometre rock armoured causeway.

All necessary environmental approvals for the port facility have been received from both the Western Australian State Government and the Commonwealth Government.

The map below shows the location of BBIP in Pilbara.

THE BBIP IN THE PILBARA REGION



Source: Flinders

Commercial arrangements

In 2017, the Western Australian Government signed a state agreement with BBIG to develop the BBIP ((BBI Rail Aus Pty Ltd) Agreement 2017). The agreement provided tenure for the railway component of the project, and also set out local industry participation, community development, and third-party access requirements. In December 2017, the Western Australian State Parliament passed a billed that ratified the Railway (BBI Rail Aus Pty Ltd) Agreement 2017. BBIG also signed a Memorandum of Understanding with China State Construction Engineering Corporation to build the infrastructure for the BBIP.

Prior to March 2019 BBIG requested an 18 month extension for lodgement of submissions of detailed development proposals for the State Rail Agreement on the BBIP from the Western Australian government. The extension was granted, until September 2020.

Flinders engaged in discussions with BBIG and sought a proposal for a potential infrastructure arrangement in June 2019. In its discussions with Flinders, BBIG represented that it had entered into conditional non-binding offtake contracts with several China based counterparties for the sale of up to 41 million tonnes per annum of iron ore.

Indicative capital cost estimates for the development of BBIP suggest that total pre-commissioning capital costs could be of the order of $4.7 billion, consisting of around $2.2 billion for the construction of the port including (among other packages) trans-shipment vessels ($240 million), the jetty ($350 million), material handling conveyors and machines ($550 million) and financing costs ($250m), and around $2.5 billion for the rail including (among other packages) the rail track ($240 million), rolling stock ($400 million), signalling and communication ($100 million), rail earthworks ($400 million) and financing costs ($280m).

7 Todd Corporation and BBIG

7.1 Todd Corporation

Established in 1884, Todd Corporation is a private family company based in New Zealand.

The company has interests in operated businesses and investment holdings in hydrocarbon exploration and production, electricity generation, energy retailing, property development, minerals, healthcare and technology.

The primary divisions of the Todd Corporation are set out below.

New Zealand Upstream Energy

Todd Energy NZ is a major oil and gas explorer and producer in New Zealand. The business is centred around three onshore natural gas operations: McKee and Mangahewa in North Taranaki and Kapuni in South Taranaki. It also maintains a joint venture interest in the Pohokura Field in the Taranaki Basin.

International Energy

In 2014, Todd Corporation established Todd Energy International to develop overseas energy projects. The division's major projects are currently located in North America and Canada and include South Louisiana Methanol and a 50% joint venture ownership interest in the upstream Birch natural gas project in Canada (Todd Energy is the operator).

Todd Minerals

Todd Minerals manages a number of international investments including in:

BBIG (94% holding);

Flinders (55.56% holding); and

the Sisson tungsten and molybdenum project with joint venture partner Northcliff Resources Limited. Todd Corporation holds an 11.5% interest in the joint venture and a 36% interest in Northcliff. Sisson is located in New Brunswick, Canada and is progressing regulatory approvals and detailed engineering design for its project.

Downstream Energy

This division includes Nova Energy, which is an energy retailer, offering natural gas, electricity generation, electricity/steam co-generation and solar technologies. Generation assets focus on natural gas fired peaking and cogeneration plants.

Todd Property

Todd Property is a New Zealand property developer engaged in designing and delivering land development projects. Its core expertise is identifying and implementing development and value add opportunities for large scale urban sites.

Natural Healthcare

Todd Corporation's wholly owned subsidiary, Integria Healthcare, has operated in the natural healthcare market for approximately 60 years, with brands such as Thompson's, Thursday Plantation, MediHerb, Greenridge, Eureka, Sunspirit and Red 8.

Todd Digital

Todd Digital is an early stage technology company, providing digital solutions and consulting services with a focus on disruptive technologies.

Todd Foundation

Separate from the Corporation, the Todd Foundation is the main philanthropic vehicle of the Todd Family. The Foundation provides funding to New Zealand organisations working with children, young people, families and communities.

7.2 BBIG

BBIG (previously, Rutila Resources Limited and Forge Resources Limited) is a Sydney based resources company owned by the Todd Corporation (c.94% through its wholly owned subsidiary TIO) and by entities associated with Mr Nicholas Curtis (c.6%). TIO has a 55.56% shareholding in Flinders, and accordingly BBIG is a related party of Flinders.

BBIG's primary focus is the development of the Balla Balla Infrastructure Project, comprising the Balla Balla Port and the Balla Balla Rail Project. Further information on the Balla Balla Infrastructure Project is set out in section 6. The BBI Group is also developing (and fully owns) the Balla Balla Mine Project, a potential vanadium-titanium-magnetite project, located 8 kilometres south of the proposed Balla Balla Port. It also holds interests in the Eucla West Mineral Sands Project.

As at 31 December 2018, BBIG had net liabilities of $55 million, largely comprising related party loans from PIO Mines Pty Limited (a subsidiary of Todd Corporation) and TIO totalling $105 million, offset by exploration and development assets.

8 Agreements

On 28 November 2019, Flinders announced that it had entered into the Agreements in order to facilitate the farm-in and establishment of an incorporated joint venture, PIOP MineCo, in respect of the PIOP. The key terms of the Agreements are set out below:

8.1 Farm-in Agreement

Flinders, BBIG and PIOP Mine Co have entered into a farm-in agreement ("Farm-in Agreement").

The operative provisions of the Farm-in Agreement will take effect from:

- the satisfaction or waiver of any required regulatory approvals, including FIRB;
- the transfer of PIOP assets into, PIOP Mine Co; and
- shareholder approval for the Transaction.

BBIG may undertake some prefeasibility study work prior to these conditions being satisfied.

The purpose of the Farm-in Agreement is to outline the arrangements to give effect to the Transaction including:

- transfer of the PIOP assets from Flinders to PIOP Mine Co;
- subscription by BBIG of an interest in PIOP Mine Co (ie Stage 1 Transfer) in exchange for funding and undertaking feasibility studies ahead of FID;
- notification of FID proposal and then an option for Flinders to elect to swap its 40% interest in PIOP Mine Co for a revenue royalty for the life of the mine;
- BBIG withdrawal right at any time prior to FID;
- Flinders withdrawal right if FID is not achieved within four years of the Stage 1 Transfer, subject to extensions in limited circumstances; and
- further debt and equity funding at FID by way of further subscriptions into PIOP Mine Co by BBIG and/or equity funding partner (ie Stage 2 Transfer).

The agreement provides for the other agreements described below to be entered into following completion of the Stage 1 Transfer.

8.2 Royalty Deed

The Royalty Deed sets out the terms under which a royalty will be granted by PIOP Mine Co to Flinders.

The royalty will become payable if Flinders selects the 'royalty option' after a FID proposal is issued.

The royalty is payable at 2.5% of the gross FOB proceeds received by PIOP Mine Co and will be secured against the PIOP Mine Co assets. Flinders will have an obligation to subordinate this security position to the project financiers.

PIOP Mine Co will have an obligation to use reasonable endeavours to develop the PIOP generally in accordance with the FID proposal.

8.3 Shareholders' Agreement and Constitution

The PIOP Mine Co shareholders agreement will govern PIOP Mine Co and set out the rights and obligations of each of BBIG, Flinders and PIOP Mine Co at each stage of the Transaction. Any equity funding party (if not BBIG) will accede to the terms of the agreement following the issue of the C class shares.

The PIOP Mine Co shareholders agreement will provide for:

- Flinders to be free carried for 100% of the equity component of the capital costs associated with the development of the PIOP (subject to cost overruns);
- funding requirements of each party in respect of PIOP Mine Co expenditure including dilution arrangements. The Shareholders Agreement will contain a compulsorily acquisition provision in the event a shareholders' economic interest in PIOP Mine Co falls below 5%;
- the number of directors on the Board of PIOP Mine Co will be four consisting of:
  - Pre-FID, 3 appointed by Flinders and 1 appointed by BBIG; and
  - After FID, 1 appointed by BBIG, 2 appointed by the equity funding party and 1 appointed by Flinders;
- the agreement will distinguish between ordinary operational decisions that are required to be made at the Board level and the more significant matters relating to the control of PIOP Mine Co which will be made at the shareholder level; and
- deadlock provisions will set out the resolution regime where either the Board or the shareholders are unable to reach agreement on any matter contemplated in the shareholders agreement.

8.4 Management Agreement

The Management Agreement will be between PIOP Mine Co and a subsidiary of BBIG ("BBIH") and provides for the appointment of BBIH as manager and operator of the PIOP on behalf of PIOP Mine Co.

BBIH will supervise and conduct all exploration, development, mining, processing, expansion and rehabilitation activities associated with the PIOP.

As operator, BBIH must:

- prepare and submit programmes and budgets to PIOP Mine Co for approval;
- implement approved programmes and budgets and incur expenditure on behalf of PIOP Mine Co; and
- issue billing statements for expenditure to be financed by PIOP Mine Co.

BBIH will be reimbursed for all costs incurred but is not entitled to claim any management or other fee for the management services it provides.

All sale proceeds received by BBIH in its capacity as manager will be held in a separate bank account and applied by BBIH in the following order of priority, on account of:

- operating expenditure including all fees and reimbursements of expenses under this Management Agreement, the Operating Charge under the Infrastructure Services Agreement and charges and reimbursement of expenses under the Marketing and Sales Agency Agreement (but excluding the Capacity Charge and the Commodity Charge payable under the Infrastructure Services Agreement);
- all principal and interest in relation to the project financing in respect of the PIOP and the BBIP (PIOP Mine Co will receive a credit from BBIG in respect of the payments allocated to the financing of the BBIP);
- Capacity Charge and Commodity Charge under the Infrastructure Services Agreement;
- any accrued deferred payment of the Capacity Charge and Commodity Charge[15]; and
- any other expenses unless otherwise determined by the shareholders of PIOP Mine Co to be retained as cash.

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[15] The Infrastructure Services Agreement will include a regime to allow for the deferral of the Capacity Charge and Commodity Charge in circumstances where PIOP Mine Co is unable to make such payments without issuing one or more cash calls to its shareholders, up to an agreed cap (currently $200 million)

8.5 Infrastructure Services Agreement

The Infrastructure Services Agreement is between BBIH and PIOP Mine Co and provides for the exclusive appointment of BBIH to provide transport and handling services, including:

- the transportation and delivery of extracted ore and associated minerals from the PIOP's conveyor load out facilities to the unloading facilities at the Balla Balla port;
- ore handling, including train loading, unloading, and stockpiling, as well as ship loading and unloading services at the Balla Balla port; and
- any other services required such as blending and dust management;

together "Infrastructure Activities".

For the Infrastructure Activities it provides, BBIH will charge PIOP MineCo:

- Operating Charge – for recovery of operating costs, royalties and taxes, general and administration costs, and sustaining capital costs in relation to the operations of rail and port infrastructure. Financing costs are to be excluded;
- Capacity Charge – a service fee for use of the BBIP, based on the total installed cost of the BBIP. It is charged monthly based on contracted capacity for life-of-mine and escalated by CPI, with a cap of 3% per annum and floor of -1% per annum. Current estimates of installed costs total A$4,677 million with the base capacity charge at A$14.75/wmt (the base charge will be adjusted in circumstances where capital works packages making up the A$4,677 million estimate are instead moved to operating costs and vice-versa). The Capacity Charge will be adjusted up or down based on the actual total installed cost of the BBIP at practical completion; and
- Commodity Charge – for sharing of commodity price risk, charged on the amount of wet metric tonnes sold for the period. The base price at which the Commodity Charge is nil equals A$75/dmt received price. For every A$1/dmt positive or negative difference between the PIOP received cost and freight ("CFR") price and the base price, the Commodity Charge correspondingly increases or decreases by A$0.30/wmt, escalated by CPI. The upper and lower bounds for the PIOP received CFR price are A$90/dmt and A$60/dmt respectively, resulting in a potential discount or premium of up to $4.50/wmt.

The Infrastructure Services Agreement will also address the following:

- all appropriate operational and technical components which are necessary for the provision of the Infrastructure Activities;
- if there is a non-provision of services in certain circumstances a make up and an abatement regime for the Capacity Charge applies, and otherwise BBIH will not have any liability for any delay, cancellation or non-provision of services, other than due to fraud, wilful misconduct or gross negligence of BBIG;
- title and risk for all ore transported and handled by BBIH will remain with PIOP Mine Co, including when in the possession of BBIH;
- PIOP Mine Co will receive up to A$2.50/wmt rebate for the life of the mine for third party customers' product transported via BBIP. The rebate will not be indexed to inflation; and
- following PIOP mine closure, if Flinders has selected the 'mining option' at FID, Flinders will receive A$1/wmt hauled on BBIH's infrastructure from BBIH up to the equivalent total tonnes mined at the PIOP (over the full life of mine). The amount received will be capped at the equivalent of 50 million wmt per annum. This arrangement will be contained in a separate document to the Infrastructure Services Agreement, in favour of Flinders.

PIOP Mine Co is required to provide BBIH a third ranking security (behind the project financing arrangements and any security granted to Flinders in respect of the Royalty Deed) over the PIOP assets to secure its payment and other obligations under the Infrastructure Services Agreement. Approval for the provision of such security is being sought now as part of the Transaction.

The Infrastructure Services Agreement will remain in place for the life of the PIOP Project unless terminated earlier.

8.6 Marketing and Sales Agency Agreement

Under the Marketing and Sales Agency Agreement, PIOP Mine Co will appoint BBIH as the exclusive marketing agent to provide services in relation to the marketing and sale of PIOP Mine Co's ore, including:

- preparing and executing a marketing programme;
- product testing;
- sourcing customers;
- undertaking customer visits;
- administrating sales and sales contracts;
- procuring shipping and freight;
- reporting on sales and market data; and
- performing all other tasks a competent and experienced sales and marketing agent would provide.

PIOP MineCo will pay BBIH a marketing fee to cover BBIH's internal sales and administration costs in relation to the marketing services on a cost-plus a 10% margin basis. The Marketing and Sales Agency Agreement provides for certain marketing services to be provided prior to FID but otherwise it becomes effective upon FID occurring. The agreement will also address the following:

- BBIH and PIOP Mine Co acknowledge and agree that some or all of the marketing services may be undertaken by subsidiaries or related bodies corporate of BBIH, and that BBIH will be required to engage agents and third parties in performing the marketing services;
- BBIH will be required to prepare a marketing programme on an annual basis;
- proceeds of sale will be paid into an Australian bank account administered by BBIH;
- BBIH will deduct from the proceeds of sales:
  - the marketing fee; and
  - reasonable third party costs such as for shipping and freight, product testing, customs, credit insurance, and other similar items;
- BBIH must maintain procedures and records to ensure that the amount of the marketing fee and costs described above can be accurately calculated. PIOP Mine Co will be entitled to an audit once a year of these records; and
- subject to the order of the payment priorities as noted above, BBIH must distribute all of the proceeds of sales contract to PIOP Mine Co or BBIH as manager under the Management Agreement, after deducting the amounts described above.

9 Value Analysis

9.1 Introduction

Assessment as to whether the Transaction is fair requires a comparison of the interests to be transferred by Flinders to BBIG with the value of the consideration to be received by Flinders.

Determination of precisely what it is that Flinders is transferring to BBIG is not straightforward. Pursuant to the Transaction, Flinders is not transferring any direct economic interest in the PIOP to BBIG. Rather, in the first instance at least, Flinders will be granting to BBIG:

- a shareholding in PIOP Mine Co that will confer a 10% voting interest in the company but no economic interest in the PIOP. This shareholding will effectively lapse unless BBIG subsequently elects to proceed with development of the PIOP;
- the right to convert this 10% voting interest to a full economic interest, and to acquire (or have the Equity Funding Party acquire) a further 50% full (economic and voting) interest in the PIOP. This right needs to be exercised within four years (or in certain circumstances may be extended by a year), failing which 100% ownership of the PIOP will revert to Flinders; and
- the right to offer security over the PIOP to support the debt financing of the PIOP and the BBIP infrastructure development.

If BBIG elects to proceed with the project development, Flinders will have the right to convert its 40% equity interest into a revenue-based royalty ("Flinders Put Option").

If the Equity Funding Party were to acquire the further 50% interest in the PIOP, BBIG would be free carried for its 10% interest (and Flinders would be free carried for its 40% interest). If BBIG were to acquire the further 50% interest directly, it would be obliged to free carry Flinders in respect of its 40% share of the equity component of project development costs, up to the point of project commissioning.

Essentially, therefore, Flinders is granting to BBIG a call option in favour of BBIG ("BBIG Call Option"), exercisable not later than in five years' time. This call option is either:

- an option to acquire a 10% free carried interest in the PIOP, exercisable at no cost; or
- an option to acquire a 60% interest in the PIOP, at an exercise price equal to 40% of the equity component of project development costs (i.e. the costs associated with free carrying Flinders in respect of its 40% interest).

Flinders understands that the current expectation is that if the BBIG Call Option is exercised it will be on the basis that the Equity Funding Party acquires a 50% interest and free carries BBIG and Flinders for their 10% and 40% project interests. However, there are no binding commitments from the Equity Funding Party and it would be open for BBIG and the Equity Funding Party to negotiate alternative arrangements as between themselves. Regardless, the rights of Flinders to be free carried for its 40% interest would not be affected.

Accordingly, assessment as to whether the Transaction is fair requires a comparison of the value of the BBIG Call Option[16] with the value of the consideration to be received by Flinders for the grant of the option.

The Transaction does not result in the immediate transfer of any direct economic interest in the PIOP and so estimates of the current value (or even estimates of the possible future value) of the PIOP are not relevant to an assessment as to whether the Transaction is fair.

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[16] For the sake of simplicity, this analysis ignores the value to Flinders of the Flinders Put Option and the value to BBIG of its right to grant security over the PIOP to support the debt financing of the PIOP and the BBIP infrastructure project.

9.2 Overview

The BBIG Call Option is valuable because it gives BBIG the right (but not the obligation) to acquire a 10% free carried interest in the PIOP (on the assumption that the Equity Funding Party acquires a 50% interest in the PIOP in exchange for free carrying both Flinders and BBIG). BBIG will exercise that option if it is economically advantageous at the time that the option is to be exercised (upon completion of the feasibility study in four years' time, or in some circumstances in up to five years' time).

The option is valuable because there is uncertainty regarding the value of the PIOP at the time that the option is to be exercised. The value of the PIOP at the time the option is to be exercised will depend on numerous factors, including:

- expectations for long term iron ore prices at the time the option is to be exercised (i.e. current expectations for long term iron ore prices are not directly relevant);
- the mining inventory that has been proven up at the time that the option is to be exercised, and the resulting expected life of mine for the PIOP;
- expected capital and operating costs for the PIOP, as projected based on the feasibility study to be funded by BBIG over the next four years;
- expected capital and operating costs for the BBIP infrastructure project, to be further defined through studies over the next four years. These costs are directly relevant, because they are to be recovered through infrastructure utilisation charges to be paid by the PIOP;
- the availability of an Equity Funding Party to free carry both Flinders and BBIG in relation to the equity component of the project development costs, up to the point of commissioning; and
- the costs and quantum of debt funding available for the combined iron ore/infrastructure project at that time.

Analysis of the circumstances in which the BBIG Call Option will be exercised is not straightforward. BBIG will essentially have two options:

- to acquire a free carried 10% interest, but on the basis that it has procured the Equity Funding Party to acquire a 50% interest in exchange for free carrying both BBIG (10%) and Flinders (for the residual 40%); and
- to acquire a 60% interest, in exchange for free carrying Flinders in relation to its 40% interest.

The relative attractiveness to BBIG of a 10% free carried interest versus a 60% interest with a corresponding obligation to free carry Flinders for its 40% interest will depend on a number of factors, including:

- the overall attractiveness of the PIOP project economics, which in turn will depend on iron ore price expectations at the time, ultimate mining inventory, capital and operating costs for both the PIOP and the BBIP, etc; and
- the quantum of funding required for the equity free carry, which in turn will depend on total pre-commissioning costs, the state of equity and debt markets at the time, the quantum of debt funding available, etc.

In general, however, except for very high iron ore prices and overall compelling project economics for the PIOP, the free carried 10% interest will be more valuable for BBIG than a 60% interest with which was associated the obligation to free carry Flinders for its 40% interest. Of course, the 10% free carried interest option will only be available if there is an Equity Funding Party prepared to free carry both BBIG and Flinders. Flinders expects that an Equity Funding Party may be prepared to accept these free carry obligations, even if they render an investment in a 50% interest in the PIOP marginal or unattractive on a standalone basis, because the Equity Funding Party will have an opportunity to generate attractive returns through investment in the BBIP infrastructure. In addition, the Equity Funding Party will potentially generate additional value through its relationship with the integrated PIOP/BBIP, including through iron ore offtake arrangements, the provision of engineering and related services, and the provision or arranging of debt finance. (BBIG, whether it were the Equity Funding Party or not, would not provide project finance).

In any event, Flinders understands that BBIG's expectation is that it would be more likely to participate in the PIOP on the basis that it is free carried by an Equity Funding Party: in other words, that it ends up with a 10% free carried interest rather than a 60% project interest and the associated free carry obligations.

Overall, the value outcomes for the option arrangements will be asymmetric: for low expected iron ore prices (or more generally, for circumstances in which project economics are unacceptable) the value outcome for BBIG will be zero[17], because it will be impossible to secure an Equity Funding Party and/or the economics will not be attractive for BBIG, and BBIG will allow the option to lapse. For higher expected iron ore prices (or more generally, for more favourable project economics), always on the assumption that an Equity Funding Party is available, the value outcome will be progressively more positive. BBIG effectively participates in the value upside potentially associated with the PIOP, but none of the value downside.

While the arrangements under the Transaction clearly deliver a valuable option to BBIG, valuation of the option is problematic. In particular:

- the value of the option at the time of exercise will depend on iron ore price expectations at the time. As of today, the value of the option will depend on the distribution of future iron price expectations, four/five years into the future. There is no market based data set from which to estimate this distribution (although historical iron ore prices are arguably helpful);
- the value of the option will also depend on technical factors such as the ultimate mining inventory and therefore mine life for the PIOP, and the capital and operating costs for both the PIOP and BBIP. Current estimates of these factors will be subject to revision as the PIOP feasibility study is completed and further studies allow more precise cost estimates for the BBIP infrastructure project; and
- (on the assumption that BBIG is not prepared to assume the full free carry obligation) the option will only have value if BBIG is able to procure an Equity Funding Party that is prepared to free carry BBIG and Flinders. The availability of an Equity Funding Party will depend on the project economics for that party, which in turn will depend on the factors set out above, but also:
  - the quantum of the equity funding free carry obligation. This quantum will depend on factors including:
    - the absolute quantum of the pre-commissioning costs (largely pre-commissioning capital expenditures), which are not yet known and will only be more accurately determined through the feasibility study; and
    - the proportion of capital costs that will be required to be equity funded, which in turn will depend on factors such as the perceived project economics, the state of debt markets at the time and the capital/funding structure for the PIOP that will be able to be put in place;
  - the ability of the Equity Funding Party to generate strong returns from investing in the BBIP infrastructure (effectively cross-subsidising its investment in the PIOP) and to derive further benefits through iron ore off-take arrangements, etc.

Accordingly, valuation of the option to be granted to BBIG/Todd is subject to considerable uncertainty. As set out below, Grant Samuel has adopted a simplified scenario analysis to help to assess the value of the option. The scenario analysis is based on net present value ("NPV") estimates for various iron ore pricing and project life outcomes. The NPV analysis produces apparently precise value estimates, but it should be recognised that this

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[17] BBIG will have incurred the costs of the feasibility study. At that time, those costs will be "sunk costs" and so not relevant to BBIG's assessment of the value of the option.

precision is spurious. Given the uncertainties inherent in the analysis, the valuation range should be viewed as no more than indicative.

9.3 Value of Consideration

The consideration payable by BBIG/Todd in relation to the Transaction is the series of four annual payments to fund the Feasibility Study, each to be of no less than $15 million (“Consideration”). If the payments made in any one year total less than $15 million, BBIG is required to make a top up payment directly to Finders to increase the total amount paid for that year to $15 million. It is also possible that in certain years the amounts required (and paid by BBIG) to fund the Feasibility Study may be more than $15 million, but there can be no certainty in this regard.

For the purpose of valuing the Consideration, Grant Samuel has discounted the series of four $15 million annual payments to a present value, at discount rates in the range 4-5% that reflect the credit risk associated with Todd Corporation/BBIG. This yields a present value in the approximate range $50-52 million.

9.4 Option Analysis

Grant Samuel’s indicative valuation of the BBIG Call Option is based on a scenario analysis that estimates the possible range of values of the PIOP at the time the option is to be exercised, four to five years into the future. This analysis does not attempt to estimate a present value for the PIOP, nor is it an estimation of the future value of the PIOP. Rather, it is an indicative illustration of the range of values that can be estimated using credible assumptions, which in turn provides insight into the value to be attributed to an option to proceed with development of the PIOP in four to five years’ time.

The scenario analysis is based upon a development model for the PIOP prepared by BBIG and adopted by Flinders for its internal purposes (“Development Model”). Grant Samuel has calculated NPVs of the projected future cash flows for the PIOP (as at the time that the option is to be exercised) for three different iron ore price scenarios.

The technical parameters upon which the Development Model is based (in terms of capital and operating costs, production rates, mining inventory and mine life, etc) were reviewed by SRK Consulting Australasia Pty Ltd, an independent technical consulting firm appointed by Grant Samuel to review the PIOP and provide technical advice as required. SRK has compared these parameters with the results of subsequent analysis prepared by consultants on behalf of Flinders, which explores various high level optimisation scenarios. An optimisation case identified by SRK as its “preferred upside case” is broadly comparable to the Development Model, in that it assumes the mining of approximately 7% more material, at lower stripping ratios, and the processing of approximately 15% more ore, to produce 3% less final product than assumed in the Development Model. SRK has amended the Development Model to reflect the mining, processing and production volumes yielded by its “preferred upside case” optimisation scenario, while retaining the capital and operating cost assumptions in the Development Model.

The major technical assumptions underpinning the analysis are summarised below.

PIOP: PROJECT DEVELOPMENT ASSUMPTIONS[18]

	Years 1- 3	Year 4	Year 5	Remaining LOM	Life of Mine
Ore mined and treated (Mwmt)	-	12	78	1,202	1,291
Waste mined (Mwmt)	-	11	65	737	814
Production (Mwmt)	-	5	33	637	674
Grade Fe (%)	-	60.7%	60.7%	59.9%	60.0%
Capital costs (A$M)	2,335	771	-	-	3,106

[18] All volumes are expressed in millions of wet metric tonnes. All costs are expressed in real terms, in A$ millions

Mining costs (A$M)	-	80	508	6,992	7,581
Processing costs (A$M)	-	38	244	3,878	4,160
Blending and mine infra (A$M)	-	5	28	424	457
Shipping costs (A$M)	-	46	314	6,157	6,518
Infrastructure charge (A$M)	-	151	922	14,347	15,421

The following table shows estimated NPVs for a 10% free carried interest in the PIOP for each of the three iron ore price scenarios:

PIOP: INDICATIVE FUTURE VALUE ANALYSIS ($ MILLIONS)

Long term iron ore price (real terms)	US$55/t	US$65/t	US$75/t
NPV of 10% free carried interest	30-40	123-150	217-261
Option value at time of exercise	0[19]	123-150[20]	217-261
Option value – discounted to present value	-	119-145	209-252

The NPV's have been estimated on the basis of the following major assumptions:

- three iron ore price scenarios: a Low Price scenario, assuming a long run real terms iron ore price of US$55/tonne (for a benchmark 62% Fe grade), a Medium Price scenario, assuming a long run real terms iron ore price of US$65/tonne, and a High Price scenario, assuming a long run real terms iron ore price of US$75/tonne;
- total pre-commissioning costs (as per the current project development plan) of $3,292 million, principally comprising capital costs of $3,106 million;
- debt financing of 60% of total pre-commissioning costs, leaving $1,317 million to be equity funded. Flinders' 40% share of the amount required to be equity funded would therefore be approximately $527 million;
- mine life production of 16 years; and
- an equity discount rate in the range of 10-12%. The discount rate is a real discount rate, applied to projected real terms cash flow returns to equity holders. Estimation of an appropriate discount rate is not straightforward, in part because the historically low interest rates currently prevailing mean that discount rates/costs of equity estimated using the traditional capital asset pricing model are materially lower than the hurdle rates that appear to be applied by corporates and other market participants. Grant Samuel has considered evidence as to betas and capital structures of major listed iron ore producing companies, and broker views as to the costs of capital for those companies. In Grant Samuel's view, the evidence suggests that an appropriate weighted average cost of capital for mature iron ore producing companies could be of the order of 8-9%. In turn, this would imply a (nominal) cost of equity for mature iron ore producing companies of around 11%. Grant Samuel's selection of a real equity discount rate for the PIOP of 10-12% takes into account:
  - the assumed financing structure for the PIOP (debt finance of 60% of total pre-commissioning costs) represents significantly higher gearing than for the major listed iron ore producers;
  - at the time that the option is to be exercised, a full feasibility study will have been completed for the PIOP and financing will have been arranged. Accordingly, there will be considerably less risk associated with the PIOP than currently applies. The PIOP (and the BBIP infrastructure project, although the direct impact will be less significant) will remain subject to construction and

[19] Assumes that the Equity Funding Party will not free carry BBIG and Flinders and that the option will lapse
[20] Assumes that the Equity Funding Party elects to free carry BBIG and Flinders, notwithstanding the unattractive returns from the PIOP investment in isolation, on the basis of overall returns from the integrated PIOP/BBIP

commissioning risks. However, because BBIG and Flinders will be free carried, their exposure to construction and commissioning risks will be minimised;

- the need to adjust nominal cost of equity by expected inflation to estimate a real terms cost of equity. Recent Australian inflation rates have been around 1.6%, but the Reserve Bank of Australia is targeting inflation rates of 2-3%.

This analysis is simplistic. It is based on three discrete price scenarios, whereas in reality the probability distribution of future iron ore price expectations would be a continuous range of prices, with probabilities clustered around some central price estimate. While it is prima facie to be expected that mid-range iron ore price outcomes (reflecting current market consensus) are more likely than very high or very low outcomes, probability weighting of these is not straightforward. Grant Samuel has selected as its Medium Price Scenario a long run real price (US$65/tonne) that is consistent with current long term price expectations, but future price expectations will not necessarily be consistent with current long term price expectations.

Moreover, variability in the future value of the PIOP will not depend only on variability in future iron ore prices and price expectations. Grant Samuel has not attempted to model variations in capital and operating costs, but it must be recognised that projections of these costs may change as the Feasibility Study is completed and further studies on the BBIP infrastructure project are completed. SRK has indicated that variations (both positive and negative) of up to 20% would not be unreasonable.

In particular, variability in the future value of the PIOP may result from changes in the ultimate mine life for the project. The modelling for the PIOP is based on a mining inventory of 1.2 billion tonnes (dry) of ore that includes inferred mineral resources of approximately 242 million tonnes (dry). There can be no guarantee that all of this inferred material will ultimately be proven to be economically extractable. (On the other hand, it is also the case that the mining tenements have exploration upside and that it may be possible ultimately to delineate additional mineralised material that is not currently in resources but will nonetheless form part of the mining inventory). SRK has advised that there is a risk that the ultimate mining inventory might fall in a range below that currently assumed in the Development Model, with a notional “downside” case in which none of the inferred resources currently assumed to be mined converts to reserves, and a “mid-case” in which only 50% of the inferred resource converts to reserves.

Modelling of these downside cases is not practical, in the absence of detailed studies to provide reliable information on whether it would be possible to develop “capital light” versions of both the PIOP and the BBIP infrastructure project. In particular, the challenge for a shorter life project would be to recover the fixed costs associated with the BBIP infrastructure project. In Grant Samuel’s view, given the fixed cost elements of both the PIOP and the BBIP, the SRK “downside” case would almost certainly render the combined PIOP/BBIP project financially unviable, even for aggressive but not implausibly high iron ore price assumptions. Judgements regarding the impact of the SRK “mid-case” are less straightforward. Grant Samuel’s analysis suggests that the “mid-case” production scenario would likely generate unacceptable economics for the Equity Funding Party, even for a medium long term iron ore price scenario in the range US$60-70/tonne. At higher long term prices the economics of the “mid-case” production scenario for the Equity Funding Party will likely be marginal, with the Equity Funding Party’s ability to compensate for modest PIOP returns through strong BBIP returns compromised by the shorter project life.

Grant Samuel has modelled the interactive impact on NPV of iron ore pricing and variable life of mine production by considering a range of scenarios, an example of which is set out below:

EXAMPLE SCENARIO ANALYSIS

		SCENARIO PROBABILITY	SCENARIO NPV[21] ($M)	WEIGHTED VALUE (SM)
High Price Scenario - 20%				
Upside production	60%	12%	209	25
Medium production	20%	4%	NIL	0
Low production	20%	4%	NIL	0
Medium Price Scenario - 60%				
Upside production	60%	36%	119	43
Medium production	20%	12%	NIL	0
Low production	20%	12%	NIL	0
Low Price Scenario - 20%				
Upside production	60%	12%	NIL	0
Medium production	20%	4%	NIL	0
Low production	20%	4%	NIL	0
		100%		**68**

Source: Grant Samuel analysis

The table illustrates a scenario analysis based on the following probability distributions:

- iron ore pricing: High Price scenario - 20% probability; Medium Price scenario – 60%; Low Price scenario – 20%; and
- life of mine production; Upside production – 60% probability, Medium production 20% probability, Low production – 20% probability

The probabilities of each of the nine individual scenarios are the products of the relevant price and production scenarios, and total 100%. Grant Samuel has assumed that even for high iron ore prices, the medium production scenario renders the combined PIOP and BBIP uneconomic and that the option would be allowed to lapse. Even if this was not true, the relatively low probability combined with the value impact of lower production and shorter mine life would result in only modest incremental value.

The table shows that all the value of the PIOP Call Option is attributable to medium and high price scenarios, most probably only in the context of production volume scenarios consistent with the current Development Plan (which SRK has characterised as an upside case). Based on the probabilities assumed above, the PIOP Call Option would have an expected value of $68 million.

A variety of plausible probability distributions for iron ore pricing and life of mine production could be posited. Grant Samuel has assumed a range of distributions as follows:

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21 NPV values are estimated using a 12% discount rate

- iron ore pricing: probabilities distributed symmetrically around the Medium Price scenario, with probabilities for the Medium Price scenario in the range 50-80% and in each case the residual probabilities distributed equally across the High Price scenario and the Low Price scenario. (For example, for a Medium Price scenario with probability of 50%, each of the High Price and Low Price scenarios is assumed to have a probability of 25%); and
- life of mine production: Upside production scenarios with probabilities of 40 – 80%, with in each case the residual probabilities distributed equally across the Medium production and Low production scenarios. (For example, for an Upside production scenario of 60%, each of the Medium production and Low production scenarios is assumed to have a probability of 20%.

The following table summarises the calculated NPVs for these probability assumptions:

EXPECTED NPV ANALYSIS[22] ($ MILLIONS)

		PROBABILITY OF MEDIUM PRICE SCENARIO			
		50%	**60%**	**70%**	**80%**
PROBABILITY OF UPSIDE PRODUCTION SCENARIO	40%	45	45	46	47
	50%	56	57	57	58
	60%	67	68	69	70
	70%	78	79	80	81
	80%	90	91	92	93

The analysis shows a range of NPV outcomes from $45 – 93 million, with expected NPV particularly sensitive to assumptions regarding the probability of strong life of mine production outcomes.

Grant Samuel has also considered the impact on the value of the 10% free carried interest of changes in the funding/capital structure for the PIOP. Grant Samuel's analysis assumes that 60% of pre-commissioning costs are debt funded, which broadly reflects the maximum debt that would be expected to be employed in a conventional financing of a project development of this nature. Flinders understands that BBIG and its potential partners (the parties that make up the Equity Funding Party) are contemplating a structure that employs both additional debt (75%) and preference equity (10%), reducing the equity funded component of pre-commissioning costs to 15%. Such a structure, if achievable, would have the effect of reducing the value of a free carried interest in the PIOP and increasing the value of the Equity Funding Party's 50% interest, in effect shifting value from the free carried parties to the Equity Funding Party. Grant Samuel's analysis suggests that (on an NPV basis assuming no change in discount rates), the value of the free carried interests (for both BBIG and Flinders) would be reduced by of the order of 20%. The significant increase in gearing and heightened financial risk suggests that an increase in discount rates would be warranted, which would result in a further reduction in the estimated value of the free carried interests. On the other hand, the value transfer to the Free Carry Party would improve its economics in what might otherwise be marginal circumstances and could therefore improve the probability of the Free Carry Party electing to proceed with funding of the project equity.

Valuation of the BBIG Call Option theoretically requires the estimation of a comprehensive probability distribution for all the possible future outcomes for the economics of the PIOP, incorporating the impact of possible future iron ore prices, project technical factors (mine life, annual production rates, capital and operating costs, etc), external economic factors and other factors bearing on project economics. Grant Samuel is not aware of any reliable approach to the estimation of such a probability distribution. At best, the assumptions required are likely to introduce a spurious degree of precision to any estimate of value.

22 NPVs are calculated at a discount rate of 12%. NPVs calculated at a discount rate of 10% would be approximately 20% higher.

Having regard to the expected NPV analysis set out above, the impact on expected NPVs of more aggressive funding structures for the PIOP, and discount rate sensitivities, Grant Samuel has adopted an indicative range of values for the BBIG Call Option of $40-80 million. While acknowledging that the scenario analysis is simplistic and recognising that the conclusions as to value are subject to considerable uncertainty, in Grant Samuel's view the valuation range is useful in the context of an assessment of the fairness of the Transaction, particularly having regard to the broader benefits of the Transaction.

The value of the BBIG Call Option will be offset to some extent by the value of the Flinders option to swap its 40% project interest for a 2.5% revenue royalty ("Flinders Put Option"). As opposed to the BBIG Call Option, the Flinders Put Option will generally be most valuable for more moderate iron ore prices or expectations of more marginal project economics. For higher iron ore prices and strongly favourable project economics the value of the Flinders Put Option will reduce. For lower iron ore prices (such that BBIG elects not to proceed with development of the PIOP), the Flinders Put Option does not apply and has no value. The extent of this offset is uncertain but is unlikely to be material. In particular, the offset will be effectively irrelevant for stronger commodity prices and project economics, which are the circumstances that generate most of the value in the BBIG Call Option.

Nonetheless, if BBIG chooses to proceed with project development, Flinders may choose to exercise the Flinders Put Option and swap its project interest for a revenue royalty. This would particularly be the case if at the time the project economics were marginal, due to the iron ore pricing outlook or for other reasons, or if (for example) Flinders preferred not to be exposed to cost uncertainty in relation to the BBIP infrastructure project.

10 Evaluation of the Transaction

10.1 Summary

Grant Samuel has concluded that the Transaction is fair and reasonable. The conclusion as to "fairness" is based on a theoretical assessment of the value of the option to be granted to BBIG as part of the Transaction. However, regardless of any view as to the value of the option, Grant Samuel believes that there are compelling reasons for Flinders to proceed with the Transaction. In particular:

- Flinders is financially constrained and unable to progress development of the PIOP without the support of its major shareholder, TIO/Todd Corporation;
- the Transaction is expected to result in the completion of a feasibility study for the PIOP at an estimated cost of around $60 million[23], to be funded by BBIG/Todd Corporation;
- if BBIG elects to proceed with development of the PIOP, Flinders will hold a 40% free carried interest in the project; and
- if BBIG elects not to proceed with development of the PIOP, full ownership of the PIOP (including the benefit of the feasibility study work completed) will revert to Flinders.

Flinders shareholders are likely to be better off if the Transaction is approved than if it is not. Accordingly, Grant Samuel has concluded that the Transaction is both fair and reasonable.

10.2 Fairness

Assessment of fairness requires a comparison of the value of the interests to be divested by Flinders as part of the Transaction with the value of the Consideration to be received.

The Transaction essentially involves the granting by Flinders to BBIG/Todd Corporation of an option to acquire a 10% free carried interest in the PIOP (assuming the introduction of an Equity Funding Party to hold a 50% interest and free carry BBIG and Flinders), or to acquire a 60% interest in the PIOP in exchange for free carrying Flinders in respect of its equity contribution for the remaining 40% of the project. The interests to be divested by Flinders consist of this option. Accordingly, the assessment of fairness requires a comparison of the value of the BBIG Call Option with the value of the Consideration.

Grant Samuel has valued the Consideration (four annual payments of at least $15 million each to fund the feasibility study) in the range $50-52 million, by discounting the payments to a present value.

Valuation of the BBIG Call Option is problematic, given the significant uncertainties relating to numerous factors that will bear on the value of the option. As set out in Section 9 (Valuation Analysis), Grant Samuel has adopted an indicative valuation range for the BBIG Call Option of $40-80 million.

The value of the Consideration falls within the range of values estimated for the BBIG Call Option. Accordingly, Grant Samuel has concluded that the Transaction is fair.

10.3 Reasonableness

Valuation of the BBIG Call Option is subject to fundamental uncertainty and should be viewed as no more than indicative. However, estimates of the value of the option (and conclusions regarding fairness) are arguably of limited relevance for Flinders shareholders. In Grant Samuel's view, even if a different approach or set of assumptions suggested that the Transaction was not theoretically "fair", there would be compelling reasons for Flinders to enter into the Transaction. In short, the Transaction provides a meaningful opportunity for Flinders

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[23] It should be noted that BBIG has the right to withdraw from the arrangements at any point in time and so there can be no absolute assurance that the feasibility study will be completed. While Flinders has estimated that the feasibility study could cost $40-50 million, it expects that additional work to be undertaken by BBIG/Todd Corporation will increase total costs to at least $60 million.

shareholders to participate in a valuable development of the PIOP, while the alternative risks significant value destruction.

Assessment of whether the Transaction is reasonable requires an evaluation of factors unrelated to value that are relevant to a shareholder decision, including:

- Flinders' current financial position;
- the 55.6% shareholding held by TIO/Todd Corporation in Flinders;
- the position of Todd Corporation/BBIG as holder of the development rights for the BBIP infrastructure project;
- alternatives that are or credibly may be available to Flinders;
- the potential consequences if shareholders were to vote against the Transaction; and
- other advantages and disadvantages of the Transaction.

The choice for Flinders shareholders is whether to vote in favour of the Transaction or to vote against the Transaction and accept the uncertain consequences of that vote:

- there would be a risk that a failure to secure a development agreement for the PIOP could result in a lapsing of the BBIG State Rail Agreement for the BBIP infrastructure project. The result would be that the PIOP would become a stranded asset. Much or all of the "development option" value that is currently reflected in the Flinders share price could be expected to evaporate and the value of both the PIOP and Flinders could be expected to fall materially;
- in the absence of Todd Corporation support, there is no reason to believe that Flinders would be able to raise the sums required to fund a feasibility study (perhaps costing of the order of $40-50 million). There is no evidence that the current shareholders (other than Todd Corporation) would have the capacity to provide equity of this quantum. Third party investors are unlikely to provide any material additional equity to Flinders given the position of Todd Corporation on the register and the reliance of the PIOP on the Todd Corporation controlled BBIP infrastructure development. In this context, even if future commodity price conditions were supportive of project development, Flinders would not be able to proceed, given the absence of a feasibility study; and
- given Flinders' modest cash reserves, absence of any ongoing sources of income and limited capacity to raise fresh equity, it is likely (at a minimum) that the PIOP would need to be put on care and maintenance.

Overall, the consequences of an outcome that reduced the probability of medium term development of the PIOP are not clear. Almost certainly, however, there would be a material reduction in the value of the PIOP and a material fall in the Flinders share price.

Accordingly, there would be no basis for shareholders to vote against the Transaction unless they believed that there would be a realistic prospect of negotiating a clearly better arrangement with Todd Corporation, or concluding a superior transaction with some third party. Given the 55.6% shareholding in Flinders of TIO/Todd Corporation, there is no reason to believe that there is any meaningful prospect of a superior third party transaction.

Nor is there any reason to expect that Flinders could negotiate a clearly improved set of arrangements with Todd Corporation. The terms of the Transaction are the result of extensive negotiations between Flinders and BBIG/Todd Corporation over many months. In any renewed negotiations that might hypothetically follow a Flinders shareholder vote against the Transaction, Flinders would be negotiating with Todd Corporation from a position of considerable weakness.

If the Transaction was not approved, Flinders would be under significant financial pressure and would need to quickly raise additional equity. While Todd Corporation has committed to underwrite a rights issue to (effectively) raise the funds required to repay the $5 million facility, there would be a real risk that any equity raising would need to be at share prices well below the current share price.

Overall, the prospects of Flinders negotiating a materially better transaction with Todd Corporation appear remote.

On the other hand, the Transaction provides Flinders shareholders with a genuine opportunity to realise significant value through exposure to the PIOP. In particular:

- the arrangements will result in the completion of a detailed feasibility study for the PIOP (without any direct cost to Flinders), which will allow for a development decision for the project over the next four to five years;
- if the iron ore price environment and ultimate project economics are supportive of project development and Todd Corporation elects to proceed with development of the PIOP (and, on an integrated basis, the BBIP), Flinders will be free carried through to commissioning in respect of its 40% interest in the project. The Equity Funding Party (or possibly Todd Corporation) will fund Flinders' share of the equity capital requirement and will arrange the debt financing for the PIOP, as well as procure the equity and debt funding for the BBIP; and
- Flinders at that time will be entitled to swap its 40% interest for a revenue royalty on the PIOP, which would substantially reduce its exposure to adverse shifts in the economics of the PIOP.

Grant Samuel's indicative financial analysis suggests that, if Todd Corporation/BBIG elects to proceed with development of the PIOP, and given current long term iron ore price expectations and the current preliminary forecasts of capital and operating costs for the PIOP and BBIP, both a 40% interest in the PIOP and a royalty interest over the project could be substantially more valuable than Flinders' current market capitalisation. Grant Samuel's indicative financial analysis suggests a potential NPV for a 40% free carried interest in the PIOP (assuming a long term iron ore price of US$65/tonne and the other assumptions set out in Section 9) of approximately $476-580 million. However, it should be recognised that these NPVs are indicative only and should be viewed essentially as "order of magnitude" estimates. The calculated NPVs would be reduced if a more aggressive funding structure as contemplated by BBIG was adopted. The actual value of Flinders' free carried interest would depend on a range of factors at the time that the PIOP was development ready, including iron ore pricing, project life, capital and operating costs for the PIOP and BBIP, and the state of equity and debt capital markets, and there can be no assurance that the project development will proceed.

If, ultimately, Todd Corporation were to decide not to proceed with the development of the PIOP (for example, because of a depressed iron ore price outlook at the time), 100% ownership of the project would revert to Flinders and Flinders would have an option to acquire the BBIP infrastructure project. Flinders would have had the benefit of the feasibility study, at a potential cost of $65 million, and the attendant increased optionality that completion of that study will deliver, although in that context the study may have added little or no value. In any event, Flinders would be unlikely to be any worse off than had it not entered into the Transaction.

The Transaction does involve disadvantages:

- Flinders' ownership interest in the PIOP will be diluted from 100% to 40%. However, the reality is that, given Flinders' modest size and lack of financial capacity, any financing of the PIOP would always require the injection of substantial third party equity and a corresponding dilution of the position of existing shareholders;
- the differing ownership interests in the PIOP and the BBIP infrastructure project create a risk of conflicts of interest and an incentive for the BBIP participants over time to seek to shift value from the PIOP to the BBIP. The Flinders Put Option provides a valuable risk mitigant in this regard;
- management of the PIOP and the overall development and operation of the integrated iron ore mining and infrastructure project will be the responsibility of BBIG. Flinders will have limited influence;

- the relationships between the parties will be governed by a complex set of contractual agreements that attempt to define their rights, responsibilities and behaviours many years into the future. There is a risk that these contractual arrangements will prove deficient or unwieldy in the face of changing circumstances in the future;
- especially for higher iron ore price expectations at the time of FID, the Transaction is likely to lead to poorer outcomes than if Flinders was free to negotiate arrangements at that time. In other words, Todd Corporation is likely to benefit disproportionately in higher iron ore price regimes. However, the reality is that without the feasibility study that is to be funded by Todd Corporation, Flinders would have no opportunity to benefit in any development at all;
- in circumstances in which the PIOP project economics are marginal (or perhaps where the overall PIOP/BBIP project economics are marginal), Flinders will be vulnerable to renegotiation of the terms of the PIOP Development Agreements in favour of BBIG/the Equity Funding Party. BBIG is not obliged to proceed with development of the PIOP. If the project economics appear marginal at the time that BBIG is required to elect whether to proceed with development of the PIOP, BBIG will be incentivised to attempt to renegotiate a revised sharing of the project value, through (for example) attempting to negotiate a reduction in BBIG's percentage interest in the project, or changing the terms of the free carry. Flinders will be entitled to insist that BBIG either proceed on the terms agreed in the Transaction or return full ownership of the project to Flinders. However, if the value of the project is not sufficient to provide adequate returns to BBIG and its partners on the basis of the current terms, Flinders may be obliged to provide concessions to ensure that project development proceeds; and
- Flinders' counter-party in the various contractual arrangements that underpin the Transaction is BBIG. Given its 94% shareholding in BBIG, there are strong reasons from a reputational perspective for Todd Corporation to ensure that BBIG meets its commitments. However, Todd Corporation is not guaranteeing the obligations of BBIG pursuant to the Transaction.

In Grant Samuel's view, these disadvantages are outweighed by the opportunity for Flinders shareholders to meaningfully participate in development of the PIOP (while recognising that there is no certainty that development of the PIOP will proceed). The Transaction taken in its entirety appears more favourable for Flinders shareholders than the uncertainty and potential value destruction that would follow if Flinders shareholders were to vote against the Transaction.

Accordingly, Grant Samuel has concluded that the Transaction is fair and reasonable having regard to the interests of shareholders other than TIO/Todd Corporation. In Grant Samuel's view Flinders shareholders are likely to be better off if the Transaction proceeds than if it does not.

10.4 Other Matters

Transaction Costs

If the Transaction proceeds, Flinders will incur total transaction costs estimated at $6.3 million, including legal and other adviser's fees as well as costs associated with the meeting at which shareholders will vote in relation to the Transaction. If the Transaction does not proceed because shareholders vote against the Transaction, costs associated with the unsuccessful proposal will be of the order of $4.6 million.

10.5 Shareholder Decision

Grant Samuel has been engaged to prepare an independent expert's report setting out whether in its opinion the Transaction is fair and reasonable to the shareholders not associated with TIO/Todd Corporation, and to state reasons for that opinion. Grant Samuel has not been engaged to provide a recommendation to shareholders in relation to the Transaction, the responsibility for which lies with the directors of Flinders.

In any event, the decision whether to vote for or against the Transaction is a matter for individual shareholders based on each shareholder's views as to value and business strategy, their expectations about future economic and market conditions and their particular circumstances including risk profile, liquidity preference, investment strategy, portfolio structure and tax position. If in any doubt as to the action they should take in relation to the Transaction, shareholders should consult their own professional adviser.

Similarly, it is a matter for individual shareholders as to whether to buy, hold or sell shares in Flinders. This is an investment decision upon which Grant Samuel does not offer an opinion and independent of a decision on whether to vote for or against the Transaction. Shareholders should consult their own professional adviser in this regard.

11 Qualifications, Declarations and Consents

11.1 Qualifications

The Grant Samuel group of companies provide corporate advisory services in relation to mergers and acquisitions, capital raisings, debt raisings, corporate restructurings and financial matters generally. The primary activity of Grant Samuel & Associates Pty Limited is the preparation of corporate and business valuations and the provision of independent expert's reports in connection with mergers and acquisitions, takeovers and capital reconstructions. Since its inception in 1988, Grant Samuel and its related companies have prepared more than 560 public independent expert and appraisal reports.

The persons responsible for preparing this report on behalf of Grant Samuel are Stephen Cooper BCom (Hons) ACA and Craig Chipperfield BEng LLB. Each has a significant number of years of experience in relevant corporate advisory matters. David Szeleczky BCom (Hons) LLB (Hons) and Pei Wun Han CFA, BCom (Hons) assisted in the preparation of the report. Each of the above persons is a representative of Grant Samuel pursuant to its Australian Financial Services Licence under Part 7.6 of the Corporations Act.

11.2 Disclaimers

It is not intended that this report should be used or relied upon for any purpose other than as an expression of Grant Samuel's opinion as to whether the Transaction is fair and reasonable to the Flinders shareholders not associated with TIO/Todd Corporation. Grant Samuel expressly disclaims any liability to any Flinders shareholder who relies or purports to rely on the report for any other purpose and to any other party who relies or purports to rely on the report for any purpose whatsoever.

Grant Samuel has had no involvement in the preparation of the Notice of Meeting issued by Flinders and has not verified or approved any of the contents of the Notice of Meeting. Grant Samuel does not accept any responsibility for the contents of the Notice of Meeting (except for this report).

11.3 Independence

Grant Samuel and its related entities do not have at the date of this report, and have not had within the previous two years, any business or professional relationship with Flinders or Todd Corporation or any financial or other interest that could reasonably be regarded as capable of affecting its ability to provide an unbiased opinion in relation to the Transaction.

Grant Samuel commenced analysis for the purposes of this report in the months prior to the announcement of the Transaction, but following the announcement on 2 September 2019 of the non-binding Terms Sheet between Flinders and BBIG. This work did not involve Grant Samuel participating in setting the terms of, or any negotiations leading to, the Transaction.

Grant Samuel had no part in the formulation of the Transaction. Its only role has been the preparation of this report.

Grant Samuel will receive a fixed fee of $375,000 for the preparation of this report. This fee is not contingent on the conclusions reached or the outcome of the Transaction. Grant Samuel's out of pocket expenses in relation to the preparation of the report will be reimbursed. Grant Samuel will receive no other benefit for the preparation of this report.

Grant Samuel considers itself to be independent in terms of Regulatory Guide 112 issued by the ASIC on 30 March 2011.

11.4 Declarations

Flinders has agreed that it will indemnify Grant Samuel and its employees and officers in respect of any liability suffered or incurred as a result of or in connection with the preparation of the report. This indemnity will not apply in respect of the proportion of any liability found by a court to be primarily caused by any conduct involving gross negligence or wilful misconduct by Grant Samuel. Flinders has also agreed to indemnify Grant Samuel and its employees and officers for time spent and reasonable legal costs and expenses incurred in relation to any inquiry or proceeding initiated by any person. Where Grant Samuel or its employees and officers are found to have been grossly negligent or engaged in wilful misconduct Grant Samuel shall bear the proportion of such costs caused by its action. Any claims by Flinders are limited to an amount equal to the fees paid to Grant Samuel.

Advance drafts of this report were provided to Flinders and its advisers. Certain changes were made to the drafting of the report as a result of the circulation of the draft report. Subject to the following, there was no alteration to the methodology, evaluation or conclusions as a result of issuing the drafts. Subsequent to the provision of a full draft of the report to Flinders and its advisers, Grant Samuel was advised that the terms of the Transaction were to be amended, with the annual payments that BBIG was to commit to paying in respect of the feasibility study to be increased from $10 million to $15 million. As a result of this amendment, Grant Samuel's opinion changed from a conclusion that the Transaction was not fair but reasonable to a conclusion that the Transaction was fair and reasonable having regard to the interests of shareholders other than TIO/Todd Corporation. Following a review by ASX of an advanced draft of this report and of the SRK report, Flinders commissioned a scoping study of the PIOP, the results of which were released to the ASX on 7 January 2020 (updated on 9 January 2020). As a result of that scoping study, SRK made certain amendments to its report. In turn, Grant Samuel made very minor amendments to its value analysis. There were no changes to Grant Samuel's valuation of the BBIG Call Option and the Consideration, nor any changes to Grant Samuel's overall conclusions.

11.5 Consents

Grant Samuel consents to the issuing of this report in the form and context in which it is to be included in the Notice of Meeting to be sent to shareholders of Flinders. Neither the whole nor any part of this report nor any reference thereto may be included in any other document without the prior written consent of Grant Samuel as to the form and context in which it appears.

11.6 Other

The accompanying letter dated 13 January 2020 and the Appendices form part of this report.

Grant Samuel has prepared a Financial Services Guide as required by the Corporations Act. The Financial Services Guide is set out at the beginning of this report.

GRANT SAMUEL & ASSOCIATES PTY LIMITED

13 January 2020

Grant Samuel & Associates

APPENDIX 1 – REPORT BY SRK CONSULTING (AUSTRALASIA) PTY LTD

Independent Specialist Report – Pilbara Iron Ore Project, Western Australia

Report Prepared for

Flinders Mines Limited and Grant Samuel & Associates Pty Ltd

Report Prepared by

SRK Consulting (Australasia) Pty Ltd

FLN001

January 2020

Independent Specialist Report – Pilbara Iron Ore Project, Western Australia

Flinders Mines Limited

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SRK Project Number: FLN001

January 2020

Compiled by

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Authors:

Karen Lloyd, Scott McEwing, Rebecca Getty, Tomasz Tomicki

Executive Summary

Flinders Mines Limited (Flinders) intends to enter into an incorporated joint venture (PIOP Mine Co) with the BBI Group Pty Ltd (BBI) in relation to the development of the Pilbara Iron Ore Project (Project or PIOP) in Western Australia (Proposed Transaction). The proposed development of the PIOP will be undertaken as part of a broader integrated iron ore project (Integrated Project) that will encompass BBI's Balla Balla Infrastructure Project (BBI Project), which is intended to provide infrastructure services to PIOP Mine Co.

Flinders has appointed Grant Samuel & Associates Pty Ltd (Grant Samuel) to provide an Independent Expert Report (IER) in order to assist the shareholders of Flinders in their deliberations with respect to the Proposed Transaction. SRK Consulting (Australasia) Pty Ltd (SRK), as Technical Specialist, has been instructed by Grant Samuel to provide an Independent Specialist Report (Report) to inform Grant Samuel's IER. SRK understands that its Report will be included as an appendix to Grant Samuels's IER.

In SRK's opinion, the Mineral Resource estimates considered in the Model have been prepared and reported to a sufficient quality standard in accordance with the JORC Code (2012) guidelines. The Mineral Resource estimates meet the *reasonable grounds* requirement.

No formal Ore Reserve has been reported and the material classified as Measured, Indicated and Inferred Mineral Resource was used to inform the pit optimisations, which were used to report a Production Target. SRK has therefore made recommendations for the modification of the physical mining assumptions for use by Grant Samuel.

The development of the new mining operation at the Project is dependent on the provision, operation and maintenance of the new processing facilities and infrastructure, as well as the selection of an appropriate process flowsheet, negotiation of favourable offtake contracts to accommodate the high alumina and high silica product streams, a suitable waste storage solution and a suitable materials handling strategy. This will allow an Ore Reserve estimate to be reported and feasibility studies to progress.

This facts and opinions presented in this this Report are current at the Effective Date of 9 January 2020.

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Disclaimer

The opinions expressed in this Report have been based on the information supplied to SRK Consulting (Australasia) Pty Ltd (SRK) by Flinders Mines Limited (Flinders) and Grant Samuel & Associates Pty Ltd (Grant Samuel). The opinions in this Report are provided in response to a specific request from Flinders and Grant Samuel to do so. SRK has exercised all due care in reviewing the supplied information. While SRK has compared key supplied data with expected values, the accuracy of the results and conclusions from the review are entirely reliant on the accuracy and completeness of the supplied data. SRK does not accept responsibility for any errors or omissions in the supplied information and does not accept any consequential liability arising from commercial decisions or actions resulting from them. Opinions presented in this Report apply to the site conditions and features as they existed at the time of SRK's investigations, and those reasonably foreseeable as at 9 January 2020.

List of Abbreviations

A$	Australian dollar
AH Act	*Aboriginal Heritage Act 1972*
Al_2O_3	alumina
BBI Project	Balla Balla Infrastructure Project
BBI	BBI Group Pty Ltd
BID	bedded iron deposit
BID	bedded iron deposit
BIF	banded iron formation
Brockman	Brockman Mining Limited
CAPEX	capital expenditure
CID	channel iron deposit
OPEX	operating expenditure
CID	channel iron deposit
CRM	certified reference materials
CSCEC	China State Construction Engineering Corporation Limited
DDH	diamond drill holes
DMIRS	Department of Mines, Industry Regulation and Safety
dmt	dry metric tonnes
DPLH	Department of Planning, Lands and Heritage
DSO	direct shipping ore
DWER	Department of Water and Environmental Regulation
EP Act	*Environmental Protection Act 1986*
EP Regulations	*Environmental Protection Regulations 1987*
EPA	Environmental Protection Authority
EPBC Act	*Environmental Protection and Biodiversity Conservation Act*
Fe	iron
Flinders	Flinders Mines Limited
GL	gigalitres
GL/a	gigaliltres per annum
Grant Samuel	Grant Samuel & Associates Pty Ltd
ha	hectares
IER	Independent Expert Report
ISR	Independent Specialist Report
JORC Code	Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves
JORC	Joint Ore Reserves Committee
kV	kilovolts
LOI	loss-on-ignition
MCP	Mine Closure Plan

MS	Ministerial Statement
Mt	million tonnes
Mtpa	million tonnes per annum
MW	megawatts
P	phosphorous
PFS	pre-feasibility study
PIOP	Pilbara Iron Ore Project
Prenti	Prenti Exploration Pty Ltd
QA/QC	Quality Assurance – Quality Control
RC	reverse circulation
RIWI Act	*Rights in Water and Irrigation Act 1914*
RL	relative level
ROM	run-of-mine
SiO_2	silica
Snowden	Snowden Mining Industry Consultants
SRK	SRK Consulting (Australasia) Pty Ltd
t	tonnes
TFS	Technical Feasibility Study
US$	United States dollar
VALMIN Code	Australasian Code for Public Reporting of Technical Assessments and Valuations of Mineral Assets
wmt	met metric tonnes
XRF	X-ray fluorescence

1 Introduction

Flinders Mines Limited (Flinders) intends to enter into an incorporated joint venture (PIOP Mine Co) with the BBI Group Pty Ltd (BBI) in relation to the development of the Pilbara Iron Ore Project (Project or PIOP) in Western Australia (Proposed Transaction). The proposed development of PIOP will be undertaken as part of a broader integrated iron ore project (Integrated Project) that will encompass BBI's Balla Balla Infrastructure Project (BBI Project), which is intended to provide infrastructure services to PIOP Mine Co.

Grant Samuel & Associates Pty Ltd (Grant Samuel) has been appointed by Flinders to provide an Independent Expert Report (IER) for inclusion in documentation relating to the Proposed Transaction to assist the shareholders of Flinders. SRK Consulting (Australasia) Pty Ltd (SRK), as Technical Specialist, has been instructed by Grant Samuel to provide an Independent Specialist Report (Report) to support its IER, and SRK understands that its Report is to be included as an appendix to Grant Samuel's IER.

This Report provides an independent assessment of the techno-economic assumptions that would likely be considered by the market as part of a potential investment or transaction process involving the Project. The Report does not comment on the 'fairness and reasonableness' of any transaction between the Flinders and any other parties.

For this technical assessment, the Project was classified in accordance with the categories outlined in the VALMIN Code (2015), these being:

- **Early Stage Exploration Projects** – Tenure holdings where mineralisation may or may not have been identified, but where Mineral Resources have not been identified.
- **Advanced Exploration Projects** – Tenure holdings where considerable exploration has been undertaken and specific targets have been identified that warrant further detailed evaluation, usually by test drilling, trenching or some other form of detailed geological sampling. A Mineral Resource estimate may or may not have been made, but sufficient work will have been undertaken on at least one prospect to provide both a good understanding of the type of mineralisation present and encouragement that further work will elevate one or more of the prospects to the Mineral Resources category.
- **Pre-Development Projects** – Tenure holdings where Mineral Resources have been identified and their extent estimated (possibly incompletely), but where a decision to proceed with development has not been made. Properties at the early assessment stage, properties for which a decision has been made not to proceed with development, properties on care and maintenance and properties held on retention titles are included in this category if Mineral Resources have been identified, even if no further work is being undertaken.
- **Development Projects** – Tenure holdings for which a decision has been made to proceed with construction or production or both, but which are not yet commissioned or operating at design levels. Economic viability of Development Projects will be proven by at least a pre-feasibility study (PFS).
- **Production Projects** – Tenure holdings – particularly mines, wellfields and processing plants that have been commissioned and are in production.

SRK considers the PIOP best represents a Pre-Development Project with associated Advanced Exploration tenure.

1.1 Reporting standard

This Report has been prepared to the standard of, and is considered by SRK to be, a Technical Assessment under the guidelines of the VALMIN Code (2015). The authors of this Report are Members or Fellows of either the Australasian Institute of Mining and Metallurgy (AusIMM) or the Australian Institute of Geoscientists (AIG) and, as such, are bound by both the VALMIN and JORC Codes. For the avoidance of doubt, this report has been prepared according to:

- 2015 edition of the Australasian Code for Public Reporting of Technical Assessments and Valuations of Mineral Assets (VALMIN Code)
- 2012 Edition of the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (JORC Code).

As per the VALMIN Code (2015), a first draft of the report was supplied to Flinders to check for material error, factual accuracy and omissions before the final report was issued.

1.2 Work program

This assignment commenced in September 2019, with a review of publicly available data and other information sourced by SRK from literature, as well as subscription databases such as S&P Global Market Intelligence database services. Technical information to two separate online data rooms (one BBI data room and one Flinders data room). Additionally, Flinders supplied SRK with a discounted cashflow model.

SRK consultants worked through the datasets, attended a site inspection and prepared its technical assessment and opinion on the reasonableness of the technical inputs to the Model for use by Grant Samuel.

1.2.1 Legal matters

SRK has not been engaged to comment on any legal matters.

SRK notes that it is not qualified to make legal representations as to the ownership and legal standing of the mineral tenements that are the subject of this valuation. SRK has not attempted to confirm the legal status of the tenements with respect to joint venture agreements, local heritage or potential environmental or land access restrictions.

1.3 Key data sources

Data and information relating to the assets as used by SRK during the preparation of this Report are referenced throughout the Report.

1.4 Effective Date

The conclusions expressed in the Report are appropriate as at 9 January 2020. The Report is only appropriate for this date and may change in time in response to variations in economic, market, legal or political factors, in addition to ongoing exploration results. All monetary values outlined in this assessment are expressed in United States dollars (US$), or Australian dollars (A$), unless otherwise stated.

1.5 Project team

This Report has been prepared by a team of consultants from SRK's offices in Australia. Details of the qualifications and experience of the consultants who have carried out the work in this Report, who have extensive experience in the mining industry and are members in good standing of appropriate professional institutions, are set out below and in Table 1-1.

Karen Lloyd, Associate Principal Consultant (Project Evaluation), BSc (Hons), MBA, FAusIMM

Karen has more than 20 years international resource industry experience gained with some of the major mining, consulting and investment houses globally. She specialises in independent reporting, mineral asset valuation, project due diligence and corporate advisory services. Karen has worked in funds management and analysis for debt, mezzanine and equity financing and provides consulting and advisory in support of project finance. She has been responsible for multi-disciplinary teams covering precious metals, base metals, industrial minerals and bulk commodities in Australia, Asia, Africa, the Americas and Europe. Karen has the appropriate relevant qualifications, experience, competence and independence to be considered a 'Specialist' and 'Competent Person' under the VALMIN (2015) and JORC (2012) Codes, respectively.

Rebecca Getty, Senior Consultant (Environment and Mine Closure), BSc (Hons), MAusIMM, MAIG

Rebecca is an environmental management professional with more than 10 years' experience in the mining industry. Her experience as an environmental advisor includes mine closure, environmental management plans, environmental approvals and due diligence. She commenced her career as an exploration geologist, responsible for supervising drill programs and preparing technical and statutory reports. She has designed, implemented and managed exploration programs for greenfields, mine definition and multi-stage projects in Australia and Canada. Rebecca's experience in technical reporting includes authoring and co-authoring of reports across scoping, pre-feasibility and feasibility study levels according to international reporting guidelines.

Rebecca has the appropriate relevant qualifications, experience, competence and independence to be considered a 'Specialist' and 'Competent Person' under the VALMIN (2015) and JORC (2012) Codes, respectively.

Jacinta Williams, Senior Consultant (Resource Geology), BSc (Hons), GradCert (Geostatistics) MAusIMM, MAIG

Jacinta has over 12 years' practical experience as a mining and resource geologist in open-cut operations in Australia and Zambia. Her experience includes management and development of geological data systems, geological modelling and statistical analysis, resource estimation and development, implementation of grade control systems, and orebody reconciliation.

Jacinta has the appropriate relevant qualifications, experience, competence and independence to be considered a 'Specialist' and 'Competent Person' under the VALMIN (2015) and JORC (2012) Codes, respectively.

Scott McEwing, Principal Consultant (Mining), BE (Mining), FAusIMM(CP)

Scott has over 20 years' mining experience in both open pit and underground mining. Scott is a mining engineer who works in due diligence, project management and with technical mine planning arenas. Scott has been SRK's project manager for the delivery of a number of large multi-discipline feasibility studies. His technical skills include mine planning, optimisation and design. Scott has practical experience in both production and planning roles in Australia and in New Zealand.

Scott is a Fellow of the Australasian Institute of Mining and Metallurgy. He has the appropriate relevant qualifications, experience, competence and independence to be considered a 'Specialist' and 'Competent Person' under the VALMIN (2015) and JORC (2012) Codes, respectively.

Tomasz Tomicki, Principal Process Engineer, MSc (Eng)

Tomasz has extensive experience in various mineral processing operations. He has proven skills in the area of flowsheet development, plant design, study management, detailed mineral characterisation, mineral beneficiation, fine grinding, operation, optimisation and commissioning of mineral processing circuits including iron ore (hematite and magnetite). He also has a sound academic background and interest in research, modelling of metallurgical processes and development projects.

Jeames McKibben, Principal Consultant (Project Evaluation), BSc(Hons), MBA, FAusIMM(CP), MAIG, MRICS

Jeames is an experienced international mining professional having operated in a variety of roles including consultant, project manager, geologist and analyst over more than 25 years. He has a strong record in mineral asset valuation, project due diligence, independent technical review and deposit evaluation. As a consultant, he specialises in mineral asset valuations and Independent Technical Reports for equity transactions and in support of project finance. Jeames has been responsible for multi-disciplinary teams covering precious metals, base metals, bulk commodities (ferrous and energy), industrial minerals and other minerals in Australia, Asia, Africa, North and South America and Europe. He has assisted numerous mineral companies, financial, accounting and legal institutions and has been actively involved in arbitration and litigation proceedings. Jeames has experience in the geological evaluation and valuation of mineral projects worldwide.

Jeames is a Fellow of the Australasian Institute of Mining and Metallurgy, a Member of the Australian Institute of Geoscientists, and a Member of the Royal Institution of Chartered Surveyors. He has the appropriate relevant qualifications, experience, competence and independence to be considered a 'Specialist' and 'Competent Person' under the VALMIN (2015) and JORC (2012) Codes, respectively.

Table 1-1: SRK project team

Specialist	Position/ Company	Responsibility	Length and type of experience	Site Inspection	Professional designation
Karen Lloyd	Associate Principal Consultant/ SRK Consulting (Australasia) Pty Ltd	Project Manager	24 years – 8 years in operations, 7 years in strategic planning, 3 years in funds management, 6 years in consulting	None	MBA, BSc (Hons), FAusIMM
Rebecca Getty	Senior Consultant/ SRK Consulting (Australasia) Pty Ltd	Environment and Permitting	11 years – 9 as an exploration geologist, 2 as environment/ mine closure due diligence specialist	16/10/2019	MEM, BSc (Hons), MAusIMM, MAIG
Jacinta Williams	Senior Consultant/ SRK Consulting (Australasia) Pty Ltd	Geology	12 years – 10 years in operations, 2 years in consulting	None	GradCert (geostatistics), BSc (Hons), MAusIMM, MAIG

Specialist	Position/ Company	Responsibility	Length and type of experience	Site Inspection	Professional designation
Scott McEwing	Principal Consultant/ SRK Consulting (Australasia) Pty Ltd	Mining	23 years – 5 years operations and 18 years consulting	None	BE(Mining), FAusIMM, CP(Min), RPEQ
Tomasz Tomicki	Associate Principal Consultant/ SRK Consulting (Australasia) Pty Ltd	Process and Non-Process Infrastructure and cost estimation	21 years as a metallurgy and materials engineer – 10 years in operations and 11 years in consulting	16/10/2019	MSc (Eng), BSc (Eng)
Jeames McKibben	Principal Consultant/ SRK Consulting (Australasia) Pty Ltd	Peer Review	25 years – 10 years in operations, 15 years in consulting	None	MBA, BSc (Hons), FAusIMM (CP), MAIG, MRICS

1.6 Limitations, reliance on information, declaration and consent

1.6.1 Limitations

SRK's opinion contained herein is based on information provided to SRK by Flinders throughout the course of SRK's investigations as described in this Report, which in turn reflects various technical and economic conditions at the time of writing. Such information as provided by Flinders was taken in good faith by SRK. SRK has not independently verified Mineral Resource estimates by means of recalculation.

This Report includes technical information, which requires subsequent calculations to derive subtotals, totals, averages and weighted averages. Such calculations may involve a degree of rounding. Where such rounding occurs, SRK does not consider them to be material.

As far as SRK has been able to ascertain, the information provided by Flinders was complete and not incorrect, misleading or irrelevant in any material aspect.

Flinders has confirmed in writing to SRK that full disclosure has been made of all material information and that, to the best of its knowledge and understanding, the information provided by Flinders was complete, accurate and true and not incorrect, misleading or irrelevant in any material aspect. SRK has no reason to believe that any material facts have been withheld.

1.6.2 Statement of SRK independence

Neither SRK, nor any of the authors of this Report, has any material present or contingent interest in the outcome of this Report, nor any pecuniary or other interest that could be reasonably regarded as capable of affecting their independence or that of SRK.

Neither SRK, nor any authors of this Report, has any prior association with Flinders regarding the mineral assets that are the subject of this Report. SRK has no beneficial interest in the outcome of the technical assessment capable of affecting its independence.

1.6.3 Indemnities

As recommended by the VALMIN Code (2015), Flinders has provided SRK with an indemnity under which SRK is to be compensated for any liability and/or any additional work or expenditure resulting from any additional work required:

- that results from SRK's reliance on information provided by either Flinders and Grant Samuel or these parties not providing material information
- that relates to any consequential extension workload through queries, questions or public hearings arising from this Report.

1.6.4 Consent

SRK consents to this Report being included, in full, in documents relating to the Proposed Transaction in the form and context in which it is provided, and not for any other purpose. SRK provides this consent on the basis that the technical assessment expressed in the Executive Summary and in the individual sections of this Report is considered with, and not independently of, the information set out in the complete Report.

1.6.5 Consulting fees

SRK's estimated fee for completing this Report is based on its normal professional daily rates plus reimbursement of incidental expenses. The fees are agreed based on the complexity of the assignment, SRK's knowledge of the assets and availability of data. The fee payable to SRK for this engagement is estimated at approximately A$60,000. The payment of this professional fee is not contingent upon the outcome of this Report.

2 Project Overview

The Project is located approximately 70 km north of the town of Tom Price in the Pilbara region of Western Australia (Figure 2-1). The Project comprises one granted Mining Licence (M47/1561 – Blacksmith), one granted Exploration Licence (E47/1560 – Anvil), three granted Miscellaneous Licences (L47/728, L47/730 and L47/734), one Miscellaneous Licence under application (L47/731) and one Retention Licence application (R47/21). The tenement schedule is presented in Table 2-1.

Access to the Project site is provided by several unsealed roads from the north and south within the Hamersley Range. The Hamersley Range is a mountainous region with numerous valleys and gorges, and river plains with elevations ranging from 400 m to 1,200 m above sea level. The region is characterised by very hot summers, mild winters and low and variable rainfall (Figure 2-2). Tropical cyclones between December and March generate 25%–34% of the total annual rainfall near the Pilbara coast and as much as 21% up to 450 km inland.

Key transportation infrastructure remains to be installed to allow year-round access and to provide a transport corridor for the proposed material movements to and from the Project. The proposed Integrated Project comprises:

- The development of an iron ore mine with a Production Target of 45 Mtpa of dry beneficiated iron ore averaging 60.5% Fe using a run-of-mine (ROM) mineral inventory of 1,050 Mt at 52.4% Fe, 14.8% SiO_2 and 5.3% Al_2O_3. The products from two processing facilities (OPF1 and OPF2) would be blended via gravity reclaim tunnels and then discharged to an overland conveyor.
- The construction of a 29 km-long overland conveyor from the mining Project to a rail head
- The construction of rail loadout facilities at the rail head
- The construction of a 165 km single-track standard-gauge railway from rail head to the northern coast of Western Australia
- The construction of port facilities (Balla Balla) including train loadout facilities, a stockyard, a conveyor, a jetty and ship loader
- The purchase of transhipment vessels to load bulk ore (ocean-going) carriers.

PIOP Mine Co will be responsible for the mining and processing of material from the Project. Under a long-term take-or-pay Infrastructure Services Agreement, PIOP Mine Co will use services provided by BBI to transport the processed material via the conveyor and rail infrastructure from the Project to the terminal at the proposed Balla Balla port, handle the processed material at the terminal and transport the processed material from the terminal onto ocean-going vessels via transhipment vessels. PIOP Mine Co will maintain ownership of the processed material through the BBI Project infrastructure system. The proposed physical battery limits of the BBI Project are:

1. The underside of the PIOP chute feeding the 29 km overland conveyor to the railhead
2. The underside of the transhipment vessel chute loading the ocean-going carriers.

Table 2-1: Tenement schedule (100% Flinders)

Tenement name	Licence number	Licence type	Grant/ application date	Expiry date	Area (ha)	Annual expenditure (A$)	Annual rent (A$)
Blacksmith	M47/1561	Mining	10/11/2014	25/03/2033	11,155	1,115,500	220,869
Anvil	E47/1560	Exploration	06/09/2007	05/09/2020	14 blocks	70,000	8,414
Airstrip	L47/728	Miscellaneous	29/05/2015	28/05/2036	299.7	0	5,250
Village	L47/730	Miscellaneous	29/05/2015	28/05/2036	9.19	0	175
Northern Road	L47/731*	Miscellaneous	01/09/2014	-	493	0	0
Southern Road	L47/734	Miscellaneous	29/05/2015	28/05/2036	419	0	7,350
	R47/21*	Retention	19/12/2018	-	4,437	0	0

Source: Flinders Mines Ltd Quarterly Report 30 June 2019. * Application

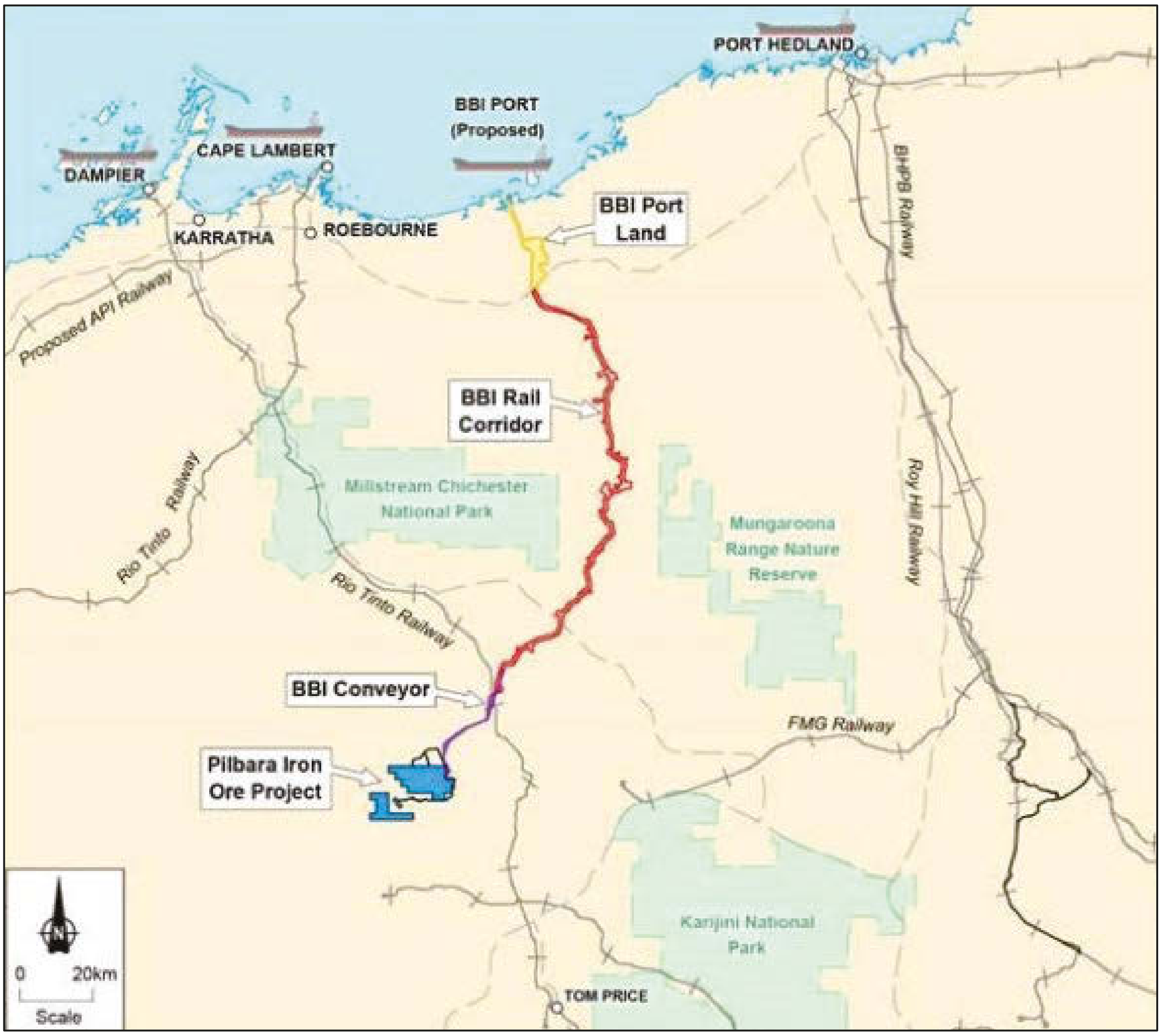

Figure 2-1: Project location

Source: Flinders Management Information

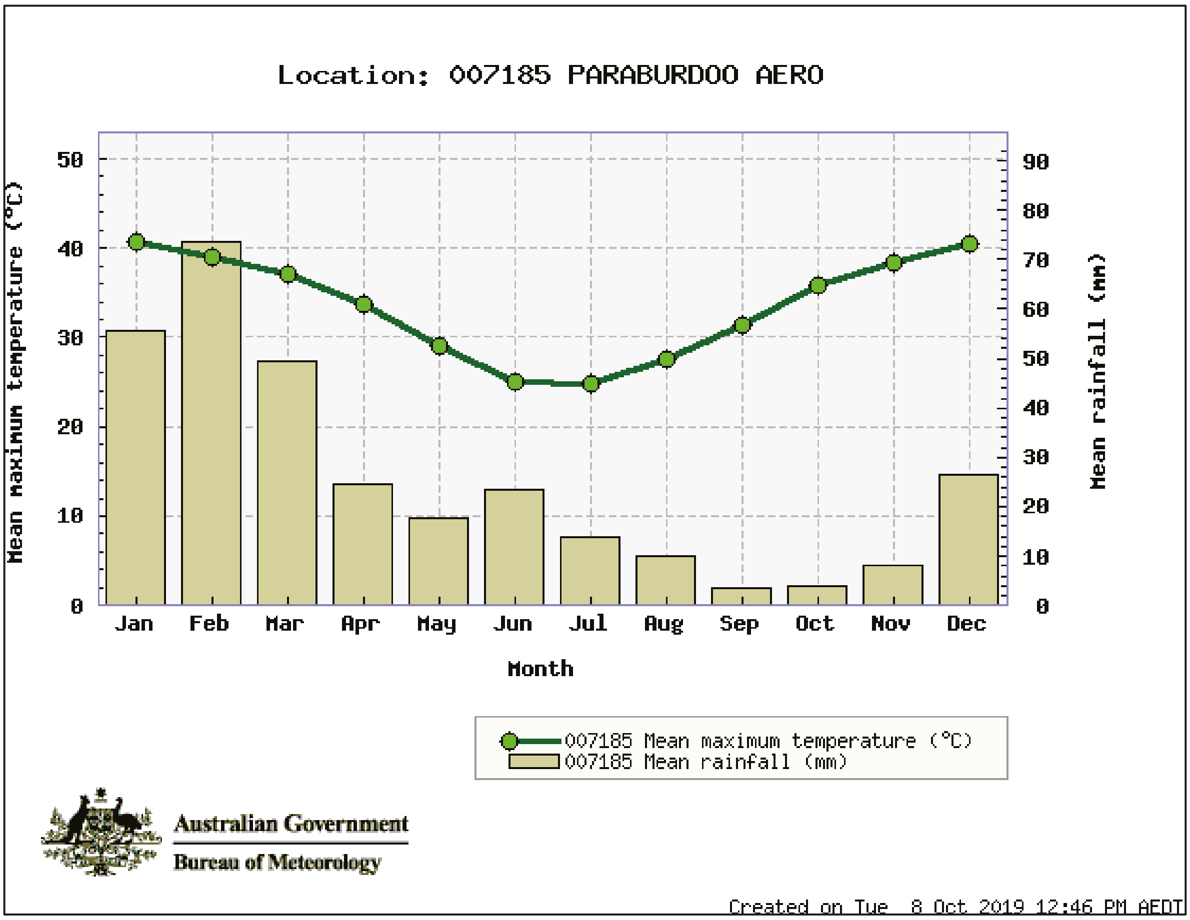

Figure 2-2: Regional climate

Source: BOM.gov.au.

SRK notes that it is not qualified to make legal representations as to the ownership and legal standing of the mineral tenements presented in Table 2-1. SRK has not attempted to confirm the legal status of the tenements with respect to joint venture agreements, material contracts, local heritage or potential environmental or land access restrictions.

SRK has sighted documentation prepared by M&M Walter Consulting Pty Ltd, an independent tenement management consultancy based in Perth. The document, dated 30 August 2019, indicates that Flinders has the legal rights to the minerals that are the subject of this Report. SRK has made all reasonable enquiries into this status as at 28 November 2019.

SRK understands that Prenti Exploration Ltd holds a 5% net royalty in respect of any production of non-iron ore commodities from M47/1561 (Blacksmith tenement) or E47/1560 (Anvil tenement).

2.1 Project history

In May 2003, exploration in the Project area commenced as a joint venture between Flinders Diamonds Limited (now Flinders) and Prenti Exploration Pty Ltd (Prenti). Flinders had purchased its 50% interest for A$50,000, paid as a cash payment, and began diamond exploration activities.

In May 2007, Flinders began initial exploration for iron ore on the Blacksmith tenement.

In November 2007, an Exploration Target of 325–390 Mt of iron ore at a grade of 45–60% Fe was estimated.

In June 2008, Flinders purchased the Anvil tenement (E47/1560) from Cazaly Iron Pty Ltd.

On 1 April 2009, Flinders reported a maiden Inferred Mineral Resource on the Blacksmith tenement comprising 476 Mt with average grades of 55.38% Fe, 9.81% SiO_2, 4.62% Al_2O_3, 0.07% P, and 5.73% loss-on-ignition (LOI) at an applied cut-off grade of 50% Fe. The stated Mineral Resource consisted of both hematite channel iron deposit (CID) mineralisation and goethite-dominant bedded iron deposit (BID) mineralisation.

On 18 May 2009, Flinders reported that a scoping study was underway at the Project and on 6 October 2009, Flinders reported that it had contracted WorleyParsons to undertake a pre-feasibility study (PFS) for the Project.

On 25 October 2010, Flinders reported the following updated Mineral Resource estimates:

- Indicated Mineral Resources of 272.5 Mt at grades of 56.2% Fe, 9.2% SiO_2, 4.6% Al_2O_3 and 0.07% P, and 4.7% LOI
- Inferred Mineral Resources of 475.1 Mt at grades of 54.9% Fe, 10.5% SiO_2, 5.1% Al_2O_3 and 0.06% P, and 5.1% LOI at a 50% Fe cut-off grade.

In January 2011, Flinders reported that the PFS had been completed and that the Project was economically viable over a mine life of 20 years at a mine cash cost of A$35.32/tonne.

On 27 March 2012, Flinders reported that it had been granted Mining Lease M47/1561 over the Blacksmith area.

On 14 January 2013, Flinders reported that it had been granted approval under Section 45(1) of the *Environmental Protection Act (Western Australia) 1986* for the Project.

In July 2013, Flinders reported that it had signed a Memorandum of Understanding (MoU) with Brockman Mining Limited (Brockman), which contemplated the potential sharing of infrastructure and transportation solutions. However, following the execution of a separate infrastructure agreement by Flinders in early 2014, a formal agreement with Brockman did not materialise.

On 13 December 2013, Flinders reported that it had entered into a native title mining agreement with the Wintawari Guruma Aboriginal Corporation.

On 25 January 2017, Flinders reported that BBI Rail Aus Pty Ltd, a wholly owned subsidiary of BBI Group Pty Ltd (BBI), had signed a State Agreement with the Western Australian Government for its proposed 50 Mtpa Balla Balla Infrastructure Project (BBI Project), which would provide a transport solution to the Project.

In 2017, following a strategic review of the key risks to Project development, Flinders completed a number of technical studies including geotechnical, hydrological and metallurgical testwork programs.

On 1 March 2018, Flinders reported that the Mineral Resource estimates for the Project had been updated by Snowden Mining Industry Consultants (Snowden).

On 2 September 2019, Flinders reported that it had entered into a non-binding term sheet with BBI to establish a framework for a potential joint venture for the integrated development of the Project and the BBI Project (the Proposed Transaction).

On 28 November 2019, Flinders reported that it had signed binding agreements with BBI in relation to the Proposed Transaction.

On 7 January 2020 Flinders reported the results of a Scoping Study on the PIOP and a Production Target of approximately 615 million tonnes (dry) / 675 million tonnes (wet) over a proposed mine life of 16 years. The Production Target assumes a life of mine (LOM) Iron grade of greater than 60%.

2.2 Environmental permitting

The primary environmental approvals required for the Project are legislated under the federal *Environmental Protection and Biodiversity Conservation Act 1999* (EPBC Act), the Western Australian *Environmental Protection Act 1986* (EP Act) and *Mining Act 1978*. A summary of the status of approvals is shown in Table 2-2.

The Project is at a pre-development stage and the environmental approval process is not well advanced. Due to the prolonged period of technical study on the Project, the approvals that have been obtained require further supporting studies or extensions to commencement timeframes. If completed concurrently, these approvals are likely to take approximately 12 months to obtain a determination.

2.2.1 Environmental Protection and Biodiversity Conservation Act 1999 (Cwlth)

The Project was referred under the EPBC Act due to the presence of threatened species that constitute *Matters of National Environmental Significance* (Northern Quoll, Pilbara Olive Python and Pilbara Leaf-nosed Bat). Stage 1 and Stage 2 (including additional pits and infrastructure areas) have been approved with conditions under the EPBC Act (Table 2-2). These approvals require Ministerial permission if the Project has not commenced within five years. It has also been noted by Preston Consulting (Approval Status and Implementation Report, 2019) that changes to the proposed disturbance area have occurred since the Stage 2 approval. This may trigger the requirement for a new referral under the EPBC Act with a potential decision timeframe of about 12 months, and advice should be sought from the Department of Environment and Energy.

2.2.2 Environmental Protection Act 1986 (WA)

The Project was determined to have the potential to cause significant environmental impacts by the Western Australian Environmental Protection Authority (EPA), which administers Part IV of the EP Act. The Project received approval for the Stage 1 mining operation on the Blacksmith tenement on 11 January 2013, and the revised proposal that includes the Paragon deposit and additional infrastructure areas received approval on 19 August 2015 (Table 2-2). As with EPBC Act approvals, the Ministerial Statement (MS) for the approvals dictate that the proposal must have significantly commenced within five years of 11 January 2015. An s46 application for the amendment of implementation conditions to extend has been made but has not yet been approved.

The Department of Water and Environmental Regulation (DWER) is responsible for administration of Part V, Division 3 of EP Act, which involves the regulation of emissions and discharges from ‘Prescribed Premises’. Prescribed Premises are defined in the *Environmental Protection Regulations 1987* (Schedule 1, the EP Regulations) and include activities with emissions or discharges that could affect public health and the environment. Mining is not a prescribed activity and is not directly regulated by the DWER but mine dewatering and ore processing are among the prescribed activities regulated by the agency. A Works Approval application has not yet been made for the Project.

Environmental impacts of mining and related activities are also assessed by the Department of Mines, Industry Regulation and Safety (DMIRS), the statutory body for the regulation of mineral exploration and associated development activities. Environmental and social assessment requirements are defined by the *Guidelines for Mining Proposals* and the *Guidelines for Preparing Mine Closure Plans,* which are enabled under s70O of the Mining Act. The DMIRS will only assess Mining Proposals for activities on granted mining tenure (Mining, Miscellaneous or General Purpose Leases).

2.2.3 Mining Act 1978 (WA)

A Mining Proposal and Mine Closure Plan (MCP) must be approved by the DMIRS before mining activities commence. The Mining Proposal and associated MCP must contain a description of all the relevant environmental approvals and statutory requirements that must be obtained and that will affect the environmental management of the Project.

Flinders has not yet prepared or submitted a Mining Proposal or MCP. There is no statutory maximum timeframe for approval of these documents. Typically, a decision can be made in 4–8 months.

2.2.4 Aboriginal Heritage Act 1972 (WA)

The *Aboriginal Heritage Act 1972* (AH Act) provides for the protection of all Aboriginal heritage sites in Western Australia, regardless of whether they are formally registered with the administering authority, the Department of Planning, Lands and Heritage (DPLH). When impact to an Aboriginal site cannot be avoided, Ministerial approval must be obtained under s18 of the AH Act. Several Aboriginal sites have been identified across the Project's tenure and s18 consent has been obtained for site DAA 36142. Further s18 consents will be required if disturbance of the other registered site is required or if heritage sites are identified during surveys.

2.2.5 Rights in Water and Irrigation Act 1914 (WA)

The DWER is the administering authority for the *Rights in Water and Irrigation Act 1914* (RIWI Act). The RIWI Act provides for the regulation, management, use and protection of water resources via a system of licences and permits.

The Project lies within the Millstream Water Reserve drinking water source protection area, which places restrictions and management requirements on mineral processing and mining camp construction and operations, including wastewater disposal systems.

The Project has determined a requirement of 13 GL/a of water abstraction for processing, dust suppression and operations. This is greater than the approved conditions of 6 GL/a (MS 924 and MS 1014) and will require an amendment of conditions under s45c of the EP Act.

The PIOP has achieved approval for abstraction of 13 GL/a provisional on the outcomes of an H3 Hydrological Assessment, a revised groundwater operating strategy and an approved Mining Proposal. The provisional approval is valid until 20 January 2020. The studies and Mining Proposal may take 6–12 months to achieve approval for water abstraction, depending on the results of the groundwater assessment and an extension to this licence from the DWER will be required.

Table 2-2: Approval status (not exhaustive)

Agency	Legislation	Type of Approval	Status
Department of the Environment and Energy	*Environmental Protection and Biodiversity Conservation Act 1999 (Cth)*	Referral required for Matters of National Environmental Significance (MNES)	Stage 1 approved on 19 September 2012 (2011/6125) and valid until 20 September 2037 (with commencement by 19 September 2017). Stage 2 approved on 15 November 2016 (2015/7495) and valid until 31 December 2037 (with commencement by 15 November 2019). Requires Ministerial approval to proceed and potentially a new referral.
Environmental Protection Authority	*Environmental Protection Act 1986*	Environmental Impact Assessment and Ministerial approval for project development	Stage 1 approved on 11 January 2013 (MS 924).

Agency	Legislation	Type of Approval	Status
			Revised proposal approved on 19 August 2015 (MS 1014). S46 application for a time extension was made on 20 November 2017, but is not yet approved.
Department of Mines, Industry Regulation and Safety	*Mining Act 1978*	Granting of mining leases and miscellaneous licences Approval of the Mining Proposal and MCP	PIOP has obtained most of the required mining tenure. Miscellaneous Licence L47/731 is still pending, with objections. The Mining Proposal and MCP approvals process has not yet commenced. There is no statutory timeframe for a decision.
	Mines Safety and Inspection Act 1994	Project Management Plan	Not yet applied for.
	Dangerous Goods Safety Act 2004	Dangerous Goods Licence	Not yet applied for.
	Environmental Protection Act 1986 *Environmental Protection (Clearing of Native Vegetation) Regulations 2004*	Native Vegetation Clearing Permit required for the waste rock landforms, low grade ore stockpile, TSF and long-term landfill site	Not yet applied for.
Department of Water and Environmental Regulation	*Environmental Protection Act 1986*	Works Approval. Environmental Licence	Not yet applied for.
Department of Water and Environmental Regulation	*Rights in Water and Irrigation Act 1911*	Licence to take groundwater (5C) for raw water and mine dewatering	Flinders has a provisional abstraction licence for 1 GL/a. Approval for a GWL200094(1) for 13 GL/a is dependent on approval of the Mining Proposal, approval of a groundwater operating strategy and an H3 Hydrological Assessment prior to 12 January 2020. An extension will be required.
Department of Biodiversity, Conservation and Attractions	*Biodiversity Conservation Act 2016*	Fauna survey licence Taking or collecting flora	Not applicable. Potential habitat areas for Threatened species have been avoided.
Department of Planning, Lands and Heritage	*Aboriginal Heritage Act 1972*	S18 approval (to interfere with Aboriginal heritage site if disturbance of the site cannot be avoided)	PIOP has ministerial approval for disturbance of registered site DAA 36142. If additional sites are identified, further s18 consents must be obtained.
Shire of Ashburton	*Planning and Development Act 2005* *Health Act 1911*	Planning consent and building applications for the camp	Workforce accommodation camp approved for exploration purposes but requires expansion and further approvals.

2.3 Environment

2.3.1 Environmental considerations

The Project is located between a series of ridges, with the proposed mining operation occupying the valley floors. Although the proposed development has the potential to impact groundwater-dependent ecosystems (GDEs) and requires the clearing of vegetation that is of ‘good to excellent’ condition in the Pilbara Interim Biogeographical Regionalisation for Australia bioregion (IBRA), this is proposed to be managed by offsetting, and groundwater monitoring and management strategies.

Although federal- and state-listed conservation significant species were recorded at the PIOP, including the Northern Quoll, Olive Python and Pilbara Leaf-nosed Bat, the habitat for these species occurs in the ridges at the margins of the proposed development and these species have a wide distribution.

The Project lies within the Millstream Water Reserve drinking water source protection area. This area is considered to have potentially good groundwater supplies but due to the relatively early stage of assessment there are uncertainties in the most recent groundwater impact assessment (*PIOP Groundwater Impact Assessment Report*, WorleyParsons, 2012). Groundwater is proposed to be supplied by a combination of bore abstraction and dewatering but it is SRK's understanding that the water supply and schedule of demand have not yet been conclusively determined and an H3 Hydrological Study is required before a 5C groundwater abstraction licence is provided.

2.3.2 Aboriginal heritage

The Project is located in the native title determination area of the Eastern Guruma People. Heritage and ethnographic surveys have been undertaken across most of the proposed mine area and eight sites have been lodged (as of August 2019) and a number of heritage exclusion zones established in culturally significant areas, predominantly in areas of higher ground. Current exclusion zones identified indicate some overlap with the planned mine area, particularly with the Ajax Pit, which will require consultation with the Eastern Guruma People to determine if access is possible.

2.3.3 Mine closure

The EPA approval of the Project requires that the mine is progressively rehabilitated and that pits are backfilled to a level above the water table. Flinders has not yet commenced preparation of the Mining Proposal or MCP and closure costs have not been estimated. Based on SRK's experience with similar projects, a life-of-mine closure cost could be in the order of A$90 million. This does not include the statutory contributions to the Mining Rehabilitation Fund levy. As the mining area is required to be progressively rehabilitated, a A$90 million spend every three years is reasonable.

3 Geological Setting

3.1.1 Regional geology

The Project is located within the Hamersley iron ore geological province (Hamersley Province) in the Southern Pilbara region (Figure 3-1). The Hamersley Province is dominated by late Archaean to Palaeoproterozoic metasedimentary and volcanic units lying unconformably over mid-Archaean granite and greenstone terrain of the Pilbara Craton. Collectively, the sedimentary rocks are known as the Mount Bruce Supergroup, which consists of the Fortescue Group, Hamersley Group and Turee Creek Group. These sediments were deposited in an extensive deep marine environment between 2.8 and 2.3 million years ago, during which cyclical periods of atmospheric oxygen enrichment are thought to have resulted in banded iron formations. These sedimentary packages were subsequently subject to variable deformation and erosion, producing the landscape evident today in the Hamersley Ranges.

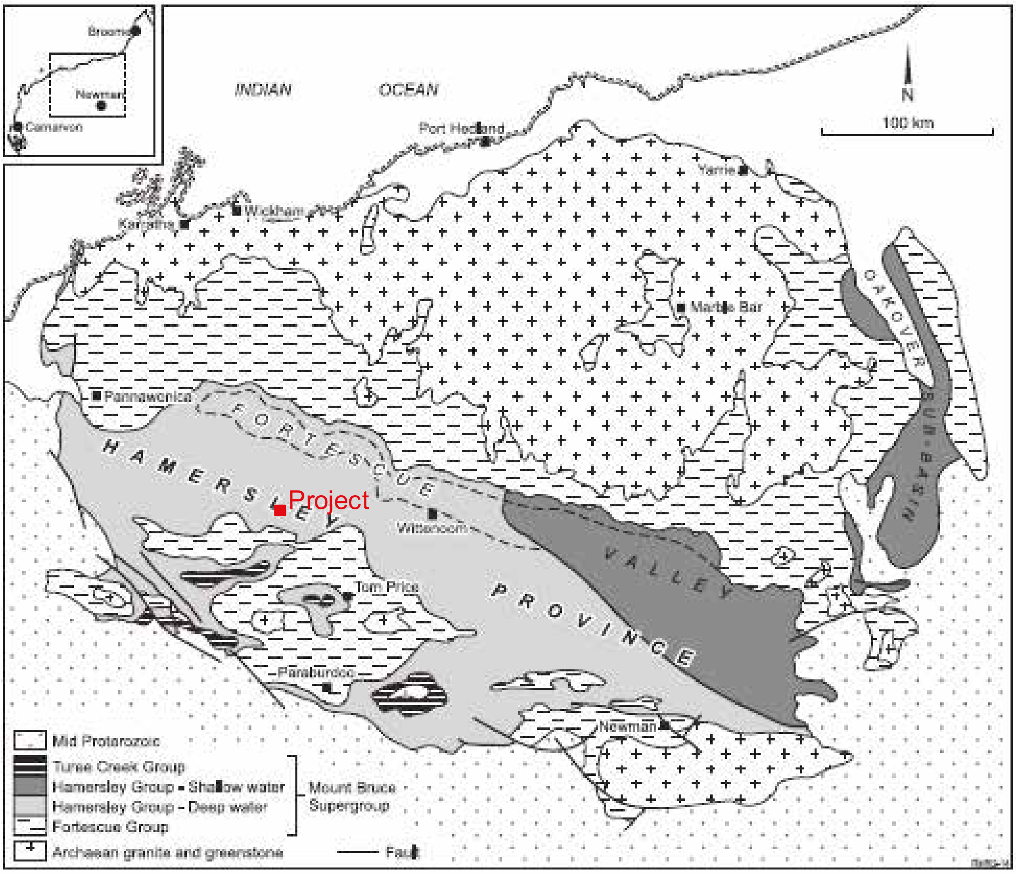

Figure 3-1: General geological map of the Pilbara Craton

Source: Modified from Kneeshaw and Morris, 2014.

Three major geological deformation events have affected the Hamersley Province, resulting in increasingly structural complexity towards the southeast. East–west trending en echelon type open folds dominate the southwest, and tight to overturned or recumbent folds dominate the southeast.

Within the Hamersley Province, the Hamersley Group hosts two laterally extensive banded iron formations (BIFs) – the Brockman and Marra Mamba iron formations. These formations contain primary magnetite with an approximate iron content of 30% and have undergone secondary enrichment that increased the iron to 55%–65% via the introduction of hypogene (deep crustal) and/

or supergene (surface) fluids via faulting and folding. Three generally accepted deposit types occur as a result of these processes:

- Primary BIF – original depositional rocks containing magnetite and 25%–30% Fe content
- Hypogene bedded iron deposits (BIDs) – BIFs enriched through hypogene processes containing microplaty hematite, low phosphorous and approximately 60% Fe content, known to be associated with zones of structural complexity
- Supergene BIDs – BIF enriched through surface water containing martite goethite iron ore minerals.

A large unconformity overlying the Mount Bruce Supergroup separates younger colluvial, fluvial and alluvial sedimentary units that have been eroded from Hamersley BIF and deposited within palaeochannels in episodic periods over time. This iron-rich detritus is currently found in variable concentrations within palaeochannels:

- Channel iron deposits (CIDs) – accumulation of predominantly goethite-rich pisoids and ooids cemented in goethite matrix
- Detrital iron deposits (DIDs) – accumulation of iron-rich pisoids derived from BID, in a matrix of Fe–Al soil with variable supergene enrichment of the pisoids.

Recent colluvium containing BIF, chert and shale fragments within a fine hematite matrix covers the deposits.

3.1.2 Local geology and mineralisation

The Project is host to multiple iron deposits that are distributed across an area of approximately 400 km^2 (Figure 3-2). The Blacksmith area hosts several identified prospects: Ajax, Blackjack, Champion, Paragon, Delta, Eagle and Badger, and the Anvil area hosts an additional four prospects.

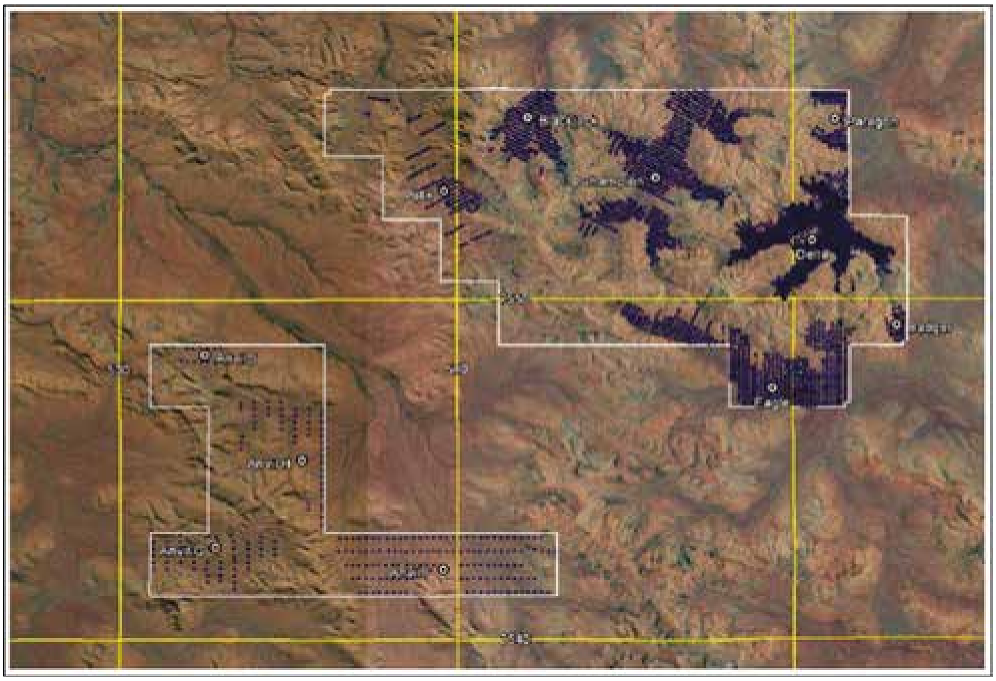

Figure 3-2: Blacksmith (M47/1451) and Anvil (E47/1560) tenements displaying drill collars at various prospects

Source: Modified from Flinders Management Information.
Note: Note that the yellow lines are spaced 10 km apart.

The local geology in the Project area is dominated by the Brockman Iron Formation of the Hamersley Group, with relatively undeformed interbedded shales, BIF and BID forming the base and sides of palaeochannel systems that contain variable volumes of DID and CID mineralisation (Figure 3-3).

The DID comprises pisoids of hematite-rich mineralisation that has been eroded from surrounding mineralised BID, within a matrix of clay, minor ooids and other detritus. The DID has been further classified into four units (DID1 to DID4) at the Project. Each unit is distinguished by textural and chemical characteristics ranging from low iron and high silicon dioxide/ aluminium oxide in the upper DID1, to high iron and low silicon dioxide/ aluminium oxide in DID4 (Figure 3-3).

The distribution of CID mineralisation at the Project is highly variable, only observed stratigraphically occurring between the DID and BID in the Blackjack, Champion, Delta and Eagle prospects.

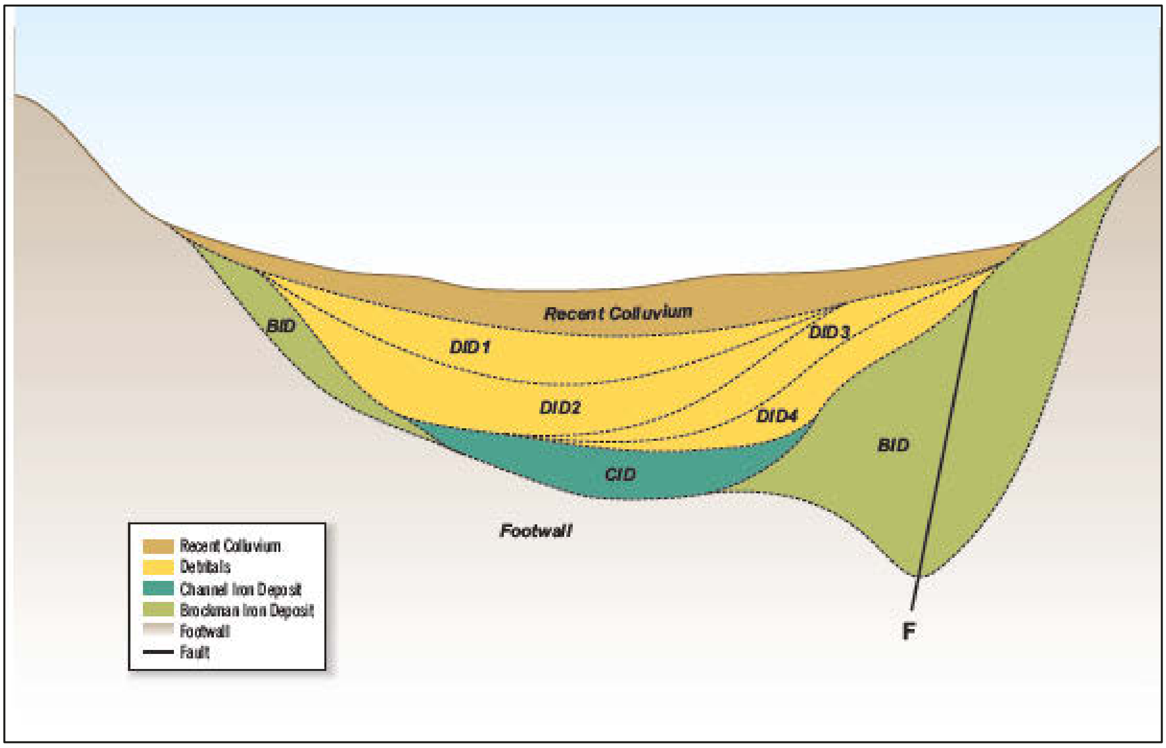

Figure 3-3: Schematic cross-section through the local geology

Source: Flinders Management Information

Table 3-1: Local geology unit descriptions

Unit	Code	Description
Cover	RC	Recent colluvium containing BIF, chert and shale fragments in a fine hematite matrix
Detrital Iron Deposit	DID1	Fine hematite pisolites with variable colluvium fragment concentrations, coarse fragments common
	DID2	Semi-consolidated pisolite dominant
	DID3	Semi-consolidated pisolite dominant with hematite fragments and fine hematite matrix
	DID4	Competent, hard pisolite and hematite fragments in a fine hematite matrix
Channel Iron Deposit	CID	Goethite-rich clays, goethite oolites and pisolites with fossil wood and basal conglomerates, with internal clay
Bedded Iron Deposit	BID	Vuggy, goethite hardcap with weak to moderate remnant banding and alternating hematite and goethite rich bands
Basement	BM	Weakly altered/ mineralised to fresh BIF chert and shale

Source: Modified from Flinders Management Information.

The following geometallurgical classification criteria have been assigned to the Project's mineralisation types using iron and alumina cut-off grades:

- OPF2 – including mineralisation types DID1, DID2, DID3 material where Fe >40% and Al_2O_3 is less than 8% – this material contains dense iron-rich particles amongst clay and can be effectively separated using density separation processes to concentrate the high iron content material
- Iron-rich material that does not require further concentration, including DID4 and BID, where Fe >50% and Al_2O_3 <6% is classified as OPF1

The CID mineralisation does not meet either of these criteria and has been classified as marginal material. In SRK's opinion, the regional geology is well understood with multiple large operating mines and exploration activity in the area, resulting in a comprehensive record documented in the publicly available literature. The local geology of the Project is well documented and considers a prolonged geological history and numerous geological processes, resulting in an integrated model that captures lithological, erosional and geometallurgical domains. Regional geological controls and origins of the DID are well understood; however, local variability of the DID within the major channels is less well documented and will require robust grade control strategies should the Project progress to production.

3.2 Historical Mineral Resource estimates

A comprehensive history of resource definition and updates to the Project's Mineral Resource estimates is documented via Flinders public announcements. A summary is provided in Table 3-2.

Table 3-2: Historical Mineral Resource estimates for the Project

Year	Company	Update Summary	Prospect	Total Tonnage (Mt)	Iron cut-off grade
Apr-09	Golder	Maiden Inferred Mineral Resource (JORC Code 2004 guidelines)	Blacksmith (JORC Code 2004) and Anvil (JORC Code 2004)	476	50%
Feb-10	Golder	Upgrade - First Indicated Mineral Resource reported	Blacksmith	550.1	50%
Oct-10	Golder	Increase to Indicated Mineral Resource	Blacksmith and Anvil	747.6	50%
Nov-11	Optiro	Increase and update to Measured Mineral Resource	Blacksmith (JORC Code 2004) and Anvil (JORC Code 2004)	917.3	50%
Sep-14	Optiro	Update to Eagle prospect	Blacksmith	295	50%
Oct-14	Optiro	Update to Champion prospect	Blacksmith	202.1	50%
Oct-14	Optiro	Update to Blackjack prospect	Blacksmith	86.2	50%
Dec-14	Optiro	Increase and Inferred Mineral Resource upgrade to Indicated Mineral Resource (JORC Code 2012 guidelines)	Blacksmith (JORC Code 2012) and Anvil (JORC Code 2004)	1,040	50%
Mar-18	Snowden	Increase global resource; metallurgical testwork and revised classification criteria	Blacksmith (JORC Code 2012) and Anvil (JORC Code 2012)	1,484	OPF1 where Fe>40% and Al_2O_3<8%; OPF2 where Fe>50% and Al_2O_3<6%

3.3 Current Mineral Resource estimates

Flinders engaged Snowden to conduct an independent review and prepare Mineral Resource estimates following geotechnical and geometallurgical drilling results, as part of the ongoing technical feasibility studies in 2018.

The updated Mineral Resource involved the revision of previous resource estimates compiled by Optiro, an update of the Anvil prospect Mineral Resource estimate to JORC Code (2012) reporting guidelines, and the integration of geometallurgical testwork and revised cut-off grade and classification criteria to report a global Measured, Indicated and Inferred Mineral Resource of 1,484 Mt averaging 52.2% Fe, 14.85% SiO_2, 4.96% Al_2O_3, 0.064% P and 4.73 % LOI (Table 3-3).

Table 3-3: Current Mineral Resource estimates

Area	Classification	Tonnes (Mt)	Fe (%)	SiO_2 (%)	Al_2O_3 (%)	P (%)	LOI (%)
Blacksmith	Measured	54	59.8	6.24	4.28	0.064	2.98
	Indicated	1148	52.6	14.1	4.81	0.067	4.93
	Inferred	105	51.6	15.7	5.13	0.057	4.4
Blacksmith - Subtotal		**1307**	**52.8**	**13.9**	**4.81**	**0.066**	**4.81**
Anvil	Inferred	176	47.1	21.3	6.05	0.044	4.13
Anvil - Subtotal		**176**	**47.1**	**21.3**	**6.05**	**0.044**	**4.13**
PIOP (Blacksmith & Anvil)	Measured	54	59.8	6.24	4.28	0.064	2.98
	Indicated	1,148	52.6	14.1	4.81	0.067	4.93
	Inferred	282	48.8	19.2	5.7	0.049	4.23
Total		**1,484**	**52.2**	**14.8**	**4.96**	**0.064**	**4.73**

Source: Modified from Flinders Management Information.

The database used to inform the Mineral Resource estimate included data and assay results from 4,133 drillholes, comprising 93% vertical reverse circulation (RC) drill holes, and 7% diamond drill holes (DDH), which were undertaken for metallurgical, geotechnical and quality control testwork. Drill patterns across the PIOP were carried out on nominal orientations to the major channel direction (Figure 3-2) with drill collar spacing across the Blacksmith prospect predominantly at 125 m by 100 m; and drill spacing across the Anvil deposit at 400 m by 200 m. All RC drilling was completed prior to 2014 and no downhole surveys were undertaken.

Samples of 4–5 kg were collected from 2 m RC intervals in pre-numbered calico sample bags using a rig-mounted static cone splitter. Drill rod flushing was employed to avoid sample contamination where wet samples were encountered within CID and BID geology units. In total, 93% of samples are recorded as having ‘good’ recovery, with samples from the upper lithological units returning ‘poor’ recoveries from both RC and triple tube PQ and HQ diameter diamond drilling. Samples were sent to NATA (National Association of Testing Authorities)-accredited commercial laboratories (Ultratrace Laboratories in Perth or Amdel Laboratories in Cardiff (Newcastle), NSW), via air freight originating from Tom Price. Samples were also sent to a third laboratory, SGS Perth, for umpire analysis. All samples were analysed via X-ray fluorescence (XRF) for a standard suite of elements including Fe, SiO_2, Al_2O_3, TiO_2, MnO, CaO, P, S, MgO, K_2O, Zn, Pb, Cu, BaO, V_2O_5, Cr, Ni, Co, Na_2O, and LOI analysis.

Logging and assay data were captured using OCRIS logging software and stored in a Geobank database. Accuracy and precision of assay results was verified using certified reference materials (CRMs) inserted at a rate of 5%; field duplicates taken at rate of 4%; laboratory audits and twinning of diamond and RC drillholes. Quality Assurance – Quality Control (QA/QC) reports completed for 2008 and 2014 drill programs by Flinders indicated no significant quality control or assurance issues.

Wireframe surfaces were constructed for lithological units (Figure 3-4) and considered geochemical ratios.

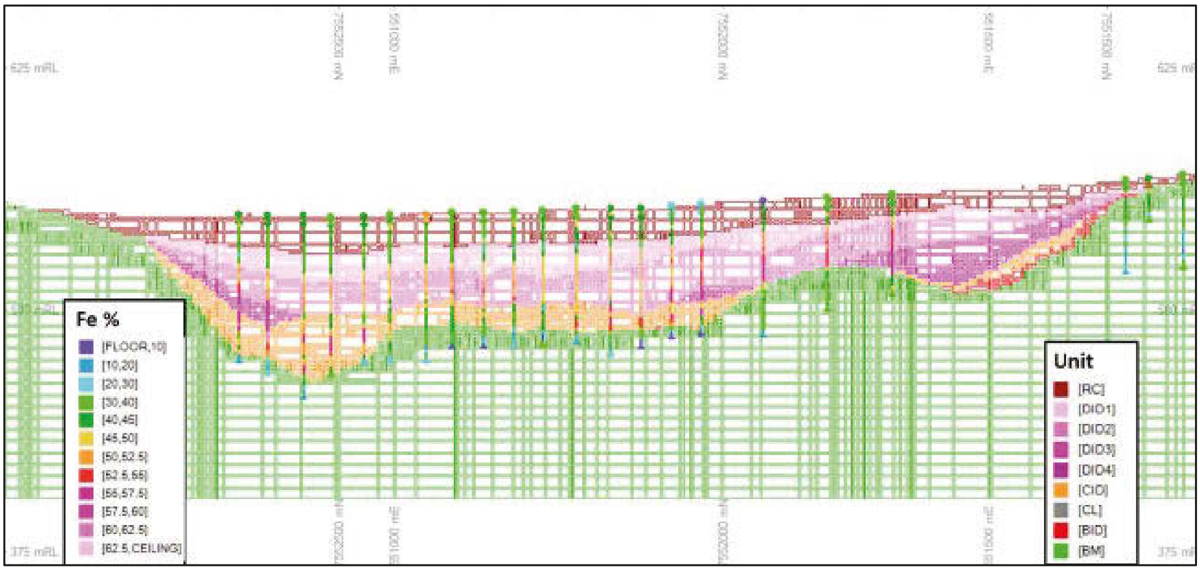

Figure 3-4: Example NW–SE oblique section through Delta deposit showing the geological block model and iron grade in drill holes

Source: Flinders Management Information.

Hard domain boundaries and ordinary block kriging with sub-domains were utilised to account for variability in channel orientations. Secondary elements CaO, K_2O, MgO, MnO and Na_2O (previously omitted from Mineral Resource estimates) were estimated into the block model using a three-pass search strategy, with a minimum of 4 and maximum of 32 composites, limited to 4 composites per drill hole for the initial estimation pass.

Block models were constructed for each prospect at the following block sizes:

- Blacksmith (excluding Delta) – parent cell size of 100 × 100 × 6 m in easting, northing and RL (relative level) direction
- Delta – parent cell size of 50 × 50 × 6 m in easting, northing and RL direction
- Anvil – parent cell size of 100 × 200 × 6 m or 200 × 100 × 6 m in easting, northing and RL directions depending on channel orientation of the deposit.

Bulk densities were derived from analysis of hydrostatic measurements of 15 cm pieces of diamond drill core (uncoated, plastic-wrapped and wax-coated samples); calliper measurements of 15 cm pieces of whole core downhole gamma geophysical logs and calliper measurements of core from sonic measurements.

Table 3-4: Bulk density assignment (modified from Flinders Management Information)

Unit	Code	Assigned bulk density (t/m^3)	Note
Cover	RC	2.40	Average Value
Detrital Iron Deposit	DID1	2.62	Multiple linear regression based on block estimated Fe, SiO_2, Al_2O_3 and P (weighted average values)
	DID2	2.93	
	DID3	3.04	
	DID4	3.28	
Channel Iron Deposit	CID	2.64	Average Value
Bedded Iron Deposit	BID	2.59	Average Value
Basement	BM	3.15	Average Value

Snowden validated the estimation using block grade/ drill hole composite comparisons, global comparisons of average grade of blocks and drill holes and moving window analysis. Good correlation was reported where sample density was high. The Mineral Resource estimates are presented in Table 3-5.

SRK has not independently verified the Mineral Resource estimate by means of recalculation or checked any dataset to offer an opinion on whether the selected data acquisition and resource modelling approached used for the Mineral Resource estimates were suitable for the specific characteristics of the Project, or whether the modelling has been performed in the manner described.

In SRK's opinion, the Project has been comprehensively and strategically assessed for iron via RC drilling, geological modelling and grade estimation, and the Mineral Resource estimates have been prepared to a sufficient quality standard under the guidelines of the JORC (2012) Code and are considered to provide reasonable representations of the likely contained iron mineralisation available within the Project.

The geological modelling integrates key geological processes to apply geometallurgical classification and domaining to the Mineral Resource estimate. The drilling is shallow and was designed to target the detrital iron mineralisation. The deeper geology has not been explored to date.

The Mineral Resource estimate was principally informed by data from RC drilling. Because RC drilling does not allow for detailed structural assessment, there may be a risk of unidentified local structures influencing the mineralisation continuity and distribution. While the exact number of drill holes used to inform the Mineral Resource estimate is not stated, the available records indicate that the drilling density is higher on some prospects than others, with the Anvil deposits presenting the lowest drill hole density and the Delta deposit in the north-eastern corner of the tenement, the highest density. Reasonable QA/QC practices were undertaken, and data has been captured and stored using appropriate software and procedures to minimise the risks associated with data translation errors.

SRK considers that this localised variability may present a quality control risk and recommends that further refinement of either grade or geological models is undertaken prior to detailed mine planning or to reduce the risk of dilution and/ or ore loss.

Table 3-5: 2018 Mineral Resource estimate summary

Area	Class	Units	Tonnes (Mt)	Density (t/m^3)	Fe %	SiO_2 %	Al_2O_3 %	P %	LOI %	S %	TiO_2 %	CaO %	K_2O %	MgO %	MnO %	Na_2O %
Blacksmith	Measured	DID3	28	3.01	57.8	8.00	5.34	0.053	3.08	0.019	0.57	0.05	0.02	0.07	0.02	0.05
		DID4	26	3.25	62.0	4.34	3.14	0.076	2.87	0.017	0.60	0.03	0.01	0.05	0.04	0.04
	Measured Total		54	3.12	59.8	6.24	4.28	0.064	2.98	0.018	0.58	0.04	0.02	0.06	0.03	0.04
	Indicated	DID1	347	2.62	45.7	25.2	5.62	0.043	2.81	0.013	0.48	0.06	0.07	0.09	0.03	0.04
		DID2	241	2.83	53.2	14.3	5.86	0.043	2.70	0.016	0.57	0.05	0.03	0.09	0.02	0.04
		DID3	145	3.04	58.4	7.42	5.05	0.054	3.00	0.017	0.66	0.04	0.02	0.06	0.03	0.03
		DID4	38	3.30	62.3	3.83	2.68	0.080	3.22	0.017	0.80	0.03	0.01	0.04	0.05	0.02
		CID	172	2.64	54.5	8.43	3.95	0.109	8.94	0.009	0.31	0.04	0.01	0.06	0.03	0.02
		BID	205	2.59	56.3	6.14	3.14	0.111	9.46	0.027	0.37	0.03	0.02	0.04	0.03	0.03
	Indicated Total		1,148	2.73	52.6	14.1	4.81	0.067	4.93	0.017	0.49	0.05	0.04	0.07	0.03	0.03
	Inferred	DID1	61	2.69	48.0	21.5	5.78	0.044	3.07	0.014	0.52	0.10	0.07	0.13	0.03	0.03
		DID2	5	2.89	53.2	14.8	4.96	0.052	3.00	0.017	0.51	0.05	0.04	0.07	0.02	0.04
		DID3	16	3.01	57.3	7.84	5.34	0.051	3.86	0.018	0.58	0.05	0.02	0.08	0.03	0.01
		DID4	3	3.24	61.9	4.98	2.72	0.067	2.76	0.021	0.66	0.01	0.01	0.01	0.02	0.00
		CID	1	2.64	53.9	7.83	3.93	0.140	9.70	0.009	0.24	0.05	0.03	0.13	0.05	0.01
		BID	21	2.59	56.0	6.81	3.46	0.097	8.89	0.034	0.39	0.02	0.01	0.03	0.03	0.01
	Inferred Total		105	2.73	51.6	15.7	5.13	0.057	4.40	0.019	0.50	0.07	0.05	0.10	0.03	0.02
Blacksmith Total			**1,307**	**2.74**	**52.8**	**13.9**	**4.81**	**0.066**	**4.81**	**0.017**	**0.49**	**0.05**	**0.04**	**0.07**	**0.03**	**0.03**
Anvil	Inferred	DID1	122	2.58	44.2	25.5	6.31	0.041	3.88	0.019	0.61	0.06	0.05	0.09	0.02	0.04
		DID2	33	2.76	51.1	15.4	6.63	0.036	3.83	0.023	0.78	0.05	0.03	0.08	0.02	0.04
		DID3	11	3.06	58.3	7.44	4.58	0.050	3.13	0.020	1.09	0.04	0.02	0.07	0.03	0.02
		BID	12	2.59	55.4	7.36	2.90	0.103	8.45	0.028	0.53	0.04	0.01	0.06	0.04	0.02
	Inferred Total		176	2.64	47.1	21.3	6.05	0.044	4.13	0.021	0.66	0.06	0.04	0.09	0.02	0.04
Anvil Total			**176**	**2.64**	**47.1**	**21.3**	**6.05**	**0.044**	**4.13**	**0.021**	**0.66**	**0.06**	**0.04**	**0.09**	**0.02**	**0.04**
Grand Total			**1,484**	**2.73**	**52.2**	**14.8**	**4.96**	**0.064**	**4.73**	**0.017**	**0.51**	**0.05**	**0.04**	**0.08**	**0.03**	**0.03**

Source: Modified from Flinders Management Information

Notes:

Cut-off: DID1, DID2, DID3 (OFP2): Fe>40% and Al_2O_3<8%

Cut-off: DID4, CID, BID (OPF1): Fe>50% and Al_2O_3<6%

3.4 Metallurgical studies

Seven metallurgical testwork programs (denoted as Phases 1 to 7) have been undertaken on mineralised material from the Project over a period of 10 years. The Phase 1 and Phase 2 programs established the physical, chemical and metallurgical characteristics, lump potential and sinter properties of the DID and BID. The results of these programs informed the 2010 PFS where a 2-stage process flowsheet was selected to produce two fines products – a direct shipping product from the BID and DID4, and a beneficiated fines product made by crushing and wet screening DID3. In 2012, the results from the Phase 3 program resulted in a process flowsheet where all the geo-metallurgical domains were beneficiated using crushing and wet screening at a -0.3 mm cut-point. The -0.3mm cut-point was identified as a process risk for the clay fraction at that time. As such, the Phase 4 program investigated other beneficiation options for the -1 mm fraction and concluded that scrubbing and desliming by hydrocyclone was a suitable processing route for all material types.

During 2014, the Phase 5 program was designed to test the metallurgical performance of each separate geometallurgical domain within the context of a wet scrubbing and desliming process flowsheet and concluded that a single process flowsheet was not a feasible option due to the challenges surrounding the beneficiation of some of the detrital materials. In 2015, the Phase 6 program tested the feasibility of a dense media separation (DMS) stage to beneficiate the detrital materials and concluded that this was a viable option.

The Phase 7 metallurgy program is the most recently completed program and considered the results from the previous six programs.

The Phase 7 metallurgy program used sonic and PQ diameter drilling to extract representative low-grade detrital samples for head assaying, wet scrubbing and DMS batch testwork. Additionally, bulk samples of DID1, DID2, DID4 and BID were taken from the outcropping areas at the Delta, Champion, and Eagle prospects. A CID sample was taken from the PQ core.

The Phase 7 metallurgy program resulted in the development of two conceptual flow sheets for two Ore Processing Facilities – OPF1 and OPF2 (Figure 3-5) to treat the material detailed in Section 3.1.2.

OPF1 was designed to process DID4, BID and CID material by crushing, scrubbing, wet screening and de-sliming by dual-stage hydrocyclones.

OPF2 was designed to process the low-grade detrital material types, namely DID3, DID2 and DID1, by crushing, scrubbing, wet screening and DMS using hydrocyclones and ferrosilicon media.

Under this operating concept, the products from both OPF1 and OPF2 would be blended via gravity reclaim tunnels and then discharged to the overland conveyor.

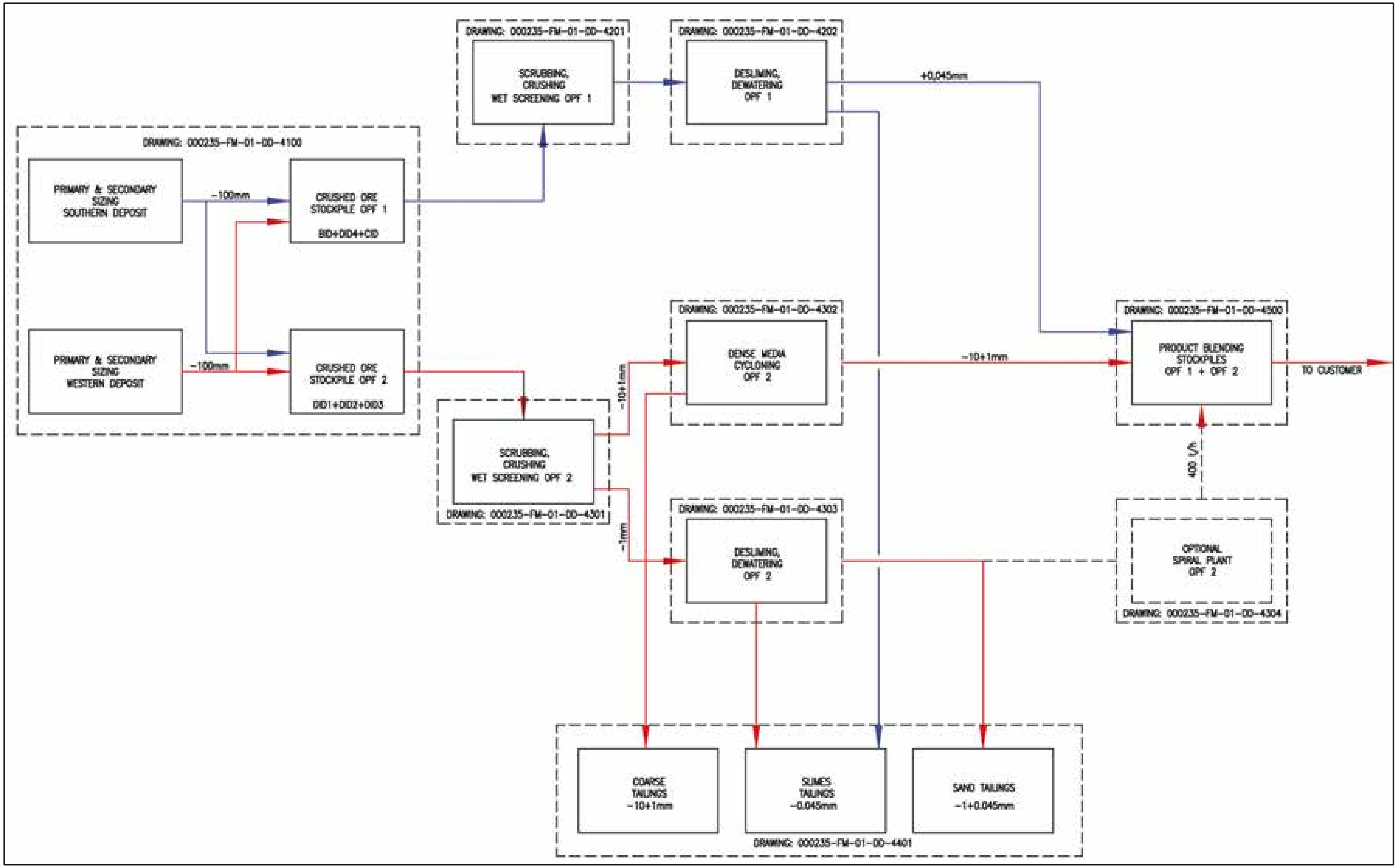

Figure 3-5: Conceptual processing routes

Source: Modified from Flinders Management Information.

The product assays from bench-scale testing are presented in Figure 3-6 and Figure 3-7.

			Head Assays - Phase 7 Metallurgy OPF1 Samples							
			Fe (%)		SiO_2 (%)		Al_2O_3 (%)		LOI1000 (%)	
Ore Type	Number of bench-scale samples	%	Mean	SD	Mean	SD	Mean	SD	Mean	SD
DID4	22	33.3	61.85	2.07	3.80	1.81	2.55	0.94	5.02	2.37
BID	22	33.3	57.60	1.41	5.30	2.69	2.95	0.91	10.02	2.06
CID	22	33.3	55.58	3.16	6.53	3.51	4.23	1.58	8.85	1.58
	66									

			Product Assays - Phase 7 Metallurgy OPF1 Samples								
			Fe (%)		SiO_2 (%)		Al_2O_3 (%)		LOI1000 (%)		
Ore Type	Number of bench-scale samples	%	Mean	SD	Mean	SD	Mean	SD	Mean	SD	Mass Yield (%)
DID4	22	33.3	62.26	2.07	3.50	1.76	1.95	0.80	3.93	1.74	96.3
BID	22	33.3	57.76	1.44	3.62	1.87	2.55	0.77	10.64	1.64	95.8
CID	22	33.3	56.69	2.22	5.51	2.55	3.71	1.68	8.89	1.60	89.1
	66										

Figure 3-6: OPF1 bench-scale metallurgical testwork results

Source: Flinders Management Information.

			Head Assays - Phase 7 Metallurgy OPF2 Samples							
			Fe (%)		SiO_2 (%)		Al_2O_3 (%)		LOI1000 (%)	
Ore Type	Number of bench-scale samples	%	Mean	SD	Mean	SD	Mean	SD	Mean	SD
DID1	24	30.4	44.08	4.06	26.31	6.00	6.55	2.65	2.76	0.59
DID2	29	36.7	50.43	2.77	17.89	4.00	6.14	1.93	2.91	1.14
DID3	26	32.9	59.21	2.36	7.47	2.41	4.70	1.43	2.04	0.51
	79									

			Product Assays - Phase 7 Metallurgy OPF2 Samples								
			Fe (%)		SiO_2 (%)		Al_2O_3 (%)		LOI1000 (%)		
Ore Type	Number of bench-scale samples	%	Mean	SD	Mean	SD	Mean	SD	Mean	SD	Mass Yield (%)
DID1	24	30.4	58.94	1.31	9.53	2.25	3.78	1.26	1.68	0.25	35.88
DID2	29	36.7	59.76	1.13	7.66	1.68	4.31	1.00	1.84	0.56	48.58
DID3	26	32.9	62.94	1.32	4.02	1.16	3.72	1.19	1.35	0.41	68.71
	79										

Figure 3-7: OPF2 bench-scale metallurgical testwork results

Source: Flinders Management Information.

Flinders notes that a single-blended 58.5%–59% Fe fines grade can be beneficiated using the OPF1 and OPF2 processing routes and SRK considers this to be reasonable based on its assessment of the metallurgical testwork reports.

Additional metallurgical testwork will be required to assess the feasibility of achieving higher specification products as outlined in Table 3-6. SRK considers these recommendations to be reasonable.

Table 3-6: Recommended testwork program

	Activity	Deliverable
1	Investigate a higher density cut-point in the dense media circuits in OPF2. The aim is to reject more SiO_2 to coarse tailings and thereby produce a higher Fe product in the ore types DID2 and DID1. The previous Phase 7 program used a maximum density cut-point of 3.2, whereas a density cut-point of 3.3 to 3.6 is expected to produce a higher Fe product, albeit with a lower mass recovery of ore.	Increase total OPF2 Fe to 61- 62%, decrease SiO_2% and Al_2O_3% in OPF2 product Likely to decrease Mass Yield by 10 – 20% (depending on optimum density cut-point selected)
2	Introduce a spiral circuit into the OPF2 process flowsheet to increase mass recovery.	Increase mass yield by ~15% of OPF2 by recovering product from sands reject
3	Investigate upgrading high SiO_2 BID waste material by dense media separation to reject SiO_2 and produce a higher Fe product.	Increase ore fed into OPF2 by upgrading material previously not mined as ore 'out-of-spec'
4	Investigate a third process flowsheet to treat >60% Fe DID4 and DID3 in a dry crushing circuit, for later blending with product from OPF1 and OPF2.	Decrease OPEX and increase mass recovery of >60% Fe ore blocks of DID4 and DID3. Likely to slightly increase SiO_2% and Al_2O_3% in these DSO tonnes.
5	Investigate upgrading coarse tailings by means of additional crushing and a second series of dense media separation.	Increase mass yield of OPF2 by recovering product from coarse reject

Source: Flinders Management Information.

3.5 Mining studies

No Ore Reserve estimates have been reported for the Project to date. Iterative mine planning work has been undertaken as part of each update to the Mineral Resource estimates. Snowden prepared a Feasibility Mine Plan in 2015, high-level scheduling exercises in 2016–2017 and a strategic review in 2017. A mine optimisation study (High-Level Mine Plan by Snowden in December 2018) was informed by the 2018 Mineral Resource estimate and the mass yields implied by the results of the Phase 7 metallurgical testwork program.

In January 2020, Snowden prepared a Production Target of 1,291 Mt (wet) / 1,201 Mt (dry) of ROM feed to give 674 Mt (wet) / 613 Mt (dry) product at average stripping ratio of 0.63 (waste to ROM feed tonnes). The Production Target was supported by a scoping study which was prepared by Flinders. The Product Target and scoping study results were reported to the ASX market platform by Flinders on 7 January 2020.

The Production Target considers material classified as Measured, Indicated and Inferred Mineral Resource in 8 mining centres and is summarised by Mineral Resource classification in Table 3-7 and presented in Figure 3-8.

Table 3-7: 2020 Snowden Production Target by Mineral Resource Classification

	ROM feed							Product						
Mineral Resource Classification	Wet (Mwt)	Dry (Mwt)	Mt (%)	Fe (%)	SiO_2 (%)	Al_2O_3 (%)	P (%)	Wet (Mt)	Dry (Mt)	Mt (%)	Fe (%)	SiO_2 (%)	Al_2O_3 (%)	P (%)
Measured	57	53	4.5	59.1	7.0	4.3	0.07	46	42	6.9	61.7	4.5	3.5	0.07
Indicated	974	905	75.4	50.4	17.8	5.8	0.05	513	467	76.2	60.1	6.6	3.8	0.06
Inferred	260	242	20.1	47.1	21.1	6.5	0.04	114	104	16.9	59.5	7.7	4.2	0.05

Source: Flinders Management Information.

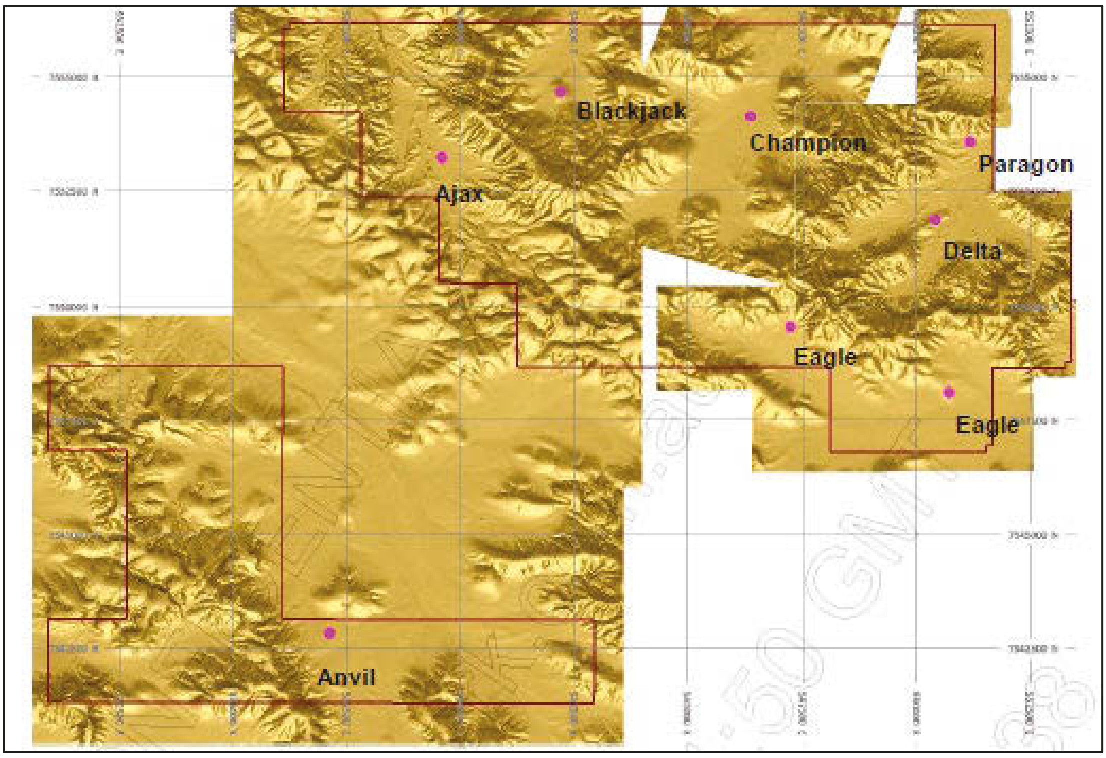

Figure 3-8: Proposed mining centres

Source: Flinders Management Information.

In developing the Production Target, Snowden prepared a mining model using Datamine Studio 3 software. Snowden's Product Optimisor software was used to determine optimal cut-off grades for each rock type. The mining model was imported into Whittle Four-X software where the Lersch-Grossman algorithm was used to optimise the pit shells. No pit designs were generated. Table 3-8 presents the optimisation input parameters and Table 3-9 presents a summary of the variable mining costs by mining centre.

Table 3-8: Optimisation input parameter summary

Item	Value	
Mining costs	Variable by mining area (See Table 3-10)	
ROM Feed processing cost (A$/wmt feed)	OPF1 1.01	OPF2 1.58
Product cost (A$/wmt product)	OPF1 1.88	OPF2 2.99
Rejects processing cost (A$/wmt reject)	OPF1 3.50	OPF2 3.50
Conveyor cost (A$/wmt feed) – Champion and Delta	0.20	
Conveyor cost (A$/wmt feed) – Blackjack and Eagle	0.40	
Conveyor cost (A$/wmt feed) – Ajax	0.60	
Conveyor cost (A$/wmt feed) – Anvil	1.00	
Administration cost (A$/wmt product)	0.56	
Shipping cost (US$/dmt product)	6.77	
Rail and port cost (A$/wmt product)	7.62	
Infrastructure access tariff (A$/wmt product)	16.95	
62% Fe reference price (US$/dmt)	70	
Discount to reference price (after head grade) for blended product	13.6%	
Foreign exchange rate (US$/A$)	0.70	

Item	Value
Native title royalty payment (%/FOB)	0.75
Western Australian state royalty payment	7.5%
Discount rate	10%

Source: Modified from Flinders Management Information.

Table 3-9: Variable Mining Costs by Mining Centre

Item	Ajax	Badger	Blackjack	Champion	Delta	Eagle	Paragon	Anvil
ROM Ore								
Load ($/bcm)	2.89	2.89	2.89	2.89	2.89	2.89	2.89	2.89
Drill and blast ($/bcm)	1.53	1.43	1.56	1.57	1.60	1.56	1.52	1.54
Wet blasting ($/bcm BWT)	0.06	0.06	0.06	0.06	0.06	0.06	0.06	0.06
Miscellaneous ($/bcm)	2.66	2.66	2.66	2.66	2.66	2.66	2.66	2.66
Haul horizontal ($/bcm.km)	1.24	1.24	1.24	1.24	1.24	1.24	1.24	1.24
Haul vertical in-pit ($/bcm.km)	2.13	2.13	2.13	2.13	2.13	2.13	2.13	2.13
Haul vertical ex-pit ($/bcm.km)	1.84	1.84	1.84	1.84	1.84	1.84	1.84	1.84
Dewatering ($/t)	0.94	0.24	0.40	0.05	0.26	0.23	0.24	0.04
Waste								
Load ($/bcm)	2.83	2.83	2.83	2.83	2.83	2.83	2.83	2.83
Drill and blast ($/bcm)	1.53	1.59	1.61	1.62	1.63	1.63	1.58	1.60
Wet blasting ($/bcm BWT)	0.06	0.06	0.06	0.06	0.06	0.06	0.06	0.06
Miscellaneous ($/bcm)	0.84	0.84	0.84	0.84	0.84	0.84	0.84	0.84
Haul ($/bcm)	1.45	1.88	3.06	2.25	2.14	3.52	2.12	2.34
Haul vertical in-pit ($/bcm.km)	1.95	1.95	1.95	1.95	1.95	1.95	1.95	1.95
Dewatering ($/t)	0.94	0.24	0.40	0.05	0.26	0.23	0.24	0.04

Source: Flinders Management Information.

The Production Target contemplates contract mining using conventional drill, blast, load and haul mining cycle using 350 tonne and 110 tonne excavators, 225 tonne rigid body dump trucks and 40 tonne rotary drills as well as ancillary mining equipment. Overland conveyors are used when required to transport material to the processing facilities. Crushing facilities will be located to feed the conveyors as required. Snowden note challenging terrain which will require civil earthwork investigation and cut and fill costing.

A detail mine waste and processing reject strategy has not been completed. The mine plan anticipates the use of mining voids to accommodate the waste streams, with mining commencing ahead of processing to create storage space.

Snowden prepared a life of mine schedule using its Evaluator scheduling software. The parameters and constraints used by Snowden for the mine scheduling are presented in Table 3-10.

Table 3-10: Scheduling Constraints and Parameters

Item	Value
Time Scale	• Annual increments over the life of the Project
Resolution	• Quantities were aggregated to half benches (6m) by stage and material type
Precedence	• Mining benches within a stage were dependent on the bench above being mined out. In addition, benches from subsequent stages were prevented from mining below the current stage

Item	Value
Bench Turnover	• Restricted to six benches per year (72 vertical metres) where the proportion o waste to ROM feed was at least 75% and four benches per year elsewhere (48 vertical metres).
Mining	• Total ex-pit movement limited to 200 Mtpa (wet) • No mining ramp up, schedule smoothed
Conveying	• Maximum of five crushers with a capacity of 25 Mtpa (wet) per crusher
Processing	• First processing in Year 3 • Annual processing rate capped at 45 Mtpa of product • 75% ramp-up in the first year of processing (Year 3) • Maximum 25 Mtpa ROM feed to OPF1 • Maximum 100 Mtpa ROM feed to OPF2 • Minimum product Iron grade of 57% in any year • Maximum product Silica grade of 7% in any year • Maximum product Alumina grade of 4% in any year

Source: Modified from Flinders Management Information

Mining is expected to commence in year 1 in the Paragon mining area, which will provide an area for initial tailings deposition. Sequential mining then takes place at Delta, Eagle, Champion, Blackjack, Ajax and finally Anvil, where Inferred Mineral Resources support the Production target in the last three years of the schedule (year 13 to year 16). The schedule relies on active stockpile development and re-handle management. Given the schedule was developed to maximise net present value, the mining areas giving the best product grades (highest Iron grades and lowest silica and alumina grades) are mined first. As a result of this and the spatial limits given by the topography and tenure, the maximum product grades of silica and alumina (7% and 4% in any given year respectively) are reached constantly by year 8 of the schedule. Additionally, the schedule contemplates a 20% shortfall in the amount of space available for processing slimes deposition.

The key techno-economic risks to the mining project (notwithstanding financing), and the ability to report an Ore Reserve estimate under JORC Code (2012) reporting guidelines as noted by Snowden include Iron ore pricing, and resolving an optimal materials handling, waste management and tailings storage strategy.

Table 3-11 presents a summary of the modifying factors used by Snowden to develop the Production Target as reported to the ASX market platform by Flinders on 7 January 2020.

SRK considers that the work undertaken by Snowden to develop the Production Target has been prepared to a sufficient quality standard and that the Production Target has *reasonable grounds*. SRK notes the techno-economic risks mentioned by Snowden and concurs that the ability to report an Ore Reserve estimate for the Project under JORC Code (2012) reporting guidelines is limited at the current time.

Table 3-11: Production Target Modifying Factors

Item	Comment
Mineral Resource	Snowden prepared the PIOP Mineral Resource estimate in February 2018. The total PIOP Mineral Resource, including Blacksmith and Anvil, is estimated to be 1,484 Mt at 52.2% Fe, 14.8% SiO_2 and 4.96% Al_2O_3, reported using the following cut-offs: DID1, DID2, DID3 (OPF2): Fe ≥40% and Al_2O_3 ≤8% DID4, CID, BID (OPF1): Fe ≥50% and Al_2O_3 ≤6%. The block model used for mine planning was bs_mod1802.dm
Site Visits	A site visit was undertaken by Snowden consultants, Mr John Graindorge (October 2017) and Mr Frank Blanchfield (July 2015). FLINDERS Principal Metallurgist,

Item	Comment
	James McFarlane, visited the PIOP (July 2017) during the on-ground Metallurgical sampling phase of the Maturation Programme.
Study Status	Various Scoping, PFS and FS studies were completed by FLINDERS on 5-15Mtpa mining scenarios before 2015. These studies were based on conceptual and unsubstantiated infrastructure solutions. During 2017 FLINDERS conducted a Strategic Review which identified rail infrastructure as critical and an annual productions rate of ~45 Mtpa(dry) would be optimal target for development scenario. FLINDERS between 2017 to 2018 produced the following sub-studies at the following maturation level: • Mine Planning Study (Snowden) – Concept Study Level • Geotechnical Study (Snowden) – Feasibility Study Level • Metallurgical Study (FLINDERS Internal) – Feasibility Study Level • Hydrogeological Study (Advisian) – Pre-Feasibility Study Level • Tailings Storage Facility (Advisian) – Concept Study Level • Process Plant Study (FLINDERS Internal) – Concept Study Level In 2019 PWC conducted an Independent Experts Report which identified BBI Group's Proposed Rail and Port Solution as the primary and most likely export path and subsequently FLINDERS has entered into detailed Transaction Documents with BBI, still subject to subject to shareholder vote at an EGM in 2020. A detailed due diligence process was conducted by FLINDERS on the BBI Infrastructure Solution and this work found the proposed project was suited to the PIOP requirements. The certainty of suitability and implementation probability of this infrastructure solution has been assessed by the FLINDERS team as high in terms of a basis for a Scoping Study. The BBI Infrastructure has been assessed by FLINDERS as being approximately an AACE Class-3 to Class-4 level of Project Definition.
Cut-off parameters	Snowden applied a linear programming method to generate cut-off grades producing an optimal blended product from the material types to maximise product tonnes at target specifications (60% Fe). The cut-off grade equations are expressed as follows: Processing / Rock type / Cut-Off grade OPF 1 / DID 1 / Fe (%) >= 36.57 DID 2 / Fe (%) >= 0.002 x SiO2 (%) – 0.029 x Al2O3 (%) + 36.71 DID 3 / Fe (%) >= 0.119 x SiO2 (%) + 0.169 x Al2O3 (%) +31.34 OPF 2 / DID4 / Fe (%) >= 0.001 x SiO2 (%) + 0.002 x Al2O3 (%) +57.40 CID / Fe (%) >= 0.001 x Al2O3 (%) + 57.46 BID / Fe (%) >= 0.001 x SiO2 (%) + 0.001 x Al2O3 (%) +57.69
Mining Factors and assumptions	To identify the Production Target, a process of Whittle pit optimisation and annual production scheduling based on pit shells was undertaken by Snowden. No pit design or detailed waste planning was completed. The proposed mining method is conventional open pit drill and blast, load and haul on a 6, 9 or 12 m high blasting bench reflective the semi-selective consideration. An excavator bucket of 13 m3 matched the selectivity. Ore will be mined to ROMs that are close to the pit and will then be rehandled by FEL loaders to feed the semi-mobile sizers prior transport to the ore processing facilities by conveyors. The ore will be mined in two batched OPF2 Feed (DID1, DID2, DID3) and OPF1 Feed (DID4, CID, BID). The ROM waste and coarse rejects will be mined to external waste dumps or dumped in-pit. The fines rejects will be transported back to in-pit tailings cells – which will be created from mined voids. A re-blocking approach was used to account for dilution and recovery. A selective mining unit (SMU) of 12.5 mE x 12.5 mN x 3 mRL was selected. Overall wall angles of 31.0º (RC, DID1/2), 41.6º (DID3), 46.0º (DID4/CID), 39.4º (BID/Basement) were applied for optimisation. This represents the inter-ramp angle minus 5º. These angles are supported by a geotechnical drill programme, and study completed by Snowden in 2018.
Metallurgical factors and assumptions	The following Life of Mine average processing upgrade factors (head assay to product assay) are summary outputs of the regression curves that were used in the

<table>
<tr><th>Item</th><th>Comment</th></tr>
<tr><td></td><td>study. The specific regression equations have been used in this study but have been withheld in this table due to being commercial in confidence.
<table>
<tr><td>Material Type</td><td>Mass Yield (%)</td><td>Fe product grade factor</td><td>SiO_2 product grade factor</td><td>Al_2O_3 product grade factor</td></tr>
<tr><td>DID4</td><td>96.3</td><td>1.01</td><td>0.93</td><td>0.94</td></tr>
<tr><td>DID3</td><td>63.0</td><td>1.08</td><td>0.50</td><td>0.79</td></tr>
<tr><td>DID2</td><td>52.7</td><td>1.16</td><td>0.42</td><td>0.71</td></tr>
<tr><td>DID1</td><td>36.3</td><td>1.33</td><td>0.37</td><td>0.59</td></tr>
<tr><td>CID</td><td>90.1</td><td>1.00</td><td>0.91</td><td>0.86</td></tr>
<tr><td>BID</td><td>95.8</td><td>1.00</td><td>0.97</td><td>0.99</td></tr>
</table>
Metallurgical regressions were developed to describe the relationship between in-situ Head Assays and Product Assays following the processing of the material types DID1, DID2 and DID3 through OPF2, and the material types DID4, BID and CID through OPF1. A target of 20 - 30 representative samples were tested for each of the 6 material types. Metallurgical regressions were developed for each of the chemical elements: Fe, SiO2, Al2O3, P, TiO2, MgO, LOI1000 and Mass Recovery for each of the material types DID1, DID2, DID3, DID4, BID and CID.</td></tr>
<tr><td>Environmental</td><td>The mining titles and approvals critical to the viability of the Project as outlined in the project environmental review document “Approvals Status Report and Implementation Plan” that was prepared by Preston Environmental in 13/08/2019.

All of the currently identified Mineral Resource areas and likely Infrastructure locations have been heritage surveyed. Exclusion and non-disturbance zones are defined as heritage sites that have been identified during the initial clearance surveys and at this stage cannot be disturbed during exploration, construction or operational activities. A Section 18 process needs to be undertaken for these to be removed, destroyed or avoided.

Each of the identified sites will still need to go through the Section 18 process before it can be cleared, and this process is expected to be completed during further feasibility activities.

Flora and Vegetation Survey was completed by conducted in mid-2017 by Phoenix Environmental Sciences. Follow-up Significant Flora and Fauna surveys have not yet been conducted due to the location of pits and infrastructure yet to be finalised.</td></tr>
<tr><td>Infrastructure</td><td>The mine site infrastructure has been located at likely locations and costed in the capital cost estimate; however, the location of Processing and Non- Processing Infrastructure has been identified as requiring further detailed development during future studies:

Mine-site Buildings (offices, workshops, laboratories, oil/fuel/lube/explosives storage)
Contract Mining Facilities
Accommodation Villages (Construction and Operations)
Aerodrome
Power Transmission and Distribution (Generation currently planned at railhead stockyard)
Water to be sourced from dewatering bores and dedicated bore fields on PIOP tenements. PIOP has a provisional 13Glpa water allocation from DWER – subject to final Hydrogeological studies.
Pit to Plant Conveyors
In-Pit Tailings Facilities
Ore Processing Facilities 1 and 2 (OPF1, OPF2)
ROM Pads and crusher locations
Coarse Ore Stockpiles (CoS)

The proposed mining cycle is conventional drill, blast, load and haul. The haul is proposed to be to side-of-pit rom pads and crushing stations. The ROM ore will be blended (combination of direct dumping and front-end loader) to ensure distribution of material types to meet process feed specifications. The pit- plant overland</td></tr>
</table>

Item	Comment
	conveyors will then transport the blended ROM ore to two separate Coarse Ore Stockpiles (one for OPF1 and the other for OPF2) which then feed the select OPF. After a process of dry and wet beneficiation through the associated plants (OPF1 and OPF2), the product will be rough blended from conical product stockpiles, via underground reclaim tunnels before being conveyed approximately 29 km to a full linear blending stockyard and then railed 160 km to the Balla Balla port. The plant produces three tailings streams: coarse, sands and slimes. Both coarse and sands can be co-disposed with general mine waste. However, slimes require a specific storage area. At this stage these rejects will be stored in previously mined pit voids. Initial mining would commence ahead of processing to create an initial area for storage at Paragon South Pit. Detailed rejects management (including mine waste) has not been completed as part of this Scoping Study but is conceptually possible after reviewing all available data. Flinders has signed an Infrastructure Haulage Agreement with BBI (which is subject to a positive vote by FLINDERS Shareholders at an Extraordinary General Meeting in 2020), The nature of this agreement is that PIOP material will be hauled by BBI infrastructure to Ocean Going Vessels. The PIOP project will pay a fee for service and will retain ownership of the material until it is sold to customers.
Cost factors	<u>Operating Costs</u> All operating costs were supplied by Flinders and are based in Australian Dollars Mining costs are based on contractor pricing conducted during 2015, during the Alliance Agreement period between FLINDERS and Rutila Resources (which later become BBI), and are comprised of: Waste cost of $3.23/t mined Ore cost $3.90/t mined Additional ore haulage costs (for overland conveyor) of $0.2/wt ore for Delta/Champion, $0.40/wt ore for Eagle/Blackjack, $0.60/wt ore for Ajax, and $1.00/wmt ore for Anvil. Processing costs comprised (supplied by BBI during 2019 due diligence which are from a suitably qualified EPC process plant contractor) of: Plant variable opex of $1.01/wmt ore for OPF1 and $1.58/wmt ore for OPF2 Rejects management cost of $3.50/wmt reject Fixed cost of $1.88/wmt product for OPF1 and $2.99/wmt for OPF2. The administration cost comprised of a G and A cost of $0.56/wmt ore Product costs for product transportation included: • Rail and port cost of $7.62/wmt product • Shipping cost of US$6.77/wmt product • Infrastructure access tariff of $16.95/wmt product (base cost of $14.75 adjusted by $2.20 commodity charge based on A$/dmt for CFR Received Price) <u>Capital Costs</u> The BBI cost estimates for both the PIOP mine have been utilised in this Scoping Study as their studies and estimates have been studied and deemed to have the appropriate level of confidence for this level of assessment. These cost estimates, developed by BBI with the support of respected industry consultants and experienced contractors, have been reviewed by Flinders (and its qualified consultants) during the Due Diligence Period and deemed appropriate for use in this Study. Total estimated mine development capital costs of $3,648 M comprised of: • Pre-production capital costs, process plants (OPF1 and OPF2), pit to plant conveyors, tailings infrastructure, other non-process Infrastructure costs (TSF, Roads, Power, Camp) of $3,090 M • Sustaining costs $558 M • Closure costs were not estimated in this Scoping Study. It should be noted however that progressive rehabilitation to the pit voids is conducted via backfilling of waste streams during the mine life – therefore materially reducing any costs at the end of the mine life.

<table>
<tr><th>Item</th><th>Comment</th></tr>
<tr><td>Revenue factors</td><td>Assumptions are provided below:
<table>
<tr><td>Item</td><td>Unit</td><td>Value</td><td>Source</td></tr>
<tr><td>Iron Ore price (62% Index)</td><td>US$/tonne</td><td>70</td><td>Flinders</td></tr>
<tr><td>Impurity discount</td><td>% (after Fe% adjustment)</td><td>15.6%</td><td>Flinders</td></tr>
<tr><td>Foreign Exchange Rate</td><td>AUD: USD</td><td>0.70</td><td>Flinders</td></tr>
<tr><td>State Royalty – Selling Cost</td><td>% price of Fe FOB</td><td>7.5</td><td>Flinders</td></tr>
<tr><td>Native title royalty on product</td><td>% price of Fe FOB</td><td>0.45-0.75</td><td>Flinders</td></tr>
<tr><td>Discount rate</td><td>%</td><td>10</td><td>Flinders</td></tr>
</table>

Iron Ore used a 62% Fe reference point and penalties were applied for grade deviations from the marketing specification.
Marketing specifications provided by BBI have been reasonably adjusted from 13.6% to 15.6% to account for higher levels of Al_2O_3 and SiO_2 in this Production Target.
Iron Ore Reference Price was based on Bloomberg Broker Consensus in Q4-2019
Iron Ore prices were applied as real and flat forward in the financial model.
Foreign Exchange Reference Price were based on Bloomberg Broker Consensus in Q4-2019
</td></tr>
<tr><td>Market Assessment</td><td>Flinders has entered into detailed Transaction Documents with BBI, still subject to subject to shareholder vote at an EGM in 2020. Part of this transaction is the PIOP entering into a marketing agreement with a subsidiary of BBI will be appointed as marketing agent and will put in place off-take agreements with end customers for PIOP product. During the Due Diligence period Flinders sighted confidential initial (subject to further finalisation) offtake agreements between BBI and 3rd parties with material presence in the market for material similar to what has been presented in the Production Target. The combined annual tonnage of these initial agreements is 43Mtpa(dry) – which is ~96% of the required annual off-take which gives FLINDERS the required confidence to rely on this information.</td></tr>
<tr><td>Finance</td><td>Flinders has entered into detailed Transaction Documents with BBI, still subject to subject to shareholder vote at an EGM in 2020. This deal presents a clear and structured pathway to finance, and whilst not yet finalized has more substance than is typical for a project at a Scoping Study level. The maturation of the finance is at a much more advanced level due to BBI developing strong partnerships to fund their infrastructure over a number of years. It is envisaged that the same equity and debt consortium that will fund the BBI Infrastructure will also fund the PIOP mine. The Current consortium involves China sourced finance, including:

Head Contractor: China State Construction Engineering Corporation (CSCEC)
Equity Consortium: China Australia Development Investment (CADI - China Zhong Chong Group Co Ltd and others)
Debt Consortium: Chinese State Policy banks
</td></tr>
<tr><td>Social</td><td>Flinders signed a Native Title Agreement with the Wintawari Guruma Aboriginal Corporation RNTBC (WGAC) over the Blacksmith Mining Lease (M47/1451) on 13th March 2012 – this is still in effect.

Flinders recently signed a Native Title Agreement with the Wintawari Guruma Aboriginal Corporation (WGAC) over the Anvil Mining Lease (E47/1560) on 11th November 2019 – this is still in effect.

No notable issues currently with community groups or local stakeholders. As the project furthers its development the interactions with these parties will increase which may uncover additional issues or requirements.</td></tr>
<tr><td>Classification</td><td>An Ore Reserve estimate using the guidelines of the JORC Code 2012 was not estimated.

Inferred Resources have been included in the Production Target (20.2% by feed or 16.9% by product). The remainder is Measured Resources (4.5% by feed or 6.9% by product) and Indicated Resources (75.4% by feed or 76.2% by product). The</td></tr>
</table>

Item	Comment
	noted Inferred Resources have also been scheduled toward the back- end of the mine plan to ensure their contribution to value is minimised.

Source: Modified from Flinders Management Information

3.6 SRK Technical Assessment on BBI Data

In September 2018, as mandated by BBI, WorleyParsons Services Pty Ltd prepared a Technical Feasibility Study (TFS) Report on the BBI Project. The TFS Report was provided by BBI to Flinders in May 2019 to assist with technical assessments relating to the Proposed Transaction via a secured data room (BBI data room). Flinders subsequently provided SRK with access to the BBI data room for the purpose of its technical assessment. The following sections relate to the information supplied in the BBI data room.

3.7 Water supply

3.7.1 Mine

The main consumers of water at the proposed Integrated Project are the processing plants (OPF1 and OPF2) and dust suppression. Work to date has estimated the Project's annual water demand at 6 GL and it is envisaged that this will be provided by a mine dewatering program.

The estimated 6 GL/a water demand is regarded as being capable of meeting the 0.5 GL/a mine dust suppression requirements and 5.5 GL/a of water required by the processing facilities. Groundwater studies indicate that there is likely to be excess water available, exceeding the estimates of the processing facilities and dust suppression water requirements.

It is noted that water quality information is limited, and further investigations and analyses are required to be undertaken in the subsequent stages of study development. The chloride content should be assessed, as it may have an impact on the final product specification (depending on the end-user requirements), as well as the specifications of the materials of construction of the processing facilities.

Assumptions relating to the quality of the available water, given the typical data available for the region, are reasonable and in line with the industry standards.

3.7.2 Port

Due to the nature of the process and the fact that the proposed port facility does not contain any processing facilities (such as beneficiation or screening) other than material handling, which includes train offloading, stockpiling, reclaiming and ship loading, the water requirements are significantly lower than those of the processing facilities at the proposed mining operation.

The raw water supply assumption is based on groundwater (bores). Water is proposed to be stored in two feed ponds prior to being subjected to ultrafiltration and/ or reverse osmosis, depending on the end-use (process water, potable water and service water). This is a well-proven and conventional system used widely in the industry and there are no concerns in this area of the Project.

The overall water demand will be determined and refined in subsequent study phases. The design criteria document provided for the review stipulates the expected water requirements of all the end-users for the process, service and potable water. Technically rational assumptions are used for estimation of water to be used at the port.

3.8 Power

3.8.1 Mine

The proposed design allows for a dedicated power supply package at the mine site. The proposed location for the power station is at the railhead loop with the power station intended to supply the mine, processing facilities, the overland conveyor and the rail stockyard.

The proposed power generation system uses gas-fired reciprocating engine-driven 11 kV generators placed in acoustic enclosures and operating in two sections. The generators are designed to operate on two fuel types – gas or diesel. This provides the system with flexibility and reduces the risk associated with the power supply.

For the purposes of the Project cost estimates, the BOO (Build Own Operate) model was employed. SRK notes that BBI has considered an opportunity, which may be presented by the funding strategy to finance the development of the power station, that could be managed either by BBI or a third-party operator. These options provide the flexibility to optimise the expenditure and will undoubtedly be subject to trade-off studies as the Project is advanced.

The design of the power transmission and distribution pad allows for the delivery of 144 MW of power required to produce 50 Mtpa (wet) of the fines product. Double-circuit transmission lines, which are 34 km long, serve to transfer the power from the power station to the mining area, ore processing facilities and the overland conveyor.

The power generation, distribution and transmission package was based on a reference design developed by AECOM. Technical specifications, scope and load lists were developed as per standard engineering practice.

A dedicated power supply, when designed and operated correctly, may be beneficial during the start-up and ramp-up periods of the operation of the processing facility, when the power demand tends to be intermittent and fluctuate which, as a consequence, could lead to supply interruptions/ trips.

3.8.2 Port

The allowance for power generation at the port consists of gas-fired reciprocating engine-driven 11 kV generators in acoustic enclosures, operating in two sections. Allowance was made to operate on two fuel types, either gas or diesel. The proposed power generation package also includes diesel generators, which can start the plant when the main supply is not available.

The conceptual design of the power transmission and distribution system at the port allows for the delivery of 42 MW of power required to handle 50 Mtpa (wet) of iron ore product. The system is sized to receive 11 kV supply from the power generation package and distributes at 33 kV main distribution hubs and conveyor switch rooms.

3.9 Road access

Road access to the Project will be either via a proposed new sealed public access road, the Karratha to Tom Price Road, or a new road constructed on L47/839, if the public road to Tom Price is not accessible.

All internal access roads to the pits and other non-process-related infrastructure are unsealed.

SRK was advised that the construction activities were subjected to a logistical study (route study). This included liaison with Main Roads Western Australia, stakeholders and local authorities, in order to enable the delivery of material and equipment for the mobilisation and construction of the Project.

SRK was further advised that a detailed construction strategy and appropriate planning of construction activities on site will be further developed prior to Financial Investment Decision (FID) as part of the subsequent stages of the Project's development. The planning is expected to include further definition around the Owner's team and Construction Organisation's responsibility for the coordination and management of construction activities and the management of interfaces between contractors and operations personnel. It will also include full, fair and reasonable access to local contractors in accordance with both BBI's Local Industry Participation Plan (LIPP) and the Australian Industry Participation (AIPP) requirements.

The road access was considered, and is suitably documented, in a risk register resulting from the risk assessment process. Based on the supplied information, the road access is considered a work in progress and will be subject to further evaluation and optimisation studies as the design advances. The information provided indicates that, for the current level of engineering development, technically sound assumptions were employed and that these are in line with the industry standards.

3.10 Rail transport

The proposed rail system designed for the transportation of the ore from the Project to the port facility consists of a train loading system at the mine, a 165 km single track standard gauge railway and a train unloading car dumper at the port. The rail line will be designed to carry 40 t axle loads. This is a typical and proven setup used in the area.

The engineering design for the rail component of the Project was developed by AECOM. The key components of the design include:

- Railway earthworks and drainage
- Road earthworks and drainage
- Track installation
- Train control
- Signalling
- Asset protection
- Rail communications including permanent and temporary construction requirements
- Infrastructure inclusive of level crossings, access and haul roads, temporary facilities to support the Project
- Rail marshalling and maintenance yards.

A description of the rail alignment was provided for SRK's review. Based on its review of the available information, SRK considers the proposed alignment is technically sound and that a rational methodology was used in its determination. The alignment was optimised with respect to capital and operating expenditure. The process took into consideration factors such as cut and fill quantities, drainage, geotechnical data, drainage structures, third-party infrastructure, environmental and heritage sites and land and leaseholder requirements.

The design works appear to have included all the necessary and standard components and included items such as:

- Geotechnical investigation along the rail alignment and at the prospective borrow pit area locations
- A hydrogeological investigation that identified the availability of ground water along the rail alignment
- Hydrological investigation including data collection of streamflow and rainfall within the river catchments in the area

- Geographic Information Systems (GIS) input included aerial photography and LiDAR digital elevation models.

In SRK's opinion the proposed engineering design of the Project's rail component is based on technically sound assumptions and is in line with prevailing industry standards.

4 Infrastructure Capital and Operating Costs

The cost estimation procedures used by WorleyParsons follow a standard industry approach. The methodology was based on obtaining specific market pricing with individual contract packages aligned with core capabilities of established contractors. The intention was to obtain good market coverage and limit the level of sub-contracting. Figure 4-1 presents a summary of the preliminary contracting and procurement strategy given in the TFS Report.

1.7.1 Contracting and Procurement Strategy

A preliminary contracting and procurement strategy has been developed that corresponds to the proposed project implementation strategy. The overview of the proposed strategy describes how the BBIP will be delivered using a combination of various contracting models. The EPC form of contract may be suitable and used for the major facilities. Where design has been conducted by third parties engaged by BBIG, the Construct Only contracting model may be suitable and, where appropriate, Build Own Operate (BOO) for service contracts will be selected. Major items of equipment and machines will be procured either through a design and construct contract or an equipment design and supply contract, depending on the amount of on-site installation works associated with the package.

The proposed contracting strategy has been developed similar to a procurement plan, which was prepared at the commencement of the FEED study. The overall strategy of a procurement plan is to break down the total project into discrete vertical and horizontal packages which would lead to the best value for money outcome, correctly allocated design responsibility and accountability for supply and construction to the correct parties.

The contracting strategy also identified which packages should include an Early Contractor Involvement (ECI) phase (such packages being P9 – Jetty and P10 – Transhipment). The design portions of the Construct Only packages, identified in Table 1-3 below, were conducted by Tier 1 engineering consultants, who would bear the design responsibility for the respective packages.

Table 1-3: Proposed Contract Packages and Respective Styles of Engagement

RFT Package Identification	Package Description	Style of Contract	Pricing Basis
P1	Bulk Earthworks	Construct Only	Rated Bill of Quantities
P2	Road over Rail and Bridge	Construct Only	Rated Bill of Quantities
P3	Signalling & Communications	Design & Construct	Fixed Lump Sum Design & Construct
P4	Track	Construct Only	Rated Bill of Quantities
P5	Materials Handling Machines	Equipment Design, Supply & Install	Design & Construct – Fixed Lump Sum
P6	Materials Handling Conveyors	Equipment Design, Supply & Install	EPC – Fixed Lump Sum
P7	Mines Process Plant (OPF 1)	Construct Only	EPC – Fixed Lump Sum
P7A	Mines Process Plant (OPF 2)	Construct Only	EPC – Fixed Lump Sum
P8	Causeway and Quarry	Construct Only	Rated Bill of Quantities
P9	Jetty	Design & Construct	EPC – Fixed Lump Sum
P10	Transhipment	Build Own Operate	Cost per Tonne
P11	Accommodation and Camps	Build Own Operate	Construction – Schedule of Rates Operations – Cost per man
P12	Power Generation	Build Own Operate	EPC – Supply Service Agreement
P13	Power Transmission and Distribution	Design & Construct	Design & Construct – Schedule of Rates
P14	Construction Water	Included in P1	
P15	Non-Process Infrastructure	Construct Only	EPC – Fixed Lump Sum
P16	Contract Mining	Services	Services Contract – $/t
P17	Logistics	Services	Schedule of Rates
P18	Car Dumper – Construct & Install	Construct Only	EPC – Fixed Lump Sum
P19	Rolling Stock	Equipment Design & Supply	Lump Sum
P20	Ocean Going Freight	Services	Services Contract – $/t

A desktop study and review of the various project models and delivery contract strategies available was undertaken by a specialist external strategic advisory consultant. The various forms of contracts were chosen on the basis of the risk profile of the relevant package and its associated interface management attributes.

Figure 4-1: Summary contracting and procurement strategy

Source: WorleyParsons TFS Report.

4.1 Capital estimate

The capital cost estimate information provided by Flinders was reviewed based on the most recent capital expenditure (CAPEX) update, as per the TFS Report Addendum by WorleyParsons, dated June 2019. The review was focused on assessing the reasonable nature and technical soundness of the infrastructure components of the estimate. The selected contractor pricing for each package was reportedly used to define a triangular Probability Density Function by specifying the low, most likely and high value. The mean and standard deviations were then calculated, and the package capital cost was assumed to be a lognormal distribution. The P90 value derived from the resultant lognormal distribution was selected for input to the CAPEX for each package. The P90 value is expected to represent a cost that 90% of tender submissions in response to a request for tender are likely to be less than that value.

The capital contingency used was evaluated using risks and opportunities compiled from the contractor bids, the contract package risk workshops and the corporate risk workshop. BBI developed a risk model to run a standard iterative, probabilistic model using @Risk software. BBI has entered into a Business Contract with China State Construction Engineering Corporation Limited (CSCEC). Pursuant to this contract, CSCEC will be appointed as the lead contractor for the delivery of the infrastructure project on an Engineering, Procurement and Construction (EPC) basis. In January 2018 CSCEC undertook an independent assessment of the engineering deliverables and contracting packages and increased the contingency allowance as a result of this assessment. Additionally, the capital estimates for the OPF1 and OPF2 were updated in June 2018 to reflect market pricing.

In SRK's opinion, the capital cost estimates were prepared at a feasibility level of study (+/-15%).

4.2 Operating cost estimate

The methodology and assumptions used in the derivation of the operating cost estimate were assessed to determine whether they were in line with the industry norms and standards, fit for purpose and meet the reasonable grounds requirement.

The operating cost estimate methodology was focused on developing the estimate based on first principles and associated assumptions. Where it was identified that significant risks existed, these were transferred to third parties to be able to better manage those risks (e.g. power generation). The developed operating expenditure (OPEX) estimate was used as the primary operating cost input into the overall financial model.

Any qualifications and assumptions used are appropriately recorded in the OPEX Basis of Estimate document. These are considered in line with the industry standards and norms.

As per the industry standard, the operating cost estimate provides the operating costs broken down into fixed and variable components with the following key elements:

- Salaries and on-costs
- Power
- Process consumables, water and fuel
- Maintenance consumables
- Contract services
- General and administration.

Where vendor pricing was not available, reasonable assumptions and industry norms were used to develop the costs. Based on the available information, SRK concluded that standard and proven industry practice was followed in developing the operating cost estimate. The tasks were undertaken and assessed by reputable and experienced experts in the field and used a reasonable set of assumptions. The benchmarking of the operating costs against the existing producers poses some challenges, due to the fact that different bases of reporting are used and not all of the inclusions and exclusions are disclosed.

In SRK's opinion, standard and proven industry practice was followed in developing the operating cost estimates. The tasks were undertaken and assessed by reputable and experienced experts in the field and used a reasonable set of assumptions. While recognising that further changes and optimisation are likely to take place prior to any decision to commence construction, the operating cost estimates meets the reasonable grounds requirement.

In SRK's opinion, the operating cost estimates were prepared at a feasibility level of study (+/-15%).

4.3 Other considerations

4.3.1 Iron ore price

According to the Australian Government Resources and Energy Quarterly December 2019 report, Iron Ore prices remain at unusually high levels following production shortfalls. The iron ore price is forecast to decline to an average of US$60 a tonne (FOB Australia) by 2021, as the seaborn market gradually returns to balance. Export volumes are expected to grow from 834 million tonnes in 2019 to 878 million tonnes by 2021 as new production commences in Western Australia.

4.4 Model Assumptions

Flinders supplied SRK with a discounted cashflow model. SRK has assessed the production and cost projections and, where deemed warranted, has modified the production projections for use by Grant Samuel. The Model is based around the development of the Integrated Project. SRK's assessment was limited to the technical inputs and specifically excludes commodity pricing, taxation, royalty structures and financing.

In SRK's opinion, the Mineral Resource estimates considered in the Model have been prepared and reported to a sufficient quality standard in accordance with the JORC Code (2012) guidelines. The Mineral Resource estimates meet the reasonable grounds requirement.

In SRK's opinion, the mine planning assumptions and inputs in the Model need modification to meet the reasonable grounds requirement. The Model considers the mine plan used in the TFS. This mine plan was superseded by the Production Target reported on 7 January 2020. The Production Target considers material classified as Measured, Indicated and Inferred Mineral Resource and no formal Ore Reserve has been reported. Inferred Mineral Resource estimates include material for which tonnage, grade and mineral content is estimated with a low level of confidence. The classification infers from geological evidence and assumed, but not verified, geological or grade continuity. It is based on information which may be of limited or uncertain quality and reliability. Further, 'Confidence in the estimate of Inferred Mineral Resources is not sufficient to allow the results of the application of technical and economic parameters to be used for detailed planning in Pre-Feasibility or Feasibility Studies' and 'Caution should be exercised if Inferred Mineral Resources are used to support technical and economic studies such as Scoping Studies' (2012 JORC Code).

SRK recommends that the Model considers the following two planning scenarios (Table 4-1)

1. A best-case scenario based on the Production Target (Best Case)
2. A base-case which considers only Measured and Indicated material in the Production Target and does not consider the 17% Inferred Material which is included in the Production Target (Sensitivity Case 1)

3. An additional sensitivity case which considers the Measured and Indicated material, and 50% of the Inferred material and assumes an 80% optimisation of this material per the historical mine planning work (Sensitivity Case 2).

Table 4-1: Modelling Scenarios

	ROM feed						Product					
Production Target	**Wet (Mt)**	**Dry (Mt)**	**Fe (%)**	**SiO_2 (%)**	**Al_2O_3 (%)**	**P (%)**	**Wet (Mt)**	**Dry (Mt)**	**Fe (%)**	**SiO_2 (%)**	**Al_2O_3 (%)**	**P (%)**
Measured	57	53	59.1	7	4.3	0.07	46	42	61.7	4.5	3.5	0.07
Indicated	974	905	50.4	17.8	5.8	0.05	513	467	60.1	6.6	3.8	0.06
Inferred	260	242	47.1	21.1	6.5	0.04	114	104	59.5	7.7	4.2	0.05
Total	1,291	1201	50.1	18	5.9	0.05	674	613	60.1	6.6	3.9	0.06
SRK Best Case	1,291	1201	50.1	18	5.9	0.05	674	613	60.1	6.6	3.9	0.06
SRK sensitivity case 1	1031	958	50.9	12.5	5.0	0.05	559	509	60.2	4.4	3.7	0.06
SRK sensitivity case 2	1239	1152	50.3	14.7	5.9	0.05	650	592	60.1	6.3	3.9	0.06

The CAPEX and OPEX estimates used in the Model were initially developed to a +/-15% estimate accuracy using 2015 market pricing, though certain packages were updated for 2018 pricing. As such, SRK recommends a +/- 20% sensitivity range on the CAPEX and OPEX estimates given in the Model (Table 4-2).

Table 4-2: SRK sensitivity ranges*

Item	Model Value (A$M)	SRK recommendation
Bulk works - Mine	158.31	+/- 20% sensitivity
Process Plant	2012.49	+/- 20% sensitivity
Material Handling Conveyors	51.92	+/- 20% sensitivity
Accommodation Camps	191.75	+/- 20% sensitivity
Non-Process Infrastructure	76.59	+/- 20% sensitivity
Contract Mining	82.38	+/- 20% sensitivity
Owners Cost	55.99	+/- 20% sensitivity
Contractors Margin	236.97	+/- 20% sensitivity
PMC Costs	147.78	+/- 20% sensitivity
Contractors Cost	52.63	+/- 20% sensitivity
Contractors Headquarters Cost	23.70	+/- 20% sensitivity
Exploration	75	0 (none required in Model)
Variable Maintenance Charge	482.30	+/- 20% sensitivity
Total operating costs	35,398.24*	+/- 20% sensitivity

* variable costs will adjust based on the revised physical input recommendations.

4.5 Discussion on risk

SRK is mindful that as a project moves from an early study stage through Inferred, Indicated or Measured Resource categories to Ore Reserve status, there is greater confidence around the likely size and quality of the mineral assets and the mineral assets' potential to be extracted profitably.

Table 4-3 presents a general guide of the confidence in targets, resource and reserve estimates, and hence value, referred to in the mining industry.

Table 4-3: General guide regarding confidence levels

Classification	Estimate range (90% Confidence Limit)
Proven/ Probable Ore Reserves	± 5% to 10%
Measured Mineral Resources	± 10% to 20%
Indicated Mineral Resources	± 20% to 50%
Inferred Mineral Resources	± 50% to 100%
Exploration Target	+ 100%

This level of uncertainty with advancing project stages is shown in Figure 4-2.

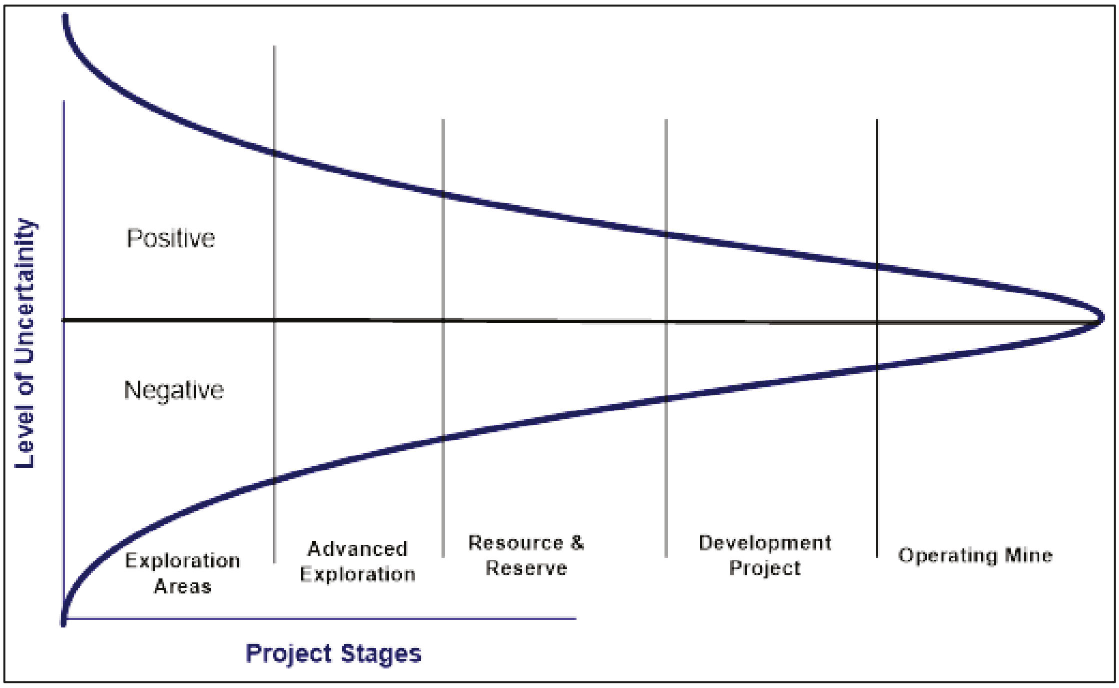

Figure 4-2: Uncertainty by advancing study stage

By applying narrower confidence ranges, a greater degree of certainty regarding these assets is implied than may be the case. The key risks can include geological and geological prospectivity risk, Mineral Resource and Ore Reserve estimation risk, construction risk including permitting, operational risk including processing risk and marketing risk, geopolitical risk and price forecast risk.

In SRK's opinion, the Mineral Resource estimates for the Project have been prepared to a sufficient quality standard and reported in accordance with the guidelines of the JORC Code (2012) and are considered to be reasonable estimates.

The proposed development is dependent on the provision, operation and maintenance of the new processing facilities and infrastructure as well as the selection of an appropriate process flowsheet, the negotiation of favourable offtake contracts to accommodate the high alumina and high silica product streams, a suitable waste storage solution and a suitable material handling strategy. This will allow the reporting of an Ore Reserve estimate and feasibility studies to progress.

Table 4-4: SRK risk assessment

Item	Risk	Comment
Potential for new referral under the EPBC Act	Moderate	Consultation with Department of Environment and Energy, possible 12-month timeframe
Mineral Resource estimates	Low	Reasonable estimates
Process Flowsheet	High - Moderate	Further testwork required to determine the optimal process design and inform future feasibility studies/ technical marketing
Conversion of Mineral Resources to Ore Reserves	Moderate	Needs an infrastructure solution and suitable waste and materials handling strategy

The facts and opinions presented in this this Report are current at the Effective Date of 8 January 2020.

Compiled by

Karen Lloyd

Associate Principal Consultant

Peer Reviewed by

Jeames McKibben

Principal Consultant

SRK Report Client Distribution Record

Project Number: FLN001

Report Title: Independent Specialist Report on the Pilbara Iron Ore Project

Date Issued: 13 January 2020

Name/Title	Company
David Szeleczky	Grant Samuel Group
Harry Pout	Flinders C/- Greenhills

Rev No.	Date	Revised By	Revision Details
0	30/10/2019	Karen Lloyd	Draft Report
1	28/11/2019	Karen Lloyd	Final Report
2	13/01/2019	Karen Lloyd	Updated Final Report

Corporate directory

Company

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Ms Sarah Wilson

Ms Shannon Coates

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Greenhill & Co.

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Legal adviser

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ABN 46 091 118 044

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Online:
www.investorcentre.com/contact

YOUR VOTE IS IMPORTANT

For your proxy appointment to be effective it must be received by **10:00am (WST) Sunday, 1 March 2020.**

Proxy Form

How to Vote on Items of Business

All your securities will be voted in accordance with your directions.

APPOINTMENT OF PROXY

Voting 100% of your holding: Direct your proxy how to vote by marking one of the boxes opposite each item of business. If you do not mark a box your proxy may vote or abstain as they choose (to the extent permitted by law). If you mark more than one box on an item your vote will be invalid on that item.

Voting a portion of your holding: Indicate a portion of your voting rights by inserting the percentage or number of securities you wish to vote in the For, Against or Abstain box or boxes. The sum of the votes cast must not exceed your voting entitlement or 100%.

Appointing a second proxy: You are entitled to appoint up to two proxies to attend the meeting and vote on a poll. If you appoint two proxies you must specify the percentage of votes or number of securities for each proxy, otherwise each proxy may exercise half of the votes. When appointing a second proxy write both names and the percentage of votes or number of securities for each in Step 1 overleaf.

A proxy need not be a securityholder of the Company.

SIGNING INSTRUCTIONS FOR POSTAL FORMS

Individual: Where the holding is in one name, the securityholder must sign.

Joint Holding: Where the holding is in more than one name, all of the securityholders should sign.

Power of Attorney: If you have not already lodged the Power of Attorney with the registry, please attach a certified photocopy of the Power of Attorney to this form when you return it.

Companies: Where the company has a Sole Director who is also the Sole Company Secretary, this form must be signed by that person. If the company (pursuant to section 204A of the Corporations Act 2001) does not have a Company Secretary, a Sole Director can also sign alone. Otherwise this form must be signed by a Director jointly with either another Director or a Company Secretary. Please sign in the appropriate place to indicate the office held. Delete titles as applicable.

ATTENDING THE MEETING

If you are attending in person, please bring this form with you to assist registration.

Corporate Representative
If a representative of a corporate securityholder or proxy is to attend the meeting you will need to provide the appropriate "Appointment of Corporate Representative" prior to admission. A form may be obtained from Computershare or online at www.investorcentre.com under the help tab, "Printable Forms".

Lodge your Proxy Form:

XX

Online:

Lodge your vote online at www.investorvote.com.au using your secure access information or use your mobile device to scan the personalised QR code.

Your secure access information is

Control Number: 183954

SRN/HIN:

For Intermediary Online subscribers (custodians) go to www.intermediaryonline.com

By Mail:

Computershare Investor Services Pty Limited
GPO Box 242
Melbourne VIC 3001
Australia

By Fax:

1800 783 447 within Australia or
+61 3 9473 2555 outside Australia

PLEASE NOTE: For security reasons it is important that you keep your SRN/HIN confidential.

☐ **Change of address.** If incorrect, mark this box and make the correction in the space to the left. Securityholders sponsored by a broker (reference number commences with '**X**') should advise your broker of any changes.

Proxy Form

Please mark ☒ to indicate your directions

Step 1 Appoint a Proxy to Vote on Your Behalf

XX

I/We being a member/s of Flinders Mines Limited hereby appoint

☐ **the Chairman of the Meeting** **OR** ____________________

PLEASE NOTE: Leave this box blank if you have selected the Chairman of the Meeting. Do not insert your own name(s).

or failing the individual or body corporate named, or if no individual or body corporate is named, the Chairman of the Meeting, as my/our proxy to act generally at the meeting on my/our behalf and to vote in accordance with the following directions (or if no directions have been given, and to the extent permitted by law, as the proxy sees fit) at the Extraordinary General Meeting of Flinders Mines Limited to be held at the Theatrette Room, Level 2, QV1 Building, 250 St Georges Terrace, Perth, Western Australia on Tuesday, 3 March 2020 at 10.00am (WST) and at any adjournment or postponement of that meeting.

Step 2 Items of Business

PLEASE NOTE: If you mark the **Abstain** box for an item, you are directing your proxy not to vote on your behalf on a show of hands or a poll and your votes will not be counted in computing the required majority.

		For	Against	Abstain
1	Proposed Transaction	☐	☐	☐

The Chairman of the Meeting intends to vote undirected proxies in favour of each item of business. In exceptional circumstances, the Chairman of the Meeting may change his/her voting intention on any resolution, in which case an ASX announcement will be made.

Step 3 Signature of Securityholder(s)

This section must be completed.

Individual or Securityholder 1	Securityholder 2	Securityholder 3	
			/ /
Sole Director & Sole Company Secretary	Director	Director/Company Secretary	Date

Update your communication details *(Optional)*

By providing your email address, you consent to receive future Notice of Meeting & Proxy communications electronically

Mobile Number	Email Address