

Quarterly Report

For the quarter ending 31 December 2011

HIGHLIGHTS

CORPORATE

- *Strategic Options Review completed.*
- *Flinders Mines Limited (FMS) and Magnitogorsk Iron & Steel Works OJSC (MMK) executed a Scheme Implementation Agreement (SIA) to effect the acquisition by MMK of 100% of the issued shares in FMS under a Scheme of Arrangement (Scheme). MMK has offered to acquire 100% of the FMS issued shares at A\$0.30 cash per share.*
- *FMS available funds of A\$23.6 million at 31 December 2011.*
- *FMS reached agreement with Prenti Exploration Pty Ltd to terminate the Joint Venture Agreement (JVA) in respect to the Company's iron ore interests in its PIOP tenements.*

PILBARA IRON ORE PROJECT (PIOP) – WA

- *Mineral Resource increase by 23% to 917 Mt.*
- *Non-binding Heads of Agreement signed to investigate rail development options with an independent rail provider.*
- *BID Exploration Target[^] of 110 Mt to 160 Mt established, showing further upside potential for the PIOP.*
- *Commencement of DFS level mining study and geotechnical drilling.*
- *Native Title negotiations continued, with the signing of a Native Title Agreement expected in Q1, 2012.*

CORPORATE

Following the successful completion of the Strategic Options Review, FMS on 25 November 2011 announced that a Scheme Implementation Agreement (SIA) had been executed between the Company and MMK to effect the acquisition by MMK of 100% of the issued shares in Flinders Mines. MMK has offered to acquire 100% of FMS issued shares at A\$0.30 cash per share.

The SIA is not conditional on MMK securing financing for the acquisition and the Flinders Mines Board unanimously recommends the offer in the absence of a superior proposal.

During the quarter FMS reached agreement with Prenti Exploration Pty Ltd to terminate the Joint Venture Agreement (JVA) between the parties in respect of the Company's interests in its key PIOP tenements, which entailed a 5% net royalty on all minerals. The consideration was a cash settlement and a 5% net profit production royalty in respect of non iron ore commodities in tenements that were the subject of the JVA. The Company now holds 100% of the rights in the iron ore assets at the PIOP.

PILBARA IRON ORE PROJECT

The focus for the December quarter was on accelerating DFS activities and preparation for the commencement of detailed engineering and design.

Flinders Mines has continued correspondence with the relevant authorities in Western Australia, the Department of State Development (DSD) and the Dampier Port Authority (DPA), and independent infrastructure providers to ensure that future port and rail capacity requirements are understood with respect to the development of independent rail and port facilities for the Pilbara region.

The key activities progressed during the December quarter are summarised below.

Mining, Processing and Infrastructure

- Phase 3 metallurgical test work is nearing completion with only the preparation of bulk samples outstanding. This involves the preparation of samples of each of the three ore types for further sintering test work at potential customers' steel mills. This work will be completed during the first quarter of 2012.
- CID test work has been completed with positive results. The CID material has shown to behave in a similar manner to the DID material and is able to be upgraded in the same manner as DID using a simple and cost-effective wet screening process.
- The DFS level mining study has commenced and is initially focusing on optimisation of bench heights in order to minimise mining dilution and the sourcing of budget pricing for contract mining and capital costs for mining equipment. This information will be utilised in the ongoing optimisation and scheduling activities during the next quarter.
- A geotechnical drilling program has been developed and will be executed during the first quarter of 2012. This information will provide further understanding of likely pit wall stability and will be used to develop wall angles for the mining study.

Environment and Approvals

- Flinders Mines and the Eastern Guruma people continue to work co-operatively towards a Native Title Agreement that is of mutual benefit to both parties. The signing of a Native Title Agreement is imminent (Q1, 2012) following productive negotiations in late December, 2011.
- Pump tests have been completed for production bores in Eagle, Champion and Delta pits. Field testing indicates that all aquifers have good quality groundwater and high potential yields. Groundwater modelling is being progressed for the Eagle, Champion and Delta pit areas and will be completed in Q1, 2012.
- The geochemical characterisation of waste rock lithologies and tailings was completed. This information will be used for mine closure planning purposes.
- The State and Commonwealth government environmental assessment processes requires that Flinders Mines furnish additional scoping guideline information - this work will be completed in Q1, 2012.

Future Work Program

The focus for Flinders Mines during the March 2012 quarter will be to finalise the MMK transaction and to commence detailed design and engineering for the DFS.

From a project perspective, efforts will now focus on the DFS.

Key activities will involve:

- Finalisation of the Native Title Agreement.
- Preparation of bulk product samples.
- Completion of DFS level geotechnical study.
- Commencement of marketing activities for DFS.
- Commencement of detailed engineering and design.

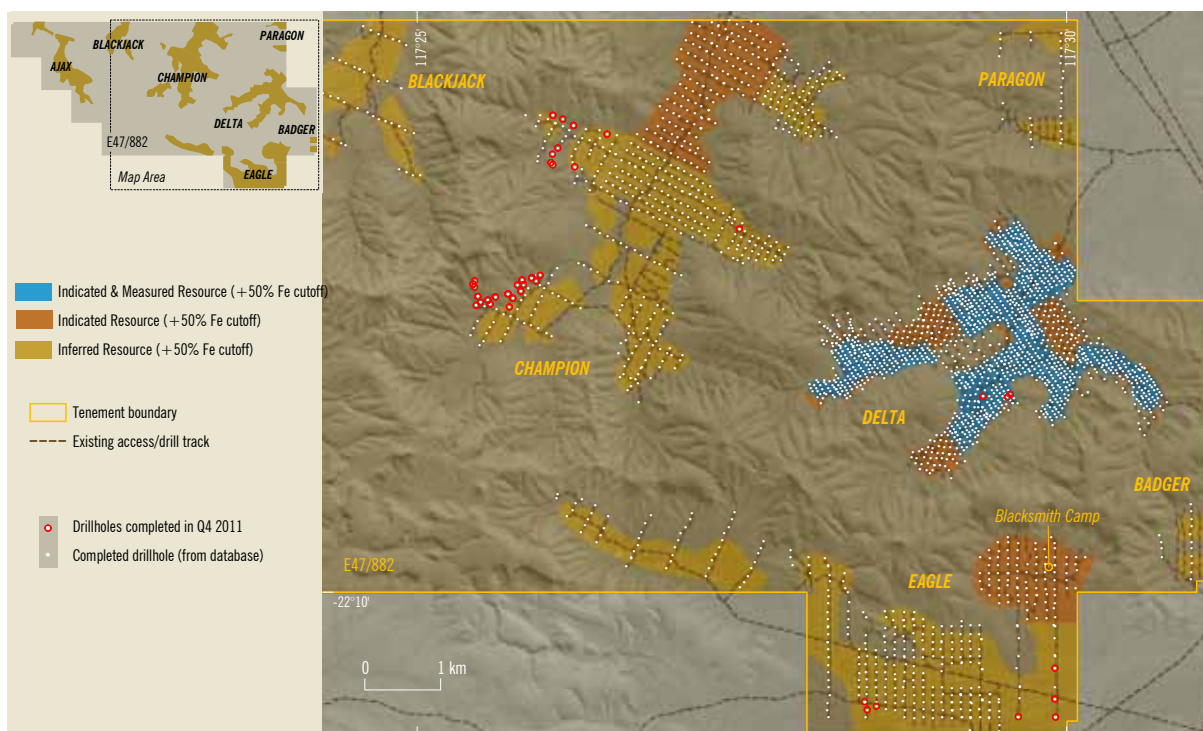


Figure 1 Location of Delta, Champion and Eagle deposits, Pilbara Iron Ore Project, showing all completed RC drilling as at end of Q4 2011.

Exploration and Evaluation Activities

Drilling at the PIOP was completed for the year, ahead of schedule and under budget. During the period, a single RC rig was testing Brockman Iron Deposit (BID) target zones in Champion and completing some Indicated Resource infill in Eagle. A total of 54 drill holes were completed, for 3,644m (Figure 1). This brings the total number of holes drilled at the project to 2,968 holes for 150,199m.

All assays have been received with significant intersections shown in Table 1. The BID targeted drilling in Champion has returned encouraging intersections, often from surface with high iron and low silica and alumina. For example, 16m @ 57.5% Fe, 3.9% SiO₂ and 2.6% Al₂O₃ from surface in HPRC1071 and 26m @ 59.4% Fe, 2.8% SiO₂ and 2.2% Al₂O₃ from surface in HPRC1079.

Table 1 Pilbara Iron Ore Project significant reverse circulation drilling intersections.

Hole	From (m)	To (m)	Interval (m)	Fe %	CaFe % *	SiO ₂ %	Al ₂ O ₃ %	P%	LOI%
HPRC1041	0	10	10	59.01	61.3	7.29	3.64	0.061	3.71
HPRC1060	0	4	4	56.33	63.3	6.10	2.10	0.093	11.02
HPRC1061	0	4	4	56.90	64.5	4.13	2.10	0.095	11.80
HPRC1064	2	8	6	55.95	63.3	5.32	2.50	0.124	11.54
and	12	16	4	56.79	62.8	6.97	1.74	0.116	9.55
HPRC1071	0	16	16	57.52	64.0	3.97	2.62	0.167	10.13
HPRC1072	0	12	12	54.81	61.4	6.71	3.52	0.146	10.70
HPRC1073	0	6	6	56.42	62.7	4.32	4.21	0.079	10.05
HPRC1074	0	4	4	55.07	61.3	7.68	2.49	0.185	10.19
and	12	16	4	53.39	60.7	6.13	4.82	0.148	12.07
HPRC1076	0	10	10	56.67	62.7	5.33	3.38	0.124	9.66
and	16	26	10	57.29	63.1	4.29	4.24	0.101	9.16
HPRC1077	0	16	16	56.44	62.2	5.77	3.58	0.114	9.19
HPRC1078	8	30	22	56.25	62.5	6.86	1.92	0.067	10.07
HPRC1079	0	26	26	59.41	65.5	2.76	2.15	0.106	9.35

* CaFe = Fe/(100-LOI)x100

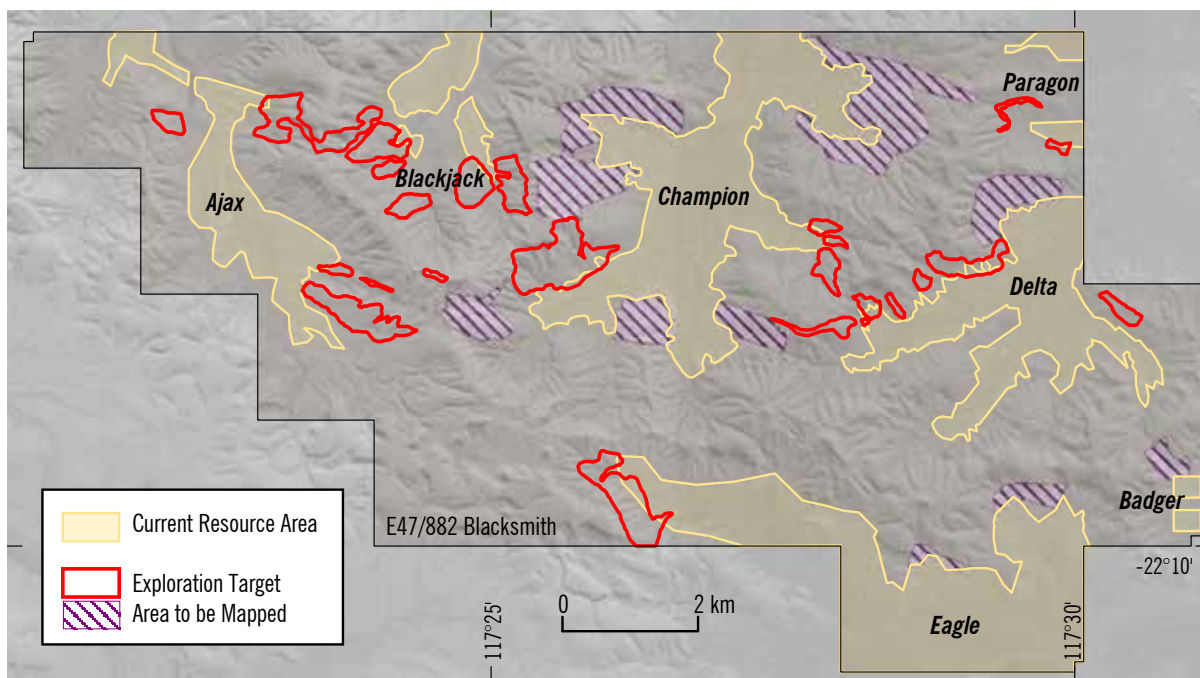


Figure 2 Location of PIOP highlighting potential BID Exploration Targets.

Exploration Target[^]

Since the identification of BID on the flanks of the valleys and hills in 2010, an extensive mapping program has been underway to further investigate the BID potential of these zones. Currently, approximately 20 km² of the hills have been mapped with an emphasis on identifying structural zones with potential for BID mineralisation together with the collection of rock chip samples. Flinders geologists have identified an area of 5 km² where BID mineralisation either outcrops or has a high potential to exist in the subsurface (Figure 2).

In November 2011, a BID Exploration Target[^] of 110 to 160 Mt was estimated at between 55 and 58% Fe

(60 to 63% calcined). This target size assumes a specific gravity (SG) of 2.52, as determined from diamond drill core samples of BID, and a conservative range in thickness from 9 to 13m based on current known intersections.

In terms of upside it is estimated that an additional 10-12km² of BID targets across the Blacksmith and Anvil tenements are yet to be mapped and sampled in detail, thus providing an opportunity for further zones of BID mineralisation to be identified. The Company has identified potentially BID bearing structures in these unmapped areas in both Blacksmith and Anvil (Plate 1).



Plate 1 Photo looking east across Blackjack deposit on E47/882 Blacksmith, clearly showing near vertical BID rich structural zone in the centre foreground.

Table 2 Pilbara Iron Ore Project Global Resource, by deposit.

Global Mineral Resource for Fe > 50% (11/11/2011)						
JORC Classification	Tonnage Mt	Fe %	SiO ₂ %	Al ₂ O ₃ %	P%	LOI%
Ajax Inferred	68.5	55.2	10.6	5.1	0.060	4.5
Blackjack Inferred	44.7	55.3	12.8	4.6	0.057	2.7
*Champion Inferred	61.1	55.6	10.1	4.6	0.069	4.7
*Champion Indicated	112.4	55.2	9.6	4.9	0.075	5.5
*Delta Inferred	12.1	56.0	8.2	4.6	0.085	6.2
*Delta Indicated	111.8	56.3	7.9	3.9	0.100	6.8
*Delta Measured	101.0	56.4	10.5	5.1	0.054	2.8
*Eagle Inferred	173.4	54.0	9.5	5.0	0.076	7.7
*Eagle Indicated	119.5	55.0	9.3	4.8	0.074	6.4
Badger Inferred	8.7	57.5	6.3	3.4	0.092	7.3
Paragon Inferred	21.7	58.0	6.6	3.9	0.080	5.5
Anvil Inferred	82.4	53.6	11.4	5.8	0.050	4.9
Total Inferred	472.6	54.7	10.2	5.0	0.067	5.7
Total Indicated	343.7	55.5	8.9	4.5	0.083	6.2
Total Measured	101.0	56.4	10.5	5.1	0.054	2.8
TOTAL	917.3	55.2	9.7	4.8	0.072	5.6

* Upgraded as part of current Resource Estimate.

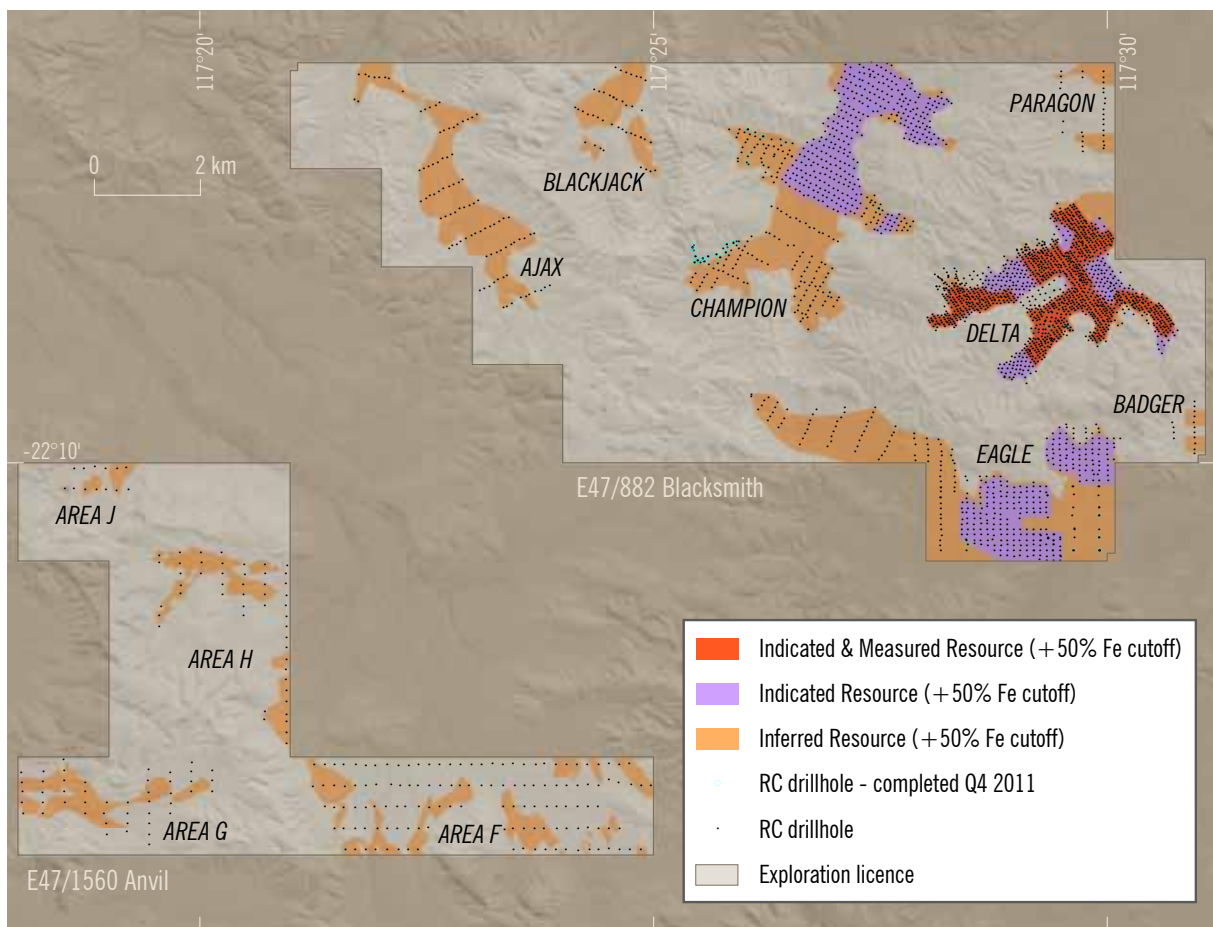


Figure 3 Location of PIOP Global Measured, Indicated and Inferred Resource.

Table 3 Pilbara Iron Ore Project Mineral Resource summary of deposit types.

Deposit Type	Inferred Resource (Mt)	Indicated Resource (Mt)	Measured Resource (Mt)
Brockman Iron Deposit (BID)	99.1	91.4	–
Detrital Iron Deposit (DID)	287.8	156.7	101.0
Channel Iron Deposit (CID)	85.7	95.6	–
TOTAL	472.6	343.7	101.0

Additionally, the headwaters of some of the valleys host cemented DID ramps, also known as “canga” (Plate 2), have not yet been drilled, due to the presence of potential Aboriginal heritage sites. These ramps cover an area of approximately 1.5 km² and represent an Exploration Target[^] in their own right, but they also overlie outcropping BID mineralisation in some places. The nature of these ramps means that a Section 18 heritage survey will need to be completed prior to any drilling commencing. Flinders has been advised that these heritage clearances are likely to be a formality but will have to wait until the signing of the Native Title agreement which is now scheduled for Q1 2012.

Updated Global Resource Estimate

On the 14th of November 2011 Flinders announced a further significant increase in the Mineral Resource at



Plate 2 Example of “canga” DID ramps, mentioned above.

the Company’s 100%-owned Pilbara Iron Ore Project (PIOP). Flinders’ global Mineral Resource for the project increased by a further 23% to 917Mt @ 55.2% Fe (Table 2). The increase was based on updates to the Champion, Delta and Eagle deposits only – there were no changes to the other deposits. While some of the changes are due to additional drilling in previously untested areas such as the BID extensions in the Delta hills, there are also changes due to the identification of further mineralisation as the result of infill drilling, particularly in Eagle. Infill drilling in the central parts of the Eagle deposit has intersected more extensive and thicker sequences of CID than previously anticipated (Figure 3).

The upgraded Mineral Resource was based on a +50% iron cut-off and now consists of a Measured Resource of 101 Mt @ 56.4% Fe, an Indicated Resource of 343.7 Mt @ 55.5% Fe and an Inferred Resource of 472.6 Mt @ 54.7% Fe (Table 2).

The Mineral Resource is comprised of 190.5 Mt of Brockman Iron Deposit (BID) at 56.3% Fe, 545.5 Mt of Detrital Iron Deposit (DID) @ 55.2% Fe and 181.3 Mt of Channel Iron Deposit (CID) at 54.0% Fe (Table 3).

The Mineral Resource will now be integrated into the Definitive Feasibility Study, currently being undertaken by WorleyParsons. The optimisation study may convert some of the additional tonnage from this Mineral Resource into the saleable inventory, increasing the existing tonnage of 273 Mt, thus providing for a greater production rate or increased life of mine.

This upgraded Mineral Resource was compiled in accordance with the 2004 JORC (Joint Ore Reserves Committee) code.

Ongoing Exploration

Further mapping will continue throughout Q1 2012 and together with ongoing evaluation of the data from the existing drilling the geological model will be refined further. This work will provide a basis for the focus of BID drilling during the first half of 2012 following the execution of Native Title agreement by Flinders, anticipated in Q1 2012.

CANEGRASS MAGNETITE PROJECT

Resource Exploration

The Canegrass project area covers an area of approximately 700 km² in the Mid-West region of Western Australia, approximately 60km southeast of Mt Magnet. Recent drilling and metallurgical studies have highlighted excellent iron and vanadium grades associated with gabbro hosted magnetite mineralisation.

In addition to the iron and vanadium mineralisation, the previous owner of the Canegrass project conducted an extensive Airborne Electromagnetic (AEM) survey over the tenure targeting Ni, Cu, Au and PGE mineralisation. Flinders have been assessing this data and during December 2011 undertook preliminary ground Electromagnetic (GEM) surveys over 7 selected targets. This data is now being evaluated with the aim of providing drill ready targets. At this time regional scale field work was also undertaken in the area to assess the potential for mineralisation with a number of rock chip samples collected. Results for these are expected during Q1 2012.



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31 January 2012

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Qualifying Statements

^ Exploration Targets

Exploration targets are reported according to Clause 18 of the JORC Code. This means that the potential quantity and grade is conceptual in nature and that considerable further exploration, particularly drilling, is necessary before any Identified Mineral Resource can be reported. It is uncertain if further exploration will lead to a larger, smaller or any Mineral Resource.

JORC Compliance

The information that relates to the drilling data and geological interpretations is based on information compiled by Mr N Corlis (who is a Member of The Australian Institute of Geoscientists) and Dr G McDonald (who is a member of the Australasian Institute of Mining and Metallurgy). Mr Corlis and Dr McDonald are employees of Flinders Mines Limited. The information that relates to the Mineral Resource Estimate has been compiled by Mr Paul Blackney of Optiro Pty Ltd. who is a Member of the Australasian Institute of Mining and Metallurgy. Mr Blackney, Mr Corlis and Dr McDonald have sufficient experience that is relevant to the style of mineralisation and type of deposit under consideration and to the activity that they are undertaking to qualify as a Competent Persons as defined in the 2004 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Mr Blackney, Mr Corlis and Dr McDonald consent to the inclusion of matters based on their information in the form and context in which it appears.

Forward-looking statements

This release may include forward-looking statements. These forward-looking statements are based on Flinders Mines Limited's expectations concerning future events. Forward-looking statements are subject to risks, uncertainties and other factors, many of which are outside the control of Flinders Mines Limited and the Company makes no undertaking to subsequently update or revise the forward-looking statements made in this release to reflect events or circumstances after the date of this release.

Appendix 5B

Mining exploration entity quarterly report

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

Name of entity

Flinders Mines Limited

ABN

46 091 118 044

Quarter ended ("current quarter")

31 December 2011

Consolidated statement of cash flows

Cash flows related to operating activities	Current quarter \$A'000	Year to date (6 months) \$A'000
1.1 Receipts from product sales and related debtors		
1.2 Payments for		
(a) exploration & evaluation	(6,701)	(11,642)
(b) development		
(c) production		
(d) administration	(1,528)	(2,961)
1.3 Dividends received		
1.4 Interest and other items of a similar nature received	525	1,330
1.5 Interest and other costs of finance paid		
1.6 Income taxes paid		
1.7 Other	(1)	681
Net Operating Cash Flows	(7,705)	(12,592)
Cash flows related to investing activities		
1.8 Payment for purchases of:		
(a) prospects		
(b) equity investments		
(c) other fixed assets	(5)	(92)
1.9 Proceeds from sale of:		
(a) prospects		
(b) equity investments		
(c) other fixed assets	16	16
1.10 Loans to other entities	-	-
1.11 Loans repaid by other entities		
1.12 Other (provide details if material)		
Net investing cash flows	(11)	(76)
1.13 Total operating and investing cash flows (carried forward)	(7,694)	(12,668)

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

1.13	Total operating and investing cash flows (brought forward)	(7,694)	(12,668)
	Cash flows related to financing activities		
1.14	Proceeds from issues of shares, options, etc.	8	11
1.15	Proceeds from sale of forfeited shares		
1.16	Proceeds from borrowings		
1.17	Repayment of borrowings		
1.18	Dividends paid		
1.19	Other		
	Net financing cash flows	8	11
	Net increase (decrease) in cash held	(7,686)	(12,657)
1.20	Cash at beginning of quarter/year to date	31,350	36,321
1.21	Exchange rate adjustments to item 1.20		
1.22	Cash at end of quarter	23,664	23,664

Payments to directors of the entity and associates of the directors

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

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

1.25 Explanation necessary for an understanding of the transactions

Non-cash financing and investing activities

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

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

+ See chapter 19 for defined terms.

Financing facilities available

Add notes as necessary for an understanding of the position.

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

Estimated cash outflows for next quarter

	\$A'000
4.1 Exploration and evaluation	3,039
4.2 Development	-
4.3 Production	-
4.4 Administration	1,310
Total	4,349

Reconciliation of cash

Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.

	Current quarter \$A'000	Previous quarter \$A'000
5.1 Cash on hand and at bank	1,200	1,804
5.2 Deposits at call	22,464	29,546
5.3 Bank overdraft		
5.4 Other (provide details)		
Total: cash at end of quarter (item 1.22)	23,664	31,350

Changes in interests in mining tenements

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

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

6.2 Interests in mining tenements acquired or increased

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Issued and quoted securities at end of current quarter

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

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

+ See chapter 19 for defined terms.

7.9	Exercised during quarter				
7.10	Expired during quarter				
7.11	Debentures <i>(totals only)</i>				
7.12	Unsecured notes <i>(totals only)</i>				

Compliance statement

- 1 This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Act or other standards acceptable to ASX (see note 4).
- 2 This statement does give a true and fair view of the matters disclosed.



Sign here:

(Company Secretary)

Date: 31 January 2012

Print name: David W Godfrey

Notes

- 1 The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.
- 2 The "Nature of interest" (items 6.1 and 6.2) includes options in respect of interests in mining tenements acquired, exercised or lapsed during the reporting period. If the entity is involved in a joint venture agreement and there are conditions precedent which will change its percentage interest in a mining tenement, it should disclose the change of percentage interest and conditions precedent in the list required for items 6.1 and 6.2.
- 3 **Issued and quoted securities** The issue price and amount paid up is not required in items 7.1 and 7.3 for fully paid securities.
- 4 The definitions in, and provisions of, *AASB 1022: Accounting for Extractive Industries* and *AASB 1026: Statement of Cash Flows* apply to this report.
- 5 **Accounting Standards** ASX will accept, for example, the use of International Accounting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.

+ See chapter 19 for defined terms.