



30 January 2020

ASX ANNOUNCEMENT

## Investor Presentation

Flinders Mines Limited (**ASX:FMS**) (**Flinders**) provides the following Presentation.

A corporate video of the Presentation, explaining the Proposed Transaction with BBI Group Pty Ltd is available from the Investor/Company Presentations section of the Company's website at [www.flindersmines.com](http://www.flindersmines.com).

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



---

# Taking PIOP into production

---

30 January 2020



# Disclaimer



*This presentation includes information which summarises the terms of binding agreements that Flinders Mines Ltd ("Flinders" or "Company") has entered into with BBI Group Pty Ltd ("BBIG") in relation to an incorporated joint venture for the Pilbara Iron Ore Project ("Transaction Documents"). These Transaction Documents are subject to Flinders' shareholder approval before coming operative. As a summary, the information in this presentation is not complete and does not purport to be complete.*

*This presentation should be read in conjunction with Flinders' notice of meeting dated 19<sup>th</sup> December 2019, with respect to shareholder approval of the Transaction Documents and other periodic and continuous disclosure announcements lodged with the Australian Securities Exchange ("ASX"), which are available at [www.asx.com.au](http://www.asx.com.au).*

*This presentation is current as at the date of the cover page. The information in this presentation remains subject to change. The Company is under no obligation to update the presentation and the information in this presentation remains subject to change by the Company in its absolute discretion and without notice. To the maximum extent permitted by law, the Company and its advisers make no representation and give no assurance, guarantee or warranty, express or implied, as to, and take no responsibility and assume no liability for, the authenticity, validity, accuracy, suitability or completeness of, or any errors in or omissions, from any information, statement or opinion contained in the presentation.*

*This presentation may contain forward looking statements and opinion which are provided as a general guide only and should not be relied on as an indication or guarantee of future performance and involve known and unknown risks, uncertainties and other factors, many of which are outside the control of the Company. While the Company has no reason to believe that any such statements are either false, misleading or incorrect, it cannot and does not warrant or guarantee that through either the passage of time or actions beyond the control of the Company they will not become so. Past performance is not necessarily a guide to future performance and no representation or warranty is made as to the likelihood of achievement or reasonableness of any forward looking statements or other forecast. Actual results, performance or achievements could be significantly different from those expressed in, or implied by, these forward-looking statements.*

*Nothing contained in this presentation constitutes investment, legal, tax or other advice.*

*TIO (NZ) Limited ("TIO") is a majority shareholder in Flinders holding 55.56% of Flinders' shares on issue as at the date of the cover page. TIO owns approximately 94% of BBIG, and TIO is indirectly a wholly-owned subsidiary of Todd Group. TIO and BBIG are therefore related parties of Flinders for the purposes of the Corporations Act 2001 (Cth).*

## *Competent Persons Statement*

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



# Introduction



- Pilbara Iron Ore Project (PIOP) finally has a clear pathway to production
- Independent Directors believe the proposed transaction provides the best opportunity to go mining
- Independent Expert concluded that the proposed transaction is “fair and reasonable”
- Proposed transaction is subject to Flinders’ shareholder approval (with TIO excluded from voting)

## CORPORATE SNAPSHOT

ASX code – FMS

Shares on issue – 3.49 billion

Cash – \$4.4 million (at 30 September)

Major shareholders:

TIO (NZ) Limited (55.56%)

OCJ Investment Australia Pty Ltd (22.62%)

## DIRECTORS

**Neil Warburton** – Independent Chair

**Cheryl Edwardes** – Independent Deputy Chair

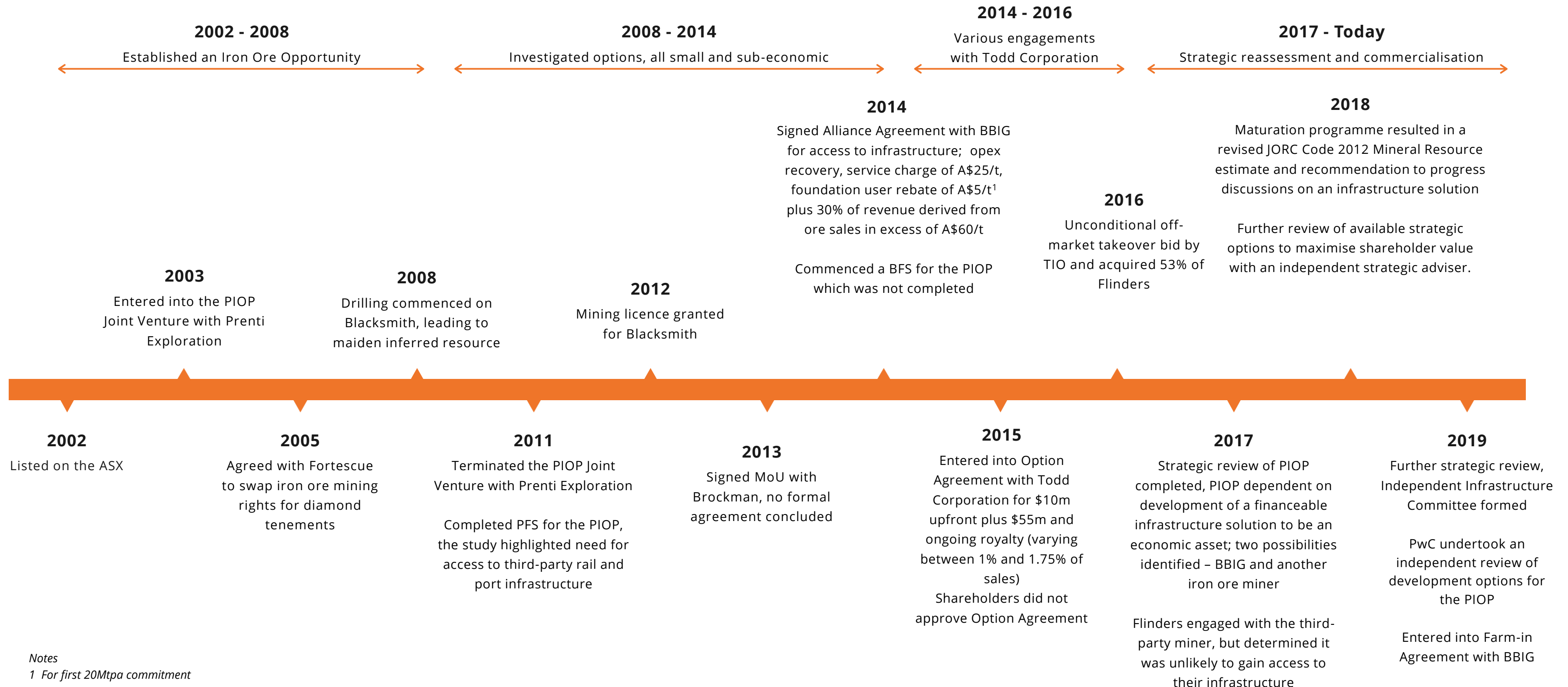
**Evan Davies** – Non-Executive Director

**James Gurry** – Independent Non-Executive Director

**Michael Wolley** – Non-Executive Director



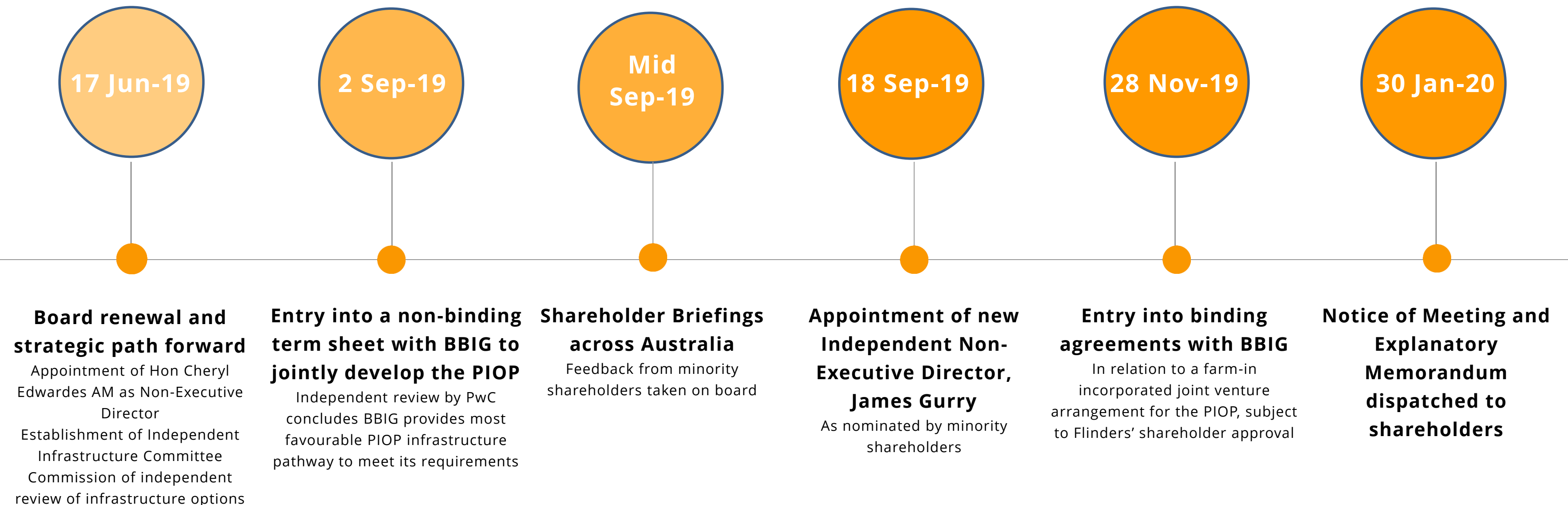
# The road to developing the PIOP





# Corporate redirection and realignment

Since deciding to progress a transaction with BBIG, the Independent Infrastructure Committee has negotiated an attractive transaction for Flinders shareholders





# Transaction overview

The binding agreements with BBIG establish a framework for Flinders and BBIG to form an incorporated joint venture to develop the PIOP

## Stage 1 Pre-FID

BBIG<sup>1</sup> will fund feasibility studies required for a FID for the PIOP spending \$15m pa, in exchange for a 10% voting interest and no economic interest

### Phase 1

Pre-Completion

### Phase 2

Completion to FID

“Off-Ramps” for Flinders prior to FID

- Failure to satisfy Conditions Precedent
- BBIG failure to bring valid FID proposal during the pre-FID period (or, at 30 months, if Flinders reasonably believes BBIG will fail, can seek alternative proposals)

## Stage 2 Post-FID

**MINING OPTION** – Flinders interest is diluted and continues as a 40% free-carried<sup>2</sup> shareholder

**ROYALTY OPTION** – Flinders converts to a 2.5% gross revenue royalty of 100% of the PIOP ore sales / disposals

### Phase 3

FID to Development

### Phase 4

Operations

Decision to move to a royalty option is in the hands of minority shareholders if the FMS Board sees this as an appropriate option

#### Notes

<sup>1</sup> Or an entity controlled by it

<sup>2</sup> 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.



# Improvements since Terms Sheet

Various enhancements to the transaction have been negotiated – Value to FMS shareholders has improved

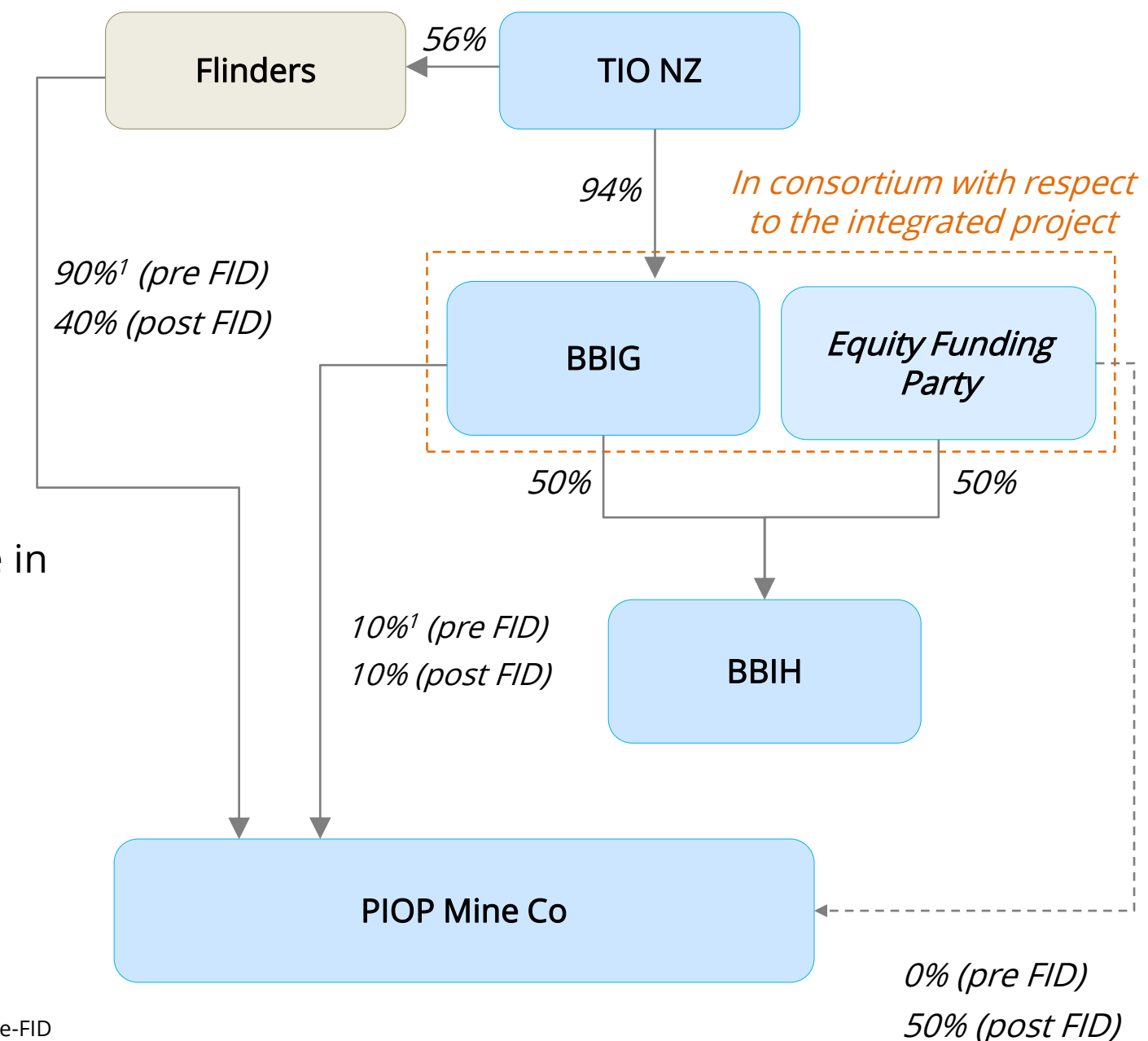
- **Increase in annual minimum spend by BBIG:** annual minimum spend during FID phase increased from \$10M to \$15M
- **Third party user rebate:** rebate to PIOP Mine Co of up to A\$2.50/t for any third-party use of the BBIG Project
- **Post PIOP earnings stream:** fee to Flinders only and not the other shareholders of PIOP Mine Co of up to A\$1.00/t for any third-party use of the BBIG Project post the completion of mining at the PIOP which is capped at 50 Mtpa and the total product produced and transported from the PIOP.
- **Haulage tariff:** various enhancements to the tariff mechanism including a lowering of the headline tariff, caps on inflation adjustments, a “windowed” commencement period that reduces risk for PIOP Mine Co, an abatement regime which abates the take-or-pay in certain circumstances and an ability to defer payment of the tariff charges under certain circumstances for up to 12 months
- **Excess tonnes:** ability for PIOP to request BBIG to haul excess tonnes at incremental operating cost with no capacity or commodity charge in certain circumstances
- **Completion security:** if required by financiers, BBIG and Equity Funding Party to provide completion security on behalf of Flinders at cost
- **Liability regime:** Improved and more balanced liability regime under the Infrastructure Services Agreement



# Control of PIOP

This is not a change of control transaction – it is a financing transaction to enable PIOP development. Flinders is only diluted if and when the funding parties invest significant equity to develop PIOP

- BBIG gets no economic interest in PIOP Mine Co until it invests significant capital on the Feasibility Studies and delivers a FID proposal that meets specific criteria
- If BBIG does not meet the FID<sup>2</sup> criteria and demonstrate a viable project within the pre-FID period, Flinders will retain 100% of PIOP
- 50% of PIOP Mine Co will only be issued to the Equity Funding Party in exchange for funding 100% of the equity development costs – a financing transaction, not a sale
- The Equity Funding Party is expected to be a consortium of Chinese partners – while it will be in a joint venture with BBIG, it is not expected to be BBIG
- While it is possible under the Transaction Documents that the Equity Funding Party is BBIG (potentially with the Chinese partners investing directly in BBIG), this is not the current expectation



## 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
2. FID = Final Investment Decision



## Why is the creation of PIOP Mine Co required?

- PIOP is currently held in the listed Flinders Mines Limited entity
- The proposed transaction involves BBIG (in conjunction with an Equity Funding Party) 'farming-in' to obtain an interest in PIOP – a common funding model
- If the assets remained at the listed company level the funding partner would need to become a shareholder in the listed Flinders equity, diluted existing shareholders and controlling Flinders
- As such, Flinders proposes to first transfer PIOP to a new subsidiary, PIOP Mine Co
- This ensures the transaction remains solely about PIOP. Flinders will preserve its current ownership structure and control over its future strategic direction. Shareholders in Flinders will not be diluted
- This is a common corporate structure that would be required regardless of who the potential project partner was



# Industry joint venture comparisons

- Examples of listed mining companies holding a material, but minority interest in a joint venture
- This is a normal, well trodden path and standard corporate structuring
- These examples have been highly successfully, providing valuable returns to shareholders and flexibility with respect to future strategy

## AWAC

 (40%)

  
Alcoa (60%)

- Established in 1995
- Formed separate joint venture entity
- Strategic Council for AWAC comprises 3 members of Alcoa and 2 members of Alumina

## Tropicana

 (30%)

  
ANGLOGOLD  
ASHANTI (70%)

- Established in 2002
- AngloGold farmed into equity in the JV
- AngloGold Ashanti is also the Manager

## Mining Area C

  
ILUKA  
(1.232% MAC Royalty)



- Operated by BHP
- Royalty agreement over Mining Area C project in the Pilbara
- Iluka receives royalty of 1.232% plus one-off production payments

## Ernest Henry

  
Evolution  
MINING  
Economic Interest



- In 2016 Evolution acquired an economic interest in Glencore's Ernest Henry operation, consisting of 100% of future gold and 30% of future copper and silver produced
- Lump sum upfront consideration plus 30% of future production costs



# Transaction details - Pre-Completion



Prior to Completion, Flinders will retain 100% of PIOP economic interest; however, BBIG may commence work at its cost on the Feasibility Studies

- BBIG may commence work on the feasibility studies:
  - Any such work will be done at the cost of BBIG
  - Flinders will have a perpetual licence for any work completed during this time
- Various Conditions Precedent need to be satisfied for Completion to occur, including:
  - Shareholder approval with TIO excluded from voting
  - FIRB (Foreign Investment Review Board) approval
  - Certain conditions with respect to stamp duty
- If these conditions are satisfied, Completion will occur and BBIG will receive a 10% voting interest but no economic interest in PIOP Mine Co

## MINORITY PROTECTION

- PIOP remains a wholly owned subsidiary of Flinders
- Any work done by BBIG at its own cost and risk
- Transaction only proceeds if minority shareholders approve it noting that TIO is excluded from voting



# Completion to FID

- From Completion to FID, Flinders will retain control of PIOP Mine Co
- BBIG must fund the Feasibility Studies and there are various “off-ramps” if progress is not made
- Flinders will retain 100% economic interest and 90% voting interest in PIOP Mine Co
- Flinders will appoint 3 of the 4 PIOP Mine Co Board members including the Chair
- BBIG must spend \$15m per annum until FID is achieved or BBIG withdraws (and pay any shortfalls to Flinders)
- After 30 months, if Flinders reasonably believes BBIG will not be capable of submitting a FID proposal by the end of the pre-FID period, alternative infrastructure proposals can be sought by Flinders
- If BBIG is unable to bring a FID Proposal in 4 years which may be extended by 1 year in certain circumstances then Flinders may withdraw
- If Flinders or BBIG withdraw:
  - The arrangements will be unwound and Flinders will retain 100% of PIOP Mine Co
  - BBIG must pay the shortfall of the \$15m minimum spend for the year of withdrawal if any, and not less than \$3m
  - If within 2 years BBIG determines to sell the BBI Project, Flinders will have a right of first offer to acquire the BBI Project

## MINORITY PROTECTION

- Flinders retains control of PIOP
- Governance protocol with TIO to manage conflicts of interest (refer slide 13)



# FID to Development

Clearly defined criteria must be met at FID and Flinders will only be diluted (to 40%) by the Equity Funding Party funding 100% of the equity development costs

## Final Investment Decision

- FID Proposal must meet certain criteria, including:
  - The Equity Funding Party has committed to fund 100% of the equity component of development costs
  - A financial model that demonstrates the PIOP will be capable of achieving an operating margin reasonable for a project of its nature
  - Estimate of the all-in costs to completion and financing costs
  - Demonstrates that financing can be obtained on reasonable commercial terms
  - Appropriate arrangements are in place for off-take and construction
  - The annual contract capacity and an estimate of the operating charge
- If a FID proposal is given, PIOP Mine Co must approve the FID and upon FID occurring:
  - BBIG's 10% voting interest becomes a 10% voting and economic interest
  - The Equity Funding Party will be issued with a 50% interest in PIOP Mine Co

## Flinders' Election - Mining Option or Royalty Option

- If a FID proposal is given, the Flinders' board has 45 days to make an election between the Mining Option or the Royalty Option
- Flinders will proceed with the Mining Option unless non TIO nominee Directors of Flinders recommend the Royalty Option, in which case Flinders shareholders (with TIO not voting) will be given the opportunity to choose between the Royalty Option or the Mining Option
- If FID occurs,
  - BBIG will finalise arrangements for funding for PIOP
  - During construction, the Equity Funding Party will be required to fund 100% of equity funding for PIOP (for which it will receive a 50% interest in PIOP)
- Assuming Flinders has elected the Mining Option, it will be free-carried<sup>1</sup> during this period to first production

## MINORITY PROTECTION

- Clearly defined criteria for FID to occur, with inbuilt protections for Flinders
- Flinders – and hence its minority shareholders – are free-carried<sup>1</sup> and only need to fund in limited circumstances
- Board governance protections apply from FID – refer to “Operations” (slide 13)
- Governance protocol with TIO to manage conflicts of interest continues to apply

### Notes

1. 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



# Operations - governance protections

Flinders' Independent Infrastructure Committee has obtained key governance protections with respect to the Operational phase (post-FID) and a protocol to manage conflict of interest decisions

**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<sup>1</sup>**

FMS Director<sup>2</sup>



BBIG Director



Equity Funding Party Director



Equity Funding Party Director



## Board and Shareholder Decisions

1

### Fundamental Board Matters

- Enforcement of PIOP Mine Co's rights under any related party agreement
- Requires vote in favour by 100% of directors entitled to vote at the board meeting with binding deadlock protocol

2

### Fundamental Shareholder Matters

- Require approval by 75% or more of the voting interest in PIOP Mine Co (giving FMS a veto right)<sup>3</sup>
- Various matters – refer to Notice of Meeting

3

### Unanimous Shareholder Matters

- Matters requiring unanimous shareholder approval such as entry into a related party agreement and departure from the dividend policy

## Governance Protocol

**Governance Protocol letter from TIO in favour of Flinders** to manage conflict of interest issues, requiring any TIO nominee Flinders Director to abstain from voting on any decision which involves a conflict of interest (such as, the election of the Mining Option or the Royalty Option) and TIO committing to having a sufficient number of independent directors

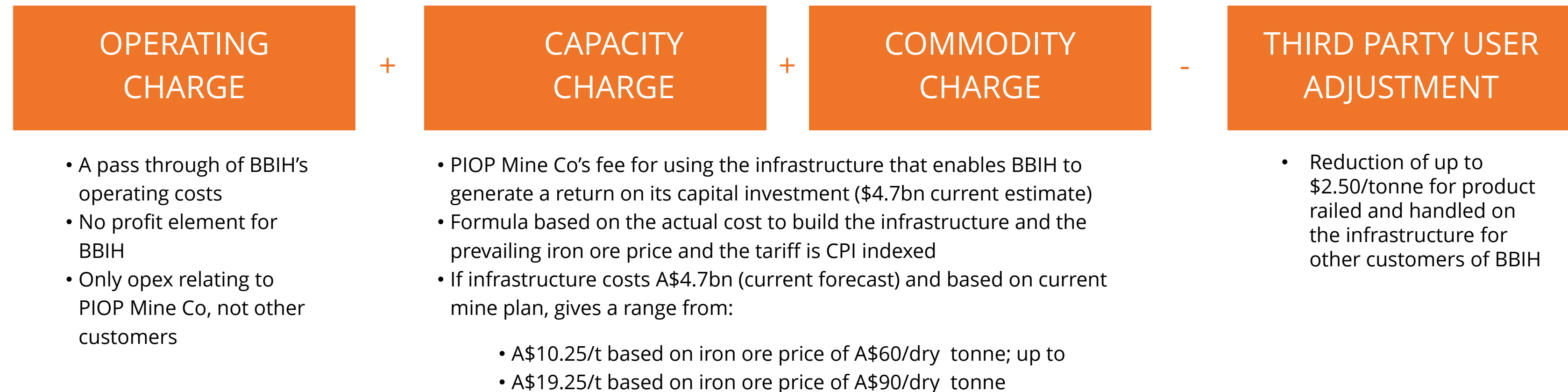
#### Notes

1. A subsidiary of BBIG, refer slide 8
2. If Flinders selects the Royalty Option it will have no ability to appoint a Director to the PIOP Mine Co Board
3. Subject to dilution risk



# Operations - commercial protections

The Tariff is an important element of the arrangements and has been documented in detail. Flinders believes the negotiated Tariff represents an attractive commercial outcome for shareholders



The tariff is on a 'take or pay' with a window mechanism for commencement when ore is ready for shipment  
There are risk management mechanisms to protect PIOP Mine Co, such as a make up and abatement regime where there is a non-provision of services by BBIG in certain circumstances

**If Flinders proceeds with the Mining Option, it will also be entitled to a \$1/tonne payment for all product using the infrastructure after iron ore mining at PIOP has ceased<sup>1</sup>**

## Notes

1. 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



# Reasons to vote in favour



## Independent Directors Recommend the Transaction

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



## Fair and Reasonable

The Independent Expert has concluded that the transaction is fair and reasonable



## Infrastructure Solution

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



## Free Carry to Production

Flinders shareholders free-carried<sup>1</sup> through to production, minimising future funding requirements and potential dilution to Flinders Shareholders



## Optionality to Reduce Risk

Flinders will have optionality at FID to select the Mining Option or Royalty Option. Minority shareholders will need to approve any move to the Royalty Option



## Value

There is potential to achieve an attractive value outcome



## No Superior Proposal

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



## Impact on Flinders Share Price

Flinders' share price may fall if the transaction does not proceed

### Notes

1. 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



# Potential implications of "no" vote

- ? Difficult to develop the PIOP without raising significant funds, and future capital raises could dilute existing shareholders
- ? BBIG may be forced to abandon development of the BBI Project as the BBIG State Agreement will expire in September 2020, in which case it would no longer be a potential infrastructure option
- ? Flinders will need to consider other potentially less optimal development alternatives with unknown timeframes and viability
- ? Flinders would proceed with activity level commensurate with available funding. Future funding support from TIO may no longer be available to Flinders and Flinders may need to rely largely on minority shareholder support for funding



# What are the alternatives?

Without this transaction, it would be challenging for Flinders to develop PIOP and the funding of any such development may result in greater dilution for Flinders shareholders

## **Free-carried<sup>1</sup> under the proposed transaction with BBIG**

- Flinders does not need to provide funding for feasibility studies or development<sup>1</sup>
- BBIG is required to arrange all necessary debt and equity financing and on reasonable commercial terms
- Flinders will not be required to contribute to any of the costs associated with feasibility studies or development costs<sup>1</sup> of the PIOP
- BBIG will also be responsible for developing marketing strategies, customer engagement and identification and entering into off-take sales contracts for PIOP Mine Co product
- BBIG delivering viable infrastructure solution

**VS.**

## **If Flinders financed the development of the project itself**

- Will be required to fund feasibility studies of c.\$50m which would require Flinders to raise additional capital
- Flinders expects it would then require \$2-3 billion to fund the PIOP's development – depending on financing arrangements, likely to be significantly dilutive to shareholders as Flinders will need to raise capital
- Flinders would still need to find another viable infrastructure solution; the BBIG project is currently the only credible infrastructure option for the PIOP





There is potential for Flinders shareholders to achieve an attractive value outcome



The Independent Infrastructure Committee has negotiated a fair and reasonable transaction with substantial benefits and protections for minority shareholders



The proposed transaction has been designed as a structured process, with multiple milestones and checkpoints along the way to track progress



Let's take PIOP into production. It is time to go mining.



# Next Steps

---

- ➔ Shareholders to review Notice of Meeting and Explanatory Statement prior to the EGM
- ➔ Minority shareholder engagement to explain the proposed transaction documents including a webcast and series of shareholder briefing sessions across multiple Australian states
- ➔ Flinders shareholders to vote on proposed transaction at the EGM on 3 March 2020 with TIO excluded from voting