



HALLGARTEN & COMPANY

Coverage Update

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Flinders Resources (FDR.v) Strategy: LONG

Key Metrics (FY ending Oct)			2013	2014e	2015e
Price (CAD)	\$	0.85		n/a	n/a
12-Month Target Price (CAD)	\$	2.10		(\$0.07)	\$0.08
Upside to Target		147%			
High-low (12 mth)		\$0.315 - \$1.01			
Market Cap (CAD mn)	\$	39.3			
Shares Outstanding (millions)		46.2			
Fully diluted		63.1			
Consensus EPS				n/a	n/a
Hallgarten EPS				(\$0.07)	\$0.08
Actual EPS			(\$0.08)		
P/E			n/a	\$ (12.14)	10.1
Dividend			n/a	n/a	\$ 0.02
Yield			0.0%	0.0%	2.4%

Flinders Resources

Pulling Well Ahead of the Pack

- + The Woxna project is the most advanced of all the graphite projects in the marketplace with the potential for meaningful production in the next two months
- + Capex estimate in PEA is US\$16.72mn, however the restart has been achieved for significantly less
- + Graphite prices seems to have stabilized at a healthy level after a retreat from their highs of recent years
- + An initial sales contract has been signed with one of its former European customers
- + Flinders had more than \$10.6mn in cash resources (at end-January)
- + The proposed merger with Tasman has been called off
- ✗ The Chinese still dominate the graphite space with the inherent danger of erratic price movements as they attempt to confound and confuse erstwhile competitors
- ✗ Flinders has been on the verge of production for some time which had prompted investors to develop wariness towards the stock

Once Bitten Twice Shy

With graphite appearing so hard on the heels of the Rare Earth mania, and with some of the same boosters enlisted for the cause, we were justifiably wary of even touching it. To our memory we scarcely even mentioned it, or any of the players, despite having attended a number of graphite symposia and entertained meetings with visiting executives to New York or London. Taking a pass was probably the best thing as it helped us miss yet another deflation of a bubble. There have been so many bullets to dodge in recent times that it has been akin to “going over the top at the Somme”.

In any case, the rather swift return to reality in the graphite space meant that there was no proliferation in players. There were less than 30 in total and really only a couple of handful of serious players intending to stay the course. Flinders has been ahead of the pack from the start in having most of the plant and mine in place already. Now production is imminent and this will lift Flinders out of the graphite hoi polloi into a category all of its own.

Woxna – a Restart not Greenfield

The key thing to note about Flinders’ 100%-owned Woxna project is that it is a past-producer. The assets comprise a partially depleted open pit and associated processing facility on the Kringelgruvan concession, which had been in production from 1996 to 2001. There are another three tenements that remain undeveloped as yet.

The Woxna graphite mine in Sweden was acquired by Flinders in August 2011. It is located approximately 20km from the town of Edsbyn, which is located in central Sweden approximately 300km

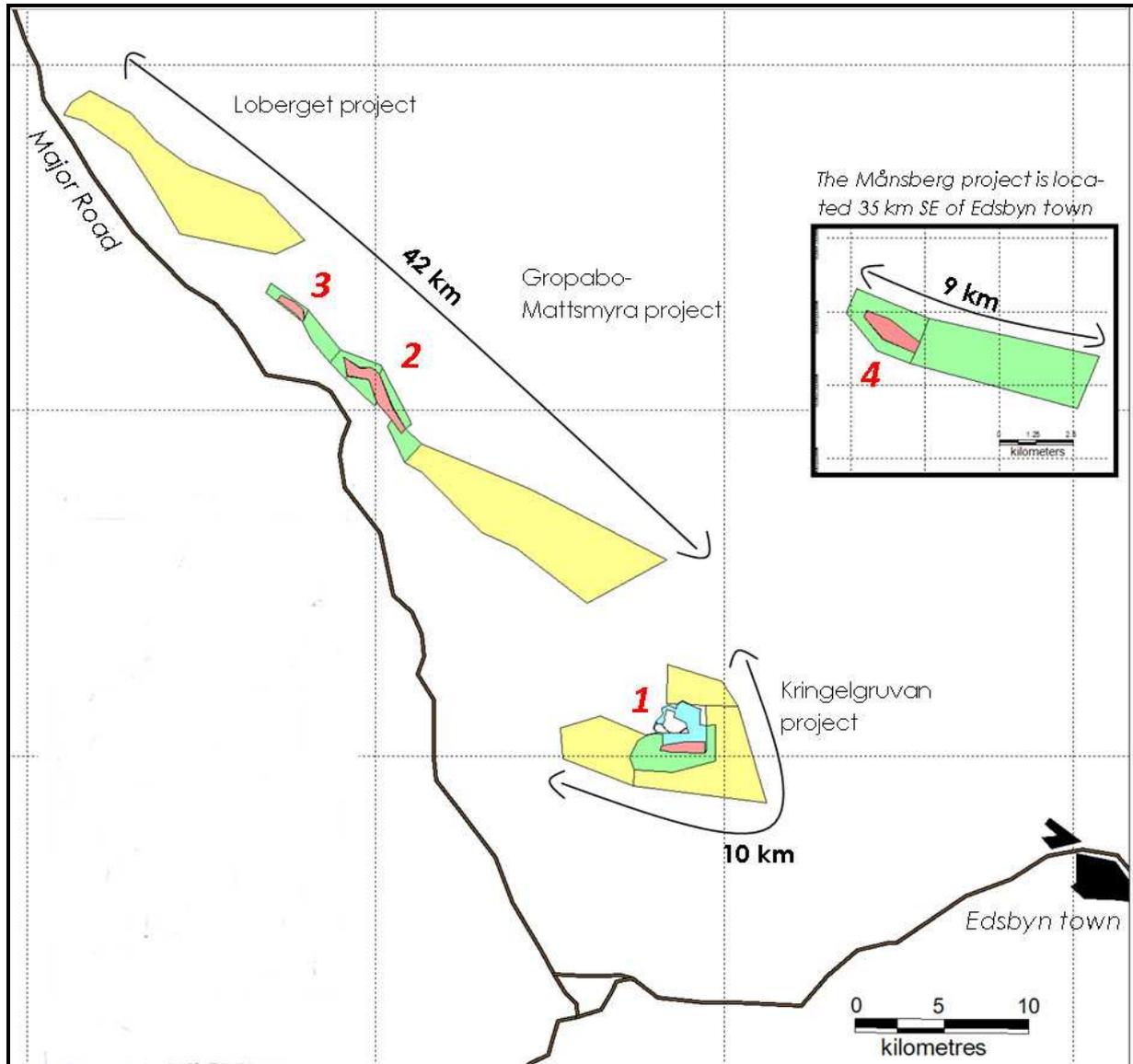
north of Stockholm. Flinders management claims that the project is unique due to its strategic position within the European Union: being fully permitted and constructed, as well as being attractive due to its proven ability to produce high-grade large flake graphite, long-life high grade resource and considerable upside potential.



Geology & Resources

The initial discovery was made in 1983 by a prospector engaged by the Swedish Geological Survey (SGU). In 1993, the concessions passed to Woxna Graphite AB, a small Swedish-based company specialising in the development of industrial mineral properties. By 1992, drilling had been completed at Kringelgruvan, Gropabo and, partially, at Mattsmyra. From 1992 onwards, Woxna completed the

Mattsmyra exploration and conducted the Månsberg exploration.



All four concessions show development of trace to massive graphite in high-grade metamorphosed, metasedimentary and metavolcanic host rocks which have been metamorphosed to sillimanite grade and intruded by felsic units ranging from alkali pegmatite to granite. All four permits have variable cover of 0-20m of Quaternary age moraine.

The cumulative strike length of mineralisation at Kringelgruvan is 1400m over two mineralised horizons. However, the mineralised zones have been cut up into a series of blocks, whose distribution has been poorly documented. Individual lenses are 3-16m wide and about 250m long. The deposit has been drilled down to 50-80m and is open at depth. The mineralised bodies in the Kringelgruvan pit, consisted

of both A-type and B-type ore quality, such that the B-type had considerably lower contents of graphite, contained relatively high concentrations of sulphur, and was more difficult to treat and concentrate than the A-type. B-type material occurs on stockpiles and has not been included in any historical resource estimates.

The Woxna mine has a NI43-101 resource of 2.6 million tonnes at 10.5% graphite at the Kringel deposit. In addition, historic (i.e. non-NI43-101) resources of 5.6 million tonnes containing 8.3% graphite are contained in three deposits within 25 km of the Woxna processing facility.

- Kringel 2.6mt @ 10.5% C
- Gropabo 2.1mt @6.9% C
- Mattsmyra 2.2mt @8.8% C
- Mansberg 1.3mt@ 9.4% C

Classification	TONNES (Mt)	Grade Cg %
Measured	1.5	10.4
Indicated	1.1	10.5
Total	2.6	10.5

According to the company, the current resource is sufficient for at least 40 years at the mine's rated graphite production capacity. Management claims that there is considerable upside though expanding the resource below 50m and along strike.

Past production

The construction of the original plant began in 1995 while the mining of graphite mineralisation, at the Kringelgruvan pit, commenced in 1996. Trial product delivery in December 1996, though officially, production started in March, 1997. A plant expansion took place in 1998, with installation of two additional regrinding mills in order to extend regrinding/flotation steps to the present three. A new rod mill (with a capacity of 40 tonnes per hour) was installed and a new flotation circuit was set up. Three column cells were also erected at this time to improve the efficiency of the fines flotation process. In addition, the drying circuit was extended from two to three units.

In 2000, the feed arrangement to the drier was improved and the overpressure in the dry sieves was eliminated to improve both the quantity and quality in the sieving process. Automatic sampling was installed at crucial points in the plant. The objective was to increase the throughput capacity and the product recovery.

All the mining and crushing operations were carried out by a local contractor with machinery adapted to the requirements of the beneficiation plant. The beneficiation plant had a nameplate capacity of approximately 140,000 tonnes per year which could generate 10,000 - 13,000 tonnes of processed graphite products. After crushing, the feed was transported to a rod mill and then a ball mill for grinding, followed by flotation and gravimetric separation. Both spirals and vibrating tables were used and these

removed the coarse graphite fractions.

The remaining material then continued on to several more grinding cycles in ball and SAM mills followed by flotation cycles in conventional cells, as well as columns. After wet-sieving and vacuum filtering the graphite concentrate was dried in a rotary furnace and then transported by an elevator to a storage silo situated outside the plant. From there, the concentrate was taken to the packaging hall where it was sieved into three different grain sizes: coarse >160 micron, medium (75-160 micron) and powder (<75 micron) fractions.

These three product size gradings were then transported to silos from where the products were distributed, using a permroll magnet, to either a bulka-bag or small sack-packaging machine.

During its operational phase, a large proportion of the Woxna mine's output was the premium large flake graphite. Typical purity was up to 94% graphite and flake distribution was:

- 40% large flake +160µm
- 28% medium flake 75-160 µm
- 32% fine <75 µm

A mixing plant provided the possibility to produce products to suit specific customer requirements. All the plant's processes were controlled by a central computer system. Production quality control was done in the plant's own laboratory.

Production at the Kringsgruvan pit was suspended in the summer of 2001 due to adverse market conditions. Sometime after production suspension the crushing operation and attendant machinery were removed. The entire site has been carefully maintained after production ceased in the summer of 2001. Power and water services remain connected.

When it acquired the Woxna assets the company also acquired the old mine's inventory of graphite. This graphite had been produced prior to the shutdown of the mine, however being lower grade product was considered unsaleable in the depressed graphite markets at that time. The sale of these to customers in mainland Europe on both spot and contractual basis has continued since closure.

The PEA and Financing

In an intriguing topsy-turvy move the company announced the results of a PEA in early September 2013. This was AFTER most of the production decisions and construction had been made. Frankly we thought it amusing and favoured the move. It shows better than anything else that the Canadian system is directed towards show more than production and Flinders clearly had better things to do than hang about waiting for glacially slow consultants to get their act on the road.

The salient points were:

- Initial capital costs of \$16.7 million, consisting of \$10.3 million direct capital, \$4 million indirect capital and \$2.4 million in working capital.
- Operating costs of \$662 per tonne of graphite concentrate

- Conservative pricing at current spot levels for an average sale price of \$1,199 per tonne
- Total revenue of \$230 million over life of mine
- PEA based on the current resource's 13 year mine life with an NPV of \$26.6 million. (post-tax, @8% discount rate)
- Payback period of 3.9 years
- Post-tax 34% IRR

Flinders' management felt that they had come up with a PEA which has a conservative and sensible model in it.

The company resolved to start production on a smaller scale, for a capex spend of less than \$6mn, to get the product into the European market and then grow organically. This approach seems sensible to us.

Reactivation

Improved graphite pricing since 2009 was the major impetus for Flinders restarting production at Woxna. The mine is fully permitted to produce up to 13,000 tonnes per year of graphite (the old nameplate volume though lower than the planned 16,600 tpa).

Flinders intends to primarily target the European graphite market due to its proximity to Sweden, short transit times and low transport costs, advantaging the Swedish mine over more distant competitors. At 16,600 tonnes per annum, the design production volume in the PEA is sized so that graphite sales may be readily absorbed into the European market without creating an oversupply situation.



Since acquiring Woxna in August 2011, Flinders initiated a program to upgrade the aforementioned graphite stockpile and market this production to European consumers. A portion of the processing plant was started up to clean, sort and pack the graphite and customers for this graphite were identified. Benefits of upgrading and selling this graphite include:

- ✓ cleaning up the Kringel site
- ✓ confirmation that the sections of the processing plant can be successfully restarted with minimal effort

The drying, screening and packing circuits of the Kringel processing plant were successfully restarted in May 2013 after the winter break and production of graphite from stockpiled material resumed. Several hundred tonnes of graphite remain from a stockpile that was built up when Woxna was last mined up to 2001. Graphite can be blended to customer specification and transported to most European customers by road, rail or ship within 1-3 days.

In recent months the company has announced:

- Mid-January – acquired floatation cells
- Late March – commissioned the rod mill
- Late April – flotation cells installed
- May/June: –
 - Ore crushing has commenced to provide a feed stockpile of crushed ore to the rod mill;
 - Floatation circuit completed and ready for wet commissioning;
 - A new filter press to dewater graphite product has arrived on site and installation is nearing completion;
 - Tailings dam civil works are progressing to schedule and are substantially complete;
 - Electrical and mechanical works are substantially complete;
 - Instrumentation and process controls works nearing completion;
 - Site lab facilities nearing completion;
 - Preparations for wet commissioning of the processing plant are underway.

Production from new material is expected to commence in July, so imminently.

The site has excellent infrastructure including power, water and roads to site and has already an open pit mine, processing plant including grinding mills, flotation circuit, drying, sizing and packing operations.

The total investment by Flinders in the infrastructure, mine, beneficiation plant, storage building, offices, etc. amounts to in excess of US\$17mn to date.

When the Woxna site produced graphite in the past, they struggled with purity. This was from being undercapitalized. The previous operators had purchased some second hand equipment and modified the process to suit the equipment rather than the other way around. When Flinders came in, they perceived an opportunity to improve the process with further research and better dedicated equipment. They have completed the metallurgical work (which took much longer than it should as always) and, according to management, have a stable process to produce a higher value (better purity and larger

flake) product.

The Kringelgruvan open-pit mine (shown on the following page) has largely been pre-stripped and a cut-back is required to access further mineralisation. Furthermore, all adjacent pits will require pre-strip and development from scratch. Some initial development will be free-dig but localised drill-and-blast will be required. Approximately 75,000 tonnes, which is nine months expected production at historic rates, is available prior to cut-back.



Source: Flinders Resources

The mining of the Central Zone, which started in 1996, stands currently -45m below surface level where mining was suspended. The total extracted amount of mineralisation processed in the dressing plant was ~300,000 metric tonnes. In addition, the upper parts (approximately 5m) were of an oxidised gossan type which has been deposited in the "red dump" adjacent to the tailings pond, as the mineralisation was not suitable for processing in the plant. Some of the so-called B-type quality mineralisation, containing 5-6% C, has been processed, whereas remaining quantities of B-type have been deposited in the "red dump" because of its relatively high content of sulphidised minerals. According to Flinders recent calculations, the remaining quantity to be mined is about 75,000 tonnes A-type mineralisation down to -65 meter level, which was the final level planned with present push-back.

The other three tenements would require clear and grub, pre-strip of a barren 0-20m Quaternary age moraine and considerable mine planning and survey work to develop. In each case, the issuer and prior project vendor envisaged truck and haul from these, down local roads, to the processing plant.

Further expansion of the Woxna Project is possible and will be evaluated when European market

conditions permit.

Graphite

The mineral graphite is an allotrope of carbon and is naturally-occurring form of carbon. Its name comes from the Greek word for writing (due to its use as pencil “lead”) and has the chemical symbol C (as do diamonds and coal). The application for graphitic material is constantly evolving due to its unique chemical, electrical and thermal properties. It maintains its stability and strength under temperatures in excess of 3,000°C and is very resistant to chemical corrosion. It is also one of the lightest of all reinforcing elements and has high natural lubricating abilities.

Graphite is developed as an accessory mineral as laminated aggregates dispersed through schistose and siliceous metamorphic rocks. Graphite is an opaque mineral with six-sided form and crystallises in the hexagonal system with rhombohedral symmetry. It has a perfect basal cleavage and thus presents as flat flakes. These have a metallic lustre. Graphite is found as both flakes (>70µm) and a finer-grained amorphous, microcrystalline type. Graphite has a dark streak and is visually obvious in core.

Sources

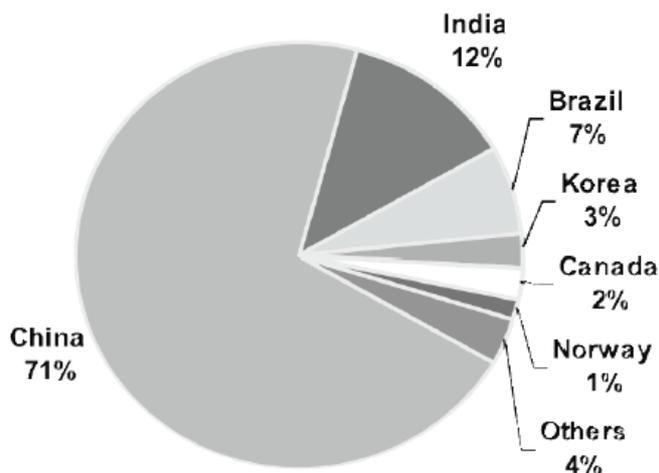
The largest current producer is China (according to USGS figures – shown at right). The only traditional Western supplier of consequence is Canada which is somewhat of a swing producer with the only player being Timcal, owned by the French group Imerys. That mine is currently mothballed, but even if it was in operation, the expected mine life is no longer than five years as it has been in operation for many decades already.

Applications

The mineral is starting to be considered as one of the more strategic elements in some surveys coming out of leading industrial nations, though this is relatively new as its main uses were for cathodes (as in aluminium smelting) and steel-industry crucibles which, while important, scarcely rank as strategic uses. Two qualities of graphite that are driving the new applications are its electrical conducting powers and its lubricant qualities (both in wet and dry forms). Much talk relates to the new application known as grapheme which has been endowed with a variety of powers by its enthusiasts. We shall not digress into it here for it seems to be a usage that we do not need to justify the market for more graphite production and has gained the taint of over-hyping that occurs when a new application falls into the hands of Vancouver’s corporate promoters.

The proven usage that has generated most excitement in recent times is that of batteries, primarily nickel-metal-hydride and lithium-ion batteries. The demand is not phantom by any means as it has been a prime driver of graphite demand since the late 1980s. The underlying reason for this growth was the

2010 (USGS – United States Geological Service)



expansion in usage of portable electronics, such as portable CD players and power tools. Laptops, mobile phones, tablet, and smartphone products have increased the demand for batteries. Electric vehicle batteries are anticipated to increase graphite demand.

Natural and synthetic graphite are used to construct the anode of all major battery technologies. The lithium-ion battery utilizes roughly twice the amount of graphite than lithium carbonate. As an example, a lithium-ion battery in a fully electric Nissan Leaf contains nearly 40 kg of graphite. An oft-quoted statistic is that the average lithium-ion battery in a cellphone or laptop has ten times as much graphite as there is lithium.

A lot of the more bulk uses of graphite utilize the more prolific grades; hence the lack of crisis mode in government's with relation to this mineral.

Pricing

Graphite comes in widely varying grades. Not surprisingly because of graphite's abundance in the earth's surface it is not a rare commodity. However, it is very much less common in some specifications and it is these that make the difference between a so-so project and one with a unique product the market will pay a premium for.

As the price table below indicates the premium prices are reserved for the largest flakes with the highest percentage purity.

Types of Natural Graphite	Average Price (\$/t December 2012)
Small Flake (94 – 97%)	\$900 - \$1,200
Medium Flake (94 – 97%)	\$1,050 - \$1,400
Large Flake (94 – 97%)	\$1,400 - \$1,800
Large Flake (99.9%)	\$20,000 - \$40,000

Source: Focus Graphite

The previous time that graphite flake prices breached the \$1,000 mark per ton was the in the early 1990s. This was a recovery from a long period of oversupply and was driven by new demand from steel refractories and the replacement of asbestos in brake linings. Japan overtook the US as the leading mass producer of cars which added a new layer of demand to the graphite industry.

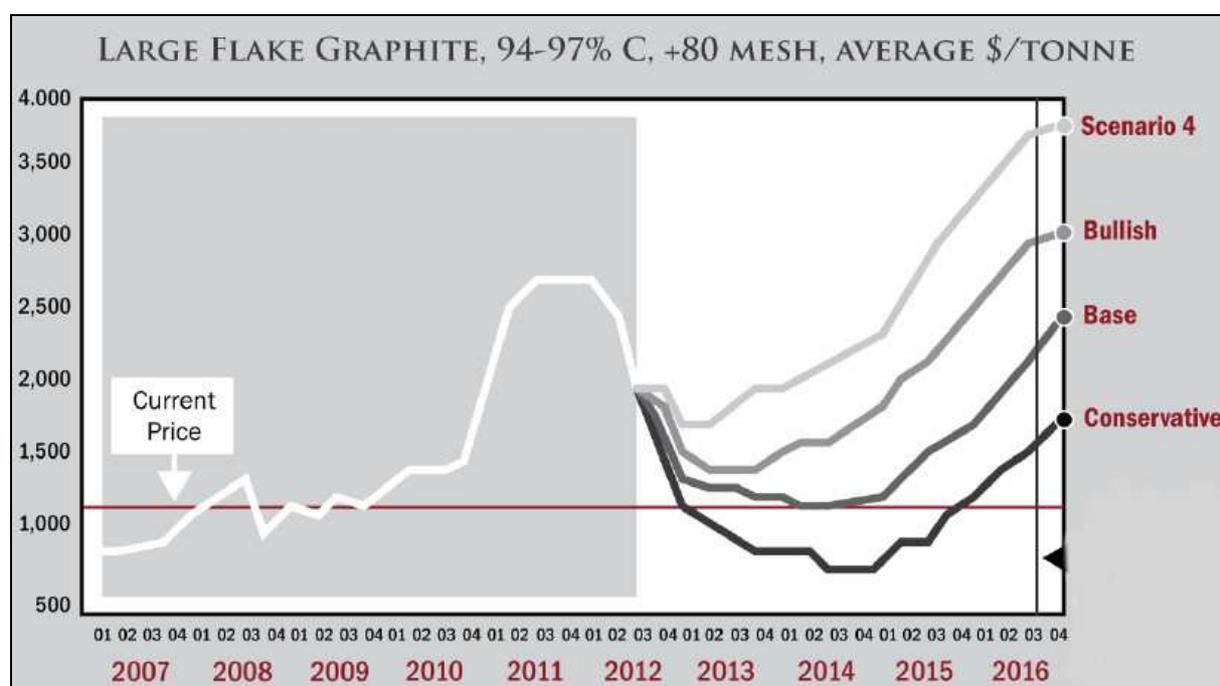
This phase only lasted until 1994 when prices again halved to around US\$4,500 per ton. This was due to China emerging as a world power in flake graphite production and prices crashed to all-time lows. As Chinese producers focused on exporting and gaining market share from Europe and North America, flake graphite went into freefall.

As with so many other mineral commodities that the Chinese came to dominate via aggressive pricing, a long period of stagnation followed. The world became reliant on low-cost flake graphite from China. The

volume and quality at which China could produce flake ensured only the niche, specialist and value-added producers (e.g. Timcal) survived elsewhere in the world. With Western consumers all too eager to sign long-term contracts prices remain depressed and there was little to scope for new non-Chinese entrants on the production side. It took over 15 years for any significant price rises to return.

Graphite prices rose strongly between early 2008 and their peak in 2011. The rise over that time was fivefold. This move was due to growing demand from new applications and supply constraints in China.

The chart that follows shows the price projections of the journal, Industrial Minerals for the next few years.



Source: Industrial Minerals

As can be noted even the base case price scenario would give Flinders a very healthy margin.

The European graphite market is estimated to consume approximately 20% of the global demand for natural flake graphite, or around 500,000 tonnes per annum. Currently more than 90% of Europe's graphite demand is imported, mainly from China.

The Abortive Merger

In mid-December 2013 it was announced that Tasman Metals (TSXV:TSM, NYSE: TAS) and Flinders Resources Limited (TSXV: FDR) had initiated preliminary negotiations with regard to a potential merger of the two companies. Under the terms being considered, Tasman was planning to acquire all of the outstanding common shares of Flinders for consideration of common shares of Tasman based on a yet to be determined share exchange ratio. The rationale given for the deal was that the project portfolios of the two companies were complementary, with both companies focused on the supply of critical

materials to traditional and high-growth sectors of European industry. While technically true it struck the market as somewhat of a stretch as Rare Earths and Graphite had not been grouped together before and were never mentioned in the same breath by anyone before this deal was announced.

The market also took a violent dislike to the fact that no specific terms were announced. With Flinders much closer to production and well-girdled with cash, it was seen as an advantageous deal for Tasman alone. Both being companies in the same corporate grouping did not help.

In any case, after months of uncertainty, on May 20, 2014 it was announced that negotiations with regard to the potential merger of the two companies had resulted in a decision to not proceed. This decision not to proceed was described as taken "mutually by the Boards of Directors of both companies, after discussion with various stakeholders including shareholders and customers". In the long term something might make sense along these lines but only when the companies are facing each other on a more level playing field with both having production, cashflow and/or cash.

Management

Blair Way is the CEO & President & a Director. He has over 25 year's management experience within the resources and construction industry throughout Australasia, Canada, the United States and the United Kingdom. Prior to joining Flinders Resources he was the VP Project Development for Ventana Gold advancing projects in Colombia before its acquisition by Brazilian billionaire Eike Batista for \$1.4 billion (who later came to grief for his own reasons). .

He also served as President & Project Director, Oceanagold Philippines overseeing the Philippine business unit including in country exploration activities and construction of the Didipio gold copper project , Project Manager Non Ferrous Group with Hatch Associates (Brisbane) providing project management support for various mining and metal related projects in Australia, South Africa, China, Papua New Guinea and South East Asia and Project Director for BHP's Major Projects division (QNI Pty Ltd) in Townsville, Queensland.

He holds a Bachelor of Science (Geology) from Acadia University in Nova Scotia, Canada, a Masters of Business Administration from the University of Queensland, Australia, and is a Fellow of the Australasian Institute of Mining and Metallurgy.

Michael Robert Hudson is a founding Director of Flinders Resources Ltd with 23 years of experience in mineral exploration in Australia, Asia, South America and Europe. He has developed junior exploration companies over the past 13 years in the Canadian and Australian markets. He graduated from the University of Melbourne in 1990 with a First Class B.Sc. (Hons) in Geology and a Graduate Diploma of Applied Finance and Investment through the Financial Services Institute of Australasia (FINSIA), in which he received the Tolhurst Noall Prize for achieving the top ranking in the State of Victoria, Australia for "Mining Investment Analysis".

Since 2004, he has headed Mawson Resources Ltd as President & CEO and lead its development as a founding Director from a junior Venture Exchange-listed gold explorer to a respected Toronto Stock Exchange exploration company (MAW:TSX). Previously he has initiated projects for the junior resource sector in Australia, Argentina, Peru and Mexico and prior to this he gained exploration to pre-feasibility

project management experience in Pakistan, Australia and Peru for Pasmaico Ltd, and in the arctic areas of northern Sweden under a BHP-funded joint venture. His discoveries include the Portia gold deposit in the Olary district of South Australia, the Duddar Pb-Zn mine in Pakistan and the Rompas Au-U project in Finland.

Mr Hudson sits on the Board of Mawson Resources Ltd, Tasman Metals Ltd (TSXV:TSM) and Darwin Resource Corp (TSXV:DAR). He is a Fellow of the Australasian Institute of Mining and Metallurgy and Member of both the Society for Economic Geologists and Australian Institute of Geoscientists.

Nick DeMare, is the CFO & Director. He is a chartered professional accountant, has been President of Chase Management Inc. since 1991, providing accounting, management, securities regulatory compliance and corporate secretarial services to private and public-listed companies. He also serves as an officer and/or director of a number of public-listed companies. He holds a Bachelor of Commerce degree from the University of British Columbia and is a member in good standing of the Institute of Chartered Accountants of British Columbia.

Mark Saxon, a Director, has 20 years of experience in exploration and resource geology. He graduated from the University of Melbourne in 1991 with a First Class Bachelor of Science (Honours) in geology, and is a fellow of the Australasian Institute of Mining and Metallurgy. He worked for Pasmaico Australia Ltd in Australia and South America. He also has considerable experience and practical knowledge of the geology, prospectivity and operating environments of Australia, Northern Europe and South America. He is the President & CEO of Tasman Metals Ltd and sits on the Advisory Boards for Hansa Resources Ltd (TSXV:HRL) and Botnia Exploration AB in Sweden.

Another director is Robert Atkinson, who has worked in the investment industry for over 40 years. He is former President and CEO of Loewen Ondaatje McCutcheon & Co Ltd., one of Canada's most respected investment dealers. He now serves as a director or officer (or both) of several public companies listed on the TSXV and TSX, including Spur Ventures, Tasman Metals and Hansa Resources Limited. He holds a B.Comm from the University of British Columbia.

Risks

If anything most of the traditional risks that a company moving from exploration to production are either behind Flinders or were avoided altogether by picking up a project that was pretty plug-n-play from the get-go. Now the risk profile is more that of a producer than a wannabe. That makes most of the risks into ones related to the supply and demand for the product.

- Subject to the vagaries of the opaque graphite market where trends are sometimes difficult to discern
- Prices likewise are "by appointment"
- Market currently has good balance but this could be adversely impacted by the onset of too much production

Conclusion

It was always likelier that the graphite space would be able to present a production play faster than the

way more complicated Rare Earth scene. Mining was simpler, locations were less remote, metallurgy was easier and capex was lighter. It has certainly helped Flinders that it already had a mothballed operation on its hands that minimized both timeline and capex.

Now the company is on the fast-track to a production start-up in the coming weeks. This will place Flinders in a whole new category in the graphite space. The onset of revenues should catapult the price higher and make it the preferred position for institutional investors serious about having an exposure in graphite mining. The risks in the very short-term are minimal. In the longer term things could be more difficult if there is an over-abundance of new production which spoils the price or perceptions of the attractions of graphite. However, excepting Elcora, most of the other graphite wannabes are facing a wall of financing risk and tribulations to climb before they can even hope to compete with Flinders.

Last year we had added a Long position in Flinders Resources to the Model Mining Portfolio with a 12-month target price of CAD\$1.00. We are now raising the 12-month target price to CAD\$2.10 on the basis of the imminent advent of production.



Important disclosures

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