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**FLINDERS RESOURCES LIMITED**

*(formerly Tasex Capital Limited)*

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS  
FOR THE NINE MONTHS ENDED  
JULY 31, 2012

*(Unaudited - Expressed in Canadian Dollars)*

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**NOTICE OF NO AUDITOR REVIEW OF  
CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

In accordance with National Instrument 51-102 Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of these condensed consolidated interim financial statements they must be accompanied by a notice indicating that the condensed interim financial statements have not been reviewed by an auditor.

The accompanying unaudited condensed interim financial statements of the Company have been prepared by and are the responsibility of the Company's management.

**FLINDERS RESOURCES LIMITED***(formerly Tasex Capital Limited)***CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION***(Unaudited - Expressed in Canadian Dollars)*

	Note	July 31, 2012 \$	October 31, 2011 \$
<b>ASSETS</b>			
<b>Current assets</b>			
Cash	5	17,751,743	864,677
Amounts receivable	6	186,975	42,293
Prepaid expenses and deposit		44,611	9,640
Inventory		<u>98,436</u>	<u>139,160</u>
<b>Total current assets</b>		<u>18,081,765</u>	<u>1,055,770</u>
<b>Non-current assets</b>			
Property, plant and equipment	7	2,640,909	1,704,437
Exploration and evaluation assets	8	5,824,147	4,913,512
Reclamation deposit	9	<u>73,739</u>	<u>76,462</u>
<b>Total non-current assets</b>		<u>8,538,795</u>	<u>6,694,411</u>
<b>TOTAL ASSETS</b>		<u>26,620,560</u>	<u>7,750,181</u>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities		<u>312,851</u>	<u>105,738</u>
<b>Non-current liabilities</b>			
Provision for site restoration	9	5,168,574	4,892,703
Property acquisition obligation	8	<u>290,711</u>	<u>265,116</u>
<b>Total non-current liabilities</b>		<u>5,459,285</u>	<u>5,157,819</u>
<b>TOTAL LIABILITIES</b>		<u>5,772,136</u>	<u>5,263,557</u>
<b>SHAREHOLDERS' EQUITY</b>			
Share capital	10	24,579,483	2,687,617
Share-based payments reserve		2,376,811	660,868
Deficit		<u>(6,107,870)</u>	<u>(861,861)</u>
<b>TOTAL SHAREHOLDERS' EQUITY</b>		<u>20,848,424</u>	<u>2,486,624</u>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<u>26,520,560</u>	<u>7,750,181</u>

**Events after the Reporting Period** - See Note 15

These condensed consolidated interim financial statements were approved for issue by the Board of Directors on September 25, 2012 and are signed on its behalf by:

/s/ Martin McFarlaneMartin McFarlane  
Director/s/ Nick DeMareNick DeMare  
Director

*The accompanying notes are an integral part of these condensed consolidated interim financial statements.*

**FLINDERS RESOURCES LIMITED***(formerly Tasex Capital Limited)***CONDENSED CONSOLIDATED INTERIM STATEMENTS OF COMPREHENSIVE LOSS***(Unaudited - Expressed in Canadian Dollars)*

		Three Months Ended July 31		Nine Months Ended July 31, 2012	Period February 17, 2011 (Date of Incorporation) to July 31, 2011
	Note	2012 \$	2011 \$	\$	\$
<b>Expenses</b>					
Accounting and administration		31,142	800	47,442	800
Accretion	9	8,804	-	26,391	-
Audit		17,470	-	18,899	-
Bank charges		1,208	218	3,826	280
Consulting		52,525	-	190,993	-
Corporate development		33,290	-	68,409	-
Depreciation		48	-	1,980	-
Due diligence		-	56,941	-	70,942
Interest		11,809	-	34,443	-
Investor relations		30,000	-	52,333	-
Legal		10,791	2,663	40,279	2,663
Office		18,241	524	68,764	524
Regulatory		26,293	-	53,025	-
Rent		5,897	-	7,083	-
Repairs and maintenance		23,784	-	82,539	-
Salaries and benefits		(14,389)	-	153,206	-
Share-based compensation	10(f)	122,228	-	685,525	-
Shareholder costs		3,906	-	5,465	-
Transfer agent		6,286	-	18,467	-
Travel		63,521	-	187,382	-
Utilities		46,350	-	119,300	-
		<u>499,204</u>	<u>61,146</u>	<u>1,865,751</u>	<u>75,209</u>
<b>Loss before other items</b>		<u>(499,204)</u>	<u>(61,146)</u>	<u>(1,865,751)</u>	<u>(75,209)</u>
<b>Other items</b>					
Public company listing expense	4(a)	-	-	(3,414,851)	-
Interest income		62,111	-	74,493	-
Foreign exchange loss		(15,372)	-	(39,900)	-
		<u>46,739</u>	<u>-</u>	<u>(3,380,258)</u>	<u>-</u>
<b>Net loss and comprehensive loss</b>		<u>(452,465)</u>	<u>(61,146)</u>	<u>(5,246,009)</u>	<u>(75,209)</u>
<b>Loss per share - basic and diluted</b>		<u>\$(0.01)</u>	<u>\$(0.02)</u>	<u>\$(0.12)</u>	<u>\$(0.06)</u>
<b>Weighted average number of common shares outstanding - basic and diluted</b>		<u>44,959,141</u>	<u>2,832,577</u>	<u>45,538,530</u>	<u>1,162,930</u>

*The accompanying notes are an integral part of these condensed consolidated interim financial statements.*

**FLINDERS RESOURCES LIMITED***(formerly Tasex Capital Limited)***CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN EQUITY***(Unaudited - Expressed in Canadian Dollars)*

<b>Nine Months Ended July 31, 2012</b>					
	<b>Share Capital</b>		<b>Share-Based Payments Reserve \$</b>	<b>Deficit \$</b>	<b>Total Equity \$</b>
	<b>Number of Shares</b>	<b>Amount \$</b>			
<b>Balance on October 31, 2011</b>	17,715,000	2,687,617	660,868	(861,861)	2,486,624
Adjustment to reflect recapitalization	6,950,000	3,475,000	-	-	3,475,000
Common shares issued for:					
cash - private placements	19,223,530	20,200,001	-	-	20,200,001
cash - exercise of share options	1,050,000	309,000	-	-	309,000
cash - exercise of warrants	500,000	375,000	-	-	375,000
cash - exercise of agent's warrants	100,000	10,000	-	-	10,000
Share issue costs	-	(2,744,360)	-	-	(2,744,360)
Transfer on exercise of share options	-	267,225	(267,225)	-	-
Share-based compensation for:					
- share options	-	-	685,525	-	685,525
- finders' option	-	-	405,856	-	405,856
- finders' warrants	-	-	891,787	-	891,787
Net loss for the period	-	-	-	(5,246,009)	(5,246,009)
<b>Balance at July 31, 2012</b>	<b>45,538,530</b>	<b>24,579,483</b>	<b>2,376,811</b>	<b>(6,107,870)</b>	<b>20,848,424</b>

<b>Period February 17, 2011 (Date of Incorporation) to July 31, 2011</b>					
	<b>Share Capital</b>		<b>Share-Based Payments Reserve \$</b>	<b>Deficit \$</b>	<b>Total Equity \$</b>
	<b>Number of Shares</b>	<b>Amount \$</b>			
<b>Balance at February 17, 2011</b>	-	-	-	-	-
Common shares issued for:					
initial incorporation	2	2	-	-	2
cash - private placement	9,000,000	450,000	-	-	450,000
Net loss for the period	-	-	-	(75,209)	(75,209)
<b>Balance at July 31, 2011</b>	<b>9,000,002</b>	<b>450,002</b>	<b>-</b>	<b>(75,209)</b>	<b>374,793</b>

*The accompanying notes are an integral part of these condensed consolidated interim financial statements.*

**FLINDERS RESOURCES LIMITED***(formerly Tasex Capital Limited)***CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS***(Unaudited - Expressed in Canadian Dollars)*

	Nine Months Ended July 31, 2012 \$	Period February 17, 2011 (Date of Incorporation) to July 31, 2011 \$
<b>Operating activities</b>		
Net loss for the period	<u>(5,246,009)</u>	<u>(75,209)</u>
Adjustments for:		
Accretion	26,391	-
Depreciation	1,980	-
Public company listing expense	3,414,851	-
Interest	34,443	-
Foreign exchange	(6,125)	-
Share-based compensation	<u>685,525</u>	<u>-</u>
	<u>(1,088,944)</u>	<u>(75,209)</u>
Changes in non-cash working capital items:		
Increase in amounts receivable	(126,155)	(417)
Decrease in prepaid expenses and deposit	27,999	-
Decrease in inventory	40,724	-
Decrease in accounts payable and accrued liabilities	<u>(142,385)</u>	<u>-</u>
	<u>(199,817)</u>	<u>(417)</u>
<b>Net cash used in operating activities</b>	<u>(1,288,761)</u>	<u>(75,626)</u>
<b>Investing activities</b>		
Additions to property, plant and equipment	(948,029)	-
Expenditures on exploration and evaluation assets	(441,516)	-
Cash acquired on acquisition of Tasex	<u>118,088</u>	<u>-</u>
<b>Net cash used in investing activities</b>	<u>(1,271,457)</u>	<u>-</u>
<b>Financing activities</b>		
Advances	-	75,000
Issuance of common shares	20,894,001	450,002
Share issue costs	<u>(1,446,717)</u>	<u>-</u>
<b>Net cash provided by financing activities</b>	<u>19,447,284</u>	<u>525,002</u>
<b>Net change in cash</b>	16,887,066	449,376
<b>Cash at beginning of period</b>	<u>864,677</u>	<u>-</u>
<b>Cash at end of period</b>	<u>17,751,743</u>	<u>449,376</u>

Supplemental cash flow information - See Note 13

*The accompanying notes are an integral part of these condensed consolidated interim financial statements.*

# FLINDERS RESOURCES LIMITED

*(formerly Tasex Capital Limited)*

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE NINE MONTHS ENDED JULY 31, 2012

*(Unaudited - Expressed in Canadian Dollars)*

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### 1. Nature of Operations

The Company was incorporated on October 27, 2010 under the Business Corporations Act (British Columbia) as Tasex Capital Limited ("Tasex"). On April 29, 2011 the Company filed its final prospectus and, on May 3, 2011, received final receipts for the prospectus and became a reporting issuer in British Columbia and Alberta. On June 8, 2011 the Company completed its initial public offering (the "Offering") and on June 10, 2011 the Company's common shares began trading on the TSX Venture Exchange (the "TSXV") as a capital pool company. Effective February 22, 2012 the Company completed its Qualifying Transaction and acquired, all of the issued and outstanding common shares of Burke Resources Limited ("Burke"). Burke holds 100% of Kringelgruvan AB ("Kringelgruvan") (formerly Woxna Graphite AB), a private Swedish company. Kringelgruvan has a 100% ownership interest of the Woxna Graphite Mine located in central Sweden. See also Note 4(a). The Company also changed its name from Tasex Capital Limited to Flinders Resources Limited in conjunction with the completion of the Qualifying Transaction. The Company's common shares now trade under the symbol "FDR". The Company's principal office is located at #1305 - 1090 West Georgia Street, Vancouver, British Columbia, V6E 3V7.

The Company is a junior exploration company currently engaged in the development of the Woxna Graphite Mine. On the basis of information to date, it has not yet determined whether these properties contain economically recoverable ore reserves. The underlying value of the resource interests is entirely dependent on the existence of economically recoverable reserves, the ability of the Company to obtain any additional funding that may be necessary to complete development and upon future profitable production. The amounts shown as exploration and evaluation assets represent net costs to date, less amounts recovered or written off, and do not necessarily represent present or future values.

As at July 31, 2012 the Company had working capital of \$17,768,914, non-current liabilities of \$5,459,285 and an accumulated deficit of \$6,107,870. Based on current information the Company estimates that it has adequate funding in place to complete the development of the Woxna Graphite Mine. However, if development cost estimates were to change the Company may require additional financing. The Company's ability to continue as a going concern may be dependent upon the ability of the Company to obtain necessary financing to develop its properties and to establish future profitable production. The Company's operations are funded from equity financings which are dependent upon many external factors and may be difficult to impossible to secure or raise when required. While the Company has been successful in securing financings in the past, there can be no assurance that it will be able to do so in the future.

### 2. Basis of Preparation

#### *Statement of Compliance*

These condensed consolidated interim financial statements are unaudited and have been prepared in accordance with IAS 34 - *Interim Financial Reporting* ("IAS 34") using accounting policies consistent with the International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and Interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

#### *Details of the Group*

In addition to the Company, the condensed consolidated interim financial statements include its 100% owned subsidiaries, Flinders Holdings Limited, which is incorporated in British Columbia and Kringelgruvan AB, which is incorporated and operated in Sweden. Subsidiaries are considered by the Company to include all corporations over which the Company is able, directly or indirectly, to control the financial and operating policies, which is the authority usually connected with holding majority voting rights. Subsidiaries are fully consolidated from the date on which control is acquired by the Company. Inter-company transactions and balances are eliminated upon consolidation. They are de-consolidated from the date that control by the Company ceases.

## FLINDERS RESOURCES LIMITED

(formerly Tasex Capital Limited)

### NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE NINE MONTHS ENDED JULY 31, 2012

(Unaudited - Expressed in Canadian Dollars)

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#### 3. Significant Accounting Policies

##### *Use of Estimates*

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Examples of significant estimates made by management include the determination of recoverability of amounts capitalized to unproven resource interests, plant and equipment lives, estimating the fair values of financial instruments, impairment of long-lived assets, decommissioning provisions, valuation allowances for deferred income tax assets and assumptions used for share-based compensation. Actual results may differ from those estimates. Significant assumptions about the future and other sources of estimation uncertainty that management has made at the financial position reporting date; that could result in a material adjustment to the carrying amounts of assets and liabilities, in the event that actual results differ from assumptions made, relate to, but are not limited to, the following:

##### *Critical Accounting Estimates*

- (i) the estimated useful lives of property and equipment which are included in the consolidated statements of financial position and the related depreciation included in profit or loss;
- (ii) the inputs used in accounting for share-based compensation expense in profit or loss; and
- (iii) the assessment of indications of impairment of each mineral property and related determination of the net realizable value and write-down of those properties where applicable.

##### *Critical Accounting Judgements*

- (i) the determination of categories of financial assets and financial liabilities has been identified as an accounting policy which involves judgements or assessments made by management; and
- (ii) the analysis of the functional currency for each entity of the Company. In concluding that the Canadian dollar is the functional currency of the parent and its subsidiary companies, management considered the currency that mainly influences the cost of providing goods and services in each jurisdiction in which the Company operates. As no single currency was clearly dominant the Company also considered secondary indicators including the currency in which funds from financing activities are denominated and the currency in which funds are retained.

##### *Amounts Receivable*

Receivables are recognized initially at fair value and are subsequently measured at amortized cost using the effective interest method, less provision for impairment. Receivables are classified as loans and receivable. A provision for impairment of receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables.

##### *Inventory*

Processed graphite inventory is valued at the lower of cost and net realizable value. Cost is determined as the average production cost of saleable graphite and net realizable value is determined as the calculated selling price less selling costs.

##### *Accounts Payable and Accrued Liabilities*

Payables are obligations to pay for materials or services that have been acquired in the ordinary course of business from suppliers. Payables are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. Payables are classified as other financial liabilities and are initially measured at fair value and are subsequently measured at amortized cost using the effective interest method.



# FLINDERS RESOURCES LIMITED

(formerly Tasex Capital Limited)

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE NINE MONTHS ENDED JULY 31, 2012

(Unaudited - Expressed in Canadian Dollars)

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### 3. Significant Accounting Policies (continued)

#### *Unproven Resource Interests*

The Company is in the exploration stage with respect to its investment in unproven resource interests and accordingly follows the practice of capitalizing all costs relating to the acquisition of, exploration for and development of mineral properties and crediting all proceeds received against the cost of the related properties. Such costs include, but are not exclusive to, geological, geophysical studies, exploratory drilling and sampling. At such time as commercial production commences, these costs will be charged to operations on a unit-of-production method based on proven and probable reserves. The aggregate costs related to abandoned mineral properties are charged to operations at the time of any abandonment.

The recoverability of amounts shown for unproven resource interests is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain financing to complete development of the properties, and on future production or proceeds of disposition.

The Company recognizes in income costs recovered on unproven resource interests when amounts received or receivable are in excess of the carrying amount.

Once the technical feasibility and commercial viability of the extraction of mineral resources in an area of interest are demonstrable, unproven resource interests attributable to that area of interest are first tested for impairment and then reclassified to mining property and development assets.

#### *Property, Plant and Equipment*

Property, plant and equipment are carried at cost, less accumulated depreciation and accumulated impairment losses.

The cost of an item of property, plant and equipment consists of the purchase price, any costs directly attributable to bringing the asset to the location and condition necessary for its intended use and an initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on disposal of the asset, determined as the difference between the net disposal proceeds and the carrying amount of the asset, is recognized in profit or loss in the condensed consolidated statement of comprehensive loss.

Where an item of plant and equipment comprises major components with different useful lives, the components are accounted for as separate items of plant and equipment. Expenditures incurred to replace a component of an item of plant and equipment that is accounted for separately, including major inspection and overhaul expenditures are capitalized. Property, plant and equipment are depreciated annually on a straight-line basis over the estimated useful life of the assets commencing when the related asset is available for use.

The expected useful lives are as follows:

Vehicles	20.0%
Equipment and tools	20.0%
Buildings	5.0%
Processing plant	6.5%
Mine development	Unit of production basis

Depreciation of certain of the assets will commence when the plant and equipment are available for use and in the condition necessary for them to be operating in the manner intended by management.

## **FLINDERS RESOURCES LIMITED**

*(formerly Tasex Capital Limited)*

### **NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE NINE MONTHS ENDED JULY 31, 2012**

*(Unaudited - Expressed in Canadian Dollars)*

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#### **3. Significant Accounting Policies (continued)**

##### ***Impairment of Long-Lived Assets***

At each financial position reporting date, the carrying amounts of the Company's long-lived assets are reviewed to determine whether there is any indication that those assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. Where the asset does not generate cash flows that are independent from other assets, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

An asset's recoverable amount is the higher of fair value less costs to sell and value in use. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the recoverable amount of an asset or cash generating unit is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in the profit or loss for the period.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

##### ***Decommissioning Provision***

An obligation to incur restoration, rehabilitation and environmental costs arises when environmental disturbance is caused by the exploration, development or ongoing production of a mineral interest by or on behalf of the Company. Costs for restoration of site damage which is created on an ongoing basis during exploration and evaluation are provided for at their net present values and charged against profits in the period such exploration and evaluation occurs. Discount rates using a risk free rate that reflects the time value of money are used to calculate the net present value.

The related liability is adjusted for each period for the unwinding of the discount rate and for changes to the current risk free discount rate, amount or timing of the underlying cash flows needed to settle the obligation.

##### ***Financial Instruments***

All financial assets are initially recorded at fair value and designated upon inception into one of the following four categories: held to maturity, available for sale, loans and receivables or at fair value through profit or loss.

Financial assets classified as fair value through profit or loss are measured at fair value with unrealized gains and losses recognized through comprehensive loss. Cash is classified as fair value through profit or loss.

Financial assets classified as loans and receivables and held to maturity are measured at amortized cost. Amounts receivable is classified as loans and receivables.

Financial assets classified as available for sale are measured at fair value with unrealized gains and losses recognized in other comprehensive loss except for losses in value that are considered other than temporary. Reclamation deposit is classified as available for sale.

Transaction costs associated with fair value through profit or loss are expensed as incurred, while transaction costs associated with all other financial assets are included in the initial carrying amount of the asset.

All financial liabilities are initially recorded at fair value and designated upon inception as fair value through profit or loss or other financial liabilities.

## **FLINDERS RESOURCES LIMITED**

*(formerly Tasex Capital Limited)*

### **NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE NINE MONTHS ENDED JULY 31, 2012**

*(Unaudited - Expressed in Canadian Dollars)*

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#### **3. Significant Accounting Policies (continued)**

Financial liabilities classified as other financial liabilities are measured at amortized cost. Account payables and accrued liabilities and property acquisition obligation are classified as other financial liabilities.

Financial liabilities classified as fair value through profit or loss are measured at fair value with unrealized gains and losses recognized through comprehensive loss. At July 31, 2012 the Company has not classified any financial liabilities as fair value through profit or loss.

##### ***Share Capital***

Common shares issued by the Company are classified as equity. Costs directly attributable to the issue of common shares, share purchase warrants and share options are recognized as a deduction from equity, net of any related income tax effects.

##### ***Share-Based Payment Transactions***

The share option plan allows Company employees and consultants to acquire shares of the Company. The fair value of share options granted is recognized as a share-based compensation expense with a corresponding increase in the equity settled share-based payments reserve in equity. An individual is classified as an employee when the individual is an employee for legal or tax purposes (direct employee) or provides services similar to those performed by a direct employee.

For employees the fair value is measured at grant date and each tranche is recognized separately on a straight line basis over the period during which the share options vest. The fair value of the share options granted is measured using the Black-Scholes option pricing model taking into account the terms and conditions upon which the share options were granted. At the end of each reporting period, the amount recognized as an expense is adjusted to reflect the actual number of share options that are expected to vest.

Equity-settled share-based payment transactions with non-employees are measured at the fair value of the goods or services received. However, if the fair value cannot be estimated reliably, the share-based payment transaction is measured at the fair value of the equity instruments granted at the date the Company receives the goods or the services.

##### ***Equity Financing***

The Company engages in equity financing transactions to obtain the funds necessary to continue operations and explore and evaluate mineral properties. These equity financing transactions may involve issuance of common shares or units. Units typically comprise a certain number of common shares and share purchase warrants. Depending on the terms and conditions of each equity financing transaction, the warrants are exercisable into additional common shares at a price prior to expiry as stipulated by the terms of the transaction. The Company has adopted the residual value method with respect to the allocation of proceeds received on sale of units to the underlying common shares and share purchase warrants issued as private placement units. The fair value of the common shares issued in private placements is determined by the closing quoted bid price on the announcement date. The balance, if any, is allocated to the attached share purchase warrants.

##### ***Current and Deferred Income Taxes***

Income tax expense comprises current and deferred income tax. Income tax is recognized in the statement of comprehensive loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case the income tax is also recognized in other comprehensive income or directly in equity, respectively.

##### ***Current Income Tax***

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the statement of financial position date in the countries where the Company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

## **FLINDERS RESOURCES LIMITED**

*(formerly Tasex Capital Limited)*

### **NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE NINE MONTHS ENDED JULY 31, 2012**

*(Unaudited - Expressed in Canadian Dollars)*

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#### **3. Significant Accounting Policies (continued)**

##### *Deferred Income Tax*

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the statement of financial position date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Company and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

##### *Loss per Share*

Basic loss per share is computed by dividing income available to common shareholders by the weighted average number of common shares outstanding during the period. The computation of diluted loss per share assumes the conversion, exercise or contingent issuance of securities only when such conversion, exercise or issuance would have a dilutive effect on loss per share. The Company computes the dilutive impact of common shares assuming the proceeds received from the pro-rata exercise of in the money share options and warrants are used to purchase common shares at average prices.

##### *Foreign Currency Translation*

###### *Functional and Presentation Currency*

The financial statements of the Company's subsidiary are prepared in Swedish Kronors ("SEK"), the local currency of its home jurisdiction. Consolidation of the subsidiary includes re-measurement from the local currency to the subsidiary's functional currency. The subsidiary's functional currency, being the currency of the primary economic environment in which the subsidiary operates, is the Canadian dollar. The consolidated financial statements are presented in Canadian dollars.

Exchange rates published by the Bank of Canada were used to translate subsidiary financial statements into the consolidated financial statements. Income and expenses for each statement of comprehensive loss presented are translated using the rates prevailing on the transaction dates. All resulting foreign exchange differences are recognized in comprehensive loss.

###### *Foreign Currency Transactions*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing on the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in comprehensive loss.

## FLINDERS RESOURCES LIMITED

(formerly Tasex Capital Limited)

### NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE NINE MONTHS ENDED JULY 31, 2012

(Unaudited - Expressed in Canadian Dollars)

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#### 3. Significant Accounting Policies (continued)

##### *Accounting Standards and Interpretations Issued but Not Yet Adopted*

The following accounting standards, amendments and interpretations have been issued but are not effective, unless otherwise indicated, earlier application is permitted. As at the date of these financial statements, the following standards, amendments and interpretations have not been applied in these financial statements.

- (i) IFRS 1 First-time Adoption of International Financial Reporting Standards, Amendments Regarding Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters; effective for annual periods beginning on or after July 1, 2011.
- (ii) IFRS 7 Financial Instruments: Disclosures, Amendments Regarding Disclosures - Transfers of Financial Assets; effective for annual periods beginning on or after July 1, 2011.
- (iii) IFRS 9 Financial Instruments (New; to replace IAS 39); effective for annual periods beginning on or after January 1, 2015.
- (iv) IFRS 10 Consolidated Financial Statements; effective for annual periods beginning on or after January 1, 2013. Early application is permitted. IFRS 10 establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. IFRS 10 supersedes IAS 27 Consolidated and Separate Financial Statements and SIC-12 Consolidated - Special Purpose Entities.
- (v) IFRS 11 Joint Arrangements; effective for annual periods beginning on or after January 1, 2013. Early application is permitted. IFRS 11 establishes principles for financial reporting by parties to a joint arrangement. IFRS supersedes the current IAS 31 Interest in Joint Ventures and SIC-13 Jointly Controlled Entities - Non-Monetary Contributions by Ventures.
- (vi) IFRS 12 Disclosure of Interest in Other Entities; effective for annual periods beginning on or after January 1, 2013. Early application is permitted. IFRS 12 applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity.
- (vii) IFRS 13 Fair Value Measurements; to be applied for annual periods beginning on or after January 1, 2013. Early application is permitted. IFRS 13 defines fair value, sets out in a single IFRS framework for measuring fair value and requires disclosures about fair value measurements. IFRS 13 applies to IFRSs that require or permit fair value measurements or disclosures about fair value measurements (and measurements, such as fair value less costs to sell, based on fair value or disclosures about those measurements).
- (viii) IAS 12 Income Taxes, Amendments Regarding Deferred Tax: Recovery of Underlying Assets; effective for annual periods beginning on or after January 1, 2012.

Management is currently assessing the impact of these new standards on the Company's accounting policies and financial statement presentation.

# FLINDERS RESOURCES LIMITED

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## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE NINE MONTHS ENDED JULY 31, 2012

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### 4. Acquisitions

#### (a) Reverse Acquisition

The Company and Burke entered into a letter agreement dated September 14, 2011, and a definitive amalgamation agreement, dated October 31, 2011, pursuant to which Tasex agreed to acquire (the "Acquisition") all of the issued and outstanding common shares of Burke. On February 22, 2012 (the "Effective Date") the Company completed the Acquisition under which the Company issued 17,715,000 common shares to the Burke shareholders. Burke and 0923098 B.C. Ltd., a wholly-owned subsidiary of the Company, then completed an amalgamation to form Flinders Holdings Limited. The Company also changed its name to Flinders Resources Limited.

Prior to the Effective Date, Burke had 1,700,000 share options (the "Burke Options") and 257,200 warrants (the "Burke Warrants") outstanding. The Burke Options were exercisable to purchase common shares of Burke at \$0.50 per share, expiring September 12, 2014, and the Burke Warrants were exercisable at \$0.30 per share, expiring September 12, 2013. The Burke Options and Burke Warrants were converted, under the same terms, into share options and warrants of the Company on completion of the Acquisition.

The Acquisition resulted in the former shareholders of Burke holding the majority interest in the Company. The Acquisition is not considered to be a business combination for accounting purposes as Tasex is not considered to be a business for accounting purposes. The Acquisition has been accounted for in the consolidated financial statements as the continuation of the financial statements of Burke together with an issuance of common shares, equivalent to the common shares held by the former shareholders of Tasex, and a recapitalization of the equity of Burke. Fair value was based on the latest trading price of Tasex's shares before the control was transferred. In accounting for this transaction:

- (i) Burke was deemed to be the parent company for accounting purposes. Accordingly, its net assets were included in the consolidated balance sheets at their historical book value; and
- (ii) control of the net assets of Tasex was acquired on the Effective Date. The consideration of \$3,475,000 was allocated to the identifiable assets and liabilities as follows: \$118,088 to cash, \$18,527 to amounts receivable, \$62,970 to prepaid expenses, \$139,436 to accounts payable and accrued liabilities and \$3,414,851 was expensed as a public company listing expense.

The net assets and liabilities of Tasex were recorded at their fair values, as follows:

	\$
Cash	118,088
Amounts receivable	18,527
Prepaid expenses	62,970
Accounts payable and accrued liabilities	<u>(139,436)</u>
Net assets acquired	<u>60,149</u>

#### (b) Kringelgruvan Acquisition

On August 25, 2011 Burke and Tricorona AB (Publ) ("Tricorona") entered into a share purchase agreement (the "Kringelgruvan Acquisition") whereby Burke purchased a 100% ownership interest in Kringelgruvan in consideration of a cash purchase price of \$1,567,610 (Euro 1,100,000) and reimbursement to Tricorona of \$78,600 (SEK 500,000) for a reclamation deposit.

The Kringelgruvan Acquisition cost was generally allocated to the individual identifiable assets and liabilities on the basis of their relative fair value at the date of purchase. The results of operations were recorded from the effective date of purchase.

# FLINDERS RESOURCES LIMITED

(formerly Tasex Capital Limited)

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE NINE MONTHS ENDED JULY 31, 2012

(Unaudited - Expressed in Canadian Dollars)

### 4. Acquisitions (continued)

Cost of the net assets acquired consists of:

	\$
Net working capital	100,811
Property, plant and equipment	1,704,437
Exploration and evaluation assets	5,397,382
Reclamation deposit	78,600
Provision for site restoration	(5,373,943)
Property acquisition obligation	<u>(261,077)</u>
Cost of Kringelgruvan Acquisition	<u>1,646,210</u>

During the measurement period, which shall not exceed one year from the date of acquisition, the Company shall retrospectively adjust any provisional amounts recognized at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date.

### 5. Cash

	July 31, 2012 \$	October 31, 2011 \$
Cash on hand	719,251	864,677
Demand deposits	<u>17,032,492</u>	<u>-</u>
	<u>17,751,743</u>	<u>864,677</u>

### 6. Amounts Receivable

	July 31, 2012 \$	October 31, 2011 \$
HST receivable	20,601	3,870
Foreign value added tax receivable	164,662	26,082
Other	<u>1,712</u>	<u>12,341</u>
	<u>186,975</u>	<u>42,293</u>

### 7. Property, Plant and Equipment

Cost:	Vehicles \$	Equipment and Tools \$	Building \$	Processing Plant \$	Mine Development \$	Total \$
Balance at February 17, 2011	-	-	-	-	-	-
Additions	<u>-</u>	<u>115,608</u>	<u>222,201</u>	<u>1,366,628</u>	<u>-</u>	<u>1,704,437</u>
Balance at October 31, 2011	-	115,608	222,201	1,366,628	-	1,704,437
Additions	<u>67,164</u>	<u>18,526</u>	<u>62,801</u>	<u>194,436</u>	<u>605,102</u>	<u>948,029</u>
Balance at July 31, 2012	<u>67,164</u>	<u>134,134</u>	<u>285,002</u>	<u>1,561,064</u>	<u>605,102</u>	<u>2,652,466</u>

**FLINDERS RESOURCES LIMITED***(formerly Tasex Capital Limited)***NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS  
FOR THE NINE MONTHS ENDED JULY 31, 2012***(Unaudited - Expressed in Canadian Dollars)***7. Property, Plant and Equipment (continued)**

<b>Accumulated Depreciation:</b>	<b>Vehicles \$</b>	<b>Equipment and Tools \$</b>	<b>Building \$</b>	<b>Processing Plant \$</b>	<b>Mine Development \$</b>	<b>Total \$</b>
Balance at February 17, 2011	-	-	-	-	-	-
Depreciation	-	-	-	-	-	-
Balance at October 31, 2011	-	-	-	-	-	-
Depreciation	<u>(5,258)</u>	<u>(698)</u>	<u>-</u>	<u>-</u>	<u>(5,601)</u>	<u>(11,557)</u>
Balance at July 31, 2012	<u>(5,258)</u>	<u>(698)</u>	<u>-</u>	<u>-</u>	<u>(5,601)</u>	<u>(11,557)</u>
<b>Accumulated Depreciation:</b>	<b>Vehicles \$</b>	<b>Equipment and Tools \$</b>	<b>Building \$</b>	<b>Processing Plant \$</b>	<b>Mine Development \$</b>	<b>Total \$</b>
Balance at October 31, 2011	<u>-</u>	<u>115,608</u>	<u>222,201</u>	<u>1,366,628</u>	<u>-</u>	<u>1,704,437</u>
Balance at July 31, 2012	<u>61,906</u>	<u>133,436</u>	<u>285,002</u>	<u>1,561,064</u>	<u>599,501</u>	<u>2,640,909</u>



# FLINDERS RESOURCES LIMITED

(formerly Tasex Capital Limited)

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE NINE MONTHS ENDED JULY 31, 2012

(Unaudited - Expressed in Canadian Dollars)

### 8. Exploration and Evaluation Assets

	\$
<b>Balance at February 17, 2011</b>	-
<b>Acquisition costs:</b>	
Acquired through Kringelgruvan Acquisition	5,397,382
Revision to provision for site restoration adjustment	<u>(483,870)</u>
<b>Balance at October 31, 2011</b>	<u>4,913,512</u>
<b>Exploration costs:</b>	
Consulting	19,407
Database	977
Depreciation	438
Drilling	372,262
Environmental studies	27,223
Equipment rental	4,697
Exploration site costs	20,344
Field supplies	20,256
Freight	12,452
Geochemistry	72,156
Maps	5,621
Repairs and maintenance	2,466
Salaries and benefits	57,163
Travel	15,118
Vehicles	<u>24,953</u>
	<u>655,533</u>
<b>Acquisition costs:</b>	
Tenement and related costs	5,622
Revision to provision for site restoration adjustment	<u>249,480</u>
	<u>255,102</u>
<b>Balance at July 31, 2012</b>	<u>5,824,147</u>

With the acquisition of Kringelgruvan the Company now holds a 100% interest in the Woxna Graphite Mine, comprising four exploitation concessions, known as Kringelgruvan, Mattsmyra, Gropabo and Mansberg. The Woxna Graphite Mine is located in Ovanaker Municipality, Gavleborg County, central Sweden.

In 1993 Kringelgruvan entered into agreements under which:

- (i) it acquired the Kringelgruvan concession for an initial payment of SEK 150,000 and a further amount of SEK 4,000,000 ("property acquisition obligation") is to be paid upon the commencement of production from the Kringelgruvan concession; and
- (ii) it acquired the Mattsmyra, Gropabo and Mansberg concessions for an initial payment of SEK 32,500 and a further payment of SEK 1,000,000 on each of the three concessions is to be paid upon commencement of production from these concessions.

Payments of the additional considerations are to be made to a Swedish governmental agency and will be based on annual production, at a rate of SEK 20 per metric ton processed, and is payable only if profits are generated from the individual concessions.

## FLINDERS RESOURCES LIMITED

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### NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE NINE MONTHS ENDED JULY 31, 2012

(Unaudited - Expressed in Canadian Dollars)

#### 8. Exploration and Evaluation Assets (continued)

The Company has recognized the SEK 4,000,000 additional consideration associated with the Kringelgruvan concession. An obligation is recognized when a legal obligation is established, a reasonable estimate can be made of the obligation, and is measured at the discounted value for expected future payments. The discounted value is then accreted to the estimated future value over the period of the payment obligation. As at July 31, 2012 the Company applied a discount rate of 17% to expected future payments and has made the assumption that the obligation will be discharged in 2016 through 2017.

A continuity of the property acquisition obligation for the Kringelgruvan concession is as follows:

	\$
<b>Balance at February 17, 2011</b>	-
Property acquisition obligation (SEK 4,000,000)	617,240
Less adjustment to amortized cost	<u>(356,163)</u>
Fair value of obligation on acquisition	261,077
Accretion of discounted cash flows	7,397
Foreign exchange adjustment	<u>(3,358)</u>
<b>Balance at October 31, 2011</b>	265,116
Accretion of discounted cash flows	34,443
Foreign exchange adjustment	<u>(8,848)</u>
<b>Balance at July 31, 2012</b>	<u>290,711</u>

No production has commenced on the Mattsmyra, Gropabo and Mansberg concessions and the additional payments are considered to be contingent amounts and will only be recognized as obligations when production commences on these concessions.

#### 9. Provision for Site Restoration

Although the ultimate amount of the decommissioning obligation for the Kringelgruvan concession is uncertain, the fair value of this obligation is based on information currently available, including closure plans and applicable regulations. Significant closure activities include land rehabilitation, demolition of buildings and mine facilities and other costs. The provision for site restoration may be subject to change based on management's current estimates, changes in remediation technology or changes to the applicable laws and regulations. The total undiscounted amount of estimated cash flows to settle the Company's risk adjusted estimated obligation is SEK 41,500,000 to be incurred over the next 26 years with the majority of the costs to be incurred between 2036 and 2037.

## FLINDERS RESOURCES LIMITED

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(Unaudited - Expressed in Canadian Dollars)

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#### 9. Provision for Site Restoration (continued)

The fair value of the decommissioning obligation was calculated using a discounted cash flow approach based on a risk free rate of 1.385% (October 31, 2011 - 1.932%) and an inflation factor of 0.70% (October 31, 2011 - 0.90%) . Settlement of the obligation is expected to be funded from general corporate funds at the time of decommissioning. Changes to the decommissioning obligation were as follows:

	\$
<b>Balance at February 17, 2011</b>	-
Assumed through Kringelgruvan Acquisition	5,373,943
Accretion	2,630
Revision of estimates	(445,308)
Foreign exchange adjustment	<u>(38,562)</u>
<b>Balance at October 31, 2011</b>	4,892,703
Accretion	26,391
Revision of estimates	423,879
Foreign exchange adjustment	<u>(174,399)</u>
<b>Balance at July 31, 2012</b>	<u>5,168,574</u>

As at July 31, 2012 there are no property restoration obligations for the Mattsmyra, Gropabo and Mansberg concessions.

A reclamation deposit of \$73,739 (SEK 500,000) has been paid to the Gavleborg County Administration Board and has been accounted for as a long term deposit. The reclamation deposit was placed as security for site restoration on the Kringelgruvan concession.

#### 10. Share Capital

##### (a) Authorized Share Capital

As at July 31, 2012 the Company's authorized share capital consisted of an unlimited number of common shares without par value. All issued common shares are fully paid.

# FLINDERS RESOURCES LIMITED

(formerly Tasex Capital Limited)

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE NINE MONTHS ENDED JULY 31, 2012

(Unaudited - Expressed in Canadian Dollars)

### 10. Share Capital (continued)

(b) *Reconciliation of Changes in Share Capital*

	Number of Shares	Amount \$
<b>Common shares issued:</b>		
Shares issued for cash:		
Initial capitalization	2	2
Private placement	17,715,000	2,814,500
Share issue costs	-	(126,883)
Cancellation of shares	<u>(2)</u>	<u>(2)</u>
<b>Balance at October 31, 2011</b>	<u>17,715,000</u>	<u>2,687,617</u>
Adjustment to reflect recapitalization	6,950,000	3,475,000
Shares issued for cash:		
Private placements	19,223,530	20,200,001
Exercise of share options	1,050,000	309,000
Exercise of warrants	500,000	375,000
Exercise of agent's warrants	100,000	10,000
Transfer on exercise of share options	-	267,225
Share issue costs	<u>-</u>	<u>(2,744,360)</u>
<b>Balance at July 31, 2012</b>	<u>45,538,530</u>	<u>24,579,483</u>

(c) *Share Transactions for the Nine Months Ended July 31, 2012*

- (i) Concurrent with the completion of the Acquisition, on February 22, 2012 the Company completed a private placement of 10,400,000 units at a price of \$0.50 per unit for gross proceeds of \$5,200,000. Each unit consisted of one common share and one share purchase warrant. Each warrant entitles the holder to purchase an additional common share at a price of \$0.75 per share on or before February 22, 2014. The Company had received \$5,200,000 share subscription proceeds prior to the Effective Date.

The Company paid finders' fees consisting of \$349,775 cash and the issuance of 699,750 finders' options, with each finders' option exercisable to purchase one common share of the Company and one warrant at a price of \$0.50 per option on or before February 22, 2014. Each warrant issued on the exercise of a finders' option will be exercisable to purchase an additional common share at a price of \$0.75 per share on or before February 22, 2014. The \$405,856 fair value assigned to the finders' options has been estimated using the Black-Scholes option pricing model. The assumptions used were: dividend yield - 0%; expected volatility - 125%; a risk-free interest rate of 1.13%; and an expected life of two years.

The Company incurred \$39,728 for legal and filing fees associated with this private placement.

A director of the Company acquired 41,600 common shares of this private placement.

- (ii) On April 17, 2012 completed a private placement of 8,823,530 units at a price of \$1.70 per unit for gross proceeds of \$15,000,001. Each unit consists of one common share and one-half share purchase warrant. Each whole warrant entitles the holder to purchase an additional common share at a price of \$2.20 per share on or before April 17, 2014.

# FLINDERS RESOURCES LIMITED

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## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE NINE MONTHS ENDED JULY 31, 2012

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### 10. Share Capital (continued)

The Company paid finders' fees consisting of \$871,284 cash and the issuance of 512,521 finders' warrants. Each finders' warrant entitles the holder to purchase one common share of the Company at a price of \$1.70 per share on or before April 17, 2014. The \$891,787 fair value assigned to the finders' warrants has been estimated using the Black-Scholes option pricing model. The assumptions used were: dividend yield - 0%; expected volatility - 125%; a risk-free interest rate of 1.13%; and an expected life of two years.

The Company incurred \$172,007 for legal and filing fees and other related costs associated with this private placement.

#### (d) *Share Transactions for the Period February 17, 2011 to October 31, 2011*

- (i) The Company issued 10,000,000 common shares, at \$0.05 for gross proceeds of \$500,000. Certain directors and family members acquired 4,000,000 common shares of the private placement; and
- (ii) The Company issued 7,715,000 common shares at \$0.30 for gross proceeds of \$2,314,500.

The Company paid a finder's fee of \$78,015 and issued 257,200 finders' warrants as consideration for the placement of 3,215,000 common shares of the private placement. Each finders' warrant entitles the holder to purchase one additional share at a price of \$0.30 per share on or before September 12, 2013. The \$48,868 fair value assigned to the finders' warrants has been estimated using the Black-Scholes option pricing model. The assumptions used were: dividend yield - 0%; expected volatility - 125%; a risk-free interest rate of 1.40%; and an expected life of two years.

Certain directors, officers and family members acquired 2,146,000 common shares of this private placement.

#### (e) *Warrants*

A summary of the number of common shares reserved pursuant to the Company's outstanding warrants at July 31, 2012 and the changes for the nine months ended on July 31, 2012 is as follows:

	Number	Weighted Average Exercise Price \$
<b>Balance at October 31, 2011</b>	257,200	0.30
Adjustment to reflect recapitalization	100,000	0.10
Issued	15,324,287	1.20
Exercised	<u>(600,000)</u>	0.64
<b>Balance at July 31, 2012</b>	<u>15,081,487</u>	1.20

During the period February 17, 2011 to July 31, 2011 no warrants were issued or outstanding.

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### 10. Share Capital (continued)

The following table summarizes information about the number of common shares reserved pursuant to the Company's warrants outstanding and exercisable at July 31, 2012:

Number	Exercise Price \$	Expiry Date
257,200	0.30	September 12, 2013
9,900,000	0.75	February 22, 2014
4,411,766	2.20	April 17, 2014
<u>512,521</u>	1.70	April 17, 2014
<u>15,081,487</u>		

See also Note 15.

#### (f) Share Option Plan

The Company has established a rolling share option plan (the "Plan"), in which the maximum number of common shares which can be reserved for issuance under the Plan is 10% of the issued and outstanding shares of the Company. The minimum exercise price of the options is set at the Company's closing share price on the day before the grant date, less allowable discounts. Options granted may be subject to vesting provisions as determined by the Board of Directors and have a maximum term of up to five years.

During the nine months ended July 31, 2012 the Company granted 850,000 share options to its directors, officers and consultants and recorded compensation expense of \$544,500. In addition, the Company also recorded compensation expense of \$141,025 on the vesting of certain share options.

No share options were granted or vested during the period February 17, 2011 to July 31, 2011.

The fair value of share options granted during the nine months ended July 31, 2012 is estimated using the Black-Scholes option pricing model using the following assumptions:

	2012
Risk-free interest rate	1.21% - 1.33%
Estimated volatility	125%
Expected life	2.5 years - 3 years
Expected dividend yield	0%
Expected forfeiture rate	0%

The weighted average fair value of all share options granted during the nine months ended July 31, 2012 was \$0.66 per option.

Option-pricing models require the use of estimates and assumptions including the expected volatility. Changes in the underlying assumptions can materially affect the fair value estimates and, therefore, existing models do not necessarily provide reliable measure of the fair value of the Company's share options.

# FLINDERS RESOURCES LIMITED

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## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE NINE MONTHS ENDED JULY 31, 2012

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### 10. Share Capital (continued)

A summary of the Company's share options at July 31, 2012 and the changes for the nine months ending on July 31, 2012 is as follows:

	Number of Options Outstanding	Weighted Average Exercise Price \$
<b>Balance at October 31, 2011</b>	1,700,000	0.50
Adjustment to reflect recapitalization	685,000	0.10
Granted	850,000	0.87
Exercised	<u>(1,050,000)</u>	0.29
<b>Balance at July 31, 2012</b>	<u>2,185,000</u>	0.62

During the period February 17, 2011 to July 31, 2011 no share options were granted or outstanding.

The following table summarizes information about the share options outstanding and exercisable at July 31, 2012:

Number Outstanding	Number Exercisable	Exercise Price \$	Expiry Date
1,265,000	1,265,000	0.50	September 12, 2014
550,000	512,500	0.50	February 23, 2015
225,000	225,000	1.91	April 23, 2015
<u>145,000</u>	<u>145,000</u>	0.10	June 08, 2016
<u>2,185,000</u>	<u>2,147,500</u>		

See also Note 15.

#### (g) Finder's Options

A summary of the Company's finder's options at July 31, 2012 and the changes for the nine months ended on July 31, 2012 is as follows:

	Number Outstanding	Weighted Average Exercise Price \$
<b>Balance at October 31, 2011</b>	-	-
Issued (Note 10(c)(i))	<u>699,750</u>	0.50
<b>Balance at July 31, 2012</b>	<u>699,750</u>	0.50

As at July 31, 2012, 699,750 finder's options were outstanding and exercisable at an exercise price of \$0.50 expiring February 22, 2014.

#### (h) Shares Held in Escrow

As at July 31, 2012 there are 12,376,167 common shares which remain held in escrow and will be released in accordance with the requirements of the TSXV.

# FLINDERS RESOURCES LIMITED

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## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE NINE MONTHS ENDED JULY 31, 2012

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### 11. Related Party Disclosures

A number of key management personnel, or their related parties, hold positions in other entities that result in them having control or significant influence over the financial or operating policies of those entities. Certain of these entities transacted with the Company during the reporting period.

(a) *Transactions with Key Management Personnel*

During the nine months ended July 31, 2012 the Company incurred \$104,500 (2011 - \$nil) for consulting services and recorded \$36,000 (2011 - \$nil) share-based compensation to the President of the Company.

The Company also recorded \$18,000 (2011 - \$nil) of share-based compensation to the Chief Financial Officer ("CFO") of the Company and incurred \$29,300 (2011 - \$800) to Chase Management Ltd. ("Chase"), a corporation owned by the CFO, for accounting and administrative services provided by Chase personnel exclusive of the CFO.

As at July 31, 2012, \$24,000 remained unpaid and has been included in accounts payable and accrued liabilities.

(b) *Transactions with other Related Parties*

During the nine months ended July 31, 2012 and 2011 the following amounts were incurred with respect to the other officer and directors of the Company:

	2012 \$	2011 \$
Health benefits	659	-
Share-based compensation	<u>61,200</u>	<u>-</u>
	<u>61,859</u>	<u>-</u>

(c) During the nine months ended July 31, 2012 the Company incurred \$29,540 for shared office personnel and other costs to two public companies with certain directors in common.

As at July 31, 2012, \$27,223 remained unpaid and has been included in accounts payable and accrued liabilities.

See also Notes 10(c) and (d).



## FLINDERS RESOURCES LIMITED

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### NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE NINE MONTHS ENDED JULY 31, 2012

(Unaudited - Expressed in Canadian Dollars)

#### 12. Financial Instruments and Risk Management

##### *Categories of Financial Assets and Financial Liabilities*

Financial instruments are classified into one of the following four categories: fair value through profit or loss ("FVTPL"); held-to-maturity investments; loans and receivables; and available-for-sale. The carrying values of the Company's financial instruments are classified into the following categories:

Financial Instrument	Category	July 31, 2012 \$	October 31, 2011 \$
Cash	FVTPL	17,751,743	864,677
Amounts receivable	Loans and receivables	186,975	42,293
Reclamation deposit	Available-for-sale	73,739	76,462
Accounts payable and accrued liabilities	Other liabilities	(312,851)	(105,738)
Property acquisition obligation	Other liabilities	(290,711)	(265,116)

The Company's financial instruments recorded at fair value require disclosure about how the fair value was determined based on significant levels of inputs described in the following hierarchy:

Level 1 - Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and value to provide pricing information on an ongoing basis.

Level 2 - Pricing inputs are other than quoted prices in active markets included in Level 1. Prices in Level 2 are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the market place.

Level 3 - Valuations in this level are those with inputs for the asset or liability that are not based on observable market data.

The recorded amounts for cash, amounts receivable and accounts payable and accrued liabilities approximate their fair value due to their short-term nature. The recorded amount for the property acquisition obligation approximates its fair value. The fair value is determined using a discounted cash flow approach based on the use of directly and indirectly observable inputs on reporting dates. A market rate of interest of 17% and payment dates of 2016 and 2017 were the assumptions. The Company's fair value of cash and reclamation deposit under the fair value hierarchy is measured using Level 1 and Level 2 inputs, respectively.

The Company's risk exposures and the impact on the Company's financial instruments are summarized below:

##### *Credit Risk*

Credit risk is the risk of loss associated with a counterparty's inability to fulfill its payment obligations. The Company's credit risk is primarily attributable to cash, reclamation deposit and amounts receivable. Management believes that the credit risk concentration with respect to financial instruments included in cash, reclamation deposit and amounts receivable is remote.

##### *Liquidity Risk*

Liquidity risk is the risk that the Company will not have the resources to meet its obligations as they fall due. The Company manages this risk by closely monitoring cash forecasts and managing resources to ensure that it will have sufficient liquidity to meet its obligations. The following table is based on the contractual maturity dates of financial assets and liabilities and the earliest date on which the Company can be required to settle financial liabilities.

# FLINDERS RESOURCES LIMITED

(formerly Tasex Capital Limited)

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE NINE MONTHS ENDED JULY 31, 2012

(Unaudited - Expressed in Canadian Dollars)

### 12. Financial Instruments and Risk Management (continued)

	Contractual Maturity Analysis at July 31, 2012				
	Less than 3 Months \$	3 - 12 Months \$	1 - 5 Years \$	Over 5 Years \$	Total \$
Cash	17,751,743	-	-	-	17,751,743
Amounts receivable	186,975	-	-	-	186,975
Reclamation deposit	-	-	-	73,739	73,739
Accounts payable and accrued liabilities	(312,851)	-	-	-	(312,851)
Property acquisition obligation	-	-	-	(290,711)	(290,711)

  

	Contractual Maturity Analysis at October 31, 2011				
	Less than 3 Months \$	3 - 12 Months \$	1 - 5 Years \$	Over 5 Years \$	Total \$
Cash	864,677	-	-	-	864,677
Amounts receivable	42,293	-	-	-	42,293
Reclamation deposit	-	-	-	76,462	76,462
Accounts payable and accrued liabilities	(105,738)	-	-	-	(105,738)
Property acquisition obligation	-	-	-	(265,116)	(265,116)

#### Market Risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, and commodity and equity prices. These fluctuations may be significant.

#### Interest Rate Risk

The Company is exposed to interest rate risk to the extent that the cash bear floating rates of interest. The interest rate risk on cash and on the Company's obligations are not considered significant.

#### Foreign Currency Risk

The Company's functional currency is the Canadian dollar and major transactions are transacted in Canadian Dollars and SEK. The Company maintains SEK bank accounts in Sweden to support the cash needs of its foreign operations. Management believes the foreign exchange risk related to currency conversions is minimal and therefore does not hedge its foreign exchange risk. At July 31, 2012, 1 Canadian Dollar was equal to SEK 6.78.

Balances are as follows:

	SEK	CDN \$ Equivalent
Cash	1,675,913	247,185
Amounts receivable	1,128,034	166,377
Reclamation deposit	500,000	73,739
Accounts payable and accrued liabilities	(1,551,869)	(228,889)
Property acquisition obligation	(1,971,226)	(290,711)
	<u>(219,148)</u>	<u>(32,299)</u>

Based on the net exposures as of July 31, 2012 and assuming that all other variables remain constant, a 10% fluctuation on the Canadian Dollar against the SEK would result in the Company's net loss being approximately \$3,000 higher (or lower).

# FLINDERS RESOURCES LIMITED

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## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE NINE MONTHS ENDED JULY 31, 2012

(Unaudited - Expressed in Canadian Dollars)

### 12. Financial Instruments and Risk Management (continued)

#### Capital Management

The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support the acquisition and exploration mineral properties. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain development of the business. The Company defines capital that it manages as share capital and cash. The Company will continue to assess new properties and seek to acquire an interest in additional properties if it feels there is sufficient geologic or economic potential and if it has adequate financial resources to do so. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

### 13. Supplemental Cash Flow Information

During the nine months ended July 31, 2012 and the period February 17, 2011 to July 31, 2011 non-cash activities were conducted by the Company as follows:

	2012 \$	2011 \$
Operating activities		
Depreciation	9,577	-
Provision for site restoration	249,480	-
Increase in accounts payable and accrued liabilities	<u>182,839</u>	<u>-</u>
	<u>441,896</u>	<u>-</u>
Investing activities		
Additions to property, plant and equipment	(9,139)	-
Expenditures on exploration and evaluation assets	(432,757)	-
Reverse acquisition	<u>(3,475,000)</u>	<u>-</u>
	<u>(3,916,896)</u>	<u>-</u>
Financing activities		
Issuance of common shares	3,575,800	-
Share issue costs	(1,297,643)	-
Share-based payments reserve	<u>1,196,843</u>	<u>-</u>
	<u>3,475,000</u>	<u>-</u>

# FLINDERS RESOURCES LIMITED

(formerly Tasex Capital Limited)

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE NINE MONTHS ENDED JULY 31, 2012

(Unaudited - Expressed in Canadian Dollars)

### 14. Segmented Information

As at July 31, 2012, the Company is involved in the exploration and development of resource properties in Sweden, with corporate operations in Canada. The Company is in the exploration and development stage and accordingly, has no reportable segment revenues or operating results.

The Company's total assets are segmented geographically as follows:

	As at July 31, 2012		
	Corporate Canada \$	Mineral Operations Sweden \$	Total \$
Current assets	17,569,812	511,953	18,081,765
Property, plant and equipment	-	2,640,909	2,640,909
Exploration and evaluation assets	-	5,824,147	5,824,147
Reclamation deposit	-	73,739	73,739
	<u>17,569,812</u>	<u>9,050,748</u>	<u>26,620,560</u>

  

	As at October 31, 2011		
	Corporate Canada \$	Mineral Operations Peru \$	Total \$
Current assets	845,576	210,194	1,055,770
Property, plant and equipment	-	4,913,512	4,913,512
Exploration and evaluation assets	-	1,704,437	1,704,437
Reclamation deposit	-	76,462	76,462
	<u>845,576</u>	<u>6,904,605</u>	<u>7,750,181</u>

### 15. Events after the Reporting Period

Subsequent to July 31, 2012 the Company:

- (i) issued 335,000 common shares on the exercise of share options and warrants for proceeds of \$227,500; and
- (ii) granted share options to consultants to purchase 325,000 common shares of the Company at a price of \$1.11 per share of which 75,000 share options will expire on September 12, 2015 and 250,000 share options will expire on September 12, 2016.