

# FLINDERS RESOURCES LIMITED

## MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE SIX MONTHS ENDED APRIL 30, 2013

### Background

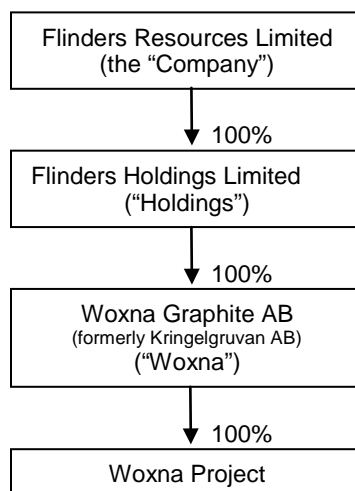
This discussion and analysis of financial position and results of operation is prepared as at June 17, 2013 and should be read in conjunction with the unaudited condensed consolidated interim financial statements for the for the six months ended April 30, 2013 of Flinders Resources Limited ("Flinders" or the "Company"). The following disclosure and associated financial statements are presented in accordance with International Financial Reporting Standards ("IFRS"). Except as otherwise disclosed, all dollar figures included therein and in the following management discussion and analysis ("MD&A") are quoted in Canadian dollars. Additional information relevant to the Company's activities can be found on SEDAR at [www.sedar.com](http://www.sedar.com).

### Company Overview

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, the Company 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. On February 22, 2012 the Company changed its name to Flinders Resources Limited in conjunction with the completion of its acquisition as described below. The Company's common shares trade on the TSXV as a Tier 1 mining issuer under the symbol "FDR". The Company's principal office is located at #1305 - 1090 West Georgia Street, Vancouver, British Columbia, V6E 3V7.

On February 22, 2012 the Company completed the acquisition of Burke Resources Limited ("Burke") (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 Acquisition resulted in the former shareholders of Burke holding the majority interest in the Company and as such 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. The Acquisition was not considered to be a business combination for accounting purposes as Tasex was not considered to be a business for accounting purposes.

### Corporate Structure



## Woxna Project

The Woxna Project produced flake graphite from 1996 to 2001, when it closed due to depressed graphite prices. Since then the Woxna Project has been held on care and maintenance. The Woxna Project was acquired in August 2011 and since then the Company has been working to bring the property back to the production stage. The Woxna Project comprises four exploitation (mining) concessions located in the vicinity of the town of Edsbyn, northwest of the city of Gavle in Central Sweden. The Woxna Project comprises a partially depleted open pit and associated processing facility on the Kringel concession which had been in production from 1996 to 2001. The other three concessions remain undeveloped. Graphite is developed in distinct zones in silicified metasedimentary and metavolcanic rocks. This type of mineralisation is particularly suited to discovery by electromagnetic geophysical methods. The project area is well placed in terms of infrastructure connected to grid power and water. Roads give good access to European graphite markets as well as surrounding regional facilities and infrastructure.

The Woxna graphite product is known to the graphite market in Europe and sales of ex-inventory product have continued to the present day. All four mining concessions were drilled by prior operators in the period 1988-1993 and Flinders drilled the Kringel concession in 2012. A National Instrument 43-101 (“NI 43-101”) compliant resource was announced on September 18, 2012 at the Kringel deposit and significant historical resources exist at the other three deposits.

The Woxna Project is unique due to its strategic position within the European Union and a fully permitted and constructed status 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. Major assets include:

- The Kringel exploitation concession containing a NI 43-101 measured and indicated mineral resource totalling 2.6 million tonnes averaging 10.5% graphitic carbon (“Cg”), when applying a 7% Cg lower cut-off.
- Kringel also hosts a fully permitted constructed mine and beneficiation plant, currently on care and maintenance, which is rated to produce up to 13,000 t/yr graphite. Total historic investment in the plant plus infrastructure is SEK 90 million (approximately CDN \$13 million).
- A valid environmental permit exists for mining and processing of 100,000 t/yr ore at the Kringel concession.
- Three graphite exploitation concessions (“MLs”) with combined historic mineral resources over 5.6 Mt @ 8.2% graphitic carbon (“C”). These MLs are namely Gropabo (2.1Mt @ 6.9% C historic mineral resource) located 16 km NW of Kringel, Mattsmyra (2.2Mt @ 8.8% C historic mineral resource) located 13 km NW of Kringel and Månsberg (1.3Mt @ 9.4% C historic mineral resource) located 29 km SE of Kringel.

The NI 43-101 resource estimate was completed by qualified and independent geologist, Mr. Geoffrey Reed of Reed Leyton Consultants. A technical report was filed on SEDAR and [www.flindersresources.com](http://www.flindersresources.com) in November 2012.

The historical mineral resource estimates quoted are based on reports by independent geologist Lars-Åke Claesson in August 2002. The mineral resource was calculated using a polygonal method and is broadly similar to CIM definitions “indicated” and “inferred”. Data is historical in nature and was compiled prior to the implementation of NI 43-101 reporting standards. Flinders has not completed sufficient exploration to verify the estimates. Flinders is not treating them as NI 43-101 defined mineral resources or mineral reserves verified by a Qualified Person, and the historical estimate should not be relied upon. Flinders does not have, and is not aware of, any more recent mineral resource estimates that conform to the standards set out in NI 43-101. The historic resources have been drilled to a nominal depth of 50 m below surface. Graphite mineralization remains open along strike and at depth.

Coffey Mining completed a NI 43-101 compliant technical report on the Woxna Project and the report was filed on SEDAR in January 2012.

### *Exploitation Concessions*

The Woxna Project consists of four granted exploitation concessions, of which one, at Kringel, has a partially depleted pit and a processing plant under care-and-maintenance. Details as follows:

Property	Type of Mineral Tenure	Area (Ha)	Issue Date
Kringel	Exploitation Concession	30.7610	September 11, 1991
Gropabo	Exploitation Concession	18.1992	February 21, 2000

Property	Type of Mineral Tenure	Area (Ha)	Issue Date
Mattamyra	Exploitation Concession	72.9714	February 20, 2000
Månsberg	Exploitation Concession	24.7700	December 16, 1999
<b>Total</b>		<b>146.7</b>	

### ***Geology and Mineralization***

Graphite is an accessory mineral that occurs 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 a 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. At the Woxna Project, graphite is developed in Paleoproterozoic age high-grade metasedimentary and metavolcanic lithologies that have been subjected to high intensive ductile deformation and later brittle faulting. These subcrop beneath a blanket of Quaternary age moraine deposits. The graphite and minor associated pyrrhotite are excellent conductors and thus allow for prospecting using geophysical methods.

### ***Exploration Status***

All four concessions have had detailed geophysical exploration completed and all have diamond drilling to some degree. The Kringel deposit has been drilled to 150m depth with most drilling less than 100m depth. The remaining three concessions have been drilled to approximately 50m below surface. Drilling was completed in the period 1988-1993 and more recently in 2012. The NI 43-101 resource utilises data from both periods while the historical resource estimates date back to the earlier period. Flinders intention is to progressively upgrade the historical resources to NI 43-101 compliance and extend known mineralisation along strike and down dip. Gropabo and Mattamyra require limited infill drilling and some down-dip drilling to extend the known extents of the graphite mineralisation. At Månsberg, infill, down-dip and extensional drilling is required to extend the known extent of mineralisation. Månsberg has only been drilled over a very limited strike length.

Seven exploration permits totalling 679 hectares were issued in late April and early May 2012 covering areas along strike from the Company's four mining leases. Additional exploration permits for 2,759 hectares covering areas prospective for the Woxna graphite trend were granted in November and December 2012.

### ***Historical Resources***

The project has historical resource on three concessions. Further drilling would be required to upgrade or verify the historical resource estimates as current mineral resources or reserves. A Qualified Person has not done sufficient work to classify the historical estimates as current mineral resources or reserves. The Company is not treating the historical estimates as current mineral resources or reserves.

Tenement	Classification**	Tonnes (Mt)	Grade C (%)	Cutoff (%)	Date
Gropabo	Indicated	2.08	6.89	7	1991
Mattamyra	Indicated	2.17	8.77	7	1992
Månsberg	Inferred	1.35	9.44	7	1993
<b>Total</b>		<b>5.60</b>	<b>8.23</b>		<b>2002</b>

\* Disclosed as historical resources as provided for in Part 2 of the Companion Policy to NI 43-101

\*\* Foreign resource as provided for in Part 2 of the Companion Policy to NI 43-101

### ***Metallurgy and Processing***

The plant equipment is made up of conventional processing units (i.e., milling, froth flotation, filtration, drying, screening, blending and packing), mainly of 1990s vintage. The plant has operated well mechanically but at lower than design availability and utilisation levels. Subsequent to the 2001 shutdown, sections of the plant were started up for limited periods and were, and are, operating to fulfil ex-inventory orders. The crushing component of the plant, which belonged to the mining contractor, will need to be re-established. Assessment of the existing processing units and on the required upgrades is ongoing.

### ***Environmental and Tailings Disposal***

There are a number of environmental matters at the Woxna Project that Flinders intends to address prior to resumption of operations including upgrading the tailings storage and water capture and treatment facilities to bring them up to standards expected today as well as creation of additional tailings storage capacity. Permits are in place to create additional storage up an adjacent valley.

### ***Recommendations and Conclusions***

To return the project into production and develop the adjacent properties to add to future potential production, an evaluation and refurbishment program has commenced, or is planned, that encompasses:

- re-statement and rework of the historical resource to NI 43-101 standard;
- survey of the Kringel pit and tailings facility, preferably by airborne laser methods, to provide a current surface for all future planning purposes;
- emptying water from the existing Kringel mine pit to access mineralisation for any new mining operation;
- a diamond drilling program at Kringel to delineate further mineralisation to the west of the current pit and below the prior historic resource;
- an engineering design on the existing tailings facility that encompasses a raise of the walls or extension to the current facility, combined with water quality and management controls;
- limited exploration programs at Gropabo and Mattsmyra to upgrade the historic resources to NI43-101 standard;
- extensive exploration programmes at Månsberg, to develop the mineralisation to its full extent, should also focus on testing mineralisation to depths greater than the current -50m below surface;
- metallurgical test work to determine process parameters to maximise potential revenue by optimising recovery of high value graphite products from the mineralisation;
- development of a new process flow sheet, evaluation and where warranted refurbishment of the Kringel processing plant and purchase of new equipment, in particular new crushing capability;
- economic modelling of the Woxna project; and
- further development work on the beneficiation of graphite product to a >99% C specification; updating earlier scoping studies.

### ***Current Work***

The Company continues to advance its work programs at the Woxna Project. The major focus of work has been:

- upgrade of the Kringel historic graphite resource estimate to current NI 43-101 standards. As of September 18, 2012, the drilling had been completed, all assay results received and a measured and inferred resource estimate of 2.6 million tonnes at 10.5% graphite calculated and announced. The NI 43-101 resource estimate was completed by qualified and independent geologist, Mr. Geoffrey Reed of Reed Leyton Consultants. A technical report is available on SEDAR and [www.flindersresources.com](http://www.flindersresources.com).

The mineral resource estimate was calculated using Maptek's Vulcan software based on the following geological and resource modelling parameters:

- Ninety of 92 diamond drill holes for 6,581m drilled at Kringel from 1988, 1989 and 2012 were included in the current mineral resource estimation.
- Hole spacing was completed on a 50 metre by 50 metre drill pattern.
- The analytical method used to assay Cg in drill core was Leco-direct combustion and infrared absorption. Samples were prepared by ALS Chemex in Pitea Sweden and assayed in Vancouver Canada by method code C-IR06. Drill holes were sampled over 1 metre intervals. Duplicates, repeats and blanks were inserted according to standard industry practice.
- A specific gravity of 2.7 was calculated by traditional methods by Flinders staff in consultation with Mr. Geoffrey Reed.
- Grade interpolation was undertaken using inverse distance defined by the domain wireframes.
- The allocations of composites were calculated using a hard boundary at the domain wireframes. Composites of the drill hole assays are generated using Maptek Vulcan software with run lengths of 1 metre.

- Parent block size was 5m x 25m x 5m with sub blocks at 1m x 5m x 1m, with the mineralization limited to 5m X 25m x 5m.
  - Grade interpolation was undertaken using inverse distance defined by the domain wireframes. The allocations of composites were calculated using a hard boundary at the domain wireframes.
  - No minimum width was applied.
  - No assumptions were made as to future mining methods, dimensions or dilution.
  - No assumptions were made as to the metallurgical behaviour of mineralization.
- Golder Associates of Sweden has delivered a mining plan for the Kringel graphite mineral resource outlining four phases of graphite mining over more than 20 years. The mining plan has been optimised to reduce and defer the movement of waste material and cost estimates have been received from contractors;
  - geotechnical, hydrology, geophysical, geochemical, flora and fauna studies have been completed at the Kringel site. Information from these studies will provide baseline data to assess the impact of future operations, enable the proper design of waste rock dumps, ensure suitable environmental controls are established and allow evaluation of options to upgrade the water management and tailings storage facilities. Detailed designs to increase the height of the lower tailings dam wall have been prepared and material quantities estimated. These designs have been presented to the regulator and while no formal approval is required, there have been no requests for changes from the regulator;
  - pumping out water that has accumulated in the pit from precipitation since mining was halted in 2001 was effectively completed in January 2013;
  - marketing engagement with potential customers. Initial feedback is that the European graphite market mainly operates on a spot sale basis rather than long term off take contracts. The Woxna graphite brand which was marketed until production ceased in 2001 invokes positive recognition with customers. This was verified via recent sales of graphite that was stockpiled at Kringel when production ceased in 2001. Reprocessing of the remaining inventory of stored graphite continues;
  - GBM Mineral Engineering Consultants were appointed to assist Flinders assess the condition of the Kringel processing plant, develop a new process flow sheet, audit existing equipment, specify and seek quotes for new equipment as needed for restarting production. GBM are in the process of consolidating operating and capital costs and estimated revenue for a preliminary economic assessment;
  - bulk mineralised samples typical of the Kringel deposit were mined and sent to Aminpro in Chile to optimise operating parameters for the plant as well as estimate sizes, purity and graphite recovery from the proposed new process flow sheet. Results are being received presently and the Company issued a news release containing results on May 28, 2013 indicating potential to improve the flake size distribution;
  - Woxna personnel have commenced dismantling and inspecting all items of equipment that will be re-used in the new process flow sheet. Once dismantled, each item is cleaned and its condition assessed. Items requiring repairs or maintenance are then sent to local contractors to perform this work;
  - updated and enhanced process control systems have been specified and sourcing has commenced. Laboratory equipment will be upgraded as required;
  - recruitment of employees and consultants advance the project continues, including the key appointment of the general manager, Craig Griffiths, who commenced on October 17, 2012;
  - undertaken a substantial stakeholder engagement program with the community and regulators; and
  - continue to monitor European graphite markets. Graphite demand and prices appear to have stabilised during the past quarter after retreating during the second half of 2012. Graphite prices remain well above long run trend levels of the past ten years. Graphite prices are forecast to improve moderately as economic growth globally recovers which is estimated to occur later this year or early 2014. To manage the impact of graphite price cycles, the Company is examining options to further reduce both operating and capital costs for the Woxna graphite project. In addition, the Company is considering advancing studies to enhance shareholder returns via expanding graphite capacity, adding higher value graphite products and strategic opportunities.

## ***Inventory of Graphite***

The Woxna assets acquired also included 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. Since acquiring Woxna in August 2011, the Company initiated a program to upgrade the 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. The Company has identified customers for this graphite. 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 and confirmation that graphite markets are considerably improved when compared to a decade ago. A small quantity, estimated at 500 tonnes, remains to be reprocessed and sold. Reprocessing resumed in July 2012 and continues, albeit on a periodic basis.

## **Forward Looking Statements**

Certain information set out in this MD&A may constitute forward-looking statements or forward-looking information within the meaning of applicable securities laws (collectively, "Forward-Looking Statements"). All statements, other than statements of historical fact, that address activities, events or developments that the Company believes, expects or anticipates will or may occur in the future are Forward-Looking Statements. Forward-Looking Statements are often, but not always, identified by the use of words such as "seek," "anticipate," "believe," "plan," "estimate," "expect," and "intend" and statements that an event or result "may," "will," "can," "should," "could," or "might" occur or be achieved and other similar expressions. Forward-Looking Statements are based upon the opinions and expectations of the Company based on information currently available to the Company. Forward-Looking Statements are subject to a number of factors, risks and uncertainties that may cause the actual results of the Company to differ materially from those discussed in the Forward-Looking Statements including, among other things: the Company has yet to generate a profit from its activities; there can be no guarantee that the estimates of quantities or qualities of minerals disclosed in the Company's public record will be economically recoverable; uncertainties relating to the availability and costs of financing needed in the future; competition with other companies within the mining industry; the success of the Company is largely dependent upon the performance of its directors and officers and the Company's ability to attract and train key personnel; changes in world metal markets and equity markets beyond the Company's control; mineral reserves are, in the large part, estimates and no assurance can be given that the anticipated tonnages and grades will be achieved or that the indicated level of recovery will be realized; production rates and capital and other costs may vary significantly from estimates; unexpected geological conditions; delays in obtaining or failure to obtain necessary permits and approvals from government authorities; all phases of a mining business present environmental and safety risks and hazards and are subject to environmental and safety regulation, and rehabilitation and restitution costs; the Company does not maintain insurance against environmental risks; and management of the Company have experience in mineral exploration but may lack all or some of the necessary technical training and experience to successfully develop and operate a mine. Although the Company believes that the expectations reflected in the Forward-Looking Statements, and the assumptions on which such Forward-Looking Statements are made, are reasonable, there can be no assurance that such expectations will prove to be correct. Readers are cautioned not to place undue reliance on Forward-Looking Statements, as there can be no assurance that the plans, intentions or expectations upon which the Forward-Looking Statements are based will occur. Forward-Looking Statements herein are made as at the date hereof, and unless otherwise required by law, the Company does not intend, or assume any obligation, to update these Forward-Looking Statements.

## **Selected Financial Data**

The following selected financial information is derived from the unaudited condensed consolidated interim financial statements of the Company prepared in accordance with IFRS.

Three Months Ended	Fiscal 2013		Fiscal 2012				Fiscal 2011	
	April 30, 2013 \$	January 31, 2013 \$	October 31, 2012 \$	July 31, 2012 \$	April 30, 2012 \$	January 31, 2012 \$	October 31, 2011 \$	July 31, 2011 \$
<b>Operations</b>								
Expenses	(737,880)	(937,817)	(1,265,882)	(499,204)	(1,090,055)	(276,492)	(785,995)	(61,145)
Other items	53,280	22,701	85,138	46,739	(3,417,102)	(9,895)	(658)	Nil
Net loss	(684,600)	(915,116)	(1,180,744)	(452,465)	(4,507,157)	(286,387)	(786,653)	(61,145)
Basic and diluted loss per share	(0.01)	(0.02)	(0.00)	(0.01)	(0.14)	(0.05)	(0.10)	(0.04)

Three Months Ended	Fiscal 2013		Fiscal 2012				Fiscal 2011	
	April 30, 2013 \$	January 31, 2013 \$	October 31, 2012 \$	July 31, 2012 \$	April 30, 2012 \$	January 31, 2012 \$	October 31, 2011 \$	July 31, 2011 \$
Dividends per share	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
<b>Balance Sheet</b>								
Working capital	13,370,213	14,786,708	16,647,891	17,768,914	18,640,291	547,116	950,032	374,792
Total assets	23,955,041	24,557,453	26,068,070	26,620,560	26,422,853	7,751,537	7,750,181	449,792
Total non-current liabilities	(4,750,292)	(4,311,482)	(5,059,633)	(5,459,285)	(5,418,841)	(5,392,294)	(5,157,819)	Nil

## Results of Operations

During the six months ended April 30, 2013 (the “2013 period”) the Company reported a net loss of \$1,599,716 (\$0.03 per share), compared to a net loss of \$4,793,544 (\$0.19 per share) for the six months ended April 30, 2012 (the “2012 period”), a decrease in loss of \$3,193,828. During the 2012 period, the Company recorded a public company listing expense of \$3,414,851 on completion of the Acquisition. This non-cash amount was recorded based on the IFRS requirement to ascribe a fair value of \$3,475,000 to shares for the Acquisition.

Specific general and administrative expenses of note during the 2013 period are as follows:

- incurred \$68,155 (2012 - \$18,913) of which \$18,000 (2012 - \$16,300) was for accounting and administration services charged by Chase Management Ltd. (“Chase”), a private corporation controlled by a director of the Company, and \$50,155 (2012 - \$2,613) was for third party accounting services provided in Sweden. The third party accounting services provided in Sweden commenced April 15, 2012. Prior to April 15, 2012 accounting services were conducted by salaried employees;
- recorded \$56,766 (2012 - \$563,297) share-based compensation on the granting and vesting of share options granted;
- incurred consulting fees of \$399,513 (2012 - \$71,855) of which \$225,092 (2012 - \$40,160) was paid to consultants in Sweden and \$174,421 (2012 - \$31,695) was paid to consultants in Canada. During the 2013 period the Company paid consultants in Sweden mainly for mine management and in Canada for finance consulting. During the 2012 period the Company incurred consulting fees for restarting maintenance and operations on the Woxna Project;
- incurred \$81,000 (2012 - \$64,000) for management fees charged by the Company’s President and CEO;
- incurred \$14,288 (2012 - \$nil) for general exploration expenses;
- incurred corporate development expenses of \$15,688 (2012 - \$35,119) for attendance at investment conferences and creation of market awareness programs;
- incurred \$59,067 (2012 - \$22,333) for investor relations activities provided by Albis Capital Corp (“Albis”). Under the contract, Albis is currently paid a monthly fee of \$6,000;
- incurred audit fees of \$44,033 (2012 - \$1,429). The change between the 2013 period and 2012 period was solely due to the timing of billings of the Company’s year-end financial statements;
- incurred \$12,097 (2012 - \$51,682) for repairs and maintenance, \$16,080 (2012 - \$16,966) for utilities, \$23,369 (2012 - \$nil) for plant maintenance, \$136,847 (2012 - \$15,142) for equipment rentals and related costs and \$67,700 (2012 - \$51,240) for plant supplies and consumables for the ongoing care and maintenance of the Woxna Project;
- incurred salaries and benefits expense of \$327,288 (2012 - \$167,595) for staff in the mining office in Sweden. During the 2012 period the Company had minimum staff for the process of restarting the maintenance and operations of the Woxna Project; and
- incurred travel expense of \$126,047 (2012 - \$120,536) for ongoing travel by Company management, personnel and geologists to oversee the Company’s exploration programs and for general corporate activities.

As the Company is in the exploration stage of investigating and evaluating its unproven mineral interests, it has no revenue. Interest income is generated from cash on deposit with the Bank of Montreal and short-term money market instruments issued by major financial institutions. During the 2013 period the Company reported interest and other income of \$104,144, an increase of \$91,762, compared to \$12,382 during the 2012 period. The increase was due to higher levels of cash held during the 2013 period as the financings were not completed until April 2012.

During the 2013 period the Company received proceeds of \$36,250 on the exercise of 57,500 share options and 10,000 warrants. During the 2012 period the Company completed financings of 19,223,530 common shares for gross

proceeds of \$20,200,001 and received proceeds of \$202,500 on the exercise of 805,000 share options and 100,000 agent's warrants.

During the 2013 period the Company recorded a total of \$190,205 (2012 - \$493,686) on acquisition costs and exploration activities on its exploration and evaluation assets, of which \$190,205 (2012 - \$490,919) was for exploration and \$nil (2012 - \$2,767) for tenement costs. The Company also recorded a credit adjustment of \$386,210 (2012 - debit adjustment of \$230,685) as a result of revisions to the estimate of the Company's asset retirement obligations on the Woxna Project. Details of the exploration activities conducted during the 2013 period are described in "Woxna Project" in this MD&A.

During the 2013 period the Company recorded a total of \$1,683,774 (2012 - \$296,455) on property, plant and equipment, of which \$1,055,289 (2012 - \$111,201) was for processing plant, \$473,984 (2012 - \$49,153) for mine development and \$154,501 (2012 - \$136,101) for other. Details of the additions to property, plant and equipment conducted during the 2013 period are described in "Woxna Project" in this MD&A

### **Financial Condition / Capital Resources**

The Company is a junior exploration company currently engaged in the development of the Woxna Graphite Mine. Work is ongoing. However, to date, insufficient information is available to determine 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 April 30, 2013 the Company had working capital of \$13,370,213, non-current liabilities of \$4,750,292 and an accumulated deficit of \$8,888,330. The Company is currently completing the design of the process flow sheet and is awaiting the completion of the preliminary economic assessment ("PEA") of the Woxna Graphite Mine. The Company has sufficient funding to continue development of the Woxna Graphite Mine for the ensuing twelve months. The Company is awaiting the completion of the process flow sheet and PEA to determine its capital requirements to complete the development of the Woxna Graphite Mine. 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. 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.

### **Off-Balance Sheet Arrangements**

The Company has no off-balance sheet arrangements.

### **Proposed Transactions**

There are no proposed transactions.

### **Critical Accounting 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 estimating the fair values of financial instruments, valuation allowances for deferred income tax assets and assumptions used for share-based compensation. Actual results may differ from those estimates.

A detailed summary of all the Company's significant accounting policies is included in Note 3 to the October 31, 2012 audited annual consolidated financial statements.

### **Changes in Accounting Policies**

There are no changes in accounting policies.



## Related Party Transactions and Balances

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 six months ended April 30, 2013 and 2012 the following amounts were incurred with respect to the Company's President and Chief Financial Officer ("CFO"):

	2013 \$	2012 \$
Management fees	81,000	64,000
Share-based compensation	-	54,000
	<u>81,000</u>	<u>118,300</u>

As at April 30, 2013, \$13,500 (2012 - \$nil) remained unpaid and has been included in accounts payable and accrued liabilities.

The Company has a management agreement with the President which provides that in the event the President's services are terminated without cause or upon a change of control of the Company, a termination payment of two years of compensation, at \$13,500 per month, is payable. If the termination had occurred on January 31, 2013, the amount payable under the agreement would be \$324,000.

### (b) *Transactions with other Related Parties*

- (i) During the six months ended April 30, 2013 the Company incurred \$nil (2012 - \$61,200) for share-based compensation expense to an officer and non-management directors of the Company.
  - (ii) During the six months ended April 30, 2013 the Company incurred \$18,670 (2012 - \$16,300) to Chase Management Ltd. ("Chase"), a private corporation owned by the CFO of the Company, for accounting and administrative services provided by Chase personnel, exclusive of the CFO, and for rent. As at April 30, 2013, \$6,670 (2012 - \$6,500) remained unpaid and has been included in accounts payable and accrued liabilities.
- (c) During the six months ended April 30, 2013 the Company incurred \$35,845 (2012 - \$2,415) for shared administration costs with public companies with common directors and officers. As at April 30, 2013, \$7,153 (2012 - \$1,756) remained unpaid and has been included in accounts payable and accrued liabilities.

## Investor Relations Activities

Effective February 23, 2012 the Company engaged Albis Capital Corp. ("Albis") to act as investor relations consultants to the Company. The principal of Albis is Mr. James Powell. Albis works with the Company to, among other things, develop a strategy to enhance and expand the Company's exposure in North America and Europe, provide market awareness, promotion and arrange road shows. Under the contract, Albis is currently paid a monthly fee of \$6,000. During the 2013 period the Company paid Albis \$59,067 (2012 - \$22,333).

## Outstanding Share Data

The Company's authorized share capital is unlimited common shares without par value. As at June 17, 2013, there were 45,941,030 issued and outstanding common shares, 2,757,500 share options outstanding at an exercise prices ranging from \$0.10 to \$1.91 per share, 699,750 finder's options outstanding at an exercise price of \$0.50 per share and 14,831,487 warrants at exercise prices ranging from \$0.30 to \$2.20 per share.