# FLINDERS RESOURCES LIMITED

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE NINE MONTHS ENDED
JULY 31, 2013

*(Unaudited - Expressed in Canadian Dollars)*

**NOTICE OF NO AUDITOR REVIEW OF**
**CONDENSED 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 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
## CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION
*(Unaudited - Expressed in Canadian Dollars)*

| | Note | July 31, 2013 $ | October 31, 2012 $ |
|---|---|---|---|
| **ASSETS** | | | |
| **Current assets** | | | |
| Cash | 4 | 12,496,067 | 16,863,409 |
| Amounts receivable | 5 | 93,621 | 209,882 |
| Prepaid expenses and deposit | | 33,617 | 42,069 |
| Inventory | | 130,460 | 134,954 |
| **Total current assets** | | 12,753,765 | 17,250,314 |
| **Non-current assets** | | | |
| Property, plant and equipment | 6 | 5,409,335 | 3,211,869 |
| Exploration and evaluation assets | 7 | 4,987,103 | 5,535,476 |
| Reclamation deposit | 8 | 78,862 | 70,411 |
| **Total non-current assets** | | 10,475,300 | 8,817,756 |
| **TOTAL ASSETS** | | 23,229,065 | 26,068,070 |
| **LIABILITIES** | | | |
| **Current liabilities** | | | |
| Accounts payable and accrued liabilities | | 221,289 | 602,423 |
| **Non-current liabilities** | | | |
| Provision for site restoration | 8 | 4,019,226 | 4,753,187 |
| Property acquisition obligation | 7 | 363,762 | 306,446 |
| **Total non-current liabilities** | | 4,382,988 | 5,059,633 |
| **TOTAL LIABILITIES** | | 4,604,277 | 5,662,056 |
| **SHAREHOLDERS' EQUITY** | | | |
| Share capital | 9 | 25,102,160 | 25,030,116 |
| Share-based payments reserve | | 2,702,823 | 2,664,512 |
| Deficit | | (9,180,195) | (7,288,614) |
| **TOTAL SHAREHOLDERS' EQUITY** | | 18,624,788 | 20,406,014 |
| **TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY** | | 23,229,065 | 26,068,070 |

These condensed consolidated interim financial statements were approved for issue by the Board of Directors on September 27, 2013 and are signed on its behalf by:

| | |
|---|---|
| */s/ **Blair Way*** | */s/ **Nick DeMare*** |
| Blair Way | Nick DeMare |
| Director | Director |

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

# FLINDERS RESOURCES LIMITED
## CONDENSED CONSOLIDATED INTERIM STATEMENTS OF COMPREHENSIVE LOSS
*(Unaudited - Expressed in Canadian Dollars)*

| | Notes | Three Months Ended July 31, 2013 $ | Three Months Ended July 31, 2012 $ | Nine Months Ended July 31, 2013 $ | Nine Months Ended July 31, 2012 $ |
|---|---|---|---|---|---|
| **Expenses** | | | | | |
| Accounting and administration | | 33,900 | 28,529 | 102,055 | 47,442 |
| Accretion of property purchase obligation | 7 | 14,609 | 11,809 | 41,767 | 34,443 |
| Accretion of provision for site restoration | 8 | 24,126 | 8,804 | 63,688 | 26,391 |
| Audit | | 2,976 | 17,470 | 47,009 | 18,899 |
| Bank charges | | 792 | 1,208 | 3,352 | 3,826 |
| Consulting | | (194,417) | 44,877 | 205,096 | 117,923 |
| Corporate development | | 752 | 3,051 | 15,692 | 36,979 |
| Depreciation | | 8,803 | 48 | 25,356 | 1,980 |
| Equipment rentals and related | | 28,976 | 12,306 | 114,734 | 27,448 |
| General exploration | | - | - | 14,288 | - |
| Investor relations | | 18,000 | 30,000 | 77,067 | 52,333 |
| Legal | | 3,650 | 10,791 | 45,798 | 40,279 |
| Management fees | 10(a) | 40,500 | 40,500 | 121,500 | 104,500 |
| Office | | 29,846 | 18,241 | 92,431 | 68,764 |
| Plant maintenance | | 6,025 | 20,314 | 29,394 | 20,314 |
| Plant supplies and consumables | | 56,934 | 16,315 | 124,634 | 67,555 |
| Regulatory | | 2,974 | 26,293 | 10,270 | 53,025 |
| Rent | | 6,301 | 5,897 | 24,730 | 7,083 |
| Repairs and maintenance | | 8,626 | 4,084 | 20,723 | 55,766 |
| Salaries and benefits | | 166,234 | (14,389) | 493,522 | 153,206 |
| Share-based compensation | 9(d) | 17,339 | 122,228 | 74,105 | 685,525 |
| Shareholder costs | | 2,707 | 3,906 | 8,530 | 5,465 |
| Transfer agent | | 6,076 | 6,286 | 12,469 | 18,467 |
| Travel | | 23,711 | 66,846 | 149,758 | 187,382 |
| Utilities | | 25,495 | 13,790 | 92,664 | 30,756 |
| | | 334,935 | 499,204 | 2,010,632 | 1,865,751 |
| **Loss before other items** | | (334,935) | (499,204) | (2,010,632) | (1,865,751) |
| **Other items** | | | | | |
| Public company listing expense | | - | - | - | (3,414,851) |
| Interest and other income | | 43,350 | 62,111 | 147,494 | 74,493 |
| Foreign exchange | | (280) | (15,372) | (28,443) | (39,900) |
| | | 43,070 | 46,739 | 119,051 | (3,380,258) |
| **Net loss and comprehensive loss** | | (291,865) | (452,465) | (1,891,581) | (5,246,009) |
| **Loss per share - basic and diluted** | | $(0.01) | $(0.01) | $(0.04) | $(0.12) |
| **Weighted average number of common shares outstanding - basic and diluted** | | 45,941,030 | 44,959,141 | 45,921,141 | 45,538,530 |

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

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

| | Nine Months Ended July 31, 2013 | | | | |
|---|---|---|---|---|---|
| | Share Capital | | | | |
| | Number of Shares | Amount $ | Share-Based Payments Reserve $ | Deficit $ | Total Equity $ |
| **Balance at October 31, 2012** | 45,873,530 | 25,030,116 | 2,664,512 | (7,288,614) | 20,406,014 |
| Common shares issued for cash: | | | | | |
| - exercise of share options | 57,500 | 28,750 | - | - | 28,750 |
| - exercise of warrants | 10,000 | 7,500 | - | - | 7,500 |
| Transfer on exercise of share options | - | 35,794 | (35,794) | - | - |
| Share-based compensation | - | - | 74,105 | - | 74,105 |
| Net loss for the period | - | - | - | (1,891,581) | (1,891,581) |
| **Balance at July 31, 2013** | 45,941,030 | 25,102,160 | 2,702,823 | (9,180,195) | 18,624,788 |

| | Nine Months Ended July 31, 2012 | | | | |
|---|---|---|---|---|---|
| | Share Capital | | | | |
| | Number of Shares | Amount $ | Share-Based Payments Reserve $ | Deficit $ | Total Equity $ |
| **Balance on October 31, 2011** | 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 |
| - exercise of share options | 1,050,000 | 309,000 | - | - | 309,000 |
| - exercise of warrants | 500,000 | 375,000 | - | | 375,000 |
| - 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 |
| - finder's option | - | - | 405,856 | - | 405,856 |
| - finder's warrants | - | - | 891,787 | - | 891,787 |
| Net loss for the period | - | - | - | (5,246,009) | (5,246,009) |
| **Balance at July 31, 2012** | 45,538,530 | 24,579,483 | 2,376,811 | (6,107,870) | 20,848,424 |

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

# FLINDERS RESOURCES LIMITED
## CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS
*(Unaudited - Expressed in Canadian Dollars)*

| | Nine Months Ended July 31, | |
|---|---|---|
| | 2013 $ | 2012 $ |
| **Operating activities** | | |
| Net loss for the period | (1,891,581) | (5,246,009) |
| Adjustments for: | | |
| Accretion of property purchase obligation | 41,767 | 34,443 |
| Accretion of provision for site restoration | 63,688 | 26,391 |
| Depreciation | 25,356 | 1,980 |
| Foreign exchange | 7,098 | (6,125) |
| Share-based compensation | 74,105 | 685,525 |
| Public company listing expense | - | 3,414,851 |
| | (1,679,567) | (1,088,944) |
| Changes in non-cash working capital items: | | |
| Decrease (increase) in amounts receivable | 116,261 | (126,155) |
| (Increase) decrease in prepaid expenses and deposit | 8,452 | 27,999 |
| Decrease in inventory | 4,494 | 40,724 |
| Decrease in accounts payable and accrued liabilities | (281,052) | (142,385) |
| | (151,845) | (199,817) |
| **Net cash used in operating activities** | (1,831,412) | (1,288,761) |
| **Investing activities** | | |
| Additions to property, plant and equipment | (2,337,436) | (948,029) |
| Expenditures on exploration and evaluation assets | (234,744) | (441,516) |
| Receipt of cash for acquisition of Tasex | - | 118,088 |
| **Net cash used in investing activities** | (2,572,180) | (1,271,457) |
| **Financing activities** | | |
| Issuance of common shares | 36,250 | 20,849,001 |
| Share issue costs | - | (1,446,717) |
| **Net cash provided by financing activities** | 36,250 | 19,447,284 |
| **Net change in cash** | (4,367,342) | 16,887,066 |
| **Cash at beginning of period** | 16,863,409 | 864,677 |
| **Cash at end of period** | 12,496,067 | 17,751,743 |

**Supplemental cash flow information** - See Note 12

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

## 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 which was then amalgamated with 0923098 B.C. Ltd., a wholly-owned inactive subsidiary of the Company, to form Flinders Holdings Limited ("Flinders Holdings"). Flinders Holdings holds 100% of Woxna Graphite AB ("Woxna") (formerly Kringelgruvan AB), a private Swedish company. Woxna has a 100% ownership interest of the Woxna Graphite Mine located in central Sweden. 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. 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 July 31, 2013 the Company had working capital of $12,532,476, non-current liabilities of $4,382,988 and an accumulated deficit of $9,180,195. The Company has now received the preliminary economic assessment ("PEA") and is currently completing the design of the process flow sheet of the Woxna Graphite Mine. While the Company has sufficient funding to continue development of the Woxna Graphite Mine for the ensuing twelve months it may require additional funding 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.

## 2. Basis of Preparation

*Statement of Compliance*

These condensed consolidated interim financial statements have been prepared using accounting policies consistent with International Financial Reporting Standards ("IFRS"), and in accordance with International Accounting Standards ("IAS") 34, Interim Financial Reporting, as issued by the International Accounting Standards Board ("IASB"). These condensed consolidated interim financial statements should be read in conjunction with the audited consolidated financial statements for the year ended October 31, 2012, which have been prepared in accordance with IFRS as issued by the IASB. The accounting policies followed in these condensed consolidated interim financial statements are consistent with those applied in the Company's consolidated financial statements for the year ended October 31, 2012.

*Basis of Presentation*

The preparation of consolidated interim financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, revenue and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

*(Unaudited - Expressed in Canadian Dollars)*

## 2. Basis of Preparation (continued)

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and further periods if the review affects both current and future periods.

## 3. Subsidiaries

As at July 31, 2013 and October 31, 2012 the Company had two wholly-owned subsidiaries, Flinders Holdings, which is incorporated in British Columbia, and Woxna, which is incorporated and operated in Sweden.

## 4. Cash

| | July 31, 2013 $ | October 31, 2012 $ |
|---|---|---|
| Cash on hand | 12,496,067 | 369,573 |
| Demand deposits | - | 16,493,836 |
| | 12,496,067 | 16,863,409 |

## 5. Amounts Receivable

| | July 31, 2013 $ | October 31, 2012 $ |
|---|---|---|
| GST / HST receivable | 51,947 | 30,240 |
| Foreign value added tax receivable | 37,197 | 172,674 |
| Other | 4,477 | 6,968 |
| | 93,621 | 209,882 |

*(Unaudited - Expressed in Canadian Dollars)*

## 6. Property, Plant and Equipment

| **Cost**: | **Vehicles** $ | **Equipment and Tools** $ | **Building** $ | **Processing Plant** $ | **Mine Development** $ | **Total** $ |
|---|---|---|---|---|---|---|
| Balance at October 31, 2011 | - | 115,608 | 222,201 | 1,366,628 | - | 1,704,437 |
| Additions | 67,746 | 34,513 | 72,660 | 478,851 | 875,851 | 1,529,621 |
| Balance at October 31, 2012 | 67,746 | 150,121 | 294,861 | 1,845,479 | 875,851 | 3,234,058 |
| Additions | 54,505 | 99,996 | - | 1,300,545 | 794,486 | 2,249,532 |
| Balance at July 31, 2013 | 122,251 | 250,117 | 294,861 | 3,146,024 | 1,670,337 | 5,483,590 |
| **Accumulated Depreciation:** | | | | | | |
| Balance at October 31, 2011 | - | - | - | - | - | - |
| Depreciation | (8,651) | (2,015) | - | (11,523) | - | (22,189) |
| Balance at October 31, 2012 | (8,651) | (2,015) | - | (11,523) | - | (22,189) |
| Depreciation | (18,299) | (15,763) | - | (18,004) | - | (52,066) |
| Balance at July 31, 2013 | (26,950) | (17,778) | - | (29,527) | - | (74,255) |
| **Carrying Value:** | | | | | | |
| Balance at October 31, 2012 | 59,095 | 148,106 | 294,861 | 1,833,956 | 875,851 | 3,211,869 |
| Balance at July 31, 2013 | 95,301 | 232,339 | 294,861 | 3,116,497 | 1,670,337 | 5,409,335 |

## 7. Exploration and Evaluation Assets

| | **As at July 31, 2013** | | | **As at October 31, 2012** | | |
|---|---|---|---|---|---|---|
| | **Acquisition Costs** $ | **Deferred Exploration Costs** $ | **Total** $ | **Acquisition Costs** $ | **Deferred Exploration Costs** $ | **Total** $ |
| Sweden | | | | | | |
| Woxna Graphite Mine | 3,937,091 | 1,050,012 | 4,987,103 | 4,734,740 | 800,736 | 5,535,476 |

*(Unaudited - Expressed in Canadian Dollars)*

**7. Exploration and Evaluation Assets** (continued)

| | $ |
|---|---|
| **Balance at October 31, 2011** | 4,913,512 |
| **Exploration costs:** | |
| Consulting | 25,806 |
| Database analysis | 981 |
| Depreciation | 16,505 |
| Drilling | 446,755 |
| Equipment rental | 33,764 |
| Exploration site costs | 14,711 |
| Field supplies | 7,996 |
| Geochemistry | 111,557 |
| Maps | 10,580 |
| Repairs and maintenance | 2,477 |
| Salaries and benefits | 94,921 |
| Travel | 33,360 |
| Vehicles | 1,323 |
| | 800,736 |
| **Acquisition costs:** | |
| Tenement and related costs | 11,237 |
| Adjustment to provision for site restoration | (190,009) |
| | (178,772) |
| **Balance at October 31, 2012** | 5,535,476 |
| **Exploration costs:** | |
| Consulting | 76,774 |
| Database analysis | 63,606 |
| Depreciation | 835 |
| Equipment rental | 10,751 |
| Exploration site costs | 294 |
| Field supplies | 1,789 |
| Freight | 16,460 |
| Salaries and benefits | 74,060 |
| Travel | 4,707 |
| | 249,276 |
| **Acquisition costs:** | |
| Adjustment to provision for site restoration | (797,649) |
| **Balance at July 31, 2013** | 4,987,103 |

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

In 1993 Woxna entered into agreements under which:

(i) it acquired the Kringel 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 Kringel concession; and

*(Unaudited - Expressed in Canadian Dollars)*

**7. Exploration and Evaluation Assets** (continued)

(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.

The Company has recognized the SEK 4,000,000 additional consideration associated with the Kringel 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, 2013 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 Kringel concession is as follows:

| | $ |
|---|---|
| **Balance at October 31, 2011** | 265,116 |
| Accretion of discounted cash flows | 45,069 |
| Foreign exchange adjustment | (3,739) |
| **Balance at October 31, 2012** | 306,446 |
| Accretion of discounted cash flows | 41,767 |
| Foreign exchange adjustment | 15,549 |
| **Balance at July 31, 2013** | 363,762 |

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.

**8. Provision for Site Restoration**

Although the ultimate amount of the decommissioning obligation for the Kringel 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.

*(Unaudited - Expressed in Canadian Dollars)*

**8. 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 2.19% (October 31, 2012 - 1.531%) and an inflation factor of 0.10% (October 31, 2012 - 0.40%). 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:

| | $ |
|---|---|
| **Balance at October 31, 2011** | 4,892,703 |
| Accretion | 50,493 |
| Revision of estimates | (111,310) |
| Foreign exchange adjustment | (78,699) |
| **Balance at October 31, 2012** | 4,753,187 |
| Accretion | 63,688 |
| Revision of estimates | (1,026,267) |
| Foreign exchange adjustment | 228,618 |
| **Balance at July 31, 2013** | 4,019,226 |

As at July 31, 2013 there are no property restoration obligations for the Mattsmyra, Gropabo and Mansberg concessions.

A reclamation deposit of $77,691 (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 Kringel concession.

**9. Share Capital**

(a) *Authorized Share Capital*

As at July 31, 2013 the Company's authorized share capital consisted of an unlimited number of common shares without par value. All issued common shares are fully paid.

(b) *Reconciliation of Changes in Share Capital*

No equity financing were conducted by the Company during the nine months ended July 31, 2013.

During the fiscal year ended October 31, 2012 the Company completed the following equity financing:

(i) concurrent with the completion of the Qualifying Transaction, 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 $349,875 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 $216,923 fair value assigned to the finders' options has been estimated using the Black-Scholes option pricing model. The assumptions used were: a risk-free interest rate of 1.13%; expected volatility of 125%; an expected life of two years; a dividend yield of 0%; and an expected forfeiture rate of 0%. The finders' options remained outstanding at July 31, 2013.

*(Unaudited - Expressed in Canadian Dollars)*

**9. Share Capital** (continued)

The Company incurred $22,741 for legal and filing fees associated with this private placement.

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

(ii) on April 17, 2012 the Company 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 consisted 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.

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: a risk-free interest rate of 1.13%; expected volatility of 125%; an expected life of two years; a dividend yield of 0%; and an expected forfeiture rate of 0%.

The Company incurred $202,818 for legal and filing fees and other related costs associated with this private placement.

(c) *Warrants*

A summary of the number of common shares reserved pursuant to the Company's outstanding warrants at July 31, 2013 and 2012 and the changes for the nine months ended on those dates is as follows:

| | 2013 | | 2012 | |
|---|---|---|---|---|
| | **Number** | **Weighted Average Exercise Price $** | **Number** | **Weighted Average Exercise Price $** |
| Balance beginning of period | 14,841,487 | 1.21 | 257,200 | 0.30 |
| Adjustment to reflect recapitalization | - | - | 100,000 | 0.10 |
| Issued | - | - | 15,324,287 | 1.20 |
| Exercised | (10,000) | 0.75 | (600,000) | 0.64 |
| Balance end of period | 14,831,487 | 1.21 | 15,081,487 | 1.20 |

The following table summarizes information about the number of common shares reserved pursuant to the Company's warrants outstanding and exercisable at July 31, 2013:

| **Number** | **Exercise Price $** | **Expiry Date** |
|---|---|---|
| 257,200 | 0.30 | September 12, 2013 |
| 9,650,000 | 0.75 | February 22, 2014 |
| 4,411,766 | 2.20 | April 17, 2014 |
| 512,521 | 1.70 | April 17, 2014 |
| 14,831,487 | | |

See also Note 14(iii).

*(Unaudited - Expressed in Canadian Dollars)*

**9. Share Capital** (continued)

(d) *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, 2013 the Company granted 225,000 (2012 - 850,000) share options to its directors, officers and consultants and recorded compensation expense of $61,500 (2012 - $544,500). In addition the Company recorded a compensation expense of $12,605 (2012 - $141,025) on the vesting of share options granted.

The fair value of share options granted and vested during the nine months ended July 31, 2013 and 2012 is estimated using the Black-Scholes option pricing model using the following assumptions:

| | 2013 | 2012 |
|---|---|---|
| Risk-free interest rate | 1.16% - 1.31% | 1.21% - 1.33% |
| Estimated volatility | 136% - 154% | 125% |
| Expected life | 2.25 years - 3 years | 2.5 years - 3 years |
| Expected dividend yield | 0% | 0% |
| Estimated forfeiture rate | 0% | 0% |

The weighted average fair value of all share options granted during the nine months ended July 31, 2013 was $0.30 (2012 - $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.

A summary of the Company's share options at July 31, 2013 and 2012 and the changes for the nine months ended on those dates is as follows:

| | 2013 | | 2012 | |
|---|---|---|---|---|
| | Number of Options Outstanding | Weighted Average Exercise Price $ | Number of Options Outstanding | Weighted Average Exercise Price $ |
| Balance beginning of period | 2,590,000 | 0.71 | 1,700,000 | 0.50 |
| Adjustment to reflect recapitalization | - | - | 685,000 | 0.10 |
| Granted | 225,000 | 0.54 | 850,000 | 0.87 |
| Exercised | (57,500) | 0.50 | (1,050,000) | 0.29 |
| Balance end of period | 2,757,500 | 0.70 | 2,185,000 | 0.62 |

*(Unaudited - Expressed in Canadian Dollars)*

**9. Share Capital** (continued)

The following table summarizes information about the share options outstanding and exercisable at July 31, 2013:

| Number Outstanding | Number Exercisable | Exercise Price $ | Expiry Date |
|---|---|---|---|
| 1,190,000 | 1,190,000 | 0.50 | September 12, 2014 |
| 472,500 | 472,500 | 0.50 | February 23, 2015 |
| 150,000 | 150,000 | 1.91 | April 23, 2015 |
| 75,000 | 75,000 | 1.11 | September 12, 2015 |
| 250,000 | 250,000 | 1.25 | October 11, 2015 |
| 100,000 | 100,000 | 0.60 | March 15, 2016 |
| 25,000 | 25,000 | 0.61 | March 18, 2016 |
| 100,000 | 25,000 | 0.46 | April 17, 2016 |
| 145,000 | 145,000 | 0.10 | June 08, 2016 |
| 250,000 | 250,000 | 1.11 | September 12, 2016 |
| 2,757,500 | 2,682,500 | | |

See also Note 14.

(e) *Shares Held in Escrow*

As at July 31, 2013 there were 4,125,389 common shares which remained held in escrow and will be released in accordance with the requirements of the TSXV.

**10. 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, 2013 and 2012 the following amounts were incurred with respect to the Company's President and the Chief Financial Officer ("CFO"):

| | 2013 $ | 2012 $ |
|---|---|---|
| Management fees | 121,500 | 104,500 |
| Share-based compensation | - | 54,000 |
| | 121,500 | 158,500 |

As at July 31, 2013, $13,500 (2012 - $13,500) remained unpaid and has been included in accounts payable and accrued liabilities.

(b) *Transactions with other Related Parties*

(i) During the nine months ended July 31, 2013 the Company incurred $nil (2012 - $61,200) for share-based compensation expense to an officer and non-management directors of the Company.

*(Unaudited - Expressed in Canadian Dollars)*

**10. Related Party Disclosures** (continued)

(ii) During the nine months ended July 31, 2013 the Company incurred $28,175 (2012 - $18,000) 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 July 31, 2013, $5,670 (2012 - $10,500) remained unpaid and has been included in accounts payable and accrued liabilities.

(iii) During the nine months ended July 31, 2013 the Company incurred $52,108 (2012 - $30,199) for shared administration costs with public companies with common directors and officers. As at July 31, 2013, $7,285 (2012 - $27,223) remained unpaid and has been included in accounts payable and accrued liabilities.

See also Note 9(b)(i).

**11. 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, 2013 $ | October 31, 2012 $ |
|---|---|---|---|
| Cash | FVTPL | 12,496,067 | 16,863,409 |
| Amounts receivable | Loans and receivables | 93,621 | 209,882 |
| Reclamation deposit | Loans and receivables | 78,862 | 70,411 |
| Accounts payable and accrued liabilities | Other liabilities | (221,289) | (602,423) |
| Property acquisition obligation | Other liabilities | (363,762) | (306,446) |

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 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 under the fair value hierarchy is measured using Level 1.

**11. Financial Instruments and Risk Management** (continued)

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, amounts receivable and reclamation deposit 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.

| | Contractual Maturity Analysis at July 31, 2013 | | | | |
|---|---|---|---|---|---|
| | Carrying Amount $ | Contractual Cash Flows $ | Less than 3 Months $ | 1 - 5 Years $ | Over 5 Years $ |
| Cash | 12,496,067 | 12,496,067 | 12,496,067 | - | - |
| Amounts receivable | 93,621 | 93,621 | 93,621 | - | - |
| Reclamation deposit | 78,862 | 78,862 | - | - | 78,862 |
| Accounts payable and accrued liabilities | (221,289) | (221,289) | (221,289) | - | - |
| Property acquisition obligation | (363,762) | (630,915) | - | (630,915) | - |

*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, 2013, 1 Canadian Dollar was equal to SEK 6.34.

Balances are as follows:

| | SEK | CDN $ Equivalent |
|---|---|---|
| Cash | 1,199,851 | 189,251 |
| Amounts receivable | 262,011 | 41,327 |
| Reclamation deposit | 500,000 | 78,862 |
| Accounts payable and accrued liabilities | (1,234,090) | (194,651) |
| Property acquisition obligation | (2,306,335) | (363,762) |
| | (1,578,563) | (248,973) |

*(Unaudited - Expressed in Canadian Dollars)*

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

Based on the net exposures as of July 31, 2013 and assuming that all other variables remain constant, a 10% fluctuation the Canadian Dollar against the SEK would result in the Company's net loss being approximately $26,000 higher (or lower).

*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.

## 12. Supplemental Cash Flow Information

During the nine months ended July 31, 2013 and 2012 non-cash activities were conducted by the Company as follows:

| | 2013<br>$ | 2012<br>$ |
|---|---|---|
| Operating activities | | |
| Depreciation | 835 | 9,577 |
| Provision for site restoration | (797,649) | 249,480 |
| Increase in accounts payable and accrued liabilities | 14,721 | 182,839 |
| | (782,093) | 441,896 |
| Investing activities | | |
| Additions to property, plant and equipment | - | (9,139) |
| Revisions to exploration and evaluation assets | 782,093 | (432,757) |
| Reverse acquisition | - | (3,475,000) |
| | 782,093 | (3,916,896) |
| Financing activities | | |
| Issuance of common shares | 35,794 | 3,575,800 |
| Share issue costs | - | (1,297,643) |
| Share-based payments reserve | (35,794) | 1,196,843 |
| | - | 3,475,000 |

## 13. Segmented Information

As at July 31, 2013 and October 31, 2012, the Company was 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.

*(Unaudited - Expressed in Canadian Dollars)*

## 13. Segmented Information (continued)

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

| | As at July 31, 2013 | | |
|---|---|---|---|
| | Corporate Canada $ | Mineral Operations Sweden $ | Total $ |
| Current assets | 12,392,735 | 361,030 | 12,753,765 |
| Property, plant and equipment | - | 5,409,335 | 5,409,335 |
| Exploration and evaluation assets | - | 4,987,103 | 4,987,103 |
| Reclamation deposit | - | 78,862 | 78,862 |
| | 12,392,735 | 10,836,330 | 23,229,065 |

| | As at October 31, 2012 | | |
|---|---|---|---|
| | Corporate Canada $ | Mineral Operations Sweden $ | Total $ |
| Current assets | 16,762,458 | 487,856 | 17,250,314 |
| Property, plant and equipment | - | 3,211,869 | 3,211,869 |
| Exploration and evaluation assets | - | 5,535,476 | 5,535,476 |
| Reclamation deposit | - | 70,411 | 70,411 |
| | 16,762,458 | 9,305,612 | 26,068,070 |

## 14. Events after the Reporting Period

Subsequent to July 31, 2013:

(i) share options to purchase 150,000 common shares of the Company, with an exercise price of $1.91 per share, expired without exercise;

(ii) the Company granted share options to a director and officer of the Company to purchase 800,000 common shares at an exercise price of $0.57 per share to expire on or before September 17,2016; and

(iii) the Company issued 257,200 common shares on the exercise of warrants for proceeds of $77,160.