NORTH AMERICAN TUNGSTEN CORPORATION LTD

UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED DECEMBER 31, 2010 AND 2009

NORTH AMERICAN TUNGSTEN CORPORATION LTD.
INTERIM CONSOLIDATED BALANCE SHEETS
AS AT DECEMBER 31, 2010 AND SEPTEMBER 30, 2010
UNAUDITED

(in thousands of dollars)	Note(s)	December 31, 2010	September 30, 2010
ASSETS			
Current assets			
Cash and cash equivalents	5	$ 540	$ 2,276
Accounts receivable	19 & 22	6,778	1,977
Inventories	6	5,999	2,259
Prepaid expenses		303	338
		13,620	6,850
Deferred royalty purchases	9	306	306
Investment in Tungsten Diversified Industries, LLC ("TDI")	7	6,030	6,268
Property, plant and equipment	8	20,492	17,484
Mineral properties - Mactung	9	15,011	14,882
Mineral properties - other		9	9
Reclamation deposits	12 & 16	4,228	4,128
		$ 59,696	$ 49,927
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities		$ 11,363	$ 7,146
Operating loan	10	68	-
Current portion of customer advances	11	2,852	2,958
Current portion of equipment loans	10	1,696	50
Current portion of Caterpillar Financial Services "CAT financial" loan facility	10	158	120
Current portion of capital leases	13	987	864
		17,124	11,138
Reclamation liabilities	12 & 16	4,016	3,979
Customer advances	11	4,382	5,017
Equipment loans	10	3,745	141
CAT financial loan facility	10	542	582
Capital leases	13	907	1,078
Billiton loan provision		239	235
Convertible debenture	15	2,693	-
Future income taxes		244	355
		33,892	22,525
SHARE CAPITAL AND DEFICIT			
Share capital	14	55,446	53,235
Equity component of convertible debenture	15	181	-
Contributed surplus	14	3,568	3,135
Deficit	14	(33,391)	(28,968)
		25,804	27,402
		$ 59,696	$ 49,927
Going concern	1		
Commitments and contingent liabilities	16 & 18		
Subsequent events	25		

ON BEHALF OF THE BOARD

"signed"
Stephen M. Leahy

"signed"
Bryce M. A. Porter

The accompanying notes are an integral part of these consolidated financial statements

NORTH AMERICAN TUNGSTEN CORPORATION LTD.
INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS, COMPREHENSIVE EARNINGS AND DEFICIT
FOR THE THREE MONTHS ENDED DECEMBER 31
UNAUDITED

(in thousands of dollars except for per share amounts)	Note(s)	2010	2009
REVENUES			
Sales	19 & 23	$ 7,370	$ 9,632
EXPENSES			
Minesite cost of sales		10,077	8,023
Freight, handling and conversion		167	688
Amortization and depreciation		413	230
Royalties		75	89
Accretion of reclamation liabilities	12	37	37
		10,769	9,067
Shut down/care and maintenance costs		-	1,357
General and administrative	20	711	502
Interest and financing costs		298	74
Equity loss of TDI	7	238	86
Stock based compensation	14	13	14
Exploration expense		23	70
Accretion of equity of convertible debenture	15	15	-
Gain on disposal of assets		-	(9)
Interest income		(11)	(8)
Foreign exchange loss (gain)		(152)	44
		11,904	11,197
NET LOSS BEFORE INCOME TAXES		(4,534)	(1,565)
Future income tax recovery		111	68
NET LOSS AND COMPREHENSIVE LOSS		$ (4,423)	$ (1,497)
DEFICIT-BEGINNING OF PERIOD		(28,968)	(17,031)
DEFICIT-END OF PERIOD		$ (33,391)	$ (18,528)
Net earnings/(loss) per share			
Basic		$ (0.02)	$ (0.01)
Diluted		$ (0.02)	$ (0.01)
Weighted average number of shares (in thousands)			
Basic		211,840	176,408
Diluted		211,840	176,408

NORTH AMERICAN TUNGSTEN CORPORATION LTD.
INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE THREE MONTHS ENDED DECEMBER 31
UNAUDITED

(in thousand of dollars)	Note(s)	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES			
Net loss		$ (4,423)	$ (1,497)
Items not affecting cash:			
Amortization and depreciation		413	230
Equity loss of TDI		238	86
Accretion of reclamation liabilities		37	37
Stock based compensation		13	14
Accretion on convertible debenture	15	15	-
Gain on disposal of assets		-	(9)
Foreign exchange on customer advances	11	(249)	-
Foreign exchange on convertible debenture	15	(66)	-
Future income tax recovery		(111)	(68)
		(4,133)	(1,207)
Change in non-cash working capital	21	(4,395)	1,090
Increase in reclamation deposits	16 a.	(100)	(17)
		(8,628)	(134)
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds on disposal of assets		-	9
Expenditure on Mactung development	21	(142)	(240)
Purchase of property, plant and equipment	21	(3,299)	(345)
		(3,441)	(576)
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of customer advances	11	(491)	-
Issuance of capital stock	14	2,631	3,046
Net decrease in capital lease obligations	13	(48)	(170)
Net increase (decrease) in equipment loan obligations	10	5,250	(44)
Net decrease in CAT financial loan facility	10	(2)	-
Convertible debentures	15	2,925	-
Operating loan borrowings net	10	68	(2,952)
		10,333	(120)
Decrease in cash and cash equivalents		(1,736)	(830)
Cash and cash equivalents beginning of period		2,276	1,328
Cash and cash equivalents, end of period		$ 540	$ 498
Represented by:			
Cash		$ 505	$ 463
Cash equivalents	5	35	35
		$ 540	$ 498
Non-cash working capital, investing and financing activities	21		

The accompanying notes are an integral part of these consolidated financial statements

1. Nature of operations and going concern:

North American Tungsten Corporation Ltd. (the "Company") is engaged in tungsten mining and related activities including acquisition, exploration, development and processing of ores and concentrates. The Company owns the Cantung mine in the Northwest Territories; the Mactung mineral property in the Yukon Territory; other tungsten exploration prospects; and, through its 43.2% interest in Tungsten Diversified Industries, LLC (See Note 7), has an interest in new and upgraded tungsten products.

While these consolidated financial statements have been prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP") and on the basis of accounting principles applicable to a going concern, which assumes that the Company will be able to continue operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of business, there are conditions and events that cast significant doubt on the validity of this assumption.

The Company re-started the Cantung mine in October 2010. For the three months ended December 31, 2010 the net loss was $4.4 million. Working capital was reduced to a negative $3.5 million. As described in Note 10, a waiver was obtained as at December 31, 2010 for a covenant breach relating to the HSBC Credit Facilities.

The Company's ability to continue as a going concern is dependent firstly upon its ability to achieve positive cash flows from the Cantung operations, which will require a successful ramp up of production to close to planned levels. Additional funding may be required for development and working capital. Eventual development of the Mactung project will require further major external funding. While there has been a major improvement in market prices for tungsten, there is no assurance that the Company will succeed in arranging all necessary finance and continuing support of its creditors.

If the going concern assumption were not appropriate for these financial statements, then adjustments would be necessary to the carrying values of assets and liabilities, the reported revenue and expenses and the balance sheet classifications used. The adjustments could be material.

2. Significant accounting policies:

Basis of Presentation

These unaudited interim consolidated financial statements have been prepared by the Company in accordance with Canadian GAAP consistent with those used in the preparation of the Company's audited consolidated financial statements for the year ended September 30, 2010. As these unaudited interim consolidated financial statements do not contain all of the disclosures required by Canadian GAAP, they should be read in conjunction with the notes to the Company's audited consolidated financial statements for the year ended September 30, 2010.

These consolidated financial statements include the accounts of North American Tungsten Corporation Ltd. and all of its subsidiaries. The significant subsidiaries are 100% owned and include Numbered Company incorporated in Delaware and International Carbitech Industries Inc. incorporated in British Columbia. All inter company balances and transactions have been eliminated on consolidation. The Company has a 43.2% interest in Tungsten Diversified Industries, LLC incorporated in Minnesota, USA.

In the opinion of Management, all adjustments necessary to present fairly the consolidated financial position as at December 31, 2010 and the consolidated results of operations, cash flows and comprehensive income for the three month period then ended December 31, 2010 have been made. These interim results are not necessarily indicative of the results for a full year.

Measurement uncertainty – specific items

These financial statements do not reflect the adjustments to the carrying values of assets and liabilities and the reported expenses and balance sheet classifications that would be necessary should these material measurement uncertainties prove to be inaccurate, and these adjustments could be material.

- The amounts recorded for depletion, depreciation, amortization and impairment of property, plant and equipment, for future site restoration costs and research, forecast tungsten prices and development costs depend on estimates of tungsten reserves or the economic lives and future cash flow from assets. The provision for future site restoration costs also depends on estimates of such costs.

- Costs that have been deferred in relation to mineral property interests and research and development have been deferred to the extent that they are expected to be recovered. The viability of exploration properties depends on market prices and the estimated tungsten grades. Recovery of development costs depends on estimates of cash flows from the resulting product or products.

3. New accounting pronouncements:

Business Combinations

CICA Handbook Section 1582, Business Combinations, which replaces CICA Handbook Section 1581, Business Combinations, establishes standards for the accounting for a business combination. It is the Canadian equivalent to International Financial Reporting Standards ("IFRS") IFRS 3R, Business Combinations. This standard is effective for the Company for interim and annual financial statements beginning on October 1, 2011. The Company has not yet determined the impact of the adoption of this change on its financial statements.

Consolidated Financial Statements and Non-controlling Interests

CICA Handbook Sections 1601, Consolidated Financial Statements and 1602, Non-controlling Interests replace CICA Handbook Section 1600, Consolidated Financial Statements. Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. Section 1602 is the equivalent to the corresponding provisions of IFRS IAS 27, Consolidated and Separate Financial Statements. These standards are effective for the Company for interim and annual financial statements beginning on October 1, 2011. The Company has not yet determined the impact of the adoption of these changes on its financial statements.

Comprehensive Revaluation of Assets and Liabilities

CICA Handbook Section 1625, Comprehensive Revaluation of Assets and Liabilities, has been amended as a result of issuing Sections 1582, 1601 and 1602. The amendments are effective for the Company for its interim and annual financial statements beginning on October 1, 2011. The Company has not yet determined the impact of the adoption of these changes on its financial statements.

Financial Instruments – Recognition and Measurement

CICA Handbook Section 3855 has been amended to clarify the application of the effective interest method after a debt instrument has been impaired and when an embedded prepayment option is separated from its host debt instrument for accounting purposes. These changes are effective for the Company for its interim and annual financial statements beginning on October 1, 2011. The Company has not yet determined the impact of the adoption of these changes on its financial statements.

4. Financial instruments:

a. Financial assets and financial liabilities

The Company has financial assets and liabilities which include cash and cash equivalents, reclamation deposits, accounts receivable, accounts payable, bank loans and obligations under capital leases, the carrying values of which approximate fair values.

b. Risk exposure and risk management

The Company is exposed in varying degrees to a variety of financial risks. The types of risk exposure and the way in which such exposure is managed is provided as follows:

i. Foreign Exchange Risk

The Company operates on an international basis and therefore, foreign exchange risk exposures arise from transactions denominated in a foreign currency. The foreign exchange risk arises primarily with respect to the US dollar. The cash flows from Canadian operations are exposed to foreign exchange risk as commodity sales are denominated in US dollars, and the majority of operating expenses are in Canadian dollars. For the three months ended December 31, 2010 with other variables unchanged a $0.01 strengthening (weakening) of the Canadian dollar against the US dollar would result in a decrease (increase) of $0.100 million on net earnings (2009 – a $0.01 decrease of $0.100 million on net earnings).

ii. Credit Risk

The Company is exposed to credit-related losses in the event of non-performance by counterparties to the financial instruments. Credit exposure is minimized by dealing with only credit worthy counterparties and by having Economic Development Canada ("EDC") insure the Company's receivables from its primary customers for up to 90% of the total outstanding amounts. Accounts receivable for three of the primary customers total $4.8 million as of December 31, 2010 ($nil as at September 30, 2010) all of which were current.

The maximum exposure of the Company to credit risk is represented by the amounts shown in the balance sheet for Cash and cash equivalents and accounts receivable. Cash and cash equivalents are deposited with a Tier-1, high credit quality financial institution, as determined by ratings agencies.

iii. Interest Rate Risk

The Company's interest rate risk mainly arises from the interest earned on cash and cash equivalents and floating rate interest paid on its debt. The interest rate management policy is generally to borrow at fixed rates to match the duration of the long lived assets. In some circumstances, floating rate funding may be used for short term borrowing. Cash and cash equivalents receive interest based on market rates.

At December 31, 2010, $35 thousand (September 30, 2010 $1.3 million) of guarantee investment certificates carried floating interest rate of under 1%. For financial liabilities, interest is payable on equipment loans and capital leases rates ranging from 4.75% to 16.58%. $5.4 million of the equipment loans carry rates of Bank Prime + from 1.75% to 3.75% (See Note 10).

As at December 31, 2010 and September 30, 2010, with other variables unchanged, a 1% change in the Bank of Canada rate would have an insignificant impact on net earnings.

iv. Liquidity Risk

The Company manages liquidity risk by maintaining adequate cash and cash equivalent balances, and by appropriately utilizing lines of credit. Management continuously monitors and reviews both actual and forecasted cash flows, and also matches the maturity profile of financial assets and liabilities. The Company ensures that there is sufficient capital in order to meet short term business requirements, after taking into account cash flows from operations and the Company's holdings of cash and bankers' acceptances. The Company's cash and cash equivalents are invested in business accounts and bankers' acceptances which are available on demand for the Company's programs and are not invested in any asset backed deposits or investments. Additional information regarding liquidity risk is disclosed in Note 1.

v. Commodity Price Risk

The value of the Company's mineral resource properties is related to the price of tungsten. The Company does not have any hedging or other commodity based risks respecting its operations.

Tungsten prices historically have fluctuated and are affected by numerous factors outside of the Company's control, including, but not limited to, supply and demand, forward sales by producers and traders, levels of worldwide production and short-term changes in supply and demand. The profitability of the Company's operations is highly correlated to the market price of tungsten. If the metal price declines for a prolonged period below the cost of production of the Company's mine, it may not be economically feasible to continue operations.

5. Cash and cash equivalents:

Cash and cash equivalents include $35 thousand (September 30, 2010 - $1.3 million) in bankers acceptances carrying an interest of under 1%.

6. Inventories :

(in thousands of dollars)	December 31, 2010	September 30, 2010
Concentrates	$ 3,474	$ -
Materials and supplies	2,525	2,259
	$ 5,999	$ 2,259

During the period ended December 31, 2010 concentrates were valued at their net realizable value, which resulted in a charge to mine site costs of sales of $752 thousand.

7. Investment in Tungsten Diversified Industries, LLC:

On December 9, 2008 of Tungsten Diversified Industries, LLC ("TDI") the Company's interest was diluted from 100% to 43.2%. The remaining 56.8% is held by Tundra Particle Technologies, LLC ("TPT") (43.2%) and Queenwood Capital Partners LLC ("Queenwood") (13.6%). The Company's interest in TDI is accounted for as an equity accounted investment.

The Company's net investment in TDI is as follows:

Balance - September 30, 2010	$	6,268
Share of losses		(238)
Balance - December 31, 2010	$	6,030

Sales to TDI of intermediates for the three months ended December 31, 2010 were $nil (2009 - $0.1 million).

8. Property, plant and equipment:

Property, plant and equipment include mining costs that relate to certain access drifts and roadways.

(in thousands of dollars)		Cost		Accumulated Amortization		December 31, 2010 Net
Property, plant and equipment	$	51,818	$	(31,326)	$	20,492

		Cost		Accumulated Amortization		September 30, 2010 Net
Property, plant and equipment	$	48,402	$	(30,918)	$	17,484

9. Mactung and deferred royalty purchases:

The following table summarizes the Company's interest in Mactung as at December 31, 2010 and September 30, 2010.

(in thousands of dollars)		
Balance September 30, 2010	$	14,882
Expenditures during the period		129
Balance December 31, 2010	$	15,011

The Mactung mineral leases, located on the border of the Yukon Territory and the Northwest Territories, are held under various mineral lease agreements and claims.

On January 31, 2005 the Company entered into an Amended Royalty Agreement on the Mactung Property with Teck Resources Limited ("Teck"). For $100 thousand Teck granted the Company an option (the "Option") to reduce the Mactung Royalty from a 4% net smelter return ("NSR") to a 1% NSR, such Option to be exercisable by the Company upon:

Paying to Teck an additional $1.0 million by the earlier of:

- March 30, 2015; and
- 60 days after the receipt of a water license issued in connection with any proposed development of the properties (as such term is defined in the Mactung Royalty Agreement) for mineral production.

As the Company did not exercise the Option by March 30, 2010, it paid $200 thousand to Teck to maintain the Option.

The $300 thousand paid by the Company has been treated as a deferred royalty and will be amortized over the life of the mine once the Mactung property is brought into production. The balance at December 31, 2010 was $300 thousand (September 30, 2010 - $300 thousand).

A similar payment of $125 thousand was made to reduce the Cantung mine royalty from 4% to 1% and the payment is being amortized over the remaining life of the Cantung mine. The balance at December 31, 2010 was $6 thousand (September 30, 2010 - $6 thousand).

10. Bank loan and other credit facilities:

Significant changes in our bank loan and other credit facilities from that disclosed in the September 30, 2010 annual consolidated financial statements are as follows:

HSBC Bank Canada facilities

In September, 2010, the Company renewed and increased its credit facilities with HSBC Bank Canada (the "Bank").

As part of the credit facilities the Company and the bank entered into a general security agreement over the Company's assets.

Balance sheet ratios originally covenanted with the Bank were not achieved; however, the Bank permitted the default. The loan facilities were continued and amended until December 31, 2010. The original covenants were reinstated for the periodic reviews thereafter.

Operating loan

The operating loan facility is CDN$8.0 million (2009 – CDN$6.0 million). Drawings against the facility may be in U.S. dollars or Canadian dollars, subject to a $5-million (U.S.) maximum. The borrowing base is based on a percentage of trade accounts receivable and product inventory. The loan is supported by the Accounts Receivable Insurance and Foreign Inventory Guarantee Program of Export Development Canada ("EDC"). The loan carries an interest rate of bank prime + 2% per annum.

As at December 31, 2010 CDN$68 thousand had been drawn under the operating loan.

Demand non-revolving equipment loans

The Company renewed its three outstanding equipments loans, in the principal amounts of $132,008; $149,008; $203,350. Interest on these loans range from Bank's Prime Rate plus 1.75% to Bank's Prime Rate plus 2.25%.

As at December 31, 2010 the outstanding equipment loan principal balances were $88,646; $128,093 and $178,450.

The Company entered into an agreement for a new "fourth" equipment loan for CDN$3.5 million, the loan was fully advanced on October 7, 2010. The loan carries an interest rate of Bank's Prime Rate + 3.75%; interest only is payable for the first six months; and then monthly payments of $130,065 will commence on April 30, 2011 for thirty months.

The Company entered into an agreement for a "fifth" equipment loan for CDN$3.5 million. The loan carries an interest rate of the Bank's Prime Rate + 3.75%; interest only is payable for the first six months; amortization period is 30 months after the initial interest only first six months. As of December 31, 2010 the Company has drawn CDN$1.5 million under this facility.

On February 2, 2011 the Company drew $351 thousand against the fifth equipment loan.

Interest in the amount of $47 thousand was paid on the equipment loans for the three months ended December 31, 2010 ($5 thousand – 2009)

The Company's bank credit facilities contain the following covenants:

- debt to net tangible net worth ratio of 3.5:1:00 from October 1, 2010 till December 31, 2010; 3.0:1.00 - from January 1, 2011 till March 31, 2011; and 2.5:1.0 from April 1, 2011 thereafter;
- a current assets to current liabilities ratio of 0.75:1.00 from October 1, 2010 to September 30, 2011; achieve a ratio of 1.10:1.00 by December 31, 2011

The Company has acknowledged a breach of the net tangible worth ratio as at December 31, 2010; however, the bank has agreed it will not take steps to act on the default, provided the Company is compliant by March 31, 2011.

The credit facilities are subject to periodic review by the Bank.

Caterpillar Financial Services Corporation loan facility

The Company entered into an agreement with Caterpillar Financial Services Corporation ("CAT Financial") for a loan facility in the amount of US$2,785,560 for a 48 month term with an interest rate of 8.50% per annum (the Cat Financial facility) to acquire power generation, heat recovery equipment and electrical control systems in the amount $3,481,950. The agreement required a deposit of $696,390 which was paid in September 2010. In September 2010 the Company received the first piece of equipment and borrowed $700,840 (US$678,294) against the CAT Financial facility. The facility is secured by the financed equipment. The balance of the loan facility in the amount of CDN$2,084,720 will be advanced in the second quarter of the Company's 2011 fiscal year. Interest in the amount of $15 thousand was paid on the loan facility for the three months ended December 31, 2010.

11. Customer advances:

During the year ended September 30, 2010 the Company received financing advances totaling $7.975 million (US$7.75 million). The Company repaid $0.5 million of the advances net of a foreign exchange gain of $0.25 million during the three month period ended December 31, 2010. The balance outstanding as of December 31, 2010 is $7.234 million of which $2.852 million is included in current liabilities. The outstanding balance of the advances is repayable over terms up to 33 months. US$3.75 million is secured by a letter of credit which is guaranteed by a related party. (See Notes 16, 22 and 25)

12. Reclamation liabilities:

The Company's total undiscounted amount of estimated cash flows required to settle the mine reclamation obligation is $4.2 million (September 30, 2010 - $4.2 million) which has been discounted using credit adjusted risk free rates of 1% to 4% (September 30, 2010 1%–4%).

(in thousands of dollars)	December 31, 2010	September 30, 2010
Opening balance, asset retirement obligation	$ 3,979	$ 3,780
Accretion during the period	37	199
Closing asset retirement obligation	$ 4,016	$ 3,979

Deposits of $4.2 million in cash and $7.5 million in the form of secured promissory notes are held in escrow to secure mine reclamation obligations under the water license for the Cantung mine issued by the Mackenzie Valley Land and Water Board. (See Note 16)

13. Capital leases:

The maturity dates of the capital leases range from August 2011 to August 2014 with interest rates ranging from 6.4% to 16.58%. See Note 16 for details of payments over the next 4 years.

Interest in the amount of $19 thousand was paid on capital leases for the three months ended December 31, 2010 ($23 thousand - 2009).

14. Share capital:

a. Capital stock

An unlimited number of common shares without par value are authorized.

Issued	Number of Shares	Consideration (in thousands of dollars)
September 30, 2010	206,790,058	$ 53,235
Exercise of options	33,000	5
Private placement	7,000,000	2,660
Warrant issuance		(427)
Share issue costs		(29)
Reallocation of fair value related to options exercised		2
December 31, 2010	213,823,058	$ 55,446

b. Private placement

On October 27, 2010 the Company closed a non-brokered private placement of 7,000,000 units at a price of $0.38 per unit for proceeds of $2.66 million. Each unit consists of one common share and two-sevenths of a share purchase warrant. Each whole share purchase warrant is exercisable at a price of $1.00 into one common share expiring on October 27, 2015.

The warrants were valued using the following assumptions:

- Risk free interest rate of 2.53%
- Dividend yield of 0%
- Expected volatility of 98.78%
- Expected warrant life of 5 years

No. of Warrants Outstanding as of Sept. 30, 2010	Granted	Exercised	Expired	No. of Warrants Outstanding as of December 31, 2010	Exercise Price	Expiry Date	Warrants Exercisable
-	2,000,000	-	-	2,000,000	$1.00	27-Oct-15	2,000,000
-	2,000,000	-	-	2,000,000			2,000,000

c. Shareholders' equity

(in thousands of dollars)	Capital Stock	Convertible Debenture	Contributed Surplus	Deficit	Total
September 30, 2010	$ 53,235	$ -	$ 3,135	$ (28,968)	$ 27,402
Stock compensation	-	-	13	-	13
Exercise of stock options	5	-	-	-	5
Reallocation of contributed surplus related to options exercised	2	-	(2)	-	-
Private placement	2,660	-	-	-	2,660
Equity component of convertible debenture	-	181	-	-	181
Warrant issuance	(427)	-	427	-	-
Share issue costs	(29)	-	(5)	-	(34)
Net loss	-	-	-	(4,423)	(4,423)
December 31, 2010	$ 55,446	$ 181	$ 3,568	$ (33,391)	$ 25,804

d. Stock option plan

The Company has a rolling Stock Option Plan which reserves up to a maximum of 10% of the issued and outstanding shares for the granting of options to eligible participants. The Option Plan provides that the Company's Board of Directors may from time to time grant Options to acquire Common Shares to any participant who is an employee, officer or director of the Company or a consultant to the Company. The total number of Common Shares that may be reserved for issuance to any one participant pursuant to options granted under the Option Plan may not exceed 5% of the issued and outstanding shares of the Company on the date of the grant of the Options in any twelve month period. The maximum number of options granted to any one consultant may not exceed 2% of the issued and outstanding shares of the Company on the date of the grant of the options in any twelve month period and the options granted to persons employed to provide investor relation services may not exceed 2% of the issued and outstanding shares of the Company on the date of grant of the options in any 12 month period. No more than an aggregate of 10% of the issued shares of the Corporation, within any 12 month period may be granted to Insiders; unless the Corporation has received disinterested shareholder approval. The options may not be granted at prices that are less than the Discounted Market Price as defined in the TSX Venture Exchange policy. Each option is exercisable, subject to vesting terms as may be determined by the Board, into one common share of the Company.

During the three month period ended December 31, 2010 the Company granted nil options.

During the three month period ended December 31, 2009 the Company granted:

- 575,000 options with a strike price of $0.15 were granted to employees and consultants. The option valuation for the issue was calculated using the Black-Scholes option pricing model based on an average expected option life of 1.5 years, a dividend yield of 0%, a risk free interest rate of 0.97%, and an expected volatility of 113%.

Option pricing models require the input of highly subjective assumptions including the expected price volatility and expected life. Changes in the subjective input assumptions can materially affect the fair value estimate, and therefore the existing models do not necessarily provide a reliable single measure of the fair value of the Company's stock options at the date of grant.

No. of Options Outstanding as of September 30, 2010	Exercised	Granted	Forfeited or Expired	No. of Options Outstanding as of December 31, 2010	Exercise Price	Expiry Date	Options Exercisable
80,000	-	-	(80,000)	-	$1.15	9-Nov-10	-
200,000	-	-	-	200,000	$1.76	31-Jan-11	200,000
50,000	-	-	-	50,000	$0.70	27-Oct-11	50,000
1,106,700	-	-	(25,000)	1,081,700	$1.25	19-Mar-12	1,081,700
75,000	-	-	-	75,000	$1.28	14-Jun-12	75,000
33,334	-	-	(33,334)	-	$1.24	27-May-13	-
508,332	(33,000)	-	(332)	475,000	$0.15	19-Oct-14	475,000
1,650,000	-	-	-	1,650,000	$0.19	1-Feb-15	1,100,006
3,703,366	(33,000)	-	(138,666)	3,531,700			2,981,706

Subsequent to the period ended December 31, 2010 – 200,000 options expired without exercise, and 240,000 were granted to an employee with a strike price of $0.41, expiring on January 5, 2016.

The outstanding options have a weighted-average exercise price of $0.63 and the weighted-average remaining life of the options is 2.84 years.

15. Convertible Debenture:

On October 28, 2010 the Company issued US Dollar Convertible Debentures (“debentures”) in the principal amount of US$2.87 million (CDN$2.93 million) for a three year term. The interest rate on the outstanding debt portion is fixed at 10% per annum compounded quarterly. Each US$1,000 principal is convertible into 2,267 common shares at the option of the holder. The debentures are secured by a general security agreement that has been subordinated to the Company’s senior indebtedness.

The debentures have been classified into their debt and equity components using the credit adjusted rate. The carrying amount of the financial liability is first determined by discounting the stream of future principal and interest payments at the rate of interest (12.5%) prevailing at the date of issue for instruments of similar term and risk. The equity component equals the amount determined by deducting from the carrying amount of the compound instrument the amount of the debt component. For accounting purposes, the debt component was assigned a value of $2.744 million (US$2.693 million) and the conversion rights were assigned a value of $0.181 million (US$0.177 million).

Interest expense on the debentures is composed of the interest calculated on the face value of the debentures which amounted to $50 thousand at December 31, 2010, and an annual notional interest representing the accretion of the carrying value of the debentures. For the three months ended December 31, 2010, interest expense and notional interest recorded were $50 thousand and $15 thousand respectively.

Five directors participated directly and indirectly in the debenture financing for a total principal amount of US$1.37 million. (See Note 22)

16. Commitments:

(in thousands of dollars)	Payments due in years ended September 30,					
Contractual Obligations	2011	2012	2013	2014	2015	TOTAL
Mactung leases	$ 5	$ 8	$ 8	$ 8	$ 8	$ 37
Cantung leases	43	43	43	43	43	215
Customer Advances	2,385	1,865	2,984			7,234
Equipment loans	1,696	2,114	1,602	29	-	5,441
Capital leases	987	587	319	1	-	1,894
CAT loan	158	171	186	185	-	700
Office leases[1]	180	214	-	-	-	394
	$ 5,454	$ 5,002	$ 5,142	$ 266	$ 51	$ 15,915

[1] - Including estimates of operating cost components.

See Note 16 (a) for obligations under the water license

Purchase Commitments

The Company has entered into agreements to purchase equipment for its CanTung Mine in the total amount of $3.2 million (See Note 10).

a. Water license

On January 29, 2009 the Company received notification from the Mackenzie Valley Land and Water Board ("MVLWB") of the renewal of the Company's type "A" Water License ("license"). The license was approved for a period of five (5) years commencing January 30, 2009 and expiring January 29, 2014.

The security deposit required under the Company's license is $11,677,839, of which the Company has posted $4.2 million in cash and $7.5 million in the form of secured promissory notes pursuant to the Reclamation Security Agreement ("RSA"). The RSA further provides for:

- the Company to post $100,000 in cash commencing in 2010 on the 1st of September, 1st of December, 1st of March, and 1st of June (1st payment made on the 1st of September), to reduce the amounts pledged under the promissory notes until $nil is outstanding under the promissory notes;
- the cash components payable to Department of Indian and Northern Affairs ("DIAND") to increase under certain events.

Any security amounts owing under the license and monies owed by way of secured promissory notes are secured by a Security Agreement charging specific assets.
Any funds in excess of ultimate reclamation costs will be returned to the Company.

During the three months ended December 31, 2010 the Company posted $100,000 of cash and reduced the posted secured promissory notes by $100,000.

b. Smelter royalties

The Cantung Mine is subject to a 1% net smelter royalty payable to Teck.

c. Mactung option

The Company is committed to payments to keep its option agreement in good standing as disclosed in Note 9.

17. Capital management:

The Company defines its capital as shareholders' equity, consisting of share capital, equity portion of convertible debentures, contributed surplus and retained earnings. The Company's objectives when managing its capital are:

- to ensure that the Company will be able to continue as a going concern;
- to ensure compliance with debt covenants; and
- to maximize the return to shareholders.

To assist in the management of the Company's capital, the Company prepares an annual budget, which is approved by the Board of Directors. Actual results are reviewed against the budget monthly. The Company may adjust its capital structure by issuing new shares, issuing new debt with different characteristics to replace existing debt, selling assets to reduce debt and reducing operating and capital expenditure levels.

Additional information regarding capital management is disclosed in Note 1.

18. Contingencies:

Pursuant to agreements with officers, in the event of their contracts being terminated, the Company would be liable for payments totaling $1.4 million (2009 - $1.3 million).

Pursuant to contracts with directors, in the event of a change in control of the Company, the Company would be liable for payments totaling $0.4 million (2009 - $0.45 million).

19. Sales and economic dependence:

The Company sells tungsten concentrates together with smaller quantities of copper concentrates and some tungsten intermediate products.

Sales to four customers accounted for 100% of sales made in the three months ended December 31, 2010 (2009 – 100% to six customers).

As at December 31, 2010 $4.8 million in receivables was due from three customers. (September 30, 2010 - $1.3 million was due from one customer). See Notes 7 and 22 for sales to TDI and receivables from TDI.

20. General and administrative costs:

	For the three months ended December 31,	
(in thousands of dollars)	2010	2009
GENERAL AND ADMINISTRATIVE		
Fees, wages and benefits	$ 312	$ 296
Office expenses	111	91
Accounting and audit	30	36
Legal fees	67	-
Investor relations, travel and business development	59	56
Consulting	128	23
Filing fees and transfer agent fees	4	-
	$ 711	$ 502

21. Supplemental cash flow:

(in thousands of dollars)	For the three months ended December 31, 2010	For the three months ended December 31, 2009
Changes in non-cash working capital		
Accounts receivable	$ (4,801)	$ (1,122)
Prepaid expenses	35	93
Accounts payable and accrued liabilities	4,111	(4,269)
Inventories	(3,740)	6,388
Change in non-cash working capital	$ (4,395)	$ 1,090
Interest paid	$ 298	$ 74
Changes in other non-cash investing and financing activities:		
Expenditures on property plant and equipment financed through accounts payable and accrued liabilities	$ 2,271	$ 266
Expenditures on Mactung development financed through accounts payable and accrued liabilities	$ 148	$ -

22. Related party transactions:

An entity in which a director of the Company has an interest directly owns 13.6% of the TDI membership units and, through its interest in TPT, indirectly owns a further 8.1% of the TDI membership units. A director through his interest in TPT owns 35.1% of the TDI membership units. (See Note 7).

Accounts receivable as at December 31, 2010 include $1.3 million (September 30, 2010 - $1.3 million) due from TDI. Sales to TDI were $nil for the three months ended December 31, 2010 (2009 – $0.1 million).

A director of the Company provided a guarantee for the issuance of a letter of credit for a fee of 10% per annum of the outstanding face amount of the letter of credit. For the three months ended December 31, 2010 the Company paid $94 thousand for the guarantee. (See Notes 11 & 25)

Directors of the Company participated directly and indirectly in the US$2.87 million convertible debenture financing as to US$1.37 million. (See Note 15)

23. Segmented information:

The Company operates in the single business segment of tungsten mining and processing. Copper production is a by-product of that segment.

The geographical distribution of the Company's sales revenue is as follows:

SALES: (in thousands of dollars)	For the three months ended December 31, 2010	For the three months ended December 31, 2009
TUNGSTEN:		
North America	$ 340	$ 2,077
Asia	4,671	6,803
Europe	2,359	-
	7,370	8,880
COPPER:		
Europe	-	752
TOTAL	$ 7,370	$ 9,632

24. Comparative Figures:

Certain prior period balances have been reclassified to conform to the current financial statement presentation.

25. Subsequent events:

Subsequent to December 31, 2010:

The letter of credit posted as security for a customer advance, guaranteed by a related party (See Notes 11 & 22) was reduced to US$3.28 million from US$3.75 million.