NORTH AMERICAN TUNGSTEN CORPORATION LTD

# MANAGEMENT DISCUSSION AND ANALYSIS

FOR THE QUARTER ENDED:

DECEMBER 31, 2010

REPORT DATED: MARCH 1, 2011

*This discussion and analysis of financial position and results of operations of North American Tungsten Corporation Ltd., the "Management Discussion and Analysis" (MD&A), is prepared as of March 1, 2011,* and should be read in conjunction with the unaudited interim consolidated financial statements for the period ended December 31, 2010 and the audited consolidated financial statements for the year ended September 30, 2010. This MD&A reviews the business of North American Tungsten Corporation Ltd. and compares the Company's financial results for the quarter ended December 31, 2010 (Q1 2011) with those of the quarter ended December 31, 2009 (Q1 2010). In this discussion, unless the context otherwise dictates, a reference to North American Tungsten, NATC, or the Company refers to North American Tungsten Corporation Ltd. and its subsidiaries. Additional information relating to the Company including its Annual Information Filing is available on SEDAR at www.sedar.com.

**Caution on Forward-Looking Information**

This MD&A contains "forward-looking statements" within the meaning of the United States Private Securities Litigation Reform Act of 1995 and forward-looking information within the meaning of applicable Canadian securities laws concerning the Corporation's anticipated results and developments in the Corporation's operations in future periods, planned exploration and development of its properties, plans related to its business and other matters that may occur in the future, made as of the date of this MD&A.

Forward-looking statements may include, but are not limited to, statements with respect to future remediation and reclamation activities, future mineral exploration, the estimation of mineral reserves and mineral resources, the realization of mineral reserve and mineral resource estimates, the timing of activities and the amount of estimated revenues and expenses, the success of exploration activities, permitting time lines, the success of mine development and construction activities, the success of future mine operations, the success of other future business operations, requirements for additional capital and sources and uses of funds. Any statements that express or involve discussions with respect to predictions, expectations, beliefs, plans, projections, objectives, assumptions or future events or performance (often, but not always, using words or phrases such as "expects", "anticipates", "plans", "estimates", "intends", "strategy", "goals", "objectives" or stating that certain actions, events or results "may", "could", "would", "might" or "will" be taken, occur or be achieved, or the negative of any of these terms and similar expressions) are not statements of historical fact and may be "forward-looking statements".

Forward-looking statements are subject to a variety of known and unknown risks, uncertainties and other factors which could cause actual events or results to differ from those expressed or implied by the forward-looking statements. Such factors include, among others, risks related to actual results of exploration activities; actual results of remediation and reclamation activities; conclusions of economic evaluations; changes in project parameters as plans continue to be refined; future prices of gold, silver and other commodities; possible variations in ore reserves, grade or recovery rates; failure of plant, equipment or processes to operate as anticipated; accidents, labour disputes and other risks of the mining industry; and delays in obtaining governmental approvals or financing or in the completion of development activities. Furthermore, forward-looking statements are statements about the future and are inherently uncertain, and actual achievements of the Corporation or other future events or conditions may differ materially from those reflected in the forward-looking statements due to a variety of risks, uncertainties and other factors, including but not limited to those referred to in this MD&A under the heading "Risk Factors" and elsewhere.

*A glossary of terms is affixed*

**BUSINESS OVERVIEW**

Against the background of a global supply shortfall for tungsten concentrates that has led to record high prices, the Company is making every effort to ramp-up production at its Cantung mine. Operations resumed in October, but target production levels have not yet been met, resulting in initial losses. Poor condition and availability of mining and transportation equipment underground have been critical. New equipment is to be delivered shortly. Improvements are resulting also from management changes and on the job training of new workers.

**Some specific highlights:**

**-Tungsten prices continue to reach record levels**
The MB European quotation for APT (from which concentrate prices are derived by varying formulae) has risen to US$370.00/MTU based on a range of (US$368-372). That average has risen 98% from a monthly low of US$186.50/MTU in July 2009. The September 2010 closing average price was US$250.22/MTU.

**-Cantung resumes operations**
As a result of near sold out production and record setting quoted tungsten prices, the Cantung mine re-started operations on October 7, 2010.

**-Cantung production below plan**
Due to development delays and poor under ground equipment availability, concentrate production in this initial re-start quarter was significantly below plan due to a short fall in tons mined, grade and mill recovery negatively impacting cash flows. The net loss for the quarter was $4.4 million and the cash drain from operating activities was $4.1 million. Production was 52,972 mtus of tungsten concentrates comprised of 42,131 of gravity concentrate and 10,841 mtus of flotation concentrates. The Company has ordered new mining equipment scheduled for delivery by March 31, 2011.

**-Strong demand for tungsten is expected to continue**
The International Monetary Fund ("IMF") expects global growth of 4.8% in calendar 2010 and 4.2% in calendar 2011. For China, growth is projected to be 10.5% in 2010 and 9.6% in 2011. Historically, China has been a major supply factor in the tungsten market but is now using its production internally while its imports are rising. Production of western mines is materially less than western demand.

**-Financing**
On October 27, 2010 the Company closed a non-brokered private placement for proceeds of CDN$2,660,000. On October 29, 2010 the Company closed a US$2,870,000 10% convertible debenture.

**-Updated 43-101 Compliant Technical Report**
On February 9, 2011 the Company released an updated 43-101 compliant technical report on the Cantung Mine. The Company has increased its probable minerals reserves to an estimated 1.693 million tons grading 1.17% WO3 as of October , 2010; indicated mineral resources are estimated at 2.45 million tons grading 1.11% WO3 and inferred mineral resources are estimated at 0.43 million tons grading 0.84% WO3.

## DESCRIPTION OF BUSINESS

North American Tungsten Corporation Ltd. is engaged in tungsten mining and related activities which includes the acquisition, exploration, development and processing of ores and concentrates. The Company owns the Cantung mine in the Northwest Territories; the Mactung mineral property on the border of the Yukon Territory and the Northwest Territories; other tungsten exploration prospects; and has a 43.2% interest in Tungsten Diversified Industries, LLC ("TDI") which has a tungsten processing facility in Minnesota, USA.

Through the TDI investment, the Company is involved in the production and marketing of tungsten composites, a business that has potential for considerable growth. Replacement of lead in various uses, for safety and environmental reasons, will be amongst the growing uses for tungsten composites.

## OVERALL PERFORMANCE

### *Mactung*

The Company continues to consider an update of the feasibility study for the proposed 2,000 tonne per day mining operation at Mactung. The new study could include an open pit as well as the underground mining that formed the basis of the original feasibility study published in February 2009.

The Company has received a request for supplementary information from the Yukon Environmental and Socio-economic Assessment Board (YESAB) on the Mactung Project Proposal pursuant to the Yukon Environmental and Socio-economic Assessment Act (YESAA). This step follows the review of comments on the proposal from the public, regulatory agencies and other interested parties. The supplementary information has been submitted by the Company and the project proposal will now proceed through the Screening phase, which will include one more public comment period. This phase will result in recommendations by YESAB. The assessment process then terminates with a Final Report by YESAB. The recommendations in the Final Report will be considered by the regulatory agencies when drafting permits. Subsequent steps in the process would be the acquisition of permits from the Yukon Government regulatory authorities, including the Quartz Mining License and Type A and Type B Water Permits, followed by project construction.

Leading up to the submission of the YESAB application, the Company had completed at monthly intervals 1 year of water quality monitoring of the surface and ground water in and around the Mactung property. During 2010, the Company continued the water sampling program, and will have accumulated 2 years of data as of January 2011. This data will be available to the Yukon regulatory agencies as required under the permitting process for the issuance of the Type A and B Water Licenses and the Quartz Mining License required commencing construction and operations at Mactung.

The Yukon Territorial Government has issued a class IV mining land use permit (#LQ00253) to allow continuing exploration and development of the Mactung property. The permit includes road construction and underground development.

### Mine Operations

The Cantung mine, located on the western border of the Northwest Territories, is the Company's sole mining operation. Production of tungsten concentrates from the mine commenced on October 7, 2010. Production of concentrates was significantly below plan as a result of shortfalls in tons of ore mined due in part to delays in mobilization of the development contractor coupled with development footage shortfalls by the contractor on the 3600 level of the mine. Mine production tonnage was also significantly negatively impacted by poor availability of key remote scoop tram units thereby reducing tons of ore mucked and delivered to the mill. Mine ore grades of 1.03% $WO_3$ were also below plan. The mill also experienced high levels of mechanical down time which in turn impacted process efficiencies and recovery. The Company has purchased new under ground mining equipment which is expected to be delivered prior to March 31, 2011. Additional manpower resources were secured and additional new equipment purchased and installed to improve the mechanical condition and availability in the mill. The Company continues to work with its key mining contractor to increase productivity, development footage and tons of ore mined.

These production shortfalls have had a significant impact on the Company's earnings and cash flows; the net loss for Q1 2011 was $4.4 million and cash flow losses from operations were $4.1 million prior to changes in non-cash working capital and increase in reclamation deposit. The over all cash drain in the quarter was $1.7 million.

Production of copper concentrates commenced on December 12, 2010. During this initial re-start quarter, Q1 2011 production was 52,972 mtus of tungsten concentrates comprised of 42,131 of gravity concentrate and 10,841 mtus of flotation concentrates compared to a partial quarter of production for Q1 2010 of 12,263 mtus. Tons milled for Q1 2011 were 78,943 at a grade of 1.03% $WO_3$ compared to Q1 2010 production of 21,421 tons (for 18 days of operations) grading 0.92% $WO_3$. Recovery for Q1 2011 was 72.13% compared to 68.9% in Q1 2010.

An updated Technical Report on the Cantung mine was filed on February 9, 2011 and is available under the Company's profile at www.sedar.com.

The updated Mineral Reserves and Mineral Resources as of October 1, 2010 are summarized in Tables 1-1, 1-3 and 1-4.

**TABLE 1-1 CANTUNG PROBABLE MINERAL RESERVES**

| Zone | Tons | Grade ($WO_3$ %) | STU'S |
|---|---|---|---|
| West Extension 3600 Area | 553,432 | 1.47 | 813,650 |
| E Zone Pillars | 541,860 | 1.00 | 539,701 |
| Pit Underground | 598,162 | 1.05 | 627,986 |
| **TOTAL Probable Reserves** | **1,693,454** | **1.17** | **1,981,337** |

*Notes:*
1. *Mineral Reserves conform to CIM and NI43-101 requirements.*
2. *All Mineral Reserves are classified as Probable.*
3. *Mineral Reserves are estimated at a cutoff grade of 0.80% $WO_3$.*
4. *A minimum mining width of 15 feet was used.*
5. *The E Zone Pillars include the West Extension, E-Zone, Main Zone Pillars.*

**TABLE 1-3 CANTUNG INDICATED MINERAL RESOURCES**

| Zone | Tons | Grade ($WO_3$%) | STU'S |
|---|---|---|---|
| West Extension Below 3700el | 344,485 | 1.49 | 513,283 |
| West Extension Below 3570el | 305,324 | 1.46 | 445,773 |
| West Extension | 115,601 | 1.20 | 138,652 |
| E-Zone | 24,183 | 1.97 | 47,738 |
| Main Zone Pillars | 387,448 | 1.27 | 491,461 |
| Central Flats | 6,198 | 1.07 | 6,646 |
| South Flats | 38,990 | 1.64 | 64,079 |
| Pit/PUG | 1,230,580 | 0.83 | 1,021,381 |
| **TOTAL Indicated Resources** | **2,452,809** | **1.11** | **2,729,013** |

Notes:
1. Mineral Resources conform to CIM and NI43-101 requirements.
2. Mineral Resources are estimated at a cutoff grade of 0.5% $WO_3$ for underground as well as Pit and PUG
3. All Mineral Resources are listed as Indicated
4. Pit/PUG refers to Pit Underground
5. *The E Zone Pillars include the West Extension, E-Zone, Main Zone Pillars.*

**TABLE 1-4 CANTUNG INFERRED MINERAL RESOURCES**

| Zone | Tons | Grade ($WO_3$%) | STU'S |
|---|---|---|---|
| West Extension Below 3700el | 571 | 0.92 | 525 |
| West Extension Below 3700el | 15,371 | 1.15 | 17,677 |
| Pit/PUG | 417,323 | 0.83 | 346,378 |
| **TOTAL Inferred Resources** | **433,265** | **0.84** | **364,580** |

Notes:
1. Mineral Resources conform to CIM and NI43-101 requirements.
2. Mineral Resources are estimated at a cutoff grade of 0.5% $WO_3$ for underground as well as Pit and PUG
3. All Mineral Resources are listed as Inferred
4. Pit/PUG refers to Pit Underground
5. The E Zone Pillars include the West Extension, E-Zone, Main Zone Pillars.

***Markets and Foreign Exchange***

Since January 2010, there has been a strong upwards trend in the tungsten market with tungsten prices reaching record levels.

The Metal Bulletin average monthly European quotation for APT per mtu increased 68% to US $332.06/mtu at December 31, 2010 from US $197.50/mtu at December 31, 2009. Tungsten prices have now reached several historic highs as the current APT average quotation is US $370.00 on a range of US $368 to US $372. That average has risen 98% from a monthly low of US$186.50/MTU in July 2009.

The US dollar closing rate at December 31 was US$0.9946. The exchange rates applicable to sales averaged one Canadian dollar per US$0.9900 of sales in Q1 2011 (as compared to US$0.9470 in Q1 2010). The net exchange gain of $0.15 million recorded in Q1 2011 arose primarily on translation of US currency denominated loans and deposits offset by losses of US denominated accounts receivable compared to a net foreign exchange loss of $44 thousand in Q1 2010.

| APT European Metal Bulletin Prices | 2005 December | 2006 December | 2007 December | 2008 December | 2009 December | 2010 December |
|---|---|---|---|---|---|---|
| Average Quarterly Prices | | | | | | |
| APT European Free Market Average $US | $ 263 | $ 252 | $ 241 | $ 246 | $ 198 | $ 299 |

## FINANCIAL REVIEW

Significant production shortfalls resulted in a net loss for Q1 2011 of $4.4 million compared to a net loss of $1.5 million for Q1 2010. The resulting cash flows from operating were negative $4.1 million and the overall cash drain in the quarter was $1.7 million. The adverse results reflect lower sales volumes during the ramp period subsequent to the Cantung mine being placed on shut-down and care and maintenance for a one year period. Shut down/care and maintenance costs were nil in Q1 2011 compared to $1.4 million in Q1 2010. The Q1 2011 earnings included a $.24 million equity loss of TDI compared to an $86 thousand equity loss in Q1 2010.

The gross margin on sales decreased in Q1 2011 due to higher unit production costs in Q1 2011 of $255.81/mtu compared to $149.82/ in Q1 2010 associated with lower mine production volumes and the effects of the increased exchange value of the Canadian currency. Minesite cost of sales includes a charge of $0.75 million to adjust concentrate inventories to market value during this production ramp up period. The gross margin decreased from $0.8 million in Q1 2010 to negative $3.0 million in Q1 2011.

| | 3 Months Ended 31-Dec-10 | 3 Months Ended 31-Dec-09 |
|---|---|---|
| **Gross Margin ($ 000'S)** | | |
| Tungsten & copper sales | $ 7,370 | $ 9,632 |
| Minesite cost of sales | 10,077 | 8,023 |
| Freight, handling & conversion costs | 167 | 688 |
| Royalties | 75 | 89 |
| **Gross Margin** | **$ (2,949)** | **$ 832** |

The Company has commenced delivery of tungsten concentrates against supply agreements entered into in fiscal 2010. The Company has also commenced repayment of customer deposits that were provided to assist in funding the re-start of the Cantung mine.

For Q1 2011, the net operating cash flows were $8.6 million negative due to cash flow losses from operating activities of $4.1 million, changes in non cash working capital of negative $4.4 million and an increase in reclamation deposits of $0.10 million. In comparison Q1 2010 net operating cash flows were negative $134 thousand.

## Annual Information

| *(Annual Information $ 000,s except earnings (loss) per share)* | | 2010 | | 2009 | | 2008 |
|---|---|---|---|---|---|---|
| **Earnings and Cash Flow** | | | | | | |
| Metal sales | $ | 13,792 | $ | 58,166 | $ | 56,025 |
| Cash flow from operating activities | | (2,800) | | (2,255) | | (5,706) |
| Net Earnings (Loss) | | (11,937) | | 936 | | (11,693) |
| Net Earnings (Loss) per share | | (0.06) | | 0.01 | | (0.09) |
| **Balance Sheet** | | | | | | |
| Total assets | $ | 49,927 | $ | 54,761 | $ | 53,446 |
| Total long term liabilities | | 11,387 | | 5,592 | | 4,627 |
| **Dividends** | | | | | | |
| Cash dividends declared per share | | nil | | nil | | nil |

## Revenues

Sales revenues for Q1 2011 were $7.4 million from 36,383 mtus of concentrate. In Q1 2010 sales were $9.6 million including copper sales of $0.75 million and tungsten sales of $8.9 million from 42,539 mtus of concentrate and 11,045 mtus of TBO. The decrease in sales revenues resulted from a reduction of units sold in the comparable quarters and a stronger Canadian dollar offset by higher tungsten sales prices. There were no copper sales in Q1 2011.

| | For the three months ended | |
|---|---|---|
| | **31-Dec-10** | **31-Dec-09** |
| **Sales Units** | | |
| Concentrate Sales mtus | 36,383 | 42,539 |
| APT Sales mtus (delivered to customer) | - | - |
| TBO Sales mtus (delivered to customer) | - | 11,131 |
| Total mtus sold | 36,383 | 53,670 |
| **Conversion Losses** | | |
| APT mtus | - | - |
| TBO mtus | - | 86 |
| Total Conversion Losses | - | 86 |
| Total Shipments | 36,383 | 53,756 |
| **Revenues $ Cdn** | **($000s)** | **($000s)** |
| Concentrate Sales $ Cdn | 7,370 | 6,803 |
| APT Sales $ Cdn | - | - |
| TBO Sales $ Cdn | - | 2,077 |
| Copper Sales $ Cdn | - | 752 |
| Total Sales Revenues $Cdn | 7,370 | 9,632 |
| **Revenues $ US** | **($000s)** | **($000s)** |
| Concentrate Sales $ US | 7,295 | 6,443 |
| APT Sales $ US | - | - |
| TBO Sales $ US | - | 1,968 |
| Copper Sales $ US | - | 710 |
| Total Sales Revenues $US | 7,295 | 9,121 |
| $US foreign exchange rate | 0.9898 | 0.9470 |
| Concentrates sales price $US | $ 200.51 | $ 151.46 |
| **Average European APT Prices** | **$ 299.14** | **$ 197.50** |

Interest income earned in Q1 2011 was $11 thousand compared to $8 thousand during Q1 2010 reflecting significantly reduced average cash balances coupled with lower deposit interest rates on general operating funds and on funds held in escrow.

***Cost of Production***

Mine operating costs were as follows:

| | | 3 Months Ended 31-Dec-10 | | 3 Months Ended 31-Dec-09 |
|---|---|---|---|---|
| **Operating Costs ($ 000'S)** | | **$** | | **$** |
| Mining | | 5,818 | | 834 |
| Milling | | 2,197 | | 527 |
| Plant & Site Services | | 3,181 | | 987 |
| Site Administration | | 2,355 | | 846 |
| Care & Maintenance Costs | | - | | (1,357) |
| **Operating Costs** | | **13,551** | | **1,837** |
| Inventory Change & Adjustments | | (3,474) | | 6,186 |
| **Cost Of Sales** | | **10,077** | | **8,023** |
| **Mtus produced** | | 52,973 | | 12,263 |
| **Cost per mtu *** | $ | 255.81 | $ | 149.82 |
| Tons Milled | | 78,943 | | 21,421 |
| Feed Grade % | | 1.03 | | 0.92 |
| Recovery % | | 72.13 | | 69.00 |

* Cost per/mtu is comprised of direct mine operating costs divided by mtus of tungsten concentrates produced.

Mine shutdown/care and maintenance costs were nil in Q1 2011 compared to $1.4 million for Q1 2010. Operating costs for Q1 2011 were $13.6 million compared to Q1 2010 costs of $1.8 million (net of care and maintenance costs of $1.4 million) reflecting only a partial quarter of operations in Q1 2010.

**Other Expenses**

Amortization and depreciation was $0.41 million in Q1 2011 compared to a reduced $0.23 million in Q1 2010 due to closure of mining operations. Accretion of reclamation liabilities was $37 thousand in both Q1 2011 and Q1 2010. Accretion of the equity component of the convertible debenture was $15 thousand in Q1 2011 compared to nil in Q1 2010.

| | | 3 Months Ended 31-Dec-10 | | 3 Months Ended 31-Dec-09 |
|---|---|---|---|---|
| **GENERAL AND ADMINISTRATIVE ($000's)** | | | | |
| 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** |

The increase in general and administration expenses for Q1 2011 compared to Q1 2010 reflects the resumption of operations at the Cantung mine during the quarter. Increases in salaries and benefits reflect the addition of personnel over the comparable period.

Accounting and audit and investor relations and related expenses were stable in the period. Legal and consulting costs also increased reflecting the higher level of activity associated with re-start and operations.

Stock based compensation was $13 thousand in Q1 2011 compared to $14 thousand in Q1 2010.

### Exploration Expense

During Q1 2011 exploration expenditures were $23 thousand compared to $70 thousand in Q1 2010.

### Equity Loss

The Company accounts for its investment in TDI under the equity method. TDI's current quarter losses amounted to $0.55 million of which the Company's 43.2% share is $0.24 million compared to $86 thousand in Q1 2010. The current carrying value of the TDI investment is $6.0 million.

## FINANCIAL POSITION, LIQUIDITY AND GOING CONCERN

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. 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.

Available cash balances were $0.5 million at December 31, 2010 compared to $1.3 million at September 30, 2009. The Company's cash flows and financial position are discussed below.

### Operating Cash Flow

The gross margin decreased from $0.8 million in Q1 2010 to negative $3.0 million in Q1 2011. The gross margin for Q1 2011 was negatively impacted by high unit of production costs during the production ramp period and unfavorable exchange rates off-set by increased sales prices.

Due to the re-start of mine operations general and administrative costs increased to $0.7 million in Q1 2011 compared to 0.5 million in Q1 2010.

Interest and financing costs increased to $0.3 million in Q1 2011 compared to $74 thousand in Q1 2010 as a result of the increase in borrowing in the form of bank loans, equipment loans and leases and convertible debentures.

An increase in the Canadian dollar against US currency resulted in a net gain of $152 thousand in Q1 2011 primarily on US currency equipment loans and US based customer deposits offset by US based accounts receivable compared to a net loss of $44 thousand in Q1 2010.

After adjustment for changes in working capital, the operating cash drain for Q1 2011 was $8.6 million due to cash flow losses from operating activities of $4.1 million, changes in non cash working capital of negative $4.4 million (primarily due to an increase in accounts receivable and inventories offset by an increase in accounts payable) and an increase in reclamation deposits of $0.10 million. In comparison Q1 2010 net operating cash flows were $134 thousand.

**Investing Activities**

While the Company continues to advance the Mactung project, expenditures have been reduced to $142 thousand in Q1 2011 compared from $240 thousand in Q1 2010.

Capital expenditures at Cantung for mining equipment, milling equipment, power generation and underground haulage ways were $3.3 million in Q1 2011 compared to $0.3 million in Q1 2010. Significant capital investment is required to access the ore reserves on the 3600 level of the mine and to upgrade the mine under-ground fleet.

**Financing Activities**

The Company's bank facilities which had been renewed in September 2010 including an operating loan facility of up to $8.0 million has been drawn against for $68,000 while two equipment loans for $3,500,000 each have been drawn against for $3,500,000 and $1,500,000. Improved power generating and heat recovery equipment had been largely financed by an equipment loan facility of $2.8 million (of which $0.7 million had been drawn by year end) with the finance arm of the supplier. The balance of $2.1 million is expected to close shortly. An additional $0.4 million in equipment financing was taken up in Q1 2011 with equipment suppliers and $0.26 million in lease and equipment loan obligations were discharged.

Advance payments received from customers in fiscal 2010 were $7.9 million ($US 7.75 million); the advances are repayable over terms from 6 months to 3 years. As at December 31, 2010 $0.50 million of these advances had been repaid to the customers. A portion of these deposits ($US 3.75 million) are secured by a letter of credit which is guaranteed by a director of the Company for a fee of 10% per annum of the outstanding face amount of the letter of credit. Subsequent to the quarter end the letter of credit guarantee has been reduced to $US 3.28 million.

On October 27, 2010 the Company closed a non-brokered private placement of 7,000,000 units at a price of CDN$0.38 per unit for proceeds of CDN$2,660,000. Each unit consists of one common share and 2/7 of a share purchase warrant. Each whole purchase warrant is exercisable at a price of CDN$1.00 into one common share for a period of five years expiring on October 27, 2015.

On October 29, 2010 the Company issued Convertible Debentures in the amount of US$2.87 million for a three year term. The interest rate on the outstanding debt portion is fixed at 10% per annum compounded quarterly. The principal is convertible into common shares of the Company at CDN$0.45 per common share (US$0.44 based on a pre-determined fixed exchange rate of US$1.00 = CDN$0.98) until maturity. Each US$1,000 principal is convertible into 2,267 common shares. The Convertible Debentures are secured by a general security agreement that will be subordinated to the Company's senior indebtedness. Five directors participated directly and indirectly in the Convertible Debentures for a total of US$1.37 million principal.

**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 is expected to be advanced by February 28th, 2011.

### Cash Resources and Liquidity

At December 31, 2010 the Company had net current liabilities of $3.5 million compared to September 30, 2010, when the Company had net current liabilities of $4.3 million. Working capital included cash and cash equivalents of $0.5 million, compared to $2.3 million at September 30, 2010. Current liabilities include $2.8 million of equipment loans and leases and $2.9 million in customer advances.

The Company has completed the process of restarting the Cantung mine and expects that, following a ramp up period, production of concentrates and the re-building of working capital positive cash flows will be generated by the Company.

The Company now has access to its new and extended loan facilities to provide working capital and capital funding. During Q1 2011 the Company closed a private placement and issued convertible debentures to provide to provide additional liquidity to its operations.

### Quarterly Earnings and Cash Flow

| | 2009 | | | | 2010 | | | | 2011 |
|---|---|---|---|---|---|---|---|---|---|
| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 |
| **Quarterly Earnings and Cash Flow** | **($000s)** | **($000s)** | **($000s)** | **($000s)** | **($000s)** | **($000s)** | **($000s)** | **($000s)** | **($000s)** |
| Total Revenues | 17,643 | 13,995 | 14,962 | 11,566 | 9,632 | 3,738 | 390 | 32 | 7,370 |
| Net earnings (loss) | 4,918 | (318) | (815) | (2,849) | (1,497) | (2,110) | (2,384) | (5,946) | (4,423) |
| Income (Loss) per share | 0.04 | - | (0.01) | (0.02) | (0.01) | (0.01) | (0.01) | (0.03) | (0.02) |
| Cash flow from continuing operations before changes in non-cash working capital | 3,540 | (5) | (459) | 635 | (1,207) | (1,777) | (2,104) | (5,598) | (4,133) |

## OUTLOOK

The International Monetary Fund (IMF) predictions are for the world recovery to continue at a projected growth rate of 4.2% in 2011 however; there are underlying financial risks particularly in the Euro zone could spread and impact future economic growth and stability. Advanced economies including the United States, Europe and Japan are expected to expand by 2.4% in 2011 with growth in emerging and developing economies including Asia forecast at 6.45% in 2011. The projected growth in China is expected to be 9.6% in 2011.

The Company expects that with improving economic conditions, strengthening commodity prices and re-stocking by manufacturers will continue to drive the recovery in tungsten demand and prices. The market has improved dramatically following a cyclical low as Metal Bulletin European APT mid prices have now climbed to US $370.00/mtu up from US $197.50 per mtu at September 30, 2009. The current tungsten spot market is active with many inquiries from consumers particularly in the United States and Asia.

Cantung Mine

In October 2010 the Company commenced shipping concentrates against off-take agreements (which had been finalized in fiscal 2010 for a substantial portion of its fiscal 2011 and 2012 planned output); prices for concentrates sold under these off-take agreements are market based. The Company has installed new capital equipment with the view of enhancing productivity and reducing operating and unit costs. New equipment upgrades for mill process equipment and power generation/heat recovery are nearing final completion. New mining equipment has been purchased and is expected to be delivered by March 31, 2011. Additional mechanical improvements are been made to the mill to increase mill availability, throughput and recoveries. The Company is working with its key mining contractor to increase productivity and tons mined from the 3600 level of the mine.

Financing

Debt facilities are now in place with HSBC and others in conjunction with supplier based equipment financing arrangements. Customer deposits were received in advance of resumption of operations. On October 27, 2010 the Company closed a non-brokered private placement for proceeds of $2.66 million. October 28, 2010 the Company issued Convertible Debentures in the amount of US$2.87 million for a three year term.

Mactung Project

The Company expects that the development of the Mactung project will enhance the Company's position as a leading supplier of tungsten concentrate. Production from the Cantung mine will permit the Company to maintain its position in the market until Mactung production commences; however this will depend on the ability of the Cantung mine to increase its ore reserves through its current underground and surface exploration efforts.

## OTHER INFORMATION

### Outstanding Share Data

As at December 31, 2010 there were 213,823,058 common shares outstanding. 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. During the quarter 33,000 stock options were exercised.

As at December 31, 2010 there were 3,531,700 stock options outstanding with exercise prices ranging between $0.15 and $1.76 per share. During the three months 2011 nil stock options were granted and 138,666 stock options were forfeited or expired without being exercised. Subsequent to period end there are 3,571,700 stock options outstanding, 240,000 stock options were granted and 200,000 stock options expired without being exercised.

### Critical Accounting Estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles (GAAP) requires management to make assumptions and estimates that affect the amounts reported in the financial statements and notes thereto. Financial results as determined by actual events could be different from those estimates. Significant areas requiring such estimates are depreciation, impairment analysis, stock based compensation, asset retirement obligations, inventory, and the composition of future income taxes. Although management believes the estimates used in preparing its financial statements are reasonable, actual results may be different from these estimates.

The significant accounting policies of North American Tungsten Corporation Ltd. are described in Note 2 of the audited financial statements. The policies which the Company believes are the most critical to assist with understanding and evaluating its reported financial results include the following:

**Revenue recognition**

Tungsten sales are recognized and revenues are recorded when the title transfers and the rights and obligations of ownership pass to the customer. Tungsten concentrates are sold under pricing arrangements where final prices are determined by quoted market prices in a period prior to the date sale.

Copper sales are recognized and revenues are recorded at market prices when title transfers and the rights and obligations of ownership pass to the customer. Copper concentrates are sold under pricing arrangements where final prices are determined based on quoted market prices for the refined product in a period subsequent to the date of sale. Final pricing is generally determined three to four months after the date of sale. Revenues are recorded provisionally at the time of sale based on forward prices for the expected date of the final settlement. Subsequent variations in price are recognized as revenue adjustments as they occur until the price is finalized.

**Valuation of long-lived assets**

North American Tungsten Corporation Ltd. reviews the carrying values of its buildings and equipment on a regular basis by reference to estimates of future operating results and undiscounted net cash flows. If the carrying value of these assets exceeds estimated net recoverable amounts, a provision for impairment will be made unless the decline is temporary. No impairment charge is required at this time.

The Company capitalizes the exploration costs of mining properties to the extent that such costs are considered to be recoverable. Upon commencement of production, these costs are amortized over the life of the mine based on proven and probable reserves. Inherent in these assumptions are significant risks and uncertainties. In management's view, based on assumptions which management believes to be reasonable, a reduction in the carrying value of property, plant and equipment is not required at September 30, 2010. Changes in market conditions, reserve estimates and other assumptions used in these estimates may result in future write downs. The underlying key assumptions include; identification and development of additional Cantung reserves resulting in a five year operating mine life, a constant foreign exchange rate of US $0.95, APT commodity prices of US $232.50 in 2010, US $255 in 2011, US $280 in 2012 and US $295 for the years 2013 through 2015. Recoveries are projected at 79% for the 5 year period.

**Inventories**

Concentrate inventory comprises tungsten and copper concentrates. Value added inventories include APT and TBO. These inventories are valued at the lower of average cost and net realizable value. Concentrate inventory includes all direct costs incurred in production, including direct labour and materials, freight, and directly attributable overhead costs; value added inventories include costs associated with toll conversion.

Ore stockpile inventory consists of stockpiled ore on the surface, and is valued at the lower of average cost and net realizable value. Ore stockpile inventory includes all directly attributable costs up to that point of production.

Supplies inventory is valued at average cost.

**Asset Retirement Obligation**

The amount recorded for asset retirement costs is based on estimates included in closure and remediation plans. These estimates are based on engineering studies that take account of environmental regulations. These estimates include assumptions on the rate at which costs may inflate in future periods. Actual costs and the timing of expenditures could differ from these.

The Company's total undiscounted amount of estimated cash flows required to settle the future mine reclamation obligation is $4.2 million which has been discounted using credit adjusted risk free rates of 1% to 4% (2008 – 4%). The liability estimate for the mine reclamation obligation on an undiscounted basis is approximately $4.0 million.

| **(in thousands of dollars)** | **December 31, 2010** | **September 30, 2010** |
|---|---|---|
| Opening balance, asset retirement obligation | $ 3,979 | $ 3,780 |
| Accretion during the year | 37 | 199 |
| Additions during the year | - | - |
| Change in estimates of future costs | - | - |
| Closing asset retirement obligation | **$ 4,016** | **$ 3,979** |

**Future Accounting Policies Changes**

The following standards have been issued but are not yet effective for the Company

**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.

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.

**International Financial Reporting Standards**

The Canadian Accounting Standards Board ("AcSB") has a strategic plan which outlines the convergence of Canadian GAAP with International Financial Reporting Standards ("IFRS") over an expected five year transitional period. In February 2008, the AcSB announced that 2011 is the changeover date for publicly accountable enterprises to use IFRS, replacing Canada's own GAAP. The changeover is effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The Company is required to adopt IFRS on October 1, 2011 for its 2012 fiscal year. The Company will also be required to restate for comparative purposes amounts reported by the Company for the year ended September 30, 2011. While the Company has begun assessing the adoption of IFRS for 2012; the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

The Company has been reviewing the various exemptions and elections available to it under IFRS 1 and has been assessing its options in determining its new accounting policies under IFRS. This work will continue over the next fiscal year. The Company has made some preliminary determinations regarding its transition to IFRS but these may be amended pending: further analysis by the Company, changes to existing IFRS standards or upon advice from outside consultant's the Company may engage. Based on analysis to date, the Company has determined the following:

- That the transition to IFRS will require only minimal changes to internal controls.
- That the transition to IFRS will require little or no change to the Company's information technology or systems.
- That the transition to IFRS will require additional disclosures in the notes to the financial statements but this information appears readily available and the expectation is that this will not require significant changes to the current disclosure controls and procedures.
- The functional currencies of its foreign subsidiaries are expected to be the Canadian dollar, which means that the foreign exchange gains and losses on translation of its subsidiaries' financial statements will be treated the same as they currently are under Canadian GAAP and accordingly the Company will not need to make an election regarding translation differences under IFRS 1.

- The cost method will be used to value its various classes of equipment and therefore the Company will not elect to fair value any of these assets.
- There are currently no equipment assets that are material or complex enough to require componentization under IFRS.
- Mineral property acquisition, exploration and evaluation costs will continue to be capitalized under IFRS 6 and that there will be no significant adjustments from GAAP.
- The Company has no significant intangible assets aside from mineral properties.
- As of the transition date, all of the stock option grants were fully vested and therefore no transition date adjustments are required.
- The Company is expecting to have selected its accounting policies under IFRS by the end of the fourth quarter of fiscal 2011 and anticipates that it will have quantified its IFRS adjustments and developed its transition balance sheet by the end of the fourth quarter.
- The Company expects that it will have the expertise, training and resources in order to meet the transition requirements.

**Contractual and Other obligations**

| (in thousands of dollars)<br>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 | 180 | 214 | 0 | 0 | 0 | 394 |
| | **$ 5,454** | **$ 5,002** | **$ 5,142** | **$ 266** | **$ 51** | **$ 15,915** |

The Company has entered into agreements to purchase power generation equipment for its Cantung mine in the amounts of $3.2 million. All of this equipment is expected to be delivered to the Cantung mine by the end of April 2011.

**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 period the Company posted $100,000 of cash and reduced the posted secured promissory notes by $100,000.

**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.

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.

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

**Risks and Uncertainties**

The Company operates in the mining industry which is subject to numerous significant risks.

***Risks associated with the Cantung mine***:

In recent years of operations, the Cantung mine has successfully added more tons to its ore reserves than have been extracted by mining. It is uncertain if, or for how long, it will be able to add new economic ore reserves in the future, but it is certain that the mine has a limited life. There are uncertainties in planning the operation of the mine in the years remaining and projecting expected results.

The revenues and operations of the Cantung mine are subject to effects of tungsten price volatility; change in exchange rates, production risks and other risks inherent in the mining and metals business as described in the Company's Annual Information Form.

***Risks associated with the Mactung project***:

There can be no assurance that development or construction activities at the Mactung project will commence in accordance with current expectations or at all.

Risks include: capital outlays and returns on invested funds that may be expected; risks that regulatory approvals may not be granted or may be delayed; risks that adequate financing may not be available on reasonable terms; risks that a down cycle will affect metal prices including tungsten; and other risks inherent to the mining and metals business as described in the Company's Annual Information Form.

***Risks associated with the Tungsten Diversified Industries***

There can be no assurance that TDI will generate sufficient earnings and cash flows to enable the Company to recover its investment in TDI. TDI is involved in the production and marketing of tungsten composites, a business that has potential for considerable growth however TDI has had losses totaling approximately $3,050,000 for the past two years. TDI may require additional capital to maintain operations and fund business development.

***Tungsten Price Volatility***

The profitability of the Company's operation is significantly affected by changes in the tungsten price. The tungsten price can fluctuate widely and is affected by numerous factors beyond the Company's control including market demand, inflation and expectations with respect to the rate of inflation, international economic and political trends, currency exchange fluctuations, new mine developments, governmental stockpile policies, duties and regulations affecting international trade.

If tungsten prices were to decline significantly or for an extended period of time, the Company might be unable to continue its operations, develop its properties, nor fulfill its obligations under its permits and licenses. As a result, the Company might lose its interest in, or be forced to sell some of its properties.

***Currency Fluctuations***

The Company maintains its accounts in Canadian currency and most of its costs are denominated in that currency. The Company's tungsten concentrate is sold in United States dollars and the Company is subject to fluctuations in the rates of currency exchange between United States dollars and the Canadian dollars. Due to currency fluctuations, construction, development and other costs may also be higher than the Company anticipates. The Company has facilities in place to hedge a portion of its cash flows against currency exchange risks. A five percent change in Canadian dollar in relation to the US dollar prices would have a significant impact under full production conditions.

The Company has assets in the United States and may, in future, acquire properties in other countries. Foreign operations will be subject to foreign currency fluctuations and such fluctuations may materially affect the Company's financial position and results.

**In addition Management has identified various other risk factors which are set out in detail in the Annual Information Form for the year ended September 30, 2010 which is available on SEDAR at www.sedar.com.**

Should one or more of these risks and uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those described in forward-looking statements

## GLOSSARY OF TERMS

| | |
|---|---|
| APT | ammonium paratungstate is an intermediate product which is one of the principal chemical forms in which tungsten is traded |
| Concentrates | the valuable fraction of an ore that is left after waste material is removed in processing |
| MTU | metric tonne unit of 1 percent of a metric tonne (22.046 pounds) of contained WO3 |
| Scheelite | A brown tetragonal mineral, $CaWO_4$. It is found in pneumatolytic veins associated with quartz, and fluoresces to show a blue color. Scheelite is a mineral of tungsten |
| STU | short ton unit of 20lbs. WO3 contained in concentrate |
| TBO | tungsten blue oxide is a finely divided blue-violet crystalline powder used primarily for the production of tungsten metal powder and tungsten carbide |
| Ton | equal to 2,000 pounds |
| Tonne | a metric unit equal to 2,204.6 pounds |
| Tungsten concentrates | concentrates generally containing between 40 and 75 percent $WO_3$ |
| W | the elemental symbol for tungsten |
| West Extension | a continuation (down dip and to the west) of the main E-Zone ore body |
| $WO_3$ | Tungsten tri-oxide (containing 79.33% W) a compound of tungsten and oxygen. |
| MB | Metal Bulletin Of London |