NORTH AMERICAN TUNGSTEN CORPORATION LTD

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010

January 27, 2012

Independent Auditor's Report

To the Shareholders of North American Tungsten Corporation Ltd.

We have audited the accompanying consolidated financial statements of North American Tungsten Corporation Ltd. (the "Company"), which comprise the consolidated balance sheets as at September 30, 2011 and 2010 and the consolidated statements of operations, comprehensive loss and deficit and cash flows for the years then ended, and the related notes including a summary of significant accounting policies.

Management's responsibility for the consolidated financial statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of North American Tungsten Corporation Ltd. as at September 30, 2011 and 2010 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

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Emphasis of matter
Without qualifying our opinion, we draw attention to note 1 in the consolidated financial statements which describes matters and conditions that indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

PricewaterhouseCoopers LLP

Chartered Accountants

NORTH AMERICAN TUNGSTEN CORPORATION LTD.
CONSOLIDATED BALANCE SHEETS
FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010

(in thousands of dollars)	Note(s)	September 30, 2011	September 30, 2010
ASSETS			
Current assets			
Cash and cash equivalents		$ 3,000	$ 2,276
Accounts receivable	18 & 22	7,622	1,977
Inventories	5	7,701	2,259
Prepaid expenses		715	338
		19,038	6,850
Deferred royalty purchases	8	306	306
Investment in Tungsten Diversified Industries, LLC ("TDI")	6	950	6,268
Property, plant and equipment	7	41,932	17,484
Mineral properties - Mactung	8	15,896	14,882
Mineral properties - other		9	9
Reclamation deposits	11 & 15	4,566	4,128
		$ 82,697	$ 49,927
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities		$ 23,229	$ 7,146
Bank operating loan	9 & 25	8,521	-
Current portion of customer advances	10 & 15	2,621	2,958
Current portion of loans and capital leases	9, 12 & 15	5,349	1,034
		39,720	11,138
Reclamation liabilities	11 & 15	7,028	3,979
Customer advances	10 & 15	3,145	5,017
Loans and capital leases	9, 12 & 15	5,699	1,801
Other obligations	12	252	235
Convertible debenture	14	2,884	-
Future income taxes	24	-	355
		58,728	22,525
SHARE CAPITAL AND DEFICIT			
Share capital	13	64,362	53,235
Equity component of convertible debenture	14	181	-
Contributed surplus	13	5,226	3,135
Deficit	13	(45,800)	(28,968)
		23,969	27,402
		$ 82,697	$ 49,927
Going concern	1		
Commitments and contingencies	15 & 17		
Related party transactions	22		
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.
CONSOLIDATED STATEMENTS OF OPERATIONS, COMPREHENSIVE LOSS AND DEFICIT
FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010

(in thousands of dollars except for per share amounts)	Note(s)	September 30, 2011	September 30, 2010
REVENUES			
Sales	18 & 23	$ 55,652	$ 13,792
EXPENSES			
Mine site cost of sales	19	61,118	12,563
Freight, handling and conversion		1,224	794
Royalties		544	130
Accretion of reclamation liabilities	11	148	199
		63,034	13,686
Start up costs		-	5,270
Shut down/care and maintenance costs		-	3,351
General and administrative	20	2,756	2,388
Accretion of convertible debenture	14	76	-
Interest and financing costs		1,644	617
Equity loss of TDI	6	5,318	864
Stock based compensation	13	78	113
Exploration expenses		221	73
Loss (gain) on disposal of assets		90	(9)
Interest and other income		(167)	(27)
Foreign exchange gain		(211)	(158)
		72,839	26,168
NET LOSS BEFORE INCOME TAXES		(17,187)	(12,376)
Future income tax recovery	24	355	439
NET LOSS AND COMPREHENSIVE LOSS		$ (16,832)	$ (11,937)
DEFICIT-BEGINNING OF YEAR		(28,968)	(17,031)
DEFICIT-END OF YEAR		$ (45,800)	$ (28,968)
Net earnings/(loss) per share			
Basic		(0.07)	$ (0.06)
Diluted		(0.07)	$ (0.06)
Weighted average number of shares (in thousands)			
Basic		224,975	187,002
Diluted		224,975	187,002

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

NORTH AMERICAN TUNGSTEN CORPORATION LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010

(in thousand of dollars)	Note(s)	September 30, 2011	September 30, 2010
CASH FLOWS USED IN OPERATING ACTIVITIES			
Net loss for the period		$ (16,832)	$ (11,937)
Items not affecting cash:			
Amortization and depreciation		3,499	523
Equity loss of TDI	6	5,318	864
Accretion of reclamation liabilities		148	199
Stock based compensation		78	113
Accretion of convertible debenture and long-term debt	14	76	-
Loss (gain) on disposal of assets		90	(9)
Foreign exchange on customer advances	10	30	-
Foreign exchange on convertible debenture	14	81	-
Future income tax recovery	24	(355)	(439)
		(7,867)	(10,686)
Change in non-cash working capital	21	(5,835)	8,114
Increase in reclamation deposits	15	(438)	(228)
		(14,140)	(2,800)
CASH FLOWS USED IN INVESTING ACTIVITIES			
Proceeds on disposal of assets		170	9
Deferred buy out of royalty		-	(200)
Expenditure on Mactung development	21	(1,003)	(670)
Purchase of property, plant and equipment	21	(17,138)	(5,175)
		(17,971)	(6,036)
CASH FLOWS FROM FINANCING ACTIVITIES			
Customer advances	10 & 15	-	7,975
Issuance of capital stock	13	14,210	3,046
Capital stock issuance costs	13 & 21	(1,034)	-
Net increase in loans and capital lease obligations	9, 12 & 15	8,213	1,508
Convertible debentures	14	2,925	3,150
Bank operating loan borrowing, net	9	8,521	(5,895)
		32,835	9,784
INCREASE IN CASH AND CASH EQUIVALENTS		724	948
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR		2,276	1,328
CASH AND CASH EQUIVALENTS, END OF YEAR		$ 3,000	$ 2,276
Represented by:			
Cash		$ 2,965	$ 976
Cash equivalents	4	35	1,300
		$ 3,000	$ 2,276
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, and 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 a 43.2% interest in Tungsten Diversified Industries, LLC, which is located in the United States of America (see Note 6) and has the ability to upgrade 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 year ended September 30, 2011, the net loss was $16.8 million (September 30, 2010 - $11.9 million) and there was a deficiency of working capital of $20.7 million (September 30, 2010 - $4.3 million). As described in Note 9, the Company acknowledged a breach with the conditions of its bank operating loan and the Company's bank has agreed to forbear certain covenant breaches provided that amended covenants are met in the future (see Note 9).

The Company's ability to continue as a going concern is dependent upon on its ability to meet its covenants related to its HSBC Credit Facilities, continued shareholder support and its ability to generate positive cash flows from the Cantung operations. Additional funding will be required for development and working capital. Eventual development of the Mactung project will require further major external funding. While the market prices for tungsten remains strong, there is no assurance that the Company will succeed in arranging all necessary finance or maintain the continuing support of its creditors. Subsequent to September 30, 2011, the Company executed a Working Capital Loan facility with HSBC to a maximum of CDN$12.0 million (see Notes 9 and 25).

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 would be material.

2. Significant accounting policies:

a. Basis of presentation

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 intercompany balances and transactions have been eliminated on consolidation. The Company has a 43.2% interest in Tungsten Diversified Industries, LLC incorporated in Minnesota, USA, which is accounted for under the equity method.

b. Financial instruments

Cash and cash equivalents

Cash and cash equivalents include cash in bank account, demand deposits, money-market investments and bankers' acceptances with maturities from the date of acquisition of 90 days or less.

Trade receivables and payables

Trade receivables and payables are non-interest bearing and are stated at carrying values, which approximate fair values due to the short terms to maturity. Where necessary, trade receivables are net of allowances for uncollectable amounts.

Short-term debt

Short-term debt and long-term debt are initially recorded at total proceeds received less direct issuance costs. Debt is subsequently measured at amortized cost, calculated using the effective interest rate method.

Convertible debt

When a compound financial liability is issued by the Company that contains an option to convert a portion or the entire amount into equity, on the date of issuance the debt and equity components are separated. The carrying amount of the financial liability component is first determined by discounting the stream of future principal and interest payments at the rate of interest prevailing at the date of issue for instruments of similar term and risk. The equity component equals the residual amount determined by deducting the carrying amount of the debt from the face value of the compound financial liability. Subsequent to the initial recognition, the debt component is carried at amortized cost and the equity component is carried at the initial recognized amount.

c. Inventories

Concentrate inventory is comprised of tungsten and copper concentrates. Intermediates comprise of products that have been further upgraded to, ammonium paratungstate (APT), tungsten blue oxide (TBO) and other tungsten products. Inventories are valued at the lower of cost and net realizable value and include all direct costs incurred in production including labour, materials, freight and depreciation as well as attributable overhead costs. Net realizable value for tungsten inventories is determined based on the Company's average realized tungsten sales price for the month.

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.

d. Property, plant and equipment

Property, plant and equipment are recorded at cost less accumulated amortization and write-downs. Property, plant and equipment are amortized using the unit of mine production method based on estimated recoverable reserves which includes both proven and probable reserves. Reclamation assets are amortized on the straight-line basis over the remaining life of the mine.

Repairs and maintenance costs, including shutdown maintenance costs, are charged to expense as incurred, except when these repairs significantly extend the life of an asset or result in an operating improvement. In these instances the portion of these repairs relating to the betterment is capitalized as part of plant and equipment.

e. Capital leases

Assets under capital leases are capitalized as part of plant, property and equipment and the outstanding future lease obligations are shown in long term loans, equipment loans and obligations under capital leases. The interest element of leasing payments represents a constant proportion of the capital balance outstanding and is charged to the profit and loss account over the period of the lease.

f. Mineral property interests

Costs related to the acquisitions, exploration, evaluation and development of mineral property interests are capitalized on a property-by-property basis, to the extent that such costs are considered to be recoverable. Such expenditures are comprised of net direct costs and an appropriate portion of related overhead expenditures, but do not include general overhead or administrative expenditures that do not have a specific connection with a particular area of interest. Each property is evaluated on a periodic basis or if there are indicators of impairment, in order to determine if the costs incurred to date continue to be recoverable. Capitalized costs that exceed estimated recoveries are charged to earnings in the period of determination.

g. Asset impairment

The Company performs impairment tests on the mineral properties and property, plant and equipment when events or changes in circumstances occur that indicate the carrying value of an asset may not be recoverable. Estimated future cash flows are calculated using estimated future prices, mineral resources, operating and capital costs on an undiscounted basis. When the carrying value of the mine or development project exceeds estimated undiscounted future cash flows, the asset is impaired. Write-downs are recorded to the extent the carrying value exceeds the discounted value of the estimated future cash flows.

h. Research and development costs

Research costs are expensed in the year in which they are incurred. Development costs are expensed in the year incurred unless such costs meet the criteria under Canadian generally accepted accounting principles for deferral and amortization.

i. Reclamation liabilities

Future obligations to retire an asset including dismantling, remediation and ongoing monitoring of the site are initially recognized as a liability at fair value, assuming a credit adjusted risk-free discount rate and an estimated inflation factor. The liability is adjusted for changes in the estimated amounts and timing of costs to be incurred, and accreted to full value over time through periodic charges to earnings.

j. Use of estimates

The preparation and consolidation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements. Actual results could differ from these estimates. Significant areas where management's judgment is applied include concentrate and ore stockpile inventory, property, plant and equipment (asset valuations and asset useful lives), reclamation liabilities, amortization and depreciation, stock based compensation expense, future income taxes, and ore reserve determinations as they relate to the amortization bases. Ore reserve determinations involve estimates of future costs and future commodity prices.

k. Measurement uncertainty – specific items

Certain amounts recognized in the financial statements are subject to measurement uncertainty. The recognized amounts of such items are based on the Company's best information and judgment. Such amounts are not expected to change materially in the near term.

- The amounts recorded for depletion, depreciation, amortization, impairment of property, plant and equipment and development costs depend on estimates of tungsten reserves, the estimated economic lives of the assets, estimated salvage values and future cash flow from assets.
- Provision for future site restoration costs depends on estimates of costs, rates of inflation, discount rates and estimated timing of progressive, future reclamation work, and mine development plans which are all dependent on the life of mine assumptions.
- Costs that have been deferred in relation to mineral property interests have been deferred to the extent that they are expected to be recovered. The viability of exploration properties depends on estimated future market prices and the estimated tungsten grades. Recovery of development costs depends on estimates of future cash flows from the resulting sale of products.
- Future income tax assets and liabilities are dependent on estimated timing of future events, cash flows and income tax rates.
- The estimated recoverable amount of the Company's Investment in TDI is based on the estimated inherent value in TDI's processes and estimated future cash flows.

l. Translation of foreign currencies

For integrated foreign operations, balances denominated in foreign currencies are translated into Canadian dollars as follows:

- Monetary assets and liabilities at period end rates;
- All other assets and liabilities at historical rates;
- Revenue and expense transactions at the average rate of exchange prevailing during the period.

Exchange gains or losses arising on these transactions are charged to operations in the period in which they occurred.

m. 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 of 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.

n. Income taxes

The Company follows the liability method of accounting for income taxes. Under the liability method, future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and for tax losses and other deductions carried forward. Future tax assets and liabilities are measured using substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the date of substantive enactment. If on the basis of available evidence, it is more likely than not that all or a portion of the future tax asset will not be realized, the future tax asset is reduced by a valuation allowance.

o. Stock based compensation

The fair value method of accounting is used for stock-based awards. Under this method, the compensation cost of options and other stock-based compensation arrangements are estimated at fair value at the grant date and recognized as an expense over the vesting period. When exercised, the associated cost is allocated from contributed surplus to share capital.

p. Earnings per share

Earnings per share is calculated based on the weighted average number of shares outstanding during the year. The Company follows the treasury stock method in the calculation of diluted earnings per share. Under this method, dilution is calculated based upon the net number of common shares issued should "in the money" options and warrants be exercised and the proceeds are used to repurchase common shares at the average market price in the period. Dilution from convertible securities is calculated based on the number of shares to be issued after taking into account the reduction of the related after-tax interest expense. When a loss is incurred, basic and diluted earnings per share are the same because the exercises of options, warrants and conversion of debentures are anti-dilutive.

q. Share capital

The Company records proceeds from share issuances net of share issuance costs. Share capital issued for non-monetary consideration is recorded at the fair market value of the shares on the date the shares are issued.

r. Investments

Investments where the Company has the ability to exercise significant influence, generally 20% to 50% owned by the Company, are accounted for using the equity method. Under this method, the Company's share of the investment's earnings or losses is included in operations and its investment therein is adjusted by a like amount. Dividends received from these investments are credited to the investments accounts.

3. 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, customer advances, bank loans, convertible debentures and obligations under capital leases, the carrying values of which approximate fair values.

Financial assets and financial liabilities, including derivatives, are recognized on the balance sheet when the Company becomes a party to contractual provisions of the financial instrument or derivative contract. All financial instruments are measured at fair value on initial recognition except for certain related party transactions. Measurement in subsequent periods depends on the category of financial instruments. Fair-Value-Through-Profit or Loss ("FVTPL"), financial assets and liabilities are subsequently measured at fair value with gains, losses and transactions costs recognized in the Company's net earnings for the period. Held-For-Trading financial assets and liabilities are subsequently measured at fair value with gains, losses and transaction costs recognized in the Company's net earnings for the period. Financial assets Held to Maturity, Loans and Receivables and Other Financial Liabilities, other than those Held-For-Trading, are subsequently measured at amortized cost using the effective interest method of amortization. Available-For-Sale financial assets are subsequently measured at fair value with unrealized gains and losses, including changes in foreign exchange rates, are recognized in other comprehensive income.

The Company has designated each of its significant categories of financial instruments as follows:

Cash and cash equivalents	Loans and Receivables
Accounts receivable	Loans and Receivables
Reclamation deposits	Held to Maturity
Accounts payable & accrued liabilities	Other Financial Liabilities
Customer advances	Other Financial Liabilities
Bank loans	Other Financial Liabilities
Convertible debentures (liability portion)	Other Financial Liabilities
Obligations under capital lease	Other Financial Liabilities
Other obligations	Other Financial Liabilities

The Company's financial assets and liabilities are measured and recognized according to a fair value hierarchy that reflects the significance of inputs used in making fair value measurements, based on the lowest level of input that is significant to the fair value measurement, as follows:

Level 1 - quoted prices in active markets for identical assets or liabilities;
Level 2 - inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. from derived prices); and
Level 3 - inputs for the asset or liability that are not based upon observable market data.

Categories of Financial Assets and Liabilities

The fair value of all of the Company's financial assets and liabilities were determined based on level 2 inputs. The Company has no financial assets or liabilities that have fair value determined based on level 3 inputs.

(in thousands of dollars)	September 30, 2011		September 30, 2010	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalents	$ 3,000	$ 3,000	$ 2,276	$ 2,276
Accounts receivable	7,622	7,622	1,977	1,977
Reclamation deposits	4,566	4,566	4,128	4,128
Accounts payable & accrued liabilities	23,229	23,229	7,146	7,146
Bank loans and capital leases	19,569	19,569	2,835	2,835
Convertible debentures (liability portion)	2,884	2,884	-	-
Other obligations	252	252	235	235
Customer advances	5,766	5,766	7,975	7,975

The Company has determined the estimated fair values of its financial instruments based upon appropriate valuation methodologies. The fair values of the cash and cash equivalents, accounts receivable, reclamation deposits and accounts payable and accrued liabilities approximate their carrying values due to their short term nature and high level of liquidity.

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 ("USD"). The cash flows from Canadian ("CND") 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 year ended September 30, 2011, with other variables unchanged a $0.01 strengthening (weakening) of the Canadian dollar against the US dollar would result in a decrease (increase) of $0.6 million on net earnings (September 30, 2010 – $0.1 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 four of the primary customers totalled $6.9 million at September 30, 2011 ($nil as at September 30, 2010), all of which is current (see Note 18).

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 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 September 30, 2011, $0.03 million (September 30, 2010 $1.3 million) of guarantee investment certificates carried floating interest rates of under 1.0%. For financial liabilities, interest is payable on the equipment loans, CAT loans and capital leases, with interest rates ranging from 4.50% to 16.00%. $6.1 million of the equipment loans carry rates of Bank Prime + from 1.75% to 3.75% (see Note 9).

As at September 30, 2011 and September 30, 2010, with other variables unchanged, a 1.0% change in the Bank of Canada prime 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 and Note 9. The Company's contractual obligations are disclosed in Note 15.

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 were to decline for a prolonged period below the cost of production of the Company's mine, it might not be economically feasible to continue operations.

4. Cash and cash equivalents:

Cash and cash equivalents include $0.03 million (September 30, 2010 - $1.3 million) in bankers' acceptances carrying interests of 1.0%.

5. Inventories :

(in thousands of dollars)	September 30, 2011	September 30, 2010
Tungsten concentrates	$ 3,066	$ -
Tungsten intermediates	1,121	-
Materials and supplies	3,514	2,259
	$ 7,701	$ 2,259

The amount of inventory expense for the year is the equivalent of the mine site cost of sales (see Note 19).

At September 30, 2011, concentrates were valued at cost.

At September 30, 2011, TDI held $0.9 million of intermediates on behalf of the Company, which TDI has authority to sell on the Company's behalf.

6. Investment in Tungsten Diversified Industries, LLC:

As a result of the reorganization 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 ("Tundra") (43.2%) and Queenwood Capital Partners LLC ("Queenwood") (13.6%). Tundra has common ownership interests with the Company and Queenwood has a director in common and common ownership interests in the Company. The Company's interest in TDI is accounted for under the equity method.

Sales to TDI of concentrate for the fiscal year ended September 30, 2011, were $nil (September 30, 2010 - $nil).

For the year ended September 30, 2011, TDI recorded a net loss of USD$10.3 million which included impairment provisions totalling USD$9.0 million in respect of property, equipment, licenses and patents. Impairment reflected the absence of additional funds required to develop its business and the need for a long-term supply contract for tungsten feedstock. The Company's share is recorded as an equity loss of $ 5.3 million which reduced its net investment in TDI to $0.95 million. The Company continues to regard this investment as important for its long-term strategy of forward integration into down-stream products. The Company reviewed the Investment in TDI for indicators of further impairment at September 30, 2011 and determined that the investment at $0.95 million is not impaired.

The Company's net investment in TDI is as follows (in thousands of dollars):

Balance - September 30, 2009	$ 7,132
Share of losses for the year	(864)
Balance - September 30, 2010	6,268
Share of losses for the year	(5,318)
Balance - September 30, 2011	$ 950

The condensed unaudited financial statements of TDI at September 30, 2011 are as follows:

TUNGSTEN DIVERSIFIED INDUSTRIES, LLC (condensed Balance Sheet)

(in thousands of US dollars)	September 30, 2011	September 30, 2010
CURRENT ASSETS		
Cash	$ -	$ 132
Accounts receivable and due from related parties	244	330
Inventory	590	2,298
Other current assets	8	43
	842	2,803
Property and equipment	1,209	3,448
License and patents	-	7,263
Deposits	-	1
	$ 2,051	$ 13,515
CURRENT LIABILITIES		
Accounts payable & accrued liabilities	$ 4,410	$ 5,819
SHAREHOLDERS' EQUITY	(2,359)	7,696
	$ 2,051	$ 13,515

TUNGSTEN DIVERSIFIED INDUSTRIES, LLC (condensed Statement of Operations)

(in thousands of US dollars)	For the years ended September 30, 2011	September 30, 2010
Net sales	$ 2,316	$ 1,882
Costs of goods sold	1,838	2,235
Gross profit	478	(353)
Operating Expenses	1,693	1,562
Write-down of assets due to impairment	(9,000)	-
Operating loss	(10,215)	(1,915)
Other income (expense)	(66)	(21)
Net loss	$ (10,281)	$ (1,936)

7. Property, plant and equipment:

(in thousands of dollars)	Cost	Accumulated Amortization	September 30, 2011
Property, plant and equipment	$ 73,755	$ (31,824)	$ 41,932

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

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

Property, plant and equipment was reviewed for impairment at September 30, 2011 and it was determined that there was no impairment.

8. Mactung and deferred royalty purchases:

The following table summarizes the Company's interest in the Mactung property.

(in thousands of dollars)	
Balance September 30, 2009	$ 14,051
Expenditures during the period	831
Balance September 30, 2010	$ 14,882
Expenditures during the period	1,014
Balance September 30, 2011	$ 15,896

The Mactung mineral leases are located on the border of the Yukon and Northwest Territories and 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 September 30, 2011, was $300 thousand (September 30, 2010 - $300 thousand).

The Mactung property costs were reviewed for impairment at September 30, 2011 and it was determined that there was no impairment.

9. Bank loan and other credit facilities:

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.

The Company acknowledged a breach of the net tangible worth ratio and the current assets to current liabilities ratio as at September 30, 2011. The Bank has agreed to forbear these breaches provided that:
- the debt to tangible net worth ratio does not exceed 3.50:1.0 for fiscal 2012;
- the consolidated current assets to current liabilities ratio at no time is less than 0.50:1.0 for fiscal 2012.

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

Bank Operating Loan

The operating loan facility is CDN$8.0 million. Drawings against the facility may be in U.S. dollars ("USD") or Canadian dollars, subject to a USD$5.0 million 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 HSBC Bank prime + 2% per annum.

As at September 30, 2011, CDN$8.5 million is outstanding under the bank operating loan. The Company has cash deposits on hand with HSBC which offset under the borrowing agreement.

Working Capital Loan

Subsequent to September 30, 2011, the Company executed a Working Capital Loan facility with HSBC to a maximum of CDN$12.0 million (See note 25).

Demand non-revolving equipment loans

The Company renewed its three outstanding equipment loans, in the principal amounts of $132 thousand, $149 thousand and $203 thousand. Interest rates on these loans range from Bank Prime plus 1.75% to Bank Prime plus 2.25%.

The Company entered into an agreement for a new "fourth" equipment loan for CDN$3.5 million. The loan carries an interest rate of Bank Prime + 3.75%; interest only was payable for the first nine months; and then monthly payments commenced 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 Prime + 3.75%; interest only was payable for the first nine months; and then monthly payments commenced on April 30, 2011 for thirty months.

As at September 30, 2011, the outstanding equipment loan principal balances were $21 thousand; $96 thousand; $141 thousand; $2.9 million and $2.9 million respectively. Interest in the amount of $408 thousand was paid on the equipment loans for the year ended September 30, 2011 (September 30, 2010 - $23 thousand).

Caterpillar Financial Services Corporation loan facility

During the year ended September 30, 2010, the Company contracted to purchase power generation, heat recovery equipment and electrical control systems for $3.5 million. The Company paid a deposit of $696 thousand for the equipment and entered into an agreement with Caterpillar Financial Services Corporation ("CAT loan") in the amount of USD$2.8 million for a 48 month term with repayments commencing on December 1, 2010 as to $0.7 million and on April 1, 2011 as to $2.1 million with an interest rate of 8.50% per annum. Interest in the amount of $231 thousand was paid on the loan facility for the year ended September 30, 2011 (year end September 30, 2010 - $nil).

10. Customer advances:

During the year ended September 30, 2010, the Company received financing advances totalling $7.975 million (USD$7.75 million). The Company repaid $2.1 million of the advances net of a foreign exchange loss of $0.03 million for the year ended September 30, 2011. The balance outstanding as of September 30, 2011 is $5.8 million of which $2.6 million is included in current liabilities (September 30, 2010 - $7.975 million of which $2.958 million was included in current liabilities). The outstanding balance of the advances is repayable over terms up to 36 months. At September 30, 2011, USD$2.5 million (CAD $2.6 million) is secured by a letter of credit which is guaranteed by a related party (See Notes 15 and 22).

11. Reclamation liabilities:

At September 30, 2011, the Company reviewed the reclamation liability. The Company estimated that additional third party specialists would be utilized for the removal of hazardous waste and building materials from the site. The liability also increased for estimated costs relating to the control of water from underground facilities. The Company discusses reclamation plans with regulators when there has been significant new mine developments and on an on-going basis with respect to the expectations of the types and levels of reclamation activities to be performed. The Company increased the estimated costs of erosion protection for tailings ponds and for post closure site monitoring activities.

The Company's total undiscounted amount of estimated cash flows required to settle the Cantung mine reclamation obligation is $7.6 million (September 30, 2010 - $4.2 million) which has been discounted using a credit adjusted risk free rates of 1.0% to 4.3% (September

30, 2010 - 1% to 4%). The reclamation obligation reflects the Company's best estimates of costs and timing of reclamation work. The estimated liability will be revised in the future for changes to the mine reclamation plan, changes in regulations and the on-going discussions with the regulators. Changes may become necessary as a result of continuing reviews of site conditions, estimated costs and contingencies provided and could result in increases or decreases in the amount of the provision.

(in thousands of dollars)	September 30, 2011	September 30, 2010
Opening balance, asset retirement obligation	$ 3,979	$ 3,780
Accretion	148	199
Change in estimates of future costs	2,901	-
Closing asset retirement obligation	$ 7,028	$ 3,979

Deposits of $4.5 million in cash and $7.2 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 15 a.)

12. Obligations under capital lease, equipment loans and advances:

(in thousands of dollars)	September 30, 2011	September 30, 2010
Obligations under equipment loans and capital leases	$ 11,048	$ 2,835
Obligations under customer advances (Note 10)	5,766	7,975
Other obligations	252	235
	17,066	11,045
Current portion of equipment loans and capital leases	(5,349)	(1,034)
Current portion of customer advances	(2,621)	(2,958)
Long term loans, equipment loans and obligations under capital leases	$ 9,096	$ 7,053

Capital leases:
The maturity dates of the capital leases range from December 2011 to August 2014 with interest rates ranging from 6.4% to 16.58%. See Note 15 for details of required payments.

Interest in the amount of $85 thousand was paid on capital leases for the year ended September 30, 2011 (year end September 30, 2010 - $94 thousand).

13. Share capital:

a. Capital stock

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

(in thousands of dollars)	Number of Shares Outstanding		Consideration
September 30, 2009	168,856,725	$	47,039
Private placements	20,433,333		3,065
Conversion of debenture	17,500,000		3,150
Share issue costs			(19)
September 30, 2010	206,790,058	$	53,235
Exercise of options	333,000		50
Private placements	30,000,000		14,160
Warrant issuances			(1,963)
Share issue costs			(1,147)
Reallocation of fair value related to options exercised			27
September 30, 2011	237,123,058	$	64,362

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 2.06%
- Dividend yield of 0%
- Expected volatility of 93.03%
- Expected warrant life of 5 years

c. Bought-Deal Private Placement

On March 31, 2011 the Company closed a bought-deal private placement of 23,000,000 units (the “Units”) of the Company which includes the exercise in full of the over-allotment options for 3,000,000 additional Units, for aggregate gross proceeds of $11.5 million (the “Offering”). The Units were sold at a price of $0.50 per Unit. Each Unit consists of one common share in the capital of the Company (a “Common Share”) and one-half of a share purchase warrant. Each warrant entitles the holder to purchase one Common Share at a price of $0.75 for a period of two years, expiring March 31, 2013.

The Company paid the Underwriters a cash fee of $625 thousand and 1,250,000 broker units (the “Broker Units”). Each Broker Unit is exercisable into one common share and one-half of a share purchase warrant at a price of $0.75, expiring on March 31, 2013. Professional and regulatory fees totalling $375 thousand were incurred in connection with the financing.

The warrants were valued using the following assumptions:

- Risk free interest rate of 1.73%
- Dividend yield of 0%
- Expected volatility of 84.16%
- Expected warrant life of 2 years

Note	No. of Warrants Outstanding as of Sept. 30, 2010	Issued	Exercised	Expired	No. of Warrants Outstanding as of September 30, 2011	Exercise Price	Expiry Date
12 b	-	2,000,000	-	-	2,000,000	$1.00	27-Oct-15
12 c	-	11,500,000	-	-	11,500,000	$0.75	31-Mar-13
12 c	-	1,250,000	-	-	1,250,000	$0.75	31-Mar-13
	-	14,750,000	-	-	14,750,000		

d. Shareholders' equity

NORTH AMERICAN TUNGSTEN CORPORATION LTD.
CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY AND DEFICIT

(in thousands of dollars)	Capital Stock	Convertible Debenture	Contributed Surplus	Deficit	Total
September 30, 2009	$ 47,039	$ -	$ 3,022	$ (17,031)	$ 33,030
Stock-based compensation	-	-	113	-	113
Conversion of convertible debenture	3,150	-	-	-	3,150
Private placements	3,065	-	-	-	3,065
Share issue costs	(19)	-	-	-	(19)
Net loss & comprehensive loss	-	-	-	(11,937)	(11,937)
September 30, 2010	$ 53,235	$ -	$ 3,135	$ (28,968)	$ 27,402
Stock-based compensation	-	-	78	-	78
Exercise of stock options	50	-	-	-	50
Reallocation of contributed surplus related to options exercised	27	-	(27)	-	-
Private placements	14,160	-	-	-	14,160
Equity component of convertible debenture	-	181	-	-	181
Warrant issuances	(1,963)	-	1,963	-	-
Share issue costs	(1,147)	-	77	-	(1,070)
Net loss & comprehensive loss	-	-	-	(16,832)	(16,832)
September 30, 2011	$ 64,362	$ 181	$ 5,226	$ (45,800)	$ 23,969

e. 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 year ended September 30, 2011:

- 240,000 options were granted to an employee with a strike price of $0.41. The option valuation for the issue was calculated using the Black-Scholes option pricing model based on an average expected option life of 5 years, a dividend yield of 0%, a risk free interest rate of 2.59%, and an expected volatility of 92.8%, giving a per option fair value of $0.29.

- 150,000 options were granted to an employee with a strike price of $0.32. The option valuation for the issue was calculated using the Black-Scholes option pricing model based on an average expected option life of 5 years, a dividend yield of 0%, a risk free interest rate of 2.74%, and an expected volatility of 96.1%, giving a per option fair value of $0.24. Subsequent to September 30, 2011, the 150,000 options were forfeited.
- Subsequent to September 30, 2011, 150,000 options were granted to an employee with a strike price of $0.18, expiring on November 29, 2016

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	Issued	Exercised	Forfeited	Expired	No. of Options Outstanding as of September 30, 2011	Exercise Price	Expiry Date	Options Exercisable
	80,000	-	-	-	(80,000)	-	$1.15	9-Nov-10	-
	200,000	-	-	-	(200,000)	-	$1.76	31-Jan-11	-
	50,000	-	-	(50,000)	-	-	$0.70	27-Oct-11	-
	1,106,700	-	-	(50,000)	-	1,056,700	$1.25	19-Mar-12	1,056,700
	75,000	-	-	-	-	75,000	$1.28	14-Jun-12	75,000
	33,334	-	-	(33,334)	-	-	$1.24	27-May-13	-
	508,332	-	(333,000)	(332)	-	175,000	$0.15	19-Oct-14	175,000
	1,650,000	-	-	-	-	1,650,000	$0.19	1-Feb-15	1,650,000
	-	240,000	-	-	-	240,000	$0.41	5-Jan-16	80,000
	-	150,000	-	-	-	150,000	$0.32	7-Jul-16	-
	3,703,366	390,000	(333,000)	(133,666)	(280,000)	3,346,700			3,036,700
Weighted Average Exercise Price	$0.65	$0.38	$0.40	$1.04	$1.59	$0.57			$0.59

The outstanding options have a weighted-average exercise price of $0.57 per share (September 30, 2010 - $0.65) and the weighted-average remaining life of 2.57 years (September 30, 2010 – 3.02 years).

14. Convertible Debenture:

On October 28, 2010 the Company issued US Dollar Convertible Debentures ("debentures") in the principal amount of USD$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 USD$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 (USD$2.693 million) and the conversion rights were assigned a value of $0.181 million (USD$0.177 million).

Interest expense on the debentures is composed of the interest calculated on the face value of the debentures which amounted to $260 thousand for the year ended September 30, 2011 and an annual notional interest representing the accretion of the carrying value of the debentures of $60 thousand.

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

15. Commitments:

(in thousands of dollars) Contractual Obligations	Payments due in years ended September 30, 2012	2013	2014	2015	2016	TOTAL
Mactung leases	$ 8	$ 8	$ 8	$ 8	$ 8	$ 40
Cantung leases	43	43	43	43	43	215
Customer advances	2,621	3,145	-	-	-	5,766
Loans and capital leases	5,987	4,781	1,168	359	-	12,295
Office leases[1]	221	55	-	-	-	276
	$ 8,880	$ 8,032	$ 1,219	$ 410	$ 51	$ 18,592

[1] - The office lease requires a monthly payment of $18 thousand which includes estimated operating costs and expires on December 31, 2012.

The Company has commitments of $1.5 million relating to capital projects at September 30, 2011.

a. Water license

The Mackenzie Valley Land and Water Board ("MVLWB") issued the Company's type "A" Water License ("license"), which expires January 29, 2014. Subsequent to year end, the water license was extended to January 29, 2016.

The security deposit required under the Company's license is $11.7 million, of which the Company has posted $4.5 million in cash and $7.2 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 thousand in cash on the 1st of September, 1st of December, 1st of March, and 1st of June 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 year ended September 30, 2011, the Company posted $400 thousand of cash and reduced the posted secured promissory notes by $400 thousand.

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 8.

16. Capital management:

The Company defines its capital as shareholders' equity, consisting of share capital, equity portion of convertible debentures, contributed surplus, short-term and long-term debt. 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. Long-term debt covenants which could restrict the Company's capital management options are disclosed in Note 9.

17. Contingencies:

Pursuant to agreements with officers, in the event of their contracts being terminated, the Company would be liable for payments totalling $1.8 million (September 30, 2010 - $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 totalling $0.4 million (September 30, 2010 - $0.45 million).

18. Sales and concentration of receivables:

The Company has delivery contracts for tungsten concentrate which expire during 2012 and 2013, that contain target delivery quantities. The contracts do not contain any penalties for short falls in target delivery quantities. Under these contracts, the Company sells tungsten concentrates together with smaller quantities of copper concentrates and some tungsten intermediate products. Sales to five customers accounted for 100% of sales made in the year ended September 30, 2011 (2010 – 93% to three customer).

As at September 30, 2011, $6.9 million in receivables was due from these four customers. (September 30, 2010 - $nil).

19. Mine site cost of sales:

(in thousands of dollars)	For the years ended September 30, 2011	September 30, 2010
Mine operating costs	$ 60,632	$ 9,737
Amortization and depreciation	3,499	523
Inventory changes, adjustments and write-downs	(3,013)	2,303
	$ 61,118	$ 12,563

20. General and administrative costs:

(in thousands of dollars)	For the years ended September 30, 2011	September 30, 2010
Fees, wages and benefits	$ 1,444	$ 1,207
Office expenses	461	415
Accounting and audit	199	134
Legal fees	181	282
Investor relations, travel and business development	221	229
Consulting	222	74
Filing fees and transfer agent fees	28	47
	$ 2,756	$ 2,388

21. Supplemental cash flow:

(in thousands of dollars)	For the years ended September 30, 2011	September 30, 2010
Changes in non-cash working capital:		
Accounts receivable	$ (5,645)	$ 2,809
Prepaid expenses	(377)	(120)
Inventories	(5,442)	9,829
Accounts payable and accrued liabilities	7,868	(4,404)
Repayment of customer advances (Note 10)	(2,239)	-
Change in non-cash working capital	$ (5,835)	$ 8,114
Changes non-cash investing activities:		
Expenditures on property plant and equipment in accounts payable and accrued liabilities	$ 10,321	$ 2,153
Expenditures on Mactung development in accounts payable and accrued liabilities	$ 172	$ 161
Changes non-cash financing activities:		
Issuance of share capital on conversion of debenture	$ -	$ 3,150
Share issuance costs - non cash broker warrants	$ 249	$ -
Share issuance costs - in accounts payable and accrued liabilities	$ 36	$ -
Other supplemental information:		
Total interest received	$ 17	$ -
Total interest paid	$ 1,149	$ 379
Interest paid included in cash flows from operations	$ 192	$ 81

22. Related party transactions:

Accounts receivable from TDI as at September 30, 2011, were $nil (September 30, 2010 - $1.3 million).

A director of the Company guaranteed the issuance of a letter of credit for a fee of 10% per annum of the outstanding amount of the letter of credit. For the year ended September 30, 2011, the Company paid $333 thousand (September 30, 2010 - $53) to the director in respect to the guarantee (See Note 10).

Directors of the Company participated directly and indirectly in the USD$2.87 million convertible debenture financing as to USD$1.37 million (See Note 14).

The Company paid $161 thousand for professional and consulting fees to directors or companies related to director(s) (September 30, 2010 - $111 thousand).

Subsequent to September 30, 2011, two directors of the Company sponsored the Company for the HSBC Working Capital Loan (see Note 9), by issuing a letter of credit to HSBC in the amount of USD$12.0 million (see Note 25).

The above transactions were in the normal course of operations, occurring on terms and conditions that are similar to those of transactions with unrelated parties and were measured at the exchange amount.

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:

(in thousands of dollars)	For the years ended September 30, 2011	September 30, 2010
TUNGSTEN:		
North America	$ 6,798	$ 2,144
Asia	28,986	10,890
Europe	18,871	-
	54,655	13,034
COPPER:		
Europe	997	758
TOTAL	$ 55,652	$ 13,792

24. Income and resource taxes:

Income tax expense differs from the amount that would result from applying the Canadian federal and provincial income tax rates to earnings/(losses) before income taxes. These differences result from the following items:

(in thousand of dollars)	For the years ended September 30, 2011	September 30, 2010
Earnings (loss) before income taxes	$ (17,187)	$ (12,376)
Canadian federal and provincial income tax rates	28.38%	29.75%
Income tax recovery based on the above rates	$ (4,878)	$ (3,682)
Increase (decrease) due to:		
Non-deductible expenses and other	$ 50	$ 33
Foreign exchange	-	(57)
Differences between foreign and Canadian tax rates	(690)	(97)
Change in Canadian long term tax rates	221	373
NWT Mining Royalty	-	(36)
Losses and temporary differences for which no future income tax asset has been recognized	4,942	3,027
Income tax recovery	$ (355)	$ (439)
Consists of		
Canadian future income tax recovery	$ -	$ -
US future income tax expense (recovery)	(355)	(403)
NWT Mining royalty expense (recovery)	-	(36)
	$ (355)	$ (439)

The components of future income and mining taxes are as follows:

(in thousand of dollars)	For the years ended September 30, 2011	September 30, 2010
Future income and mining tax assets		
Non-capital losses	$ 7,003	$ 4,454
Share issuance costs and other	448	263
Property, plant and equipment and mineral property interests	2,474	2,662
Capital lease obligation	650	447
Investment in TDI	1,410	-
Asset retirement obligation	1,863	1,054
Total future tax assets	13,848	8,880
Valuation allowance	(13,848)	(8,880)
Net future tax assets	$ -	$ -
Future income and mining tax liabilities		
Property, plant and equipment and mineral property interests	$ -	$ -
Investment in TDI	-	355
Future income tax liabilities	-	355
Future income tax liability, net	$ -	$ 355

At September 30, 2011, the Company has non-capital loss carry-forwards of approximately $26.4 million (2010 - $16.8 million) that may be available for tax purposes. The loss carry-forwards are all in respect of Canadian operations and expire as follows:

(in thousand of dollars)	
2028	$ 5,672
2030	11,151
2031	9,606
	$ 26,429

A full valuation allowance has been recorded against the net potential future income tax assets associated with these carry-forwards and certain other deductible temporary differences as their utilization is not considered more likely than not at this time.

25. Subsequent events:

Working Capital Loan

On October 13, 2011, the Company executed a Working Capital Loan facility with HSBC to a maximum of CDN$12.0 million. The loan is due on demand, shall be repaid in full by June 30, 2013 and bears interest at HSBC Bank prime + 0.25%. The Working Capital Loan is secured by a letter of credit which is sponsored by two directors (the "sponsors") of the Company, in the amount of USD$12.0 million. The facility requires that in the event that the CND equivalent value of the letter of credit is equal to or below 95% of the outstanding balance of the loan, the Company will repay the loan balance down in the amount of the shortfall or provide the bank cash collateral in the amount of the shortfall.

The sponsors and HSBC have entered into a Put Agreement which may be trigged by HSBC at its sole discretion, which allows HSBC to exchange the outstanding balance of the Working Capital Loan with the sponsors for up to the USD $12.0 million letter of credit.

An application fee of $75,000 was paid to HSBC subsequent to September 30, 2011.

Related Party Transaction

Subsequent to September 30, 2011, two directors of the Company sponsored the Company for the HSBC Working Capital Loan (see Note 9), by issuing a letter of credit to HSBC in the amount of USD$12.0 million and entered into a Put Agreement with HSBC. The Put Agreement may be triggered by HSBC at its sole discretion, which allows HSBC to exchange the outstanding balance of the Working Capital Loan with the sponsors for up to the USD$12.0 million of the letter of credit.

In exchange for entering into the Put Agreement and funding the letter of credit, the Company agreed to compensate the two sponsors in the following manner;

a. pay the sponsors in US dollars on the last day of each calendar quarter, an aggregate amount equal to 1.75% of the maximum outstanding principal amount of the line of credit during the immediately preceding calendar quarter (or portion thereof), which payments will begin on December 31, 2011;
b. pay to the sponsors, an aggregate amount equal to USD$1.5 million on the earlier of:
   (i) the date the Loan is paid in full;
   (ii) the date the Loan is put to the sponsors pursuant to the Put Agreement; or
   (iii) the date the letter of credit is drawn upon for payment of the Loan;
c. upon certain events of default the payments due to sponsors on the last day of each quarter, increase to an aggregate amount equal to 3.0% of the maximum outstanding principal amount of the line of credit during the immediately preceding calendar quarter (or portion thereof); and the payment to the sponsors will increase to USD$2.0 million from USD$1.5 million;
d. the Company has agreed to grant a security interest over the Mactung project to the sponsors which is subordinated to the security under the Reclamation Security Agreement.

Subsequent to year end, the Company paid $214 thousand to the directors in respect to the letter of credit. A fee of $12 thousand was paid to Queenwood, which has a common director and common ownership interests in the Company, to arrange the letter of credit for the Company.

Water license

The Mackenzie Valley Land and Water Board (“MVLWB”) issued the Company’s type “A” Water License (“license”), which expires January 29, 2014. Subsequent to year end, the water license was extended to January 29, 2016.