NORTH AMERICAN TUNGSTEN CORPORATION LTD

UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE AND NINE MONTHS ENDED JUNE 30, 2015 AND 2014

NOTICE TO READER

As required by National Instrument 51-102, subsection 4.3(3)(a), readers are advised that an auditor has not performed a review of these interim consolidated financial statements.

The attached interim consolidated financial statements for the three and nine months ended June 30, 2015 and 2014 have been prepared by and are the responsibility of the Company's management and have been approved by the Board of Directors of the Company.

NORTH AMERICAN TUNGSTEN CORPORATION LTD.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS AT JUNE 30, 2015 AND SEPTEMBER 30, 2014
FIGURES IN THOUSANDS OF CANADIAN DOLLARS
UNAUDITED

	Note(s)	June 30, 2015	September 30, 2014
ASSETS			
Current assets			
Cash		$ 1,113	$ 363
Accounts receivable	3	1,647	1,252
Inventories	4	10,464	14,064
Prepaid expenses		831	944
		14,055	16,623
Accounts receivable	3	-	2,595
Property, plant and equipment	5	16,917	27,149
Mineral property - Mactung		20,202	19,661
Reclamation deposits	13 & 15	6,277	5,931
		$ 57,451	$ 71,959
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities	6	$ 18,749	$ 16,426
Callidus loan	7	13,491	10,128
Current portion of customer advances	8	1,514	426
Current portion of customer loans	9	8,259	1,974
Current portion of debentures	10	13,739	-
Current portion of equipment loans and capital leases	11	2,340	259
Current portion of notes payable	12	18,735	2,000
Current portion of reclamation liabilities	13	22,269	597
		99,096	31,810
Customer advances	8	-	3,360
Customer loans	9	-	6,090
Debentures	10	-	11,564
Equipment loans and capital leases	11	-	210
Notes payable	12	-	12,584
Reclamation liabilities	13	-	9,394
		99,096	75,012
SHARE CAPITAL AND DEFICIT			
Share capital	14	64,836	64,836
Contributed surplus	14	7,762	7,762
Deficit		(114,243)	(75,651)
		(41,645)	(3,053)
		$ 57,451	$ 71,959
Going concern	1		
Commitments and contingencies	15 & 16		

ON BEHALF OF THE BOARD

"signed"
Kurt E. Heikkila

"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 LOSS AND COMPREHENSIVE LOSS
FOR THE THREE AND NINE MONTHS ENDED JUNE 30, 2015 AND 2014
FIGURES IN THOUSANDS OF CANADIAN DOLLARS EXCEPT FOR PER SHARE AMOUNTS
UNAUDITED

	Note(s)	For the three months ended June 30, 2015	For the three months ended June 30, 2014	For the nine months ended June 30, 2015	For the nine months ended June 30, 2014
REVENUES		$ 14,968	$ 22,452	59,917	$ 65,977
COST OF SALES	17	20,050	21,232	60,021	61,003
GROSS MARGIN		(5,082)	1,220	(104)	4,974
EXPENSES					
Impairment of property, plant and equipment	5	23,114	-	23,114	-
Interest and financing costs	18	1,968	1,366	5,663	3,791
Foreign exchange loss (gain)		(566)	(597)	4,547	516
Accretion of financial liabilities	7, 10 & 12	1,366	218	2,398	937
General and administrative costs		647	640	2,198	2,126
Restructuring costs		403	-	403	-
Impairment of Mactung property	15c	-	-	300	-
Exploration		-	-	-	121
Share-based compensation		-	16	-	48
Loss on revaluation of derivatives		-	-	-	29
Gain on disposal of assets		-	-	(5)	-
Interest and other income		(39)	(22)	(130)	(131)
NET LOSS AND COMPREHENSIVE LOSS		(31,975)	(401)	(38,592)	(2,463)
Loss per share					
Basic and diluted		$ (0.13)	$ -	$ (0.16)	$ (0.01)
Weighted average number of shares (in thousands)					
Basic and diluted		238,123	238,123	238,123	238,123

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

NORTH AMERICAN TUNGSTEN CORPORATION LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE THREE AND NINE MONTHS ENDED JUNE 30, 2015 AND 2014
FIGURES IN THOUSANDS OF CANADIAN DOLLARS
UNAUDITED

	Note(s)	For the three months ended June 30, 2015	June 30, 2014	For the nine months ended June 30, 2015	June 30, 2014
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES					
Net loss		$ (31,975)	$ (401)	$ (38,592)	$ (2,463)
Items not affecting cash:					
Amortization and depreciation	5	1,120	1,950	3,601	5,481
Accretion of financial liabilities	7, 10 & 12	1,366	218	2,398	937
Accretion of reclamation liabilities	13	36	32	107	93
Inventory write-down	17	1,378	382	1,570	382
Impairment of property, plant and equipment	5	23,114	-	23,114	-
Impairment of Mactung property	15c	-	-	300	-
Foreign exchange loss (gain)		(648)	(858)	4,306	318
Share-based compensation		-	16	-	48
Loss on revaluation of derivatives		-	-	-	29
Interest and financing costs		(170)	1,330	2,649	3,771
		(5,779)	2,669	(547)	8,596
Adjustment for:					
Change in non-cash working capital	19	8,879	312	5,946	(1,413)
Increase in reclamation deposits	13 & 15	(100)	(100)	(300)	(300)
		3,000	2,881	5,099	6,883
CASH FLOWS USED IN INVESTING ACTIVITIES					
Expenditure on Mactung property		(245)	(187)	(721)	(743)
Purchase of property, plant and equipment	5	(451)	(2,105)	(1,406)	(5,564)
		(696)	(2,292)	(2,127)	(6,307)
CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES					
Callidus loan, net	7	200	10,423	2,881	10,423
Customer advances	8	(2,952)	-	(2,641)	-
Customer loans	9	-	-	(742)	5,422
Debentures, net	10	-	-	-	2,257
Equipment loans and capital leases	11	(290)	(1,249)	(635)	(3,204)
Notes payable, net	12	-	-	1,449	(678)
Operating Loan, net		-	(8,317)	-	(11,103)
Interest and financing costs (paid) returned		170	(1,330)	(2,649)	(3,771)
		(2,872)	(473)	(2,337)	(654)
Effect of exchange rate changes on cash		16	72	115	65
CHANGE IN CASH		(552)	188	750	(13)
CASH, BEGINNING OF PERIOD		1,665	2	363	203
CASH, END OF PERIOD		$ 1,113	$ 190	$ 1,113	$ 190
Supplemental cash flow information	19				

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

NORTH AMERICAN TUNGSTEN CORPORATION LTD.
CONSOLIDATED STATEMENTS OF EQUITY
FOR THE NINE MONTHS ENDED JUNE 30, 2015 AND 2014
FIGURES IN THOUSANDS OF CANADIAN DOLLARS EXCEPT NUMBER OF COMMON SHARES
UNAUDITED

For the nine months ended June 30, 2014

	Note(s)	Number of common shares		Share capital		Contributed surplus		Deficit		Total equity
Balance at October 1, 2013		238,123,058	$	64,836	$	6,267	$	(69,005)	$	2,098
Conversion feature of convertible debentures		-		-		1,108		-		1,108
Share-based compensation	14	-		-		48		-		48
Net loss		-		-		-		(2,463)		(2,463)
Balance at June 30, 2014		238,123,058	$	64,836	$	7,423	$	(71,468)	$	791

For the nine months ended June 30, 2015

	Note(s)	Number of common shares		Share capital		Contributed surplus		Deficit		Total equity
Balance at October 1, 2014		238,123,058	$	64,836	$	7,762	$	(75,651)	$	(3,053)
Net loss		-		-		-		(38,592)		(38,592)
Balance at June 30, 2015		238,123,058	$	64,836	$	7,762	$	(114,243)	$	(41,645)

1. Nature of operations and going concern:

North American Tungsten Corporation Ltd. (the "Company") is engaged in tungsten mining and related activities including acquisition, exploration, development and processing of ore and concentrates. The Company owns the Cantung mine in the Northwest Territories; the Mactung mineral property on the border of Yukon and Northwest Territories; and other tungsten exploration prospects. The Company is incorporated under the Canadian Business Corporations Act. The address of the head office is suite 1640 - 1188 West Georgia Street, Vancouver, British Columbia, Canada.

On June 9, 2015, the Company sought creditor protection in order to financially restructure the Company under the Companies' Creditors Arrangement Act ("CCAA"). The Supreme Court of British Columbia (the "Court") issued an initial order granting the Company's application for creditor protection for an initial period of thirty days. The need to restructure under CCAA was attributable to a number of factors including the continuation of low prevailing market prices of tungsten, high debt service payments, insufficient capitalization and operational issues.

Alvarez & Marsal Canada Inc. (the "Monitor") has been appointed by the Court as monitor in the CCAA proceedings and will be responsible for reviewing the Company's ongoing operations, liaising with creditors and other stakeholders and reporting to the Court.

On July 9, 2015, the Company entered into a $2.5 million interim financing with Callidus Capital Corporation ("Callidus") which was approved by the Court. Under the terms of the interim facility, Callidus has agreed to lend the Company $2.5 million which is to be drawn down in accordance with the Company's cash flow projection that was provided to Callidus and the Court. The interest rate for the interim facility is 21% per annum, subject to an additional 2% default interest rate. The interim facility will mature on the earlier of November 15, 2015 and the end of the stay of proceedings pursuant to the initial order under CCAA. The interim facility is secured by a first-ranking super priority charge against all assets of the Company. The Company has drawn the full amount under the interim financing.

The Court also approved a forbearance agreement between the Company and Callidus pursuant to which the Company has agreed to continue to make payments to Callidus in respect of its existing loans and other covenants in return for Callidus forbearing from exercising its right and remedies under its existing loans. Subsequent to June 30, 2015 the Company has paid $0.9 million to Callidus under the forbearance agreement.

On July 9, 2015, the Company obtained an order from the Court extending the period of the stay of proceedings against the Company under CCAA up to and including July 17, 2015.

On July 17, 2015, the Company commenced a Sale and Investor Solicitation Process ("SISP") which was approved by an order of the Court. At the same time, the Court extended the stay and other relief under CCAA to October 31, 2015. The extension and protection under CCAA will allow the Company to continue with its current operating plan while inviting offers of purchase of the Company's assets, property and business or for an investment in the Company. The Monitor will oversee the sale and investment process. Alvarez & Marsal Canada Securities ULC is soliciting offers of purchase or investment on the Company's behalf. Any offers which the Company decides to accept will be subject to Court approval.

On August 20, 2015, the Company executed a $2.5 million accounts receivable credit facility ("AR Facility") with Callidus which was approved by an order of the Court. Callidus will provide a revolving interim facility based upon the accounts receivable owed by a customer. Advances will be made within 5 days of invoicing and proof of shipment. Payments by the customer will be made to a designated blocked account within 30 days of invoicing and shall be swept by Callidus upon receipt and applied against the balance of the AR Facility. The AR Facility bears interest at 21% per annum. The AR Facility is secured by a first-ranking super priority charge against all assets of the Company.

The interim consolidated financial statements for the three and nine months ended June 30, 2015 have been prepared using International Financial Reporting Standards ("IFRS"), as applied by the Company prior to creditor protection proceedings. While the Company and its subsidiary have filed for and been granted creditor protection under CCAA, these interim consolidated financial statements do not purport to reflect or provide for any of the consequences of the creditor protection proceedings and have been prepared on a going concern basis, which assumes that the Company will be able to realise its assets and discharge its liabilities in the normal course of business for the foreseeable future.

The creditor protection proceedings provide the Company with a period of time to stabilize its operations and financial condition and develop a comprehensive restructuring plan. Management believe that these actions make the going concern basis appropriate. However, it is not possible to predict the outcome of the creditor protection proceedings and accordingly significant doubt exists as to whether the actions taken in any restructuring will result in improvements to the financial condition sufficient to allow the Company to continue as a going concern. If a restructuring plan is not approved and the Company fails to emerge from the creditor protection proceedings, the Company could be forced into bankruptcy resulting in the liquidation of the Company' assets. Under a liquidation scenario, adjustments would be necessary to the carrying amounts and classification of assets and liabilities in these interim consolidated financial statements.

FIGURES ARE IN THOUSANDS OF CANADIAN DOLLARS

For the nine months ended June 30, 2015 the Company recorded a net loss of $38.6 million (year ended September 30, 2014 - net loss of $6.6 million). At June 30, 2015 the Company had a working capital deficiency of $85.0 million (September 30, 2014 - $15.2 million) and shareholders' deficit of $41.6 million (September 30, 2014 – deficit of $3.1 million).

The factors discussed above reflect the existence of material uncertainties that cast significant doubt about the Company's ability to continue as a going concern. If the going concern assumption were not appropriate for these financial statements, adjustments would be necessary to the carrying values of assets and liabilities, reported expenses and classification used in the statement of financial position. The adjustments would be material.

2. Significant accounting policies:

a. Basis of preparation

The interim consolidated financial statements of the Company have been prepared in accordance with the IFRS applicable to the preparation of interim financial statements, including IAS 34, *Interim Financial Reporting*. These interim financial statements should be read in conjunction with the Company's most recently issued annual audited consolidated financial statements which includes information useful to understanding the Company's business and financial statement preparation. In particular, the Company's significant accounting policies were presented in Note 2 of the consolidated financial statements for the year ended September 30, 2014 and have been consistently applied in the preparation of these interim financial statements except as described in Note 2(b) below.

These consolidated financial statements have been prepared on a historical cost basis except for financial instruments classified as fair value through profit or loss ("FVTPL") which are stated at their fair value.

The Board of Directors approved these financial statements on August 27, 2015.

b. Adoption of new and amended IFRS pronouncements

IFRIC 21 – Levies

IFRIC 21 clarifies that an entity recognises a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. IFRIC 21 was adopted on October 1, 2014. The adoption of this standard did not have an impact on the consolidated financial statements.

3. Accounts receivable:

	June 30, 2015	September 30, 2014
Trade receivables	$ 1,043	$ 3,039
Taxes and other receivables	604	808
	1,647	3,847
Current portion of accounts receivable	(1,647)	(1,252)
Long-term portion of accounts receivable	$ -	$ 2,595

4. Inventories:

	June 30, 2015	September 30, 2014
Tungsten concentrates	$ 2,735	$ 3,788
Copper concentrates	132	86
Ore stockpile	3,474	5,301
Materials and supplies	4,123	4,889
	$ 10,464	$ 14,064

FIGURES ARE IN THOUSANDS OF CANADIAN DOLLARS

5. Property, plant and equipment:

		Equipment under capital lease		Buildings, equipment and plant		Mine infrastructure assets		Tailings management		Total
Net book value, September 30, 2014	$	652	$	21,159	$	1,043	$	4,295	$	27,149
Opening cost, October 1, 2014	$	991	$	51,716	$	40,190	$	19,323	$	112,220
Additions		2,534		49		485		1,244		4,312
Additions - reclamation assets (non-cash)		-		43		960		11,168		12,171
Transfer between categories		(413)		413		-		-		-
Ending cost, June 30, 2015	$	3,112	$	52,221	$	41,635	$	31,735	$	128,703
Opening balance, accumulated depreciation and impairments, October 1, 2014	$	339	$	30,557	$	39,147	$	15,028	$	85,071
Depreciation		235		2,357		250		759		3,601
Impairment		-		4,928		2,238		15,948		23,114
Transfer between categories		(152)		152		-		-		-
Ending balance, accumulated depreciation and impairments, June 30, 2015	$	422	$	37,994	$	41,635	$	31,735	$	111,786
Net book value, June 30, 2015	$	2,690	$	14,227	$	-	$	-	$	16,917

Additions, excluding non-cash reclamation asset additions, for the three months ended June 30, 2015 were $1.1 million (three months ended June 30, 2014 - $1.3 million).

In connection with the Callidus loan, the Company entered into a general security agreement which includes all property, plant and equipment (Note 7) except for specific assets which are held as security under equipment loans and capital leases (Note 11).

As of June 30, 2015 management reviewed the carrying value of the Cantung mine after concluding there were indicators of impairment. With no operational plan for the mine beyond October 31, 2015 and significant uncertainty regarding future operations which will depend on recovery in market quotations for tungsten, management estimated the recoverable amount based on fair value less costs to sell. Management used third party valuations and knowledge of bids for specific equipment through the SISP. As a result of the review, it was determined that the Cantung assets were impaired and an impairment charge of $23.1 million was recognized to reduce the carrying value to the recoverable amount.

6. Accounts payable and accrued liabilities:

		June 30, 2015		September 30, 2014
Trade payables	$	8,878	$	9,663
Royalties payable		5,150		4,562
Interest payable		2,904		-
Property, plant and equipment and Mactung property costs payable		966		446
Other payables and accrued liabilities		851		1,755
	$	18,749	$	16,426

FIGURES ARE IN THOUSANDS OF CANADIAN DOLLARS

7. Callidus loan:

Balance at September 30, 2014	$	10,128
Additional borrowings		4,150
Transaction costs		(214)
Principal repayments		(1,209)
Accretion		636
Balance at June 30, 2015	$	13,491

On December 30, 2014 the Company extended the maturity date of the Callidus loan to May 31, 2016 and borrowed additional funds of $3.65 million. The loan is due on demand with an interest rate of 18% per annum and monthly principal repayments of $150 thousand through the date of maturity. Callidus earned a facility fee in the amount of $154 thousand in respect of the increase and extension of the loan agreement, which is due at maturity. The Company has provided security in the form of a first charge over all assets of the Company, excluding the Mactung property, accounts receivable from a customer, assets under equipment loans and capital leases and all mining and mineral leases, claims and tenures.

Of the additional loan proceeds, $2.0 million was used to repay a promissory note that matured on December 31, 2014 (Note 12). The remaining proceeds were used for capital projects and working capital.

In filing for protection under CCAA and not paying the monthly interest and principal payment on June 30, 2015, the Company was in default with the terms of the loan agreement which resulted in an increase in the interest rate to 21%. The Company accelerated the recognition of accretion in order to recognise the Callidus loan at face value as of June 30, 2015.

On June 29, 2015, Callidus advanced an additional $0.5 million under the existing loan facility.

Subsequent to June 30, 2015, as part of the Court approved forbearance agreement executed between the Company and Callidus, the Company agreed to continue to make payments to Callidus in respect of its existing loans and other covenants in return for Callidus forbearing from exercising its right and remedies under its existing loan. Subsequent to June 30, 2015, the Company has paid $0.9 million to Callidus under the forbearance agreement, including the $154 thousand facility fee.

Under the forbearance agreement, the Company has agreed to pay the proceeds from the sale of the equipment to Callidus with the following payment schedule: $3.0 million by September 30, 2015 and $8.0 million by November 30, 2015.

8. Customer advances:

		June 30, 2015		September 30, 2014
Customer advances	$	1,514	$	3,786
Current portion of customer advances		(1,514)		(426)
Long-term portion of customer advances	$	-	$	3,360

During fiscal 2014 the Company entered into a new tungsten delivery contract with an existing customer. Under the terms of the new delivery agreement, the pre-existing USD$3.0 million customer advance carried an interest rate of 3.0% per annum.

On June 24, 2015, the Company and customer amended the tungsten delivery contract, as approved by the Court, in which the USD$3.0 million customer advance was offset against outstanding and unpaid invoices issued to the customer for concentrate shipments made from the Cantung mine. In return, the customer agreed to pay for each future shipment of concentrate within 5 business days following the customer's receipt of shipping documents and a commercial invoice. Due to the provisions of the amended tungsten delivery contract, the Company had been paid for shipments that had not been recognised as revenue at June 30, 2015, resulting in a $1.5 million customer advance.

During fiscal 2014 the Company executed a supplier financing agreement with a customer and the customer's financial institution whereby the customer's financial institution pays for tungsten concentrate shipments within 3 to 5 business days of being invoiced. The financial institution charges a fee for providing this service of which $252 thousand was expensed in interest and financing costs for the nine months ended June 30, 2015. Upon filing for protection under CCAA, the Company was informed that the customer's financial institution would no longer participate in the supplier financing agreement. As a result, the customer notified the Company it would revert back to payment terms of net 30 days.

FIGURES ARE IN THOUSANDS OF CANADIAN DOLLARS

9. Customer loans:

	June 30, 2015	September 30, 2014
Customer loans	$ 8,259	$ 8,064
Current portion of customer loans	(8,259)	(1,974)
Long-term portion of customer loans	$ -	$ 6,090

On December 19, 2013, the Company entered into a new tungsten delivery contract with an existing customer. In conjunction with the tungsten delivery contract, a loan was arranged for USD$2.5 million and the existing USD$2.2 million advance from the customer was rolled into the loan. The combined USD$4.7 million loan matures on December 31, 2018 and bears interest at 3.0% per annum payable quarterly. Equal principal repayments of USD$293,750 per quarter commenced on March 31, 2015 and continue each quarter thereafter with the final payment on December 31, 2018.

On February 20, 2014, the Company entered into a new tungsten delivery contract with another existing customer. In conjunction with the tungsten delivery contract, a loan was arranged for USD$2.5 million. The loan matures on March 31, 2017 and bears interest at 3.0% per annum payable quarterly. Equal principal repayments of USD$293,750 per quarter commenced on March 31, 2015 and continue each quarter thereafter with the final payment of USD$150,000 on March 31, 2017.

The Company did not make the interest and principal payments required under the customer loan agreement by June 30, 2015. This caused the loans to be in default, resulting in the entire outstanding balance being classified as current.

10. Debentures:

Balance at September 30, 2014	$ 11,564
Accretion	828
Loss on foreign exchange	1,347
Balance at June 30, 2015	$ 13,739

Of the USD$11.0 million outstanding in debentures, USD$9.0 million are convertible (“Convertible Debentures”) and USD$2.0 million are non-convertible (“Debentures”). Queenwood Capital Partners LLC, Queenwood Capital Partners II LLC (“Queenwood II”) and three directors of the Company combined hold USD$7.6 million of the Convertible Debentures and USD$2.0 million of the Debentures.

The Convertible Debentures bear interest at 11% per annum, payable quarterly and mature on December 31, 2015. The Convertible Debentures can be converted at any time into common shares of the Company at a rate of CDN$0.12 per share with a fixed exchange rate of CND$1.00 = USD$0.94, for an effective conversion rate of CDN$0.1128. The Debentures bear interest at 18% per annum, payable quarterly and mature on December 31, 2015. The Company has provided a general security agreement that has been subordinated to the Company’s other secured indebtedness, as security for the debentures. Notwithstanding the maturity date of December 31, 2015 the repayment of any principal amounts to debenture holders is fully subordinated to the repayment of the Callidus loan which has a maturity date of May 31, 2016.

In filing for protection under CCAA, the Company accelerated the recognition of accretion in order to recognise the debentures at face value as of June 30, 2015.

11. Equipment loans and capital leases:

	June 30, 2015	September 30, 2014
Equipment loans and capital leases	$ 2,340	$ 469
Current portion of equipment loans and capital leases	(2,340)	(259)
Long-term portion of equipment loans and capital leases	$ -	$ 210

The Company has various capital leases for equipment with maturity dates in fiscal 2015 through 2020 and interest rates that range from 5.6% to 19.6%. The Company has pledged the acquired assets as security for the equipment loans and capital leases. In filing for protection under CCAA, this caused the equipment loans and capital leases to be in default under the terms of the agreements, resulting in the entire outstanding balance being classified as current.

FIGURES ARE IN THOUSANDS OF CANADIAN DOLLARS

12. Notes payable:

	June 30, 2015	September 30, 2014
Former mining contractor	$ -	$ 2,000
Queenwood II	18,735	12,584
	18,735	14,584
Current portion of notes payable	(18,735)	(2,000)
Long-term portion of notes payable	$ -	$ 12,584

Queenwood II – USD$3.0 million promissory note

On October 24, 2014 the Company executed a promissory note with Queenwood II for up to a maximum aggregate principal amount of USD$3.0 million. The Company has drawn the full amount on the promissory note. Interest is payable at a rate of 18% per annum with interest payable quarterly in arrears on March 31, June 30, September 30 and December 31 of each year, with any remaining accrued and unpaid interest payable on maturity. The promissory note is repayable on demand with no specified maturity date. The Company has provided a general security agreement that has been subordinated to the Company's other secured indebtedness, as security for the promissory note (Note 7). Two directors of the Company collectively own all of the issued and outstanding units of Queenwood II.

Queenwood II – USD$12.0 million promissory note

In 2014 the Company executed a USD$12.0 million promissory note with Queenwood II. The maturity date for the Queenwood II promissory note is October 1, 2015. Interest is payable at 12% per annum with interest payable quarterly on March 31, June 30, September 30 and December 31 of each year, with any remaining accrued and unpaid interest payable on the maturity date. The Company has provided a general security agreement that has been subordinated to the Company's other secured indebtedness, as security for the promissory note (Note 7).

In filing for protection under CCAA, the Company accelerated the recognition of accretion in order to recognise the promissory note at face value as of June 30, 2015.

Former mining contractor – promissory note

The Company issued a promissory note to a former mining contractor to settle an accounts payable amount. On December 31, 2014 the $2.0 million promissory note was repaid with proceeds from the Callidus loan (Note 7).

13. Reclamation liabilities:

The Company's total undiscounted amount of estimated future cash flows required to settle the Cantung mine reclamation obligation is $22.3 million (September 30, 2014 - $9.8 million).

	June 30, 2015	September 30, 2014
Opening balance, reclamation liabilities	$ 9,991	$ 8,443
Accretion	107	124
Change in estimates of future costs	12,171	1,301
Additions	-	123
Closing balance, reclamation liabilities	$ 22,269	$ 9,991
Current portion of reclamation liabilities	(22,269)	(597)
Long-term portion of reclamation liabilities	$ -	$ 9,394

Following discussions with regulatory authorities regarding the extent of reclamation work that may be required and due to creditor protection proceedings, the Company reviewed the assumptions used to determine the reclamation liability. In determining the previous reclamation liability, the Company assumed internal labour to complete the reclamation work. In filing for CCAA, this assumption is no longer valid. As a result, there was an increase in costs for third parties to complete the reclamation work which include profit margins, mobilization and demobilization costs and a significant increase in the contingency.

FIGURES ARE IN THOUSANDS OF CANADIAN DOLLARS

Based on the current operational plan at June 30, 2015 and the unknown outcome of the SISP process, there is significant uncertainty in the timing of the reclamation work. As a result, management have recorded the reclamation liability as current.

The Company has posted deposits of $6.3 million in cash and $5.5 million in the form of secured promissory notes which are held in escrow as security for the mine reclamation obligations under the water license for the Cantung mine issued by the Mackenzie Valley Land and Water Board ("MVLWB") (Note 15 a).

14. Share capital:

a. Common shares

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

b. Warrants

The Company has 2,000,000 warrants outstanding with an exercise price of $1.00 per share and an expiry date of October 27, 2015.

c. Share options

Options outstanding as of September 30, 2014	Granted	Exercised	Forfeited	Cancelled	Expired	Options outstanding as of June 30, 2015	Exercise price	Expiry date	Options exercisable
75,000	-	-	-	-	(75,000)	-	$ 0.15	19-Oct-14	-
550,000	-	-	-	-	(550,000)	-	$ 0.19	1-Feb-15	-
100,000	-	-	-	-	-	100,000	$ 0.28	19-Jan-17	100,000
650,000	-	-	-	-	-	650,000	$ 0.42	8-Mar-17	650,000
1,400,000	-	-	-	-	(100,000)	1,300,000	$ 0.19	28-May-18	1,300,000
50,000	-	-	-	-	-	50,000	$ 0.19	10-Jul-18	50,000
66,666	-	-	-	-	(66,666)	-	$ 0.14	30-Nov-14	-
150,000	-	-	-	-	-	150,000	$ 0.10	4-Dec-18	150,000
3,041,666	-	-	-	-	(791,666)	2,250,000			2,250,000
Weighted average exercise price									
$0.23	N/A	N/A	N/A	N/A	$0.18	$0.25			$0.25

The outstanding options have a weighted average exercise price of $0.25 per share (September 30, 2014 - $0.24) and a weighted average remaining life of 2.5 years (September 30, 2014 – 2.6 years).

There were no share options granted during the nine months ended June 30, 2015. During the nine months ended June 30, 2015 nil was recognised as share-based compensation (nine months ended June 30, 2014 - $48 thousand).

FIGURES ARE IN THOUSANDS OF CANADIAN DOLLARS

15. Commitments:

Contractual obligations and commitments	Payments due in the years ended September 30, 2015 [1]	2016	2017	2018	2019	2020	Total
Mactung leases	$ -	$ 10	$ 10	$ 10	$ 10	$ 10	$ 50
Cantung leases and other agreements	209	227	269	293	316	649	1,963
Office leases [2]	59	245	251	84	-	-	639
	$ 2,608	$ 482	$ 530	$ 387	$ 326	$ 659	$ 4,992

1 - Commitments are for the remainder of fiscal 2015

2 - Includes basic rent and associated common costs under the lease

a. Water license

The MVLWB issued the Company's type "A" Water License ("license") for the Cantung mine, which expires January 29, 2016.

On June 12, 2015, the reclamation security deposit required under the Company's license was amended by the Government of the Northwest Territories ("GNWT") to $30.9 million from $11.7 million. This amended amount included approximately $3.4 million related to future tailings storage facilities. The Company has posted $6.3 million in cash and $5.5 million in the form of secured promissory notes pursuant to the Reclamation Security Agreement ("RSA").

The Company has provided a RSA which pledges the Mactung property as security for any amounts owing under the Cantung water license and monies owed by way of secured promissory notes. Any funds in excess of ultimate reclamation costs will be returned to the Company.

During the nine months ended June 30, 2015 the Company posted $300 thousand of cash towards the reclamation security deposit. The Company is currently in discussions with the GNWT regarding the reclamation plan, the amount of the reclamation security, and the form and timing of the security amounts to be posted.

b. Cantung smelter royalties

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

c. Mactung smelter royalties

On January 31, 2005 the Company entered into an Amended Royalty Agreement on the Mactung property with Teck Resources Limited ("Teck"). For $100 thousand (paid) Teck granted the Company an option (the "Option") to reduce the Mactung royalty from a 4% net smelter return ("NSR") to a 1% NSR. As the Company did not exercise the Option by March 30, 2010, it paid an additional $200 thousand (paid) to Teck to maintain the Option. The Option was exercisable by the Company upon paying to Teck an additional $1.0 million by the earlier of:

- March 30, 2015; or
- 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.

The Option expired unexercised on March 30, 2015. As a result, the historical Option payments were written off in the amount of $0.3 million. The Company maintains the right to reduce the 4% NSR to 2% NSR with a payment of $2.5 million to Teck at any time.

16. Contingencies:

Pursuant to contracts with directors, in the event of a change in control of the Company, the Company would be liable for payments totalling $0.3 million.

FIGURES ARE IN THOUSANDS OF CANADIAN DOLLARS

17. Cost of sales:

	For the three months ended		For the nine months ended	
	June 30, 2015	June 30, 2014	June 30, 2015	June 30, 2014
Mine operating costs	$ 15,465	$ 17,929	$ 51,813	$ 55,934
Amortization and depreciation	1,120	1,950	3,601	5,481
Freight and handling	306	388	1,112	1,461
Royalties	147	220	588	645
Inventory changes, adjustments and write-downs	3,012	745	2,907	(2,518)
	$ 20,050	$ 21,232	$ 60,021	$ 61,003

During the three and nine months ended June 30, 2015, the Company recorded an inventory write-down of tungsten concentrates to net realisable value totalling $1.4 million and $1.6 million respectively (three and nine months ended June 30, 2014 – $0.4 million).

Mine operating costs by function:	For the three months ended		For the nine months ended	
	June 30, 2015	June 30, 2014	June 30, 2015	June 30, 2014
Mine	$ 4,749	$ 6,673	$ 18,182	$ 21,165
Power generation and surface maintenance	3,841	4,618	12,771	14,450
Site administration and environmental	3,276	3,388	10,453	10,580
Mill	3,599	3,250	10,407	9,739
	$ 15,465	$ 17,929	$ 51,813	$ 55,934

Mine operating costs by nature:	For the three months ended		For the nine months ended	
	June 30, 2015	June 30, 2014	June 30, 2015	June 30, 2014
Salaries and wages	$ 5,052	$ 5,373	$ 16,080	$ 16,280
Materials and supplies	3,817	3,728	12,439	11,723
Fuel and lubricants	2,616	3,872	10,360	12,853
Freight, expediting and support services	1,588	1,908	5,384	5,630
Employee benefits	1,321	1,411	3,791	3,932
Other costs	1,006	984	2,882	3,197
Mine and drill contractors	65	653	877	2,319
	$ 15,465	$ 17,929	$ 51,813	$ 55,934

18. Interest and financing costs:

	For the three months ended		For the nine months ended	
	June 30, 2015	June 30, 2014	June 30, 2015	June 30, 2014
Notes payable	$ 617	$ 40	$ 1,759	$ 261
Callidus loan	638	292	1,728	292
Debentures	415	376	1,225	794
Other	140	30	536	334
Customer advances and loans	89	91	277	309
Equipment loans and capital leases	69	30	138	134
Bank loans and associated agreements	-	507	-	1,667
	$ 1,968	$ 1,366	$ 5,663	$ 3,791

FIGURES ARE IN THOUSANDS OF CANADIAN DOLLARS

19. Supplemental cash flow:

	For the three months ended		For the nine months ended	
	June 30, 2015	June 30, 2014	June 30, 2015	June 30, 2014
Change in non-cash working capital:				
Accounts receivable	$ 1,693	$ 1,408	$ 2,200	$ 5,116
Prepaid expenses	328	(143)	113	(302)
Inventories	2,771	370	2,030	(3,712)
Accounts payable and accrued liabilities	4,087	(1,323)	1,603	(2,515)
	$ 8,879	$ 312	$ 5,946	$ (1,413)

	For the three months ended		For the nine months ended	
	June 30, 2015	June 30, 2014	June 30, 2015	June 30, 2014
Changes in accounts payable and accrued liabilities affecting cash flows used in investing activities:				
Expenditures on property, plant and equipment	$ 721	$ 237	$ 721	$ 237
Expenditures on Mactung property	245	102	245	102

20. Related party transactions:

Directors of the Company participated directly and indirectly in the USD$11.0 million Debentures and Convertible Debentures financing as to USD$9.6 million (Note 10). For the nine months ended June 30, 2015 the Company recognised interest expense of $1.1 million (nine months ended June 30, 2014 - $0.6 million) on these Debentures and Convertible Debentures.

During 2014 the Company executed a USD$12.0 million promissory note with Queenwood II (Note 12). During the nine months ended June 30, 2015 the Company recognised interest expense of $1.3 million (nine months ended June 30, 2014 – nil) on this Queenwood II promissory note.

On October 24, 2014 the Company executed a promissory note with Queenwood II for up to a maximum aggregate principal amount of USD$3.0 million (Note 12). The Company has drawn the full amount on the promissory note. During the nine months ended June 30, 2015 the Company recognized interest expense of $0.4 million (nine months ended June 30, 2014 – nil) on this Queenwood II note payable.

At June 30, 2015 there is $2.5 million of interest and financing costs in accounts payable and accrued liabilities due to related parties.

During the nine months ended June 30, 2015 the Company recognised $1.2 million (nine months ended June 30, 2014 - $0.8 million) for professional and consulting fees to directors or companies related to directors.

The above transactions were in the normal course of operations.

21. Financial instruments:

The Company has financial assets which include cash and cash equivalents, accounts receivable and reclamation deposits, the carrying value of which approximates fair value. The Company has financial liabilities which include accounts payable and accrued liabilities, equipment loans and capital leases, notes payable, customer loans, Callidus loan, debentures and the interest bearing component of the convertible debentures, the carrying values of which may be higher than their fair value due to the Company's liquidity position (Note 1).

The Company's financial assets are measured and recognised 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. derived from prices); and
Level 3 - inputs for the asset or liability that are not based upon observable market data.

FIGURES ARE IN THOUSANDS OF CANADIAN DOLLARS

Categories of financial instruments

The estimated fair values 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.

The Company has determined the estimated fair values of its financial instruments based upon appropriate valuation methodologies. The following table shows the carrying value of financial assets and liabilities for each category of financial instruments:

	June 30, 2015	September 30, 2014
Financial assets		
Loans and receivables		
Cash and cash equivalents	$ 1,113	$ 363
Accounts receivable	1,647	3,847
Reclamation deposits	6,277	5,931
Financial liabilities		
Other financial liabilities		
Accounts payable and accrued liabilities	$ 18,749	$ 16,426
Callidus loan	13,491	10,128
Customer loans	8,259	8,064
Debentures & convertible debentures (interest bearing portion)	13,739	11,564
Equipment loans and capital leases	2,340	469
Notes payable	18,735	14,584