



**UNAUDITED INTERIM CONSOLIDATED
FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED
DECEMBER 31, 2014 AND 2013**

NORTH AMERICAN TUNGSTEN CORPORATION LTD.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS AT DECEMBER 31, 2014 AND SEPTEMBER 30, 2014
FIGURES IN THOUSANDS OF CANADIAN DOLLARS
UNAUDITED

	Note(s)	December 31, 2014	September 30, 2014
ASSETS			
Current assets			
Cash		\$ 5,708	\$ 363
Accounts receivable	3	717	1,252
Inventories	4	16,631	14,064
Prepaid expenses		1,032	944
		<u>24,088</u>	<u>16,623</u>
Accounts receivable	3	2,280	2,595
Property, plant and equipment	5	26,505	27,149
Mineral property - Mactung		19,872	19,661
Reclamation deposits	13 & 15	6,047	5,931
		<u>\$ 78,792</u>	<u>\$ 71,959</u>
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities	6	\$ 14,531	\$ 16,426
Callidus loan	7	13,285	10,128
Current portion of customer advances	8	2,665	426
Current portion of customer loans	9	2,726	1,974
Current portion of debentures	10	12,136	-
Current portion of capital leases	11	304	259
Current portion of notes payable	12	16,738	2,000
Current portion of reclamation liabilities	13	597	597
		<u>62,982</u>	<u>31,810</u>
Customer advances	8	3,480	3,360
Customer loans	9	5,626	6,090
Debentures	10	-	11,564
Capital leases	11	537	210
Notes payable	12	-	12,584
Reclamation liabilities	13	9,430	9,394
		<u>82,055</u>	<u>75,012</u>
SHARE CAPITAL AND DEFICIT			
Share capital	14	64,836	64,836
Contributed surplus	14	7,762	7,762
Deficit		(75,861)	(75,651)
		<u>(3,263)</u>	<u>(3,053)</u>
		<u>\$ 78,792</u>	<u>\$ 71,959</u>

Going concern 1
Commitments and contingencies 15 & 16

ON BEHALF OF THE BOARD

"signed"

Kurt E. Heikkila

"signed"

Bryce M. A. Porter

NORTH AMERICAN TUNGSTEN CORPORATION LTD.
CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS
FOR THE THREE MONTHS ENDED DECEMBER 31, 2014 AND 2013
FIGURES IN THOUSANDS OF CANADIAN DOLLARS EXCEPT FOR PER SHARE AMOUNTS
UNAUDITED

	Note(s)	For the three months ended	
		December 31, 2014	December 31, 2013
REVENUES		\$ 21,498	\$ 20,462
COST OF SALES	17	17,483	22,077
GROSS MARGIN		4,015	(1,615)
EXPENSES			
Interest and financing costs	18	1,683	1,052
Foreign ex change loss		1,380	518
General and administrative costs		674	642
Accretion of financial liabilities	7, 10 & 12	546	572
Ex ploration		-	119
Share-based compensation		-	32
Loss on re valuation of derivatives		-	29
Gain on disposal of assets		(5)	-
Interest and other income		(53)	(50)
NET LOSS AND COMPREHENSIVE LOSS		(210)	(4,529)
Loss per share			
Basic and diluted		\$ -	\$ (0.02)
Weighted average number of shares (in thousands)			
Basic and diluted		238,123	238,123

NORTH AMERICAN TUNGSTEN CORPORATION LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE THREE MONTHS ENDED DECEMBER 31, 2014 AND 2013
FIGURES IN THOUSANDS OF CANADIAN DOLLARS
UNAUDITED

	Note(s)	For the three months ended	
		December 31, 2014	December 31, 2013
CASH FLOWS FROM OPERATING ACTIVITIES			
Net loss		\$ (210)	\$ (4,529)
Items not affecting cash:			
Amortization and depreciation	5	1,267	1,744
Accretion of financial liabilities	7, 10 & 12	546	572
Accretion of reclamation liabilities	13	36	31
Share-based compensation		-	32
Foreign exchange loss		1,215	580
Loss on revaluation of derivatives		-	29
Interest and financing costs		881	1,052
		<u>3,735</u>	<u>(489)</u>
Adjustment for:			
Change in non-cash working capital	19	(3,569)	2,797
Increase in reclamation deposits	13 & 15	(100)	(100)
		<u>66</u>	<u>2,208</u>
CASH FLOWS USED IN INVESTING ACTIVITIES			
Expenditure on Mactung property		(322)	(241)
Purchase of property, plant and equipment	5	(863)	(1,870)
		<u>(1,185)</u>	<u>(2,111)</u>
CASH FLOWS USED IN FINANCING ACTIVITIES			
Capital leases, net	11	372	(1,347)
Debentures, net	10	-	1,163
Notes payable, net	12	1,449	(678)
Operating Loan, net		-	(991)
Callidus loan, net	7	3,190	-
Customer advances	8	2,245	-
Customer loans	9	-	2,659
Interest and financing costs paid		(881)	(1,052)
		<u>6,375</u>	<u>(246)</u>
Effect of ex change rate changes on cash		<u>89</u>	<u>(38)</u>
CHANGE IN CASH		5,345	(187)
CASH, BEGINNING OF PERIOD		363	203
CASH, END OF PERIOD		\$ <u>5,708</u>	\$ <u>16</u>
Supplemental cash flow information	19		

NORTH AMERICAN TUNGSTEN CORPORATION LTD.
CONSOLIDATED STATEMENTS OF EQUITY
FOR THE THREE MONTHS ENDED DECEMBER 31, 2014 AND 2013
FIGURES IN THOUSANDS OF CANADIAN DOLLARS EXCEPT NUMBER OF COMMON SHARES
UNAUDITED

For the three months ended December 31, 2013

	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
Share-based compensation	14	-	-	32	-	32
Net loss		-	-	-	(4,529)	(4,529)
Balance at December 31, 2013		238,123,058	\$ 64,836	\$ 6,299	\$ (73,534)	\$ (2,399)

For the three months ended December 31, 2014

	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		-	-	-	(210)	(210)
Balance at December 31, 2014		238,123,058	\$ 64,836	\$ 7,762	\$ (75,861)	\$ (3,263)

**NORTH AMERICAN TUNGSTEN CORPORATION LTD.
NOTES TO THE UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED DECEMBER 31, 2014 AND 2013
FIGURES ARE IN THOUSANDS OF CANADIAN DOLLARS**

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.

These interim consolidated financial statements have been prepared 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 realise 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.

For the three months ended December 31, 2014 the Company recorded a net loss of \$0.2 million (year ended September 30, 2014 - net loss of \$6.6 million). At December 31, 2014 the Company had a working capital deficiency of \$38.9 million (September 30, 2014 - \$15.2 million) and shareholders' deficit of \$3.3 million (September 30, 2014 - deficit of \$3.1 million).

The ability of the Company to continue as a going concern depends upon continued support from its shareholders, lenders and customers. The Company will need to generate positive net earnings. To accomplish this, the Company commenced a mine and mill improvement project to increase mill throughput and metallurgical recovery, the majority of which is near completion at December 31, 2014. In addition, it will be necessary to roll-over, extend, replace or refinance existing loan facilities as they mature, arrange new financing or convert existing debts into equity.

On October 24, 2014 the Company entered into a promissory note with Queenwood Capital Partners II LLC ("Queenwood II") and as of December 31, 2014 the Company has drawn the full USD\$3.0 million of the promissory note.

On December 30, 2014 the Company extended the Callidus Capital Corporation ("Callidus") loan to May 31, 2016 and borrowed additional funds of \$3.65 million. Of the additional funds received, \$2.0 million was used to repay a promissory note with a former mining contractor that matured on December 31, 2014. The Callidus loan has scheduled principal repayments through May 31, 2016 and the repayment of any principal amounts to debenture holders and Queenwood II is fully subordinated to the repayment of the Callidus loan.

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 International Financial Reporting Standards ("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 February 23, 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.

**NORTH AMERICAN TUNGSTEN CORPORATION LTD.
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FIGURES ARE IN THOUSANDS OF CANADIAN DOLLARS**

3. Accounts receivable:

	<u>December 31,</u> <u>2014</u>	<u>September 30,</u> <u>2014</u>
Trade receivables	\$ 2,315	\$ 3,039
Taxes and other receivables	682	808
	<u>2,997</u>	<u>3,847</u>
Current portion of accounts receivable	(717)	(1,252)
Long-term portion of accounts receivable	<u>\$ 2,280</u>	<u>\$ 2,595</u>

4. Inventories:

	<u>December 31,</u> <u>2014</u>	<u>September 30,</u> <u>2014</u>
Tungsten concentrates	\$ 6,059	\$ 3,788
Copper concentrates	215	86
Ore stockpile	5,578	5,301
Materials and supplies	4,779	4,889
	<u>\$ 16,631</u>	<u>\$ 14,064</u>

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	535	2	220	200	957
Project cost adjustments	-	(10)	-	(324)	(334)
Transfer between categories	(413)	413	-	-	-
Ending cost, December 31, 2014	1,113	52,121	40,410	19,199	112,843
Opening balance, accumulated depreciation and impairments, October 1, 2014	339	30,557	39,147	15,028	85,071
Depreciation	40	833	113	281	1,267
Transfer between categories	(152)	152	-	-	-
Ending balance, accumulated depreciation and impairments, December 31, 2014	227	31,542	39,260	15,309	86,338
Net book value, December 31, 2014	886	20,579	1,150	3,890	26,505

In connection with the Callidus loan, the Company has 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 capital leases (Note 11).

At December 31, 2014 the Company reviewed the indicators of impairment for the Cantung mine and although there remain indicators of impairment, the review suggests that there is no further impairment.

NORTH AMERICAN TUNGSTEN CORPORATION LTD.
NOTES TO THE UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
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6. Accounts payable and accrued liabilities:

	<u>December 31,</u> <u>2014</u>	<u>September 30,</u> <u>2014</u>
Trade payables	\$ 8,226	\$ 9,663
Property, plant and equipment and Mactung property costs payable	95	446
Royalties payable	4,773	4,562
Other payables and accrued liabilities	1,437	1,755
	<u>\$ 14,531</u>	<u>\$ 16,426</u>

7. Callidus loan:

Balance at September 30, 2014	\$ 10,128
Additional borrowings	3,650
Transaction costs	(214)
Principal repayments	(450)
Accretion	171
Balance at December 31, 2014	\$ 13,285

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 remains 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 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 will be used for capital projects and working capital.

8. Customer advances:

	<u>December 31,</u> <u>2014</u>	<u>September 30,</u> <u>2014</u>
Customer advances	\$ 6,145	\$ 3,786
Current portion of customer advances	(2,665)	(426)
Long-term portion of customer advances	<u>\$ 3,480</u>	<u>\$ 3,360</u>

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 bears interest at 3.0% per annum. The customer advance is repayable by February 1, 2017 (the end of the initial contract term) or by mutual agreement by February 1, 2019 (the end of the optional contract renewal periods).

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 \$109 thousand was expensed in interest and financing costs for the three months ended December 31, 2014. Due to the provisions in the tungsten delivery contract, the Company had been paid for shipments that had not been recognised as revenue at December 31, 2014, resulting in a \$2.7 million customer advance.

NORTH AMERICAN TUNGSTEN CORPORATION LTD.
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9. Customer loans:

	<u>December 31,</u> <u>2014</u>	<u>September 30,</u> <u>2014</u>
Customer loans	\$ 8,352	\$ 8,064
Current portion of customer loans	(2,726)	(1,974)
Long-term portion of customer loans	<u>\$ 5,626</u>	<u>\$ 6,090</u>

10. Debentures:

Balance at September 30, 2014	\$ 11,564
Accretion	155
Loss on foreign exchange	417
Balance at December 31, 2014	<u>\$ 12,136</u>

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 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.

11. Capital leases:

	<u>December 31,</u> <u>2014</u>	<u>September 30,</u> <u>2014</u>
Capital leases	\$ 841	\$ 469
Current portion of capital leases	(304)	(259)
Long-term portion of capital leases	<u>\$ 537</u>	<u>\$ 210</u>

Refer to Note 15 for details of required payments for the capital leases.

The Company has various capital leases for equipment with maturity dates in fiscal 2015 through 2018 and interest rates that range from 5.6% to 12.9%. The Company has pledged the acquired assets as security for the capital leases.

12. Notes payable:

	<u>December 31,</u> <u>2014</u>	<u>September 30,</u> <u>2014</u>
Former mining contractor	\$ -	\$ 2,000
Queenwood II	16,738	12,584
	16,738	14,584
Current portion of notes payable	(16,738)	(2,000)
Long-term portion of notes payable	<u>\$ -</u>	<u>\$ 12,584</u>

**NORTH AMERICAN TUNGSTEN CORPORATION LTD.
NOTES TO THE UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
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FIGURES ARE IN THOUSANDS OF CANADIAN DOLLARS**

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).

Former mining contractor – promissory note

The Company issued a promissory note to a former mining contractor to settle an accounts payable amount. During the three months ended 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 \$9.8 million (September 30, 2014 - \$9.8 million). For financial statement purposes this has been estimated with a market based pre-tax discount rate of 1.4% and an average rate of inflation of 1.6%. Based on the life of mine plan at September 30, 2014 the timing of the majority of reclamation work is estimated to commence during fiscal 2018 through fiscal 2019.

	<u>December 31,</u> <u>2014</u>	<u>September 30,</u> <u>2014</u>
Opening balance, reclamation liabilities	\$ 9,991	\$ 8,443
Accretion	36	124
Change in estimates of future costs	-	1,301
Additions	-	123
Closing balance, reclamation liabilities	<u>\$ 10,027</u>	<u>\$ 9,991</u>
Current portion of reclamation liabilities	(597)	(597)
Long-term portion of reclamation liabilities	<u>\$ 9,430</u>	<u>\$ 9,394</u>

The Company has posted deposits of \$6.0 million in cash and \$5.9 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.

NORTH AMERICAN TUNGSTEN CORPORATION LTD.
NOTES TO THE UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
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c. Share options

Options outstanding as of September 30, 2014	Granted	Exercised	Forfeited	Cancelled	Expired	Options outstanding as of December 31, 2014	Exercise price	Expiry date	Options exercisable
75,000	-	-	-	-	(75,000)	-	\$ 0.15	19-Oct-14	-
550,000	-	-	-	-	-	550,000	\$ 0.19	1-Feb-15	550,000
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	-	-	-	-	-	1,400,000	\$ 0.19	28-May-18	1,400,000
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	100,000
3,041,666	-	-	-	-	(141,666)	2,900,000			2,850,000
Weighted average exercise price									
\$0.23	N/A	N/A	N/A	N/A	\$0.15	\$0.24			\$0.24

The outstanding options have a weighted average exercise price of \$0.24 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 three months ended December 31, 2014. During the three months ended December 31, 2014 nil was recognised as share-based compensation (three months ended December 31, 2013 - \$32 thousand).

15. Commitments:

Contractual obligations and commitments	Payments due in the years ended September 30,							Total
	2015 ¹	2016	2017	2018	2019	2020		
Mactung leases and royalty option payment	\$ 1,005	\$ 5	\$ 5	\$ 5	\$ 5	\$ 5	\$ 5	1,030
Cantung leases	50	50	50	50	50	50	50	300
Customer advances	2,665	-	3,480	-	-	-	-	6,145
Customer loans	2,045	2,726	1,878	1,363	340	-	-	8,352
Capital leases	229	308	267	37	-	-	-	841
Office leases ²	177	245	251	84	-	-	-	757
Equipment purchase and rental contracts	80	-	-	-	-	-	-	80
	\$ 6,251	\$ 3,334	\$ 5,931	\$ 1,539	\$ 395	\$ 55	\$ 17,505	

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"), which expires January 29, 2016.

The security deposit required under the Company's licenses is \$11.7 million. The Company has posted \$6.0 million in cash and \$5.9 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 the Government of the Northwest Territories ("GNWT") to increase under certain events.

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

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During the three months ended December 31, 2014 the Company posted \$100 thousand of cash towards the reclamation deposit. The Company is in discussions with the GNWT regarding the amount of estimated future site reclamation cost for an amendment to the water license for the dry stack tailings facility and subsequent renewal of the water license beyond January 29, 2016. As a result the security deposit associated with the license may be amended.

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, such Option to be 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.

If the Company does not exercise the Option, the Company has the right at any time to repurchase one-half (2%) of the 4% NSR from Teck upon paying \$2.5 million.

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.

17. Cost of sales:

	For the three months ended	
	December 31, 2014	December 31, 2013
Mine operating costs	\$ 18,231	\$ 18,610
Amortization and depreciation	1,267	1,744
Freight and handling	376	428
Royalties	211	200
Inventory changes, adjustments and write-downs	(2,602)	1,095
	<u>\$ 17,483</u>	<u>\$ 22,077</u>

Mine operating costs by function:

	For the three months ended	
	December 31, 2014	December 31, 2013
Mine	\$ 6,467	\$ 6,928
Power generation and surface maintenance	4,620	4,830
Site administration and environmental	3,654	3,587
Mill	3,490	3,265
	<u>\$ 18,231</u>	<u>\$ 18,610</u>

NORTH AMERICAN TUNGSTEN CORPORATION LTD.
NOTES TO THE UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED DECEMBER 31, 2014 AND 2013
FIGURES ARE IN THOUSANDS OF CANADIAN DOLLARS

Mine operating costs by nature:

	For the three months ended	
	December 31, 2014	December 31, 2013
Salaries and wages	\$ 5,444	\$ 5,177
Materials and supplies	4,329	4,159
Fuel and lubricants	4,045	4,165
Freight, expediting and support services	1,923	1,844
Employee benefits	1,094	1,158
Other costs	915	1,149
Mine and drill contractors	481	958
	\$ 18,231	\$ 18,610

18. Interest and financing costs:

	For the three months ended	
	December 31, 2014	December 31, 2013
Notes payable	\$ 522	\$ 181
Callidus loan	478	-
Debentures	389	74
Other	195	129
Customer advances and loans	88	77
Equipment loans and capital leases	11	58
Bank loans and associated agreements	-	533
	\$ 1,683	\$ 1,052

19. Supplemental cash flow:

	For the three months ended	
	December 31, 2014	December 31, 2013
Change in non-cash working capital:		
Accounts receivable	\$ 850	\$ 707
Prepaid expenses	(88)	(85)
Inventories	(2,567)	902
Accounts payable and accrued liabilities	(1,764)	1,273
	\$ (3,569)	\$ 2,797

	For the three months ended	
	December 31, 2014	December 31, 2013
Changes in accounts payable and accrued liabilities affecting cash flows used in investing activities:		
Expenditures on property, plant and equipment	\$ 81	\$ 919
Expenditures on Mactung property	\$ 14	\$ 98

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20. Related party transactions:

Directors of the Company participated directly and indirectly in the USD\$11.0 million Debenture and Convertible Debentures financing as to USD\$9.6 million (Note 10). For the three months ended December 31, 2014 the Company recognised an expense of \$0.3 million (three months ended December 31, 2013 - \$37 thousand) of interest 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 three months ended December 31, 2014 the Company recognised an expense of \$0.4 million (three months ended December 31, 2013 - nil) of interest on this Queenwood II note payable.

During the three months ended December 31, 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. During the three months ended December 31, 2014 the Company recognized an expense of \$42 thousand (three months ended December 31, 2013 – nil) of interest on this Queenwood II note payable.

During the three months ended December 31, 2014 the Company recognised \$0.3 million (three months ended December 31, 2013 - \$0.1 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, 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.

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:

	December 31, 2014	September 30, 2014
Financial assets		
<i>Loans and receivables</i>		
Cash and cash equivalents	\$ 5,708	\$ 363
Accounts receivable	2,997	3,847
Reclamation deposits	6,047	5,931
Financial liabilities		
<i>Other financial liabilities</i>		
Accounts payable and accrued liabilities	\$ 14,531	\$ 16,426
Callidus loan	13,285	10,128
Customer loans	8,352	8,064
Debentures & convertible debentures (interest bearing portion)	12,136	11,564
Capital leases	841	469
Notes payable	16,738	14,584