NORTH AMERICAN TUNGSTEN CORPORATION LTD

UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE AND SIX MONTHS ENDED MARCH 31, 2015 AND 2014

NORTH AMERICAN TUNGSTEN CORPORATION LTD.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS AT MARCH 31, 2015 AND SEPTEMBER 30, 2014
FIGURES IN THOUSANDS OF CANADIAN DOLLARS
UNAUDITED

	Note(s)	March 31, 2015	September 30, 2014
ASSETS			
Current assets			
Cash		$ 1,665	$ 363
Accounts receivable	3	642	1,252
Inventories	4	14,613	14,064
Prepaid expenses		1,159	944
		18,079	16,623
Accounts receivable	3	2,698	2,595
Property, plant and equipment	5	27,924	27,149
Mineral property - Mactung		19,853	19,661
Reclamation deposits	13 & 15	6,163	5,931
		$ 74,717	$ 71,959
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities	6	$ 13,939	$ 16,426
Callidus loan	7	12,907	10,128
Current portion of customer advances	8	743	426
Current portion of customer loans	9	2,977	1,974
Current portion of debentures	10	13,418	-
Current portion of equipment loans and capital leases	11	1,135	259
Current portion of notes payable	12	18,512	2,000
Current portion of reclamation liabilities	13	597	597
		64,228	31,810
Customer advances	8	3,800	3,360
Customer loans	9	5,399	6,090
Debentures	10	-	11,564
Equipment loans and capital leases	11	1,495	210
Notes payable	12	-	12,584
Reclamation liabilities	13	9,465	9,394
		84,387	75,012
SHARE CAPITAL AND DEFICIT			
Share capital	14	64,836	64,836
Contributed surplus	14	7,762	7,762
Deficit		(82,268)	(75,651)
		(9,670)	(3,053)
		$ 74,717	$ 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 INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)
FOR THE THREE AND SIX MONTHS ENDED MARCH 31, 2015 AND 2014
FIGURES IN THOUSANDS OF CANADIAN DOLLARS EXCEPT FOR PER SHARE AMOUNTS
UNAUDITED

	Note(s)	For the three months ended March 31, 2015	For the three months ended March 31, 2014	For the six months ended March 31, 2015	For the six months ended March 31, 2014
REVENUES		$ 23,451	$ 23,063	44,949	$ 43,525
COST OF SALES	17	22,488	17,694	39,971	39,771
GROSS MARGIN		963	5,369	4,978	3,754
EXPENSES					
Foreign exchange loss		3,733	595	5,113	1,113
Interest and financing costs	18	2,012	1,373	3,695	2,425
General and administrative costs		877	844	1,551	1,486
Accretion of financial liabilities	7, 10 & 12	486	147	1,032	719
Write-off of option payments - Mactung	15c	300	-	300	-
Exploration		-	2	-	121
Share-based compensation		-	-	-	32
Loss on revaluation of derivatives		-	-	-	29
Gain on disposal of assets		-	-	(5)	-
Interest and other income		(38)	(59)	(91)	(109)
NET INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)		(6,407)	2,467	(6,617)	(2,062)
Income (loss) per share					
Basic and diluted		$ (0.03)	$ 0.01	$ (0.03)	$ (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 SIX MONTHS ENDED MARCH 31, 2015 AND 2014
FIGURES IN THOUSANDS OF CANADIAN DOLLARS
UNAUDITED

	Note(s)	For the three months ended March 31, 2015	For the three months ended March 31, 2014	For the six months ended March 31, 2015	For the six months ended March 31, 2014
CASH FLOWS FROM OPERATING ACTIVITIES					
Net income (loss)		$ (6,407)	$ 2,467	$ (6,617)	$ (2,062)
Items not affecting cash:					
Amortization and depreciation	5	1,214	1,787	2,481	3,531
Accretion of financial liabilities	7, 10 & 12	486	147	1,032	719
Accretion of reclamation liabilities	13	35	30	71	61
Inventory write-down	17	192	-	192	-
Write-off of option payments - Mactung	15c	300	-	300	-
Foreign exchange loss		3,739	596	4,954	1,176
Share-based compensation		-	-	-	32
Loss on revaluation of derivatives		-	-	-	29
Interest and financing costs		1,938	1,389	2,819	2,441
		1,497	6,416	5,232	5,927
Adjustment for:					
Change in non-cash working capital	19	636	(4,522)	(2,933)	(1,725)
Increase in reclamation deposits	13 & 15	(100)	(100)	(200)	(200)
		2,033	1,794	2,099	4,002
CASH FLOWS USED IN INVESTING ACTIVITIES					
Expenditure on Mactung property		(154)	(315)	(476)	(556)
Purchase of property, plant and equipment	5	(627)	(1,631)	(955)	(3,459)
		(781)	(1,946)	(1,431)	(4,015)
CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES					
Equipment loans and capital leases	11	(182)	(566)	(345)	(1,955)
Debentures, net	10	-	1,094	-	2,257
Notes payable, net	12	-	-	1,449	(678)
Operating Loan, net		-	(1,794)	-	(2,785)
Callidus loan, net	7	(509)	-	2,681	-
Customer advances	8	(1,934)	-	311	-
Customer loans	9	(742)	2,762	(742)	5,421
Interest and financing costs paid		(1,938)	(1,389)	(2,819)	(2,441)
		(5,305)	107	535	(181)
Effect of exchange rate changes on cash		10	31	99	(7)
CHANGE IN CASH		(4,043)	(14)	1,302	(201)
CASH, BEGINNING OF PERIOD		5,708	16	363	203
CASH, END OF PERIOD		$ 1,665	$ 2	$ 1,665	$ 2

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 SIX MONTHS ENDED MARCH 31, 2015 AND 2014
FIGURES IN THOUSANDS OF CANADIAN DOLLARS EXCEPT NUMBER OF COMMON SHARES
UNAUDITED

For the six months ended March 31, 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	-		-		32		-		32
Net loss		-		-		-		(2,062)		(2,062)
Balance at March 31, 2014		238,123,058	$	64,836	$	7,407	$	(71,067)	$	1,176

For the six months ended March 31, 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		-		-		-		(6,617)		(6,617)
Balance at March 31, 2015		238,123,058	$	64,836	$	7,762	$	(82,268)	$	(9,670)

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 six months ended March 31, 2015 the Company recorded a net loss of $6.6 million (year ended September 30, 2014 - net loss of $6.6 million). At March 31, 2015 the Company had a working capital deficiency of $46.1 million (September 30, 2014 - $15.2 million) and shareholders' deficit of $9.7 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. Earnings and cash flows are impacted by changes in price for tungsten concentrates and foreign exchange rates. The Company will need to generate positive net earnings. To accomplish this, the Company has substantially completed a mine and mill improvement program which has increased mill throughput and metallurgical recovery. 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. The Company has initiated a severe cash conservation program and is considering other operational and financial alternatives.

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 May 28, 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.

FIGURES ARE IN THOUSANDS OF CANADIAN DOLLARS

3. Accounts receivable:

	March 31, 2015	September 30, 2014
Trade receivables	$ 2,752	$ 3,039
Taxes and other receivables	588	808
	3,340	3,847
Current portion of accounts receivable	(642)	(1,252)
Long-term portion of accounts receivable	$ 2,698	$ 2,595

4. Inventories:

	March 31, 2015	September 30, 2014
Tungsten concentrates	$ 4,986	$ 3,788
Copper concentrates	117	86
Ore stockpile	4,251	5,301
Materials and supplies	5,259	4,889
	$ 14,613	$ 14,064

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	-	368	354	3,256
Transfer between categories	(413)	413	-	-	-
Ending cost, March 31, 2015	$ 3,112	$ 52,129	$ 40,558	$ 19,677	$ 115,476
Opening balance, accumulated depreciation and impairments, October 1, 2014	$ 339	$ 30,557	$ 39,147	$ 15,028	$ 85,071
Depreciation	116	1,650	202	513	2,481
Transfer between categories	(152)	152	-	-	-
Ending balance, accumulated depreciation and impairments, March 31, 2015	$ 303	$ 32,359	$ 39,349	$ 15,541	$ 87,552
Net book value, March 31, 2015	$ 2,809	$ 19,770	$ 1,209	$ 4,136	$ 27,924

Total additions for the three months ended March 31, 2015 were $2.6 million (three months ended March 31, 2014 - $2.2 million).

In connection with the Callidus Capital Corporation ("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 equipment loans and capital leases (Note 11).

At March 31, 2015 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.

FIGURES ARE IN THOUSANDS OF CANADIAN DOLLARS

6. Accounts payable and accrued liabilities:

	March 31, 2015	September 30, 2014
Trade payables	$ 7,356	$ 9,663
Property, plant and equipment and Mactung property costs payable	257	446
Royalties payable	5,003	4,562
Other payables and accrued liabilities	1,323	1,755
	$ 13,939	$ 16,426

7. Callidus loan:

Balance at September 30, 2014	$ 10,128
Additional borrowings	3,650
Transaction costs	(214)
Principal repayments	(909)
Accretion	252
Balance at March 31, 2015	$ 12,907

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, 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.

8. Customer advances:

	March 31, 2015	September 30, 2014
Customer advances	$ 4,543	$ 3,786
Current portion of customer advances	(743)	(426)
Long-term portion of customer advances	$ 3,800	$ 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, now 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 $194 thousand was expensed in interest and financing costs for the six months ended March 31, 2015. Due to the provisions in the tungsten delivery contract, the Company had been paid for shipments that had not been recognised as revenue at March 31, 2015, resulting in a $0.7 million customer advance.

FIGURES ARE IN THOUSANDS OF CANADIAN DOLLARS

9. Customer loans:

	March 31, 2015	September 30, 2014
Customer loans	$ 8,376	$ 8,064
Current portion of customer loans	(2,977)	(1,974)
Long-term portion of customer loans	$ 5,399	$ 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.

10. Debentures:

Balance at September 30, 2014	$ 11,564
Accretion	323
Loss on foreign exchange	1,531
Balance at March 31, 2015	$ 13,418

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.

11. Equipment loans and capital leases:

	March 31, 2015	September 30, 2014
Equipment loans and capital leases	$ 2,630	$ 469
Current portion of equipment loans and capital leases	(1,135)	(259)
Long-term portion of equipment loans and capital leases	$ 1,495	$ 210

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 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.

FIGURES ARE IN THOUSANDS OF CANADIAN DOLLARS

12. Notes payable:

	March 31, 2015	September 30, 2014
Former mining contractor	$ -	$ 2,000
Queenwood II	18,512	12,584
	18,512	14,584
Current portion of notes payable	(18,512)	(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).

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 $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.

	March 31, 2015	September 30, 2014
Opening balance, reclamation liabilities	$ 9,991	$ 8,443
Accretion	71	124
Change in estimates of future costs	-	1,301
Additions	-	123
Closing balance, reclamation liabilities	$ 10,062	$ 9,991
Current portion of reclamation liabilities	(597)	(597)
Long-term portion of reclamation liabilities	$ 9,465	$ 9,394

The Company has posted deposits of $6.2 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).

FIGURES ARE IN THOUSANDS OF CANADIAN DOLLARS

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 March 31, 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	100,000
3,041,666	-	-	-	-	(791,666)	2,250,000			2,200,000
Weighted average exercise price									
$0.23	N/A	N/A	N/A	N/A	$0.18	$0.25			$0.26

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 2.8 years (September 30, 2014 – 2.6 years).

There were no share options granted during the six months ended March 31, 2015. During the six months ended March 31, 2015 nil was recognised as share-based compensation (six months ended March 31, 2014 - $32 thousand).

15. Commitments:

Contractual obligations and commitments	Payments due in the years ended September 30, 2015 [1]	2016	2017	2018	2019	2020	Total
Mactung leases	$ 4	$ 6	$ 6	$ 6	$ 6	$ 6	$ 34
Cantung leases and other agreements	226	227	269	293	316	649	1,980
Equipment loans and capital leases	600	1,088	752	152	29	9	2,630
Office leases [2]	177	245	251	84	-	-	757
Equipment purchases	1,294	-	-	-	-	-	1,294
	$ 2,301	$ 1,566	$ 1,278	$ 535	$ 351	$ 664	$ 6,695

1 - Commitments are for the remainder of fiscal 2015

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

FIGURES ARE IN THOUSANDS OF CANADIAN DOLLARS

a. Water license

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

The security deposit required under the Company's licenses is $11.7 million. The Company has posted $6.2 million in cash and $5.5 million in the form of secured promissory notes pursuant to the Reclamation Security Agreement ("RSA"). The RSA further provides for:

- the Company to post $100 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 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 six months ended March 31, 2015 the Company posted $200 thousand of cash towards the reclamation deposit. The Company is currently in discussions with the GNWT regarding the long term reclamation plan and amount of reclamation security for an amendment to the Cantung water license to allow for the dry stack tailings facility and subsequent renewal of the water license beyond January 29, 2016. The security deposit associated with the renewed license may be materially higher than the currently required deposit, with the potential deposit ranging from $15.2 million to $30.9 million, in cash and other security.

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.

17. Cost of sales:

	For the three months ended		For the six months ended	
	March 31, 2015	March 31, 2014	March 31, 2015	March 31, 2014
Mine operating costs	$ 18,117	$ 19,395	$ 36,348	$ 38,005
Amortization and depreciation	1,214	1,787	2,481	3,531
Freight and handling	430	645	806	1,073
Royalties	230	225	441	425
Inventory changes, adjustments and write-downs	2,497	(4,358)	(105)	(3,263)
	$ 22,488	$ 17,694	$ 39,971	$ 39,771

During the three and six months ended March 31, 2015, the Company recorded an inventory write-down of tungsten concentrates to net realisable value totalling $0.2 million (three and six months ended March 31, 2014 – nil).

FIGURES ARE IN THOUSANDS OF CANADIAN DOLLARS

Mine operating costs by function:	For the three months ended		For the three months ended	
	March 31, 2015	March 31, 2014	March 31, 2015	March 31, 2014
Mine	$ 6,966	$ 7,564	$ 13,433	$ 14,492
Power generation and surface maintenance	4,310	5,002	8,930	9,832
Site administration and environmental	3,523	3,605	7,177	7,192
Mill	3,318	3,224	6,808	6,489
	$ 18,117	$ 19,395	$ 36,348	$ 38,005

Mine operating costs by nature:	For the three months ended		For the three months ended	
	March 31, 2015	March 31, 2014	March 31, 2015	March 31, 2014
Salaries and wages	$ 5,584	$ 5,730	$ 11,028	$ 10,907
Materials and supplies	4,293	3,836	8,622	7,995
Fuel and lubricants	3,699	4,816	7,744	8,981
Freight, expediting and support services	1,873	1,878	3,796	3,722
Employee benefits	1,376	1,363	2,470	2,521
Other costs	961	1,064	1,876	2,213
Mine and drill contractors	331	708	812	1,666
	$ 18,117	$ 19,395	$ 36,348	$ 38,005

18. Interest and financing costs:

	For the three months ended		For the six months ended	
	March 31, 2015	March 31, 2014	March 31, 2015	March 31, 2014
Notes payable	$ 620	$ 40	$ 1,142	$ 221
Callidus loan	612	-	1,090	-
Debentures	421	344	810	418
Other	201	175	396	304
Customer advances and loans	100	141	188	218
Equipment loans and capital leases	58	46	69	104
Bank loans and associated agreements	-	627	-	1,160
	$ 2,012	$ 1,373	$ 3,695	$ 2,425

19. Supplemental cash flow:

	For the three months ended		For the six months ended	
	March 31, 2015	March 31, 2014	March 31, 2015	March 31, 2014
Change in non-cash working capital:				
Accounts receivable	$ (343)	$ 3,001	$ 507	$ 3,708
Prepaid expenses	(127)	(74)	(215)	(159)
Inventories	1,826	(4,984)	(741)	(4,082)
Accounts payable and accrued liabilities	(720)	(2,465)	(2,484)	(1,192)
	$ 636	$ (4,522)	$ (2,933)	$ (1,725)

FIGURES ARE IN THOUSANDS OF CANADIAN DOLLARS

	For the three months ended		For the six months ended	
	March 31, 2015	March 31, 2014	March 31, 2015	March 31, 2014
Changes in accounts payable and accrued liabilities affecting cash flows used in investing activities:				
Expenditures on property, plant and equipment	$ 116	$ 1,096	$ 116	$ 1,096
Expenditures on Mactung property	141	15	141	15

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 six months ended March 31, 2015 the Company recognised interest expense of $0.7 million (six months ended March 31, 2014 - $0.3 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 six months ended March 31, 2015 the Company recognised interest expense of $0.9 million (six months ended March 31, 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 six months ended March 31, 2015 the Company recognized interest expense of $0.2 million (six months ended March 31, 2014 – nil) on this Queenwood II note payable.

At March 31, 2015 there is $0.7 million of interest and financing costs in accounts payable and accrued liabilities due to related parties.

During the six months ended March 31, 2015 the Company recognised $0.7 million (six months ended March 31, 2014 - $0.2 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.

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.

FIGURES ARE IN THOUSANDS OF CANADIAN DOLLARS

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:

	March 31, 2015	September 30, 2014
Financial assets		
Loans and receivables		
Cash and cash equivalents	$ 1,665	$ 363
Accounts receivable	3,340	3,847
Reclamation deposits	6,163	5,931
Financial liabilities		
Other financial liabilities		
Accounts payable and accrued liabilities	$ 13,939	$ 16,426
Callidus loan	12,907	10,128
Customer loans	8,376	8,064
Debentures & convertible debentures (interest bearing portion)	13,418	11,564
Equipment loans and capital leases	2,630	469
Notes payable	18,512	14,584