NORTH AMERICAN TUNGSTEN CORPORATION LTD

UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE AND NINE MONTHS ENDED JUNE 30, 2014 AND 2013

NORTH AMERICAN TUNGSTEN CORPORATION LTD.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS AT JUNE 30, 2014 AND SEPTEMBER 30, 2013
FIGURES IN THOUSANDS OF CANADIAN DOLLARS
UNAUDITED

	Note(s)	June 30, 2014	September 30, 2013
ASSETS			
Current assets			
Cash and cash equivalents		$ 190	$ 203
Accounts receivable	3	3,361	9,025
Inventories	4	10,972	7,642
Prepaid expenses		1,190	888
Derivative instruments		-	29
		15,713	17,787
Accounts receivable	3	3,201	5,358
Property, plant and equipment	5	25,613	25,494
Mineral property - Mactung		19,392	18,731
Reclamation deposits	14 & 16	5,815	5,469
		$ 69,734	**$ 72,839**
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities	6	$ 13,642	$ 16,416
Bank loans	7	12,000	24,679
Callidus loan	8	10,496	-
Current portion of customer advances	9	-	2,705
Current portion of customer loans	10	1,254	-
Current portion of debentures	11	-	2,917
Current portion of equipment loans and capital leases	12	318	2,807
Current portion of notes payable	13	2,000	4,934
Current portion of reclamation liabilities	14	30	963
		39,740	55,421
Customer advances	9	3,201	5,358
Customer loans	10	6,429	-
Debentures	11	10,872	-
Equipment loans and capital leases	12	195	482
Notes payable	13	-	2,000
Reclamation liabilities	14	8,506	7,480
		68,943	70,741
SHARE CAPITAL AND DEFICIT			
Share capital	15	64,836	64,836
Contributed surplus	15	7,423	6,267
Deficit		(71,468)	(69,005)
		791	2,098
		$ 69,734	**$ 72,839**
Going concern	1		
Commitments and Contingencies	16 & 17		

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 COMPREHENSIVE LOSS
FOR THE THREE AND NINE MONTHS ENDED JUNE 30, 2014 AND 2013
FIGURES IN THOUSANDS OF CANADIAN DOLLARS
UNAUDITED

(figures in thousands of dollars except for per share amounts)	Note(s)	For the three months ended June 30, 2014	For the three months ended June 30, 2013	For the nine months ended June 30, 2014	For the nine months ended June 30, 2013
REVENUES					
Sales	22	$ 22,452	$ 20,954	65,977	$ 57,357
EXPENSES					
Cost of sales		21,232	20,960	61,003	60,703
Interest and financing costs	18	1,366	845	3,791	2,508
General and administrative	17	640	2,756	2,126	4,257
Accretion of financial liabilities	7, 8, 11 & 13	218	426	937	1,122
Foreign exchange loss (gain)		(597)	80	516	25
Impairment of property, plant and equipment		-	1,757	-	1,757
Exploration		-	48	121	276
Share-based compensation	15	16	102	48	312
Loss on disposal of assets		-	-	-	16
Loss on revaluation of derivatives		-	248	29	109
Interest and other income		(22)	(15)	(131)	(50)
NET LOSS AND COMPREHENSIVE LOSS		**$ (401)**	**$ (6,253)**	**$ (2,463)**	**$ (13,678)**
Loss per share	23				
Basic		$ -	$ (0.03)	$ (0.01)	$ (0.06)
Diluted		$ -	$ (0.03)	$ (0.01)	$ (0.06)
Weighted average number of shares (in thousands)					
Basic		238,123	237,881	238,123	237,376
Diluted		238,123	237,881	238,123	237,376

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, 2014 AND 2013
FIGURES IN THOUSANDS OF CANADIAN DOLLARS
UNAUDITED

	Note(s)	For the three months ended June 30, 2014	June 30, 2013	For the nine months ended June 30, 2014	June 30, 2013
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES					
Net loss		$ (401)	$ (6,253)	$ (2,463)	$ (13,678)
Items not affecting cash:					
Amortization and depreciation	5	1,950	1,933	5,481	5,714
Impairment of property, plant and equipment		-	1,757	-	1,757
Accretion of financial liabilities	7, 8, 11 & 13	218	427	937	1,123
Inventory write-down	4	382	-	382	814
Share-based compensation	15	16	102	48	312
Loss on disposal of assets		-	-	-	16
Foreign exchange loss (gain) on customer advances and loans		(394)	280	103	516
Foreign exchange loss (gain) on financial liabilities		(464)	231	215	351
Accretion of reclamation obligations	14	32	44	93	134
Loss on revaluation of derivatives		-	248	29	109
Interest and financing costs		1,330	930	3,771	2,343
		2,669	**(301)**	**8,596**	**(489)**
Adjustment for:					
Change in non-cash working capital	19	312	(757)	(1,413)	710
Increase in reclamation deposits	14 & 16	(100)	(100)	(300)	(300)
		2,881	**(1,158)**	**6,883**	**(79)**
CASH FLOWS USED IN INVESTING ACTIVITIES					
Expenditure on Mactung development		(187)	(408)	(743)	(936)
Purchase of property, plant and equipment	5	(2,133)	(366)	(5,992)	(2,951)
		(2,320)	**(774)**	**(6,735)**	**(3,887)**
CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES					
Net decrease in equipment loans and capital leases	12	(1,221)	(1,887)	(2,776)	(4,153)
Net increase in debentures	11	-	-	2,257	-
Net increase (decrease) in notes payable	13	-	3,433	(678)	3,433
Bank loan borrowings, net	7	(8,317)	965	(11,103)	1,112
Net proceeds of Callidus loan	8	10,423	-	10,423	-
Net increase in customer advances	9	-	-	-	3,996
Net increase in customer loans	10	-	-	5,422	-
Interest and financing costs paid		(1,330)	(930)	(3,771)	(2,343)
		(445)	**1,581**	**(226)**	**2,045**
Effect of exchange rate changes on cash and cash equivalents		**72**	**-**	**65**	**-**
CHANGE IN CASH AND CASH EQUIVALENTS		**188**	**(351)**	**(13)**	**(1,921)**
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD		2	554	203	2,124
CASH AND CASH EQUIVALENTS, END OF PERIOD		**$ 190**	**$ 203**	**$ 190**	**$ 203**
Represented by:					
Cash		$ 190	$ 168	$ 190	$ 168
Cash equivalents		-	35	-	35
		$ 190	$ 203	**$ 190**	**$ 203**
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, 2014 AND 2013
FIGURES IN THOUSANDS OF CANADIAN DOLLARS EXCEPT NUMBER OF COMMON SHARES
UNAUDITED

For the nine months ended June 30, 2013

	Note(s)	Number of Common Shares		Common Shares		Contributed Surplus		Deficit		Total Equity
Balance at October 1, 2012		**237,123,058**	**$**	**64,673**	**$**	**5,667**	**$**	**(55,739)**	**$**	**14,601**
Common shares issued		1,000,000		163		-		-		**163**
Warrants issued		-		-		243		-		**243**
Share-based compensation	15	-		-		312		-		**312**
Net loss		-		-		-		(13,678)		**(13,678)**
Balance at June 30, 2013		**238,123,058**	**$**	**64,836**	**$**	**6,222**	**$**	**(69,417)**	**$**	**1,641**

For the nine months ended June 30, 2014

	Note(s)	Number of Common Shares		Common Shares		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	11	-		-		1,108		-		**1,108**
Share-based compensation	15	-		-		48		-		**48**
Net loss		-		-		-		(2,463)		**(2,463)**
Balance at June 30, 2014		**238,123,058**	**$**	**64,836**	**$**	**7,423**	**$**	**(71,468)**	**$**	**791**

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 in Yukon; 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 nine months ended June 30, 2014 the Company recorded a net loss of $2.5 million (year ended September 30, 2013 the net loss was $13.3 million). At June 30, 2014 there was a deficiency of working capital of $24.0 million (September 30, 2013 - $37.6 million) and shareholders’ equity was $0.8 million. At June 30, 2014, debt consisting of bank loans, Callidus Capital Corporation (“Callidus”) loan, customer advances, customer loans, debentures, equipment loans and capital leases and notes payable was $46.8 million (September 30, 2013 - $45.9 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 adequate positive cash flows from operations which will require increased mill throughput and recovery from the Cantung mine. The Company initiated a mine and mill improvement plan during the year ended September 30, 2013 and this plan is being executed. In addition, it will be necessary to roll-over, extend, replace or refinance existing loan facilities as they mature or arrange new financing. Subsequent to June 30, 2014, the Company executed a USD$12.0 million promissory note with Queenwood Capital Partners II LLC (“Queenwood II”) to replace its $12.0 million HSBC Bank Canada (“HSBC”) Working Capital Loan facility which was then cancelled (Note 25). Future operations will also be impacted by market conditions, prices for tungsten concentrates and the ability of the Cantung mine to maintain positive cash flows from operations while containing non-operating outlays as necessary.

If the going concern assumption were not appropriate for these financial statements, then adjustments would be necessary to the carrying values of assets and liabilities, the reported revenue and expenses and the statement of financial position classifications used. The adjustments would be material.

2. Significant accounting policies:

a. Basis of preparation and measurement

The interim consolidated financial statements of the Company have been prepared in accordance with the International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) 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 presentation. In particular, the Company’s significant accounting policies were presented in Note 2 of the consolidated financial statements for the year ended September 30, 2013, and have been consistently applied in the preparation of these interim financial statements except as described in Note 2(b).

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

The Board of Directors approved these financial statements on August 20, 2014.

b. Adoption of new IFRS pronouncements:

In May 2011, the IASB issued IFRS 10, Consolidated Financial Statements (“IFRS 10”), IFRS 11, Joint Arrangements (“IFRS 11”), IFRS 12, Disclosure of Interests in Other Entities (“IFRS 12”) and IFRS 13, Fair Value Measurement (“IFRS 13”). Each of the new standards is effective for annual periods beginning on or after April 1, 2013 with early adoption permitted.

The Company adopted the provisions of IFRS 10, IFRS 11, IFRS 12 and IFRS 13 effective October 1, 2013. The Company has determined that there is no material impact from the adoption of these new standards with the exception of additional note disclosures on the adoption of IFRS 13.

FIGURES ARE IN THOUSANDS OF CANADIAN DOLLARS

IFRS 10 – Consolidation

IFRS 10 requires an entity to consolidate an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under pre-existing IFRS, consolidation was required when an entity had the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces SIC-12, Consolidation – Special Purpose Entities, and parts of IAS 27, Consolidated and Separate Financial Statements.

IFRS 11 – Joint Arrangements

IFRS 11 requires a venture to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation the venturer will recognise its share of the assets, liabilities, revenue and expenses of the joint operation. Under pre-existing IFRS, entities had the choice to proportionately consolidate or equity account for interests in joint ventures. IFRS 11 supersedes IAS 31, Interests in Joint Ventures, and SIC-13, Jointly Controlled Entities-Non-monetary Contributions by Venturers.

IFRS 12 – Disclosure of Interests in Other Entities

IFRS 12 establishes disclosure requirements for interests in other entities, such as joint arrangements, associates, special purpose vehicles and off-balance sheet vehicles. The standard carries forward existing disclosures and also introduces significant additional disclosure requirements that address the nature of, and risks associated with, an entity's interests in other entities.

IFRS 13 – Fair Value Measurement

IFRS 13 is a comprehensive standard for the fair value measurement and disclosure requirements for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. It also establishes disclosures about fair value measurement. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and in many cases does not reflect a clear measurement basis or consistent disclosures.

c. IFRS pronouncements issued but not yet effective

IFRS 15 - Revenue from Contracts with Customers

IFRS 15 was issued by the IASB in May 2014. The objective of the standard is to establish principles that the Company shall apply to report useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer. The standard replaces IAS 11 – Construction Contracts, IAS 18 – Revenue, IFRIC 13 – Customer Loyalty Programmes, IFRIC 15 – Agreements for the Construction of Real Estate, IFRIC 18 – Transfer of Assets from Customers and SIC 31 – Revenue – Barter Transactions involving Advertising Services. The standard is effective for annual periods beginning on or after January 1, 2017, with early adoption permitted. The Company is currently assessing the impact of adopting IFRS 15.

3. Accounts receivable:

	June 30, 2014	September 30, 2013
Trade receivables	$ 6,000	$ 13,950
Taxes and other receivables	562	433
	6,562	14,383
Current portion of accounts receivable	(3,361)	(9,025)
Long-term portion of accounts receivable	**$ 3,201**	**$ 5,358**

FIGURES ARE IN THOUSANDS OF CANADIAN DOLLARS

4. Inventories:

	June 30, 2014	September 30, 2013
Tungsten concentrates	$ 3,091	$ 839
Copper concentrates	127	87
Ore stockpile	3,046	2,613
Materials and supplies	4,708	4,103
	$ 10,972	**$ 7,642**

During the three and nine months ended June 30, 2014, the Company recorded an inventory write-down of tungsten concentrates to net realisable value totaling $0.4 million (three and nine months ended June 30, 2013 – $nil and $0.8 million respectively).

5. Property, plant and equipment:

	Equipment under capital lease	Buildings, equipment and plant	Mine infrastructure assets	Tailings management	Total
Ending balance, September 30, 2013	**$ 4,529**	**$ 16,090**	**$ 2,808**	**$ 2,067**	**$ 25,494**
Opening cost, October 1, 2013	$ 7,999	$ 37,436	$ 40,147	$ 17,160	$ 102,742
Additions	484	4,462	-	654	5,600
Retirements	-	(97)	(11,088)	-	(11,185)
Transfer between categories	(5,451)	5,451	-	-	-
Ending cost, June 30, 2014	3,032	47,252	29,059	17,814	97,157
Opening balance, accumulated depreciation and impairments, October 1, 2013	3,470	21,916	37,339	14,523	77,248
Depreciation	990	2,380	1,372	739	5,481
Retirements	-	(97)	(11,088)	-	(11,185)
Transfer between categories	(2,346)	2,346	-	-	-
Ending balance, accumulated depreciation and impairments, June 30, 2014	2,114	26,545	27,623	15,262	71,544
Ending balance, June 30, 2014	**$ 918**	**$ 20,707**	**$ 1,436**	**$ 2,552**	**$ 25,613**

As part of the Callidus loan, the Company has entered into a general security agreement which includes all property, plant and equipment (Note 8).

At June 30, 2014 the Company reviewed the indicators of impairment for the Cantung mine and though there remain indicators of impairment, the review suggests that there is no further impairment.

6. Accounts payable and accrued liabilities:

	June 30, 2014	September 30, 2013
Trade payables	$ 7,301	$ 9,287
Property, plant and equipment and Mactung development costs payable	339	812
Royalties payable	4,373	3,728
Other payables and accrued liabilities	1,629	2,589
	$ 13,642	**$ 16,416**

FIGURES ARE IN THOUSANDS OF CANADIAN DOLLARS

7. Bank loans:

The balances of the Operating and Working Capital Loans are as follows:

	June 30, 2014	September 30, 2013
Operating loan	$ -	$ 11,103
Working capital loan [1]	12,000	13,576
	$ 12,000	**$ 24,679**

1 - The Working Capital Loan balance at June 30, 2014 includes $nil of accreted liability (September 30, 2013 - $1.6 million).

HSBC credit facilities

Operating Loan

The Company had an Operating Loan facility with HSBC to a maximum of $12.0 million, of which up to USD$5.0 million of the facility was available in USD. The borrowing base was a percentage of applicable trade accounts receivable and product inventory.

During the three months ended June 30, 2014 the Company executed an $11.0 million loan with Callidus (Note 8). Of the loan proceeds, $5.8 million was used to repay the balance of the Operating Loan facility which was then cancelled.

Working Capital Loan

On October 13, 2011, the Company executed a Working Capital Loan facility with HSBC to a maximum of $12.0 million.

A letter of credit that is guaranteed (the “Guarantee”) by two directors (the “Sponsors”) of the Company (Note 20) was pledged as security for the Working Capital Loan, in the amount of USD$12.0 million. The Sponsors and HSBC entered into a Put Agreement which may be exercised by HSBC at its sole discretion, allowing HSBC to exchange the outstanding balance of the Working Capital Loan with the Sponsors for up to the USD$12.0 million letter of credit.

During the three months ended December 31, 2013 HSBC provided an extension to the credit facility to June 30, 2014. Under the extension, the guaranteed letter of credit and the Put Agreement were also extended.

On June 16, 2014 HSBC issued a demand for full repayment of the loan balance and issued the Put notice, allowing HSBC to exchange the outstanding balance of the loan with the Sponsors within 30 days. On July 2, 2014 the Company executed a USD$12.0 million promissory note with Queenwood II to replace its $12.0 million Working Capital Loan which was then cancelled (Note 25).

8. Callidus loan:

Balance at September 30, 2013	**$ -**
Callidus loan	11,000
Transaction costs	(577)
Accretion	73
Balance at June 30, 2014	**$ 10,496**

On May 14, 2014 the Company executed an $11.0 million loan with Callidus. The loan is for a term of 1 year, repayable on demand and bears interest at 18% per annum with interest payable quarterly. Principal repayments of $150 thousand per month commence on July 31, 2014 with the remaining balance due on maturity. The first principal repayment was paid on July 31, 2014. Included in transaction costs, the Company paid a non-refundable facility fee of 1% of the Callidus loan ($110 thousand) to Callidus and a finder’s fee of $75 thousand was paid to a non-related third party. The Company has provided security in the form of a first charge over all assets of the Company, excluding Mactung and excluding accounts receivable from a customer and all mining and mineral leases, claims and tenures. Of the loan proceeds, $5.8 million was used to repay the balance of the HSBC Operating Loan facility (Note 7) and $1.0 million was used to repay certain equipment loans and capital leases (Note 12). The remaining portion of the loan was used to provide working capital to the Company.

FIGURES ARE IN THOUSANDS OF CANADIAN DOLLARS

9. Customer advances:

		June 30, 2014		September 30, 2013
Obligations for customer advances	$	3,201	$	8,063
Current portion of customer advances		-		(2,705)
Long-term portion of customer advances	**$**	**3,201**	**$**	**5,358**

On December 19, 2013, the Company entered into a loan arrangement with an existing customer and the pre-existing USD$2.2 million advance from that customer was rolled into the loan (Note 10).

On February 20, 2014, the Company entered into a new tungsten delivery contract with another existing customer. Under the terms of the new delivery agreement, the existing USD$3.0 million customer advance will bear interest at 3.0% per annum, with quarterly interest payments commencing on March 31, 2014. 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). See Note 22 for details of the tungsten delivery contract.

The tungsten delivery contracts contain provisions that could allow the customer to terminate the delivery contract if delivery quantities or concentrate specifications are not achieved for three consecutive months. In the event of termination of the delivery contract by the customer, the customer advances would become due on demand.

During the period ended June 30, 2014 the Company applied an existing USD$2.6 million customer advance against the associated receivables on completion of the requirements under the tungsten delivery contract.

10. Customer loans:

		June 30, 2014		September 30, 2013
Customer loans	$	7,683	$	-
Current portion of customer loans		(1,254)		-
Long-term portion of customer loans	**$**	**6,429**	**$**	**-**

On December 19, 2013, the Company entered into a new tungsten delivery contract with an existing customer (Note 22). 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 (Note 9) 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 with quarterly interest payments commencing on March 31, 2014. Equal principal repayments of USD$293,750 per quarter commence 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 (Note 22). 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 with quarterly interest payments commencing on March 31, 2014. Equal principal repayments of USD$293,750 per quarter commence on March 31, 2015 and continue each quarter thereafter with the final payment of USD$150,000 on March 31, 2017.

The two customer loans have similar terms and conditions. Each of the loans may be required to be repaid in full on the expiry of the associated tungsten delivery contract. The loans provide the lenders the right to convert the respective outstanding balance of the loans into convertible notes at any time, which in turn could be converted into common shares of the Company. The convertible notes, if issued, would be convertible into common shares of the Company at either of the following: if the Company has defaulted under the terms of the loan, the conversion rate is the lowest price allowed by the stock exchange which the common share trade on; otherwise the rate is a 5% discount to the market price of the common share. The Company has the right, within 30 days of receiving notice for the loans to be converted into a convertible note, to either issue the convertible notes or to repay the loan in full. The loans are secured by a subordinate charge on the Company's Mactung property. The contingent conversion feature is an embedded derivative which has a nominal value. The embedded derivative liability has been included with the carrying value of the loans.

FIGURES ARE IN THOUSANDS OF CANADIAN DOLLARS

11. Debentures:

Balance at September 30, 2013	**$**	**2,917**
Accretion		41
Loss on foreign exchange		92
Repayments and roll-over into new convertible debentures		(3,050)
		-
Issuance of debentures and convertible debentures		11,728
Allocation of proceeds to equity for the conversion features		(1,108)
Transaction costs		(41)
Accretion		293
Loss (gain) on foreign exchange		-
Balance at June 30, 2014	**$**	**10,872**

On October 29, 2013 the Company repaid USD$170 thousand of the maturing convertible debentures and forbearance was provided for the remaining USD$2.7 million until December 31, 2013 under the existing terms aside from the repayment date.

The USD$2.7 million of the convertible debentures, along with the USD$2.0 million Working Capital Loan guarantee fee (Note 7) and USD$4.0 million Queenwood II notes payable (Note 13) all matured as of December 31, 2013. The Company refinanced these debts along with additional financing of USD$2.3 million from Queenwood II into USD$11 million of debentures. The conversion feature of the Convertible Debentures received approval by the non-participating shareholders on February 21, 2014. The regulators approved USD$9.0 million as convertible ("Convertible Debentures") and USD$2.0 million as non-convertible ("Debentures").

Queenwood Capital Partners LLC, Queenwood II and three directors of the Company combined hold USD$7.5 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.

The conversion feature in the Convertible Debentures meets the requirement for separate accounting as a component of shareholders' equity. The conversion feature was valued at $1.1 million and recognized in contributed surplus. The effective interest rate of the Convertible Debentures was 18%.

The initial fair value of the Debentures were recognised at USD$2.0 million, which is the face value of the Debentures.

12. Equipment loans and capital leases:

		June 30, 2014		September 30, 2013
Equipment loans	$	-	$	1,819
Capital leases		513		1,470
		513		3,289
Current portion of equipment loans and capital leases		(318)		(2,807)
Long-term portion of equipment loans and capital leases	**$**	**195**	**$**	**482**

See Note 16 for details of required payments for the equipment and capital leases.

Caterpillar Financial Services Corporation ("Caterpillar") Loan Facility

During the year ended September 30, 2010, the Company entered into loans to purchase power generation, heat recovery equipment and electrical control systems for $3.5 million.

During the three months ended June 30, 2014 the $0.7 million remaining balance of the Caterpillar loans were paid out with proceeds from the Callidus loan (Note 8).

FIGURES ARE IN THOUSANDS OF CANADIAN DOLLARS

Capital leases

The Company has various capital leases for equipment with maturity dates that range from fiscal 2014 to 2017 with interest rates up to 19.9%. The Company has pledged the acquired assets as security for the capital leases.

During the three months ended June 30, 2014 capital leases with remaining balances of $0.3 million was paid out with proceeds from the Callidus loan (Note 8).

13. Notes Payable:

	June 30, 2014	September 30, 2013
Former mining contractor	$ 2,000	$ 2,679
Queenwood Capital Partners II LLC	-	4,255
	2,000	6,934
Current portion of notes payable	(2,000)	(4,934)
Long-term portion of notes payable	**$ -**	**$ 2,000**

Issuance of Promissory Notes

In April 2013 the Company reached an agreement with a former mining contractor on a schedule of payments for the final amount due in respect of a contract under which mining services were provided to the Cantung mine.

The Company issued two promissory notes to the former mining contractor to settle the accounts payable amount with the following terms:

i. A $2.0 million note bearing interest at 6.0% per annum, with equal monthly principal installments of $226 thousand on the last day of the month commencing on April 30, 2013 up to and including December 31, 2013. Interest is payable on the last day of the month commencing April 30, 2013. This promissory note was fully repaid at December 31, 2013.
ii. A $2.0 million note bearing interest at 8.0% per annum, with interest only payable on the last day of the month commencing on April 30, 2013 up to and including December 31, 2014, with the principal then due.

The Company has pledged certain mobile equipment as security for the promissory notes. The initial financial liability was recognised at the $4.0 million accounts payable balance that was settled with the issuance of the notes payable and is subsequently carried at amortized cost using the effective interest method.

USD$4.0 million Note Payable

In June 2013 the Company executed a USD$4.0 million short-term credit facility with Queenwood II. The facility carried interest at 12.5% per annum, matured October 31, 2013 and was secured by a fixed charge over the Mactung property and a floating charge over all other assets of the Company. The security granted was subordinated to security previously granted.

On October 31, 2013 the Queenwood II short-term credit facility matured and forbearance was provided to December 31, 2013 under the existing terms aside from the repayment date. On December 31, 2013 the USD$4.0 million note payable was refinanced in the USD$9.0 million Convertible Debentures financing (Note 11).

14. Reclamation liabilities:

The Company's total undiscounted amount of estimated future cash flows required to settle the Cantung mine reclamation obligation is $8.9 million (September 30, 2013 - $8.9 million). The reclamation liability has been measured using a market based pre-tax discount rate of 1.4% and inflation ranging from 0.9% to 1.9%. Based on the mine plan at September 30, 2013 the estimated timing of the reclamation work was revised with the majority of the reclamation work currently estimated to commence during fiscal 2017 through fiscal 2018.

FIGURES ARE IN THOUSANDS OF CANADIAN DOLLARS

	June 30, 2014	September 30, 2013
Opening balance, reclamation liabilities	$ 8,443	$ 8,404
Accretion	93	179
Change in estimates of future costs	-	(140)
Closing balance, reclamation liabilities	**$ 8,536**	**$ 8,443**
Current portion of reclamation liabilities	(30)	(963)
Long-term portion of reclamation liabilities	**$ 8,506**	**$ 7,480**

The Company has posted deposits of $5.8 million in cash and $6.2 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 (Note 16 a).

15. Share capital:

a. Common shares

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

b. Warrants

Warrants Outstanding as of September 30, 2013	Issued	Exercised	Expired	Warrants Outstanding as of June 30, 2014	Exercise Price	Expiry Date
2,000,000	-	-	-	2,000,000	$1.00	27-Oct-15
5,000,000	-	-	(5,000,000)	-	$0.20	30-Jun-14
7,000,000	**-**	**-**	**(5,000,000)**	**2,000,000**		

c. Share option plan

Options Outstanding as of September 30, 2013	Granted	Exercised	Forfeited	Cancelled	Expired	Options Outstanding as of June 30, 2014	Exercise Price	Expiry Date	Options Exercisable
75,000	-	-	-	-	-	75,000	$0.15	19-Oct-14	75,000
875,000	-	-	-	-	(50,000)	825,000	$0.19	1-Feb-15	825,000
100,000	-	-	-	-	-	100,000	$0.28	19-Jan-17	100,000
1,050,000	-	-	-	-	-	1,050,000	$0.42	8-Mar-17	1,050,000
1,866,667	-	-	(266,666)	-	(200,001)	1,400,000	$0.19	28-May-18	1,400,000
50,000	-	-	-	-	-	50,000	$0.19	10-Jul-18	33,333
-	100,000	-	-	-	-	100,000	$0.14	11-Oct-18	66,666
-	150,000	-	-	-	-	150,000	$0.10	4-Dec-18	50,000
4,016,667	**250,000**	**-**	**(266,666)**	**-**	**(250,001)**	**3,750,000**			**3,599,999**
Weighted Average Exercise Price									
$0.25	$0.12	N/A	$0.19	N/A	$0.19	$0.25			$0.26

The outstanding options have a weighted-average exercise price of $0.25 per share (September 30, 2013 - $0.25) and a weighted average remaining life of 2.8 years (September 30, 2013 – 3.5 years).

FIGURES ARE IN THOUSANDS OF CANADIAN DOLLARS

Option pricing models require the input of highly subjective assumptions including the expected price volatility and expected life. Changes in the subjective input assumptions can materially affect the fair value estimate and therefore the existing models do not necessarily provide a reliable single measure of the fair value of the Company's share options at the date of grant.

Share options granted during the period were valued using the Black-Scholes option pricing model with the following input values:	**Nine months ended June 30, 2014**	**Year ended September 30, 2013**
Exercise price	$0.10 to $0.14	$0.185 to $0.19
Share price	$0.10 to $0.14	$0.185 to $0.19
Expected life	4.0 years	4.0 years
Dividend yield	0%	0%
Risk-free interest rate	1.6% to 1.7%	1.2% to 1.6%
Expected volatility	139%	138% to 139%
Calculated fair value per option	$0.05 to $0.07	$0.10

The share options generally vest in thirds over 12 to 18 months.

During the nine months ended June 30, 2014 $48 thousand was recognised as share-based compensation expense for options that vested during the period (nine months ended June 30, 2013 - $312 thousand).

16. Commitments:

Contractual Obligations and Commitments	**Payments due in years ended September 30**						
	2014 [1]	**2015**	**2016**	**2017**	**2018**	**2019**	**TOTAL**
Mactung leases	$ 5	$ 10	$ 10	$ 10	$ 10	$ 10	$ 55
Cantung leases	32	60	60	60	60	60	$ 332
Customer advances	-	-	-	3,201	-	-	$ 3,201
Capital leases	114	265	125	48	2	-	$ 554
Office leases [2]	56	233	245	251	84	-	$ 869
Equipment purchase and rental contracts	280	200	-	-	-	-	$ 480
	$ 487	**$ 768**	**$ 440**	**$ 3,570**	**$ 156**	**$ 70**	**$ 5,491**

1 - Commitments are for the remainder of fiscal 2014

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

a. Water license

The Mackenzie Valley Land and Water Board ("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 $5.8 million in cash and $6.2 million in the form of secured promissory notes pursuant to the Reclamation Security Agreement ("RSA"). The RSA further provides for:

- the Company to post $100 thousand in cash on the 1st of September, 1st of December, 1st of March, and 1st of June to reduce the amounts pledged under the promissory notes until nil is outstanding under the promissory notes;
- the cash components payable to Department of Indian and Northern Affairs ("DIAND") to increase under certain events.

The Company has provided a Reclamation Security Agreement 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.

During the nine months ended June 30, 2014 the Company posted $300 thousand of additional cash towards the reclamation deposit.

FIGURES ARE IN THOUSANDS OF CANADIAN DOLLARS

b. Smelter royalties

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

17. Contingencies:

The Company had agreements with officers whereby in the event of their contracts being terminated, the Company would be liable for payments totalling $2.0 million. Due to changes in the officers of the Company during the year ended September 30, 2013, the Company recognised $1.8 million in General and administrative costs as employment contract settlement expense and the remaining employment agreement subsequently expired. At June 30, 2014 nil remained in accounts payable for the future installments under the employment settlement agreements (September 30, 2013 - $1.2 million).

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

18. Interest and financing costs:

	For the three months ended		For the nine months ended	
	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013
Callidus loan	$ 292	$ -	$ 345	$ -
Credit facility fees - HSBC	-	22	138	22
Customer advances	26	-	73	11
Customer loans	65	-	207	-
Debentures	376	74	806	218
Equipment loans and capital leases	30	138	134	472
Notes payable	40	110	266	198
Operating loan - HSBC	58	116	357	332
Other	30	80	276	336
Working capital loan - HSBC	157	98	406	290
Working capital loan - guarantee & put agreement	292	207	783	629
	$ 1,366	**$ 845**	**$ 3,791**	**$ 2,508**

19. Supplemental cash flow:

	For the three months ended		For the nine months ended	
	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013
Change in non-cash working capital:				
Accounts receivable	$ 1,408	$ (1,830)	$ 5,116	$ 2,459
Prepaid expenses	(143)	(253)	(302)	(54)
Inventories	370	1,070	(3,712)	(1,072)
Accounts payable and accrued liabilities	(1,323)	256	(2,515)	(623)
Change in non-cash working capital	**$ 312**	**$ (757)**	**$ (1,413)**	**$ 710**

	For the three months ended		For the nine months ended	
	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013
Changes in accounts payable and accrued liabilities affecting cash flows used in investing activities				
Expenditures on property, plant and equipment	$ (1,778)	$ 217	$ 237	$ 217
Expenditures on Mactung development	$ (11)	$ 35	$ 102	$ 35

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$9.5 million (Note 11).

On June 14, 2013 the Company and HSBC agreed to terms for the extension of the $12.0 million Working Capital Loan facility to December 31, 2013 (Note 7). Under the extension the rate for the guarantee increased to 2.25% per quarter. HSBC provided a further extension of the loan to June 30, 2014. The agreements also extended the USD$12.0 million Letter of Credit ("L/C") backing the Loan which was sponsored by two directors of the Company (the "Sponsors") and the Put Agreement that allows HSBC to exchange the outstanding balance of the Working Capital Loan with the Sponsors for up to the USD$12.0 million L/C.

In exchange for extending the Put Agreement ("Guarantee") and backing the L/C, the Company agreed to compensate the Sponsors in the following manner;

a. pay the Sponsors (in US dollars) on the last day of each calendar quarter, an aggregate amount equal to 1.25% of the maximum outstanding principal amount of the L/C during the immediately preceding calendar quarter (or portion thereof), which payments will begin September 30, 2013;
b. pay to the Sponsors, an aggregate amount equal to USD$2.0 million (which amount includes the USD$1.5 million originally payable by June 30, 2013 under the original sponsor agreement) on the earlier of:
    (i) the date the Loan is paid in full;
    (ii) the date the Loan is put to the Sponsors pursuant to the Put Agreement; or
    (iii) the date the L/C is drawn upon for payment of the Loan;
c. the Company agreed to extend the General Security Agreement which grants security over the Company's assets including the Mactung project to the Sponsors. This is subordinated to the security under a Reclamation Security Agreement;
d. upon certain events of default the payments due to Sponsors on the last day of each quarter increase to an aggregate amount equal to 3.0% of the maximum outstanding principal amount of the L/C during the immediately preceding calendar quarter (or portion thereof); and the payment to the Sponsors will increase to USD$2.5 million from USD$2.0 million;
e. reimburse the Sponsors' expenses in respect of this transaction which totalled USD$45 thousand; and
f. the Company issued 5,000,000 share purchase warrants each of which is exercisable at $0.20 into one common share of the Company. The share purchase warrants expired on June 30, 2014 (Note 15).

On June 16, 2014 HSBC issued a demand for full repayment of the loan balance and issued the Put notice, allowing HSBC to exchange the outstanding balance of the loan with the Sponsors within 30 days. On July 2, 2014 the Company executed a USD$12.0 million promissory note with Queenwood II to replace its $12.0 million Working Capital Loan which was then cancelled (Note 25).

During the nine months ended June 30, 2014 the Company recognised an expense of $783 thousand in respect of the Guarantee to the Sponsors (nine months ended June 30, 2013 - $639 thousand).

During the nine months ended June 30, 2014 the USD$2.0 million fee for the Guarantee was refinanced into the USD$2.0 million Debentures (Note 11).

During the nine months ended June 30, 2014 the Company recognised $808 thousand for professional fees, consulting fees and legal fees and disbursements to directors or companies related to director(s) (nine months ended June 30, 2013 - $433 thousand).

The above transactions were in the normal course of operations.

Chief Executive Officer (CEO) Employment Contract Settlement

On June 6, 2013 the Company announced the departure of the CEO and the details of a negotiated employment contract settlement. In accordance with the terms of the employment settlement, the former CEO received compensation equal to three years of his base salary which totaled $1.4 million, payable in instalments of $458 thousand in June 2013 (paid), on December 6, 2013 (paid) and June 6, 2014 (paid). The $1.4 million settlement expense was recognised in General and administrative costs for the year ended September 30, 2013 with $916 thousand of the remaining settlement included in other payables and accrued liabilities. On June 12, 2013 1,000,000 common shares were issued to the former CEO as part of his employment contract settlement. The fair value of the common shares net of issuance costs was $163 thousand and was recognised in General and administrative costs during the year ended September 30, 2013.

FIGURES ARE IN THOUSANDS OF CANADIAN DOLLARS

21. Segmented information:

The geographical distribution of the Company's sales revenue is as follows:

	For the nine months ended					
	June 30, 2014			June 30, 2013		
TUNGSTEN:						
Europe	$	31,068	48%	$	11,981	22%
North America		29,507	46%		30,413	55%
Asia		3,871	6%		12,657	23%
		64,446	**100%**		**55,051**	**100%**
COPPER:						
North America		1,531	100%		2,306	100%
		1,531	**100%**		**2,306**	**100%**
	$	**65,977**		**$**	**57,357**	

All of the Company's non-current assets are located in Canada. The Company operates in the single business segment of tungsten mining and processing. Copper production is a by-product of that segment.

22. Sales Contracts:

The Company has three main delivery contracts for tungsten concentrate which expire during fiscal 2014 and 2015, as well as a copper delivery contract which expired in December 2013. The contracts contain target delivery quantities and do not contain financial penalties for shortfalls in target delivery quantities.

During the nine months ended June 30, 2014 the Company negotiated a new tungsten delivery contract in conjunction with a USD$4.7 million loan arrangement (Note 10), with an existing customer that was effective February 1, 2014 and a new tungsten delivery contract in conjunction with a USD$2.5 million loan arrangement (Note 10) with an existing customer that was effective March 1, 2014. The Company also extended an existing copper delivery contract under similar terms to December 31, 2015.

The tungsten delivery contracts have similar terms and conditions. Each contract is for an initial term of the later of 3 years to February 1, 2017 or the completion of the delivery quantity for the initial term. The customer has the right, at its sole discretion, to extend the contract under the initial term until all amounts under the related loan arrangements have been repaid in full. If neither party gives notice of termination of the contract by February 1, 2016 the contract automatically is extended for an additional year to February 1, 2018 (year 4). If neither party gives notice of termination of the contract by February 1, 2017 the contract automatically is extended for an additional year to February 1, 2019 (year 5). The contract contains quarterly and annual target delivery quantities and do not contain financial penalties for shortfalls in target delivery quantities. The contract contains provisions that could allow the customer to terminate the delivery contract if quantities or concentrate specifications are not achieved for three consecutive months or if target delivery quantities are not achieved. In the event of default by the Company under the terms of the delivery contract, the customer has the right to demand immediate full repayment of the outstanding balance under the loan arrangement. In the event of termination of the delivery contract by the customer, the customer advances would become due on demand of the customer (Note 9).

23. Loss Per Share:

Loss per share, calculated on the basic and diluted basis, is as follows:

(in thousands except per share amounts)	For the three months ended June 30, 2014	June 30, 2013	For the nine months ended June 30, 2014	June 30, 2013
Income (Loss) per share:				
Basic	$ -	$ (0.03)	$ (0.01)	$ (0.06)
Diluted	$ -	$ (0.03)	$ (0.01)	$ (0.06)
Net income (loss) for the period:				
Attributed to common shareholders - basic	$ (401)	$ (6,253)	$ (2,463)	$ (13,678)
Attributed to common shareholders - diluted	$ (401)	$ (6,253)	$ (2,463)	$ (13,678)
Weighted average shares outstanding:				
Weighted average shares outstanding - basic	238,123	237,881	238,123	237,376
Dilutive securities:				
Excluded	-	-	-	-
Weighted average shares outstanding - diluted	238,123	237,881	238,123	237,376
Shares excluded from the determination of diluted loss per share:				
Stock options	3,750	5,408	3,750	5,408
Warrants	2,000	7,000	2,000	7,000
Convertible debentures	79,787	6,506	79,787	6,506
	85,537	18,914	85,537	18,914

The weighted average shares that were excluded from the determination of diluted income per share represent shares that would be anti-dilutive if they were included in the calculation.

There have been no issuances of potentially dilutive securities subsequent to June 30, 2014.

24. Financial Instruments:

The Company has financial assets which include cash and cash equivalents, derivative instruments, reclamation deposits and accounts receivables, the carrying value of which approximates fair value. The Company has financial liabilities which include accounts payable and accrued liabilities, bank loans, equipment loans, capital leases, notes payable, customer loans, Callidus loan, debentures and the interest bearing component of the convertible debentures, the carrying value of which approximates fair value.

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

Categories of Financial Assets and Liabilities

The 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.

FIGURES ARE IN THOUSANDS OF CANADIAN DOLLARS

The following table shows the carrying value of financial assets and liabilities for each category of financial instruments:

	June 30, 2014	September 30, 2013
Financial Assets		
Loans and Receivables		
Cash and cash equivalents	$ 190	$ 203
Accounts receivable	6,562	14,383
Reclamation deposits	5,815	5,469
Fair-value-through-profit or loss		
USD/CDN forward exchange rate contracts	-	29
Financial Liabilities		
Other Financial Liabilities		
Accounts payable and accrued liabilities	$ 13,642	$ 16,416
Bank loans	12,000	24,679
Callidus loan	10,496	-
Customer loans	7,683	-
Debentures & convertible debentures (interest bearing portion)	10,872	2,917
Equipment loans and capital leases	513	3,289
Notes payable	2,000	6,934
Fair-value-through-profit or loss		
USD/CDN forward exchange rate contracts	-	-

25. Subsequent events:

Queenwood II – Promissory note

Subsequent to June 30, 2014 the Company executed a USD$12.0 million promissory note with Queenwood II to replace its $12.0 million Working Capital Loan facility with HSBC which expired June 30, 2014 (Note 7). The maturity date for the Queenwood II promissory note is October 1, 2015. Interest is payable at a rate of 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. Transaction costs associated with the execution of the promissory note were estimated to be $157 thousand including $100 thousand to Queenwood II. The promissory note is secured by a charge over all of the assets of the Company pursuant to a general security agreement. Two directors of the Company collectively own all of the issued and outstanding units of Queenwood II.