NORTH AMERICAN TUNGSTEN CORPORATION LTD

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED
SEPTEMBER 30, 2013 AND 2012

January 14, 2014

Independent Auditor's Report

To the Shareholders of North American Tungsten Corporation Ltd.

We have audited the accompanying consolidated financial statements of North American Tungsten Corporation Ltd. and its subsidiaries, which comprise the consolidated statements of financial position as at September 30, 2013 and September 30, 2012 and the consolidated statements of comprehensive loss, cash flows and equity for the years then ended September 30, 2013 and September 30, 2012, and the related notes, which comprise the significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

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

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

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

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"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of North American Tungsten Corporation Ltd. and its subsidiaries as at September 30, 2013 and September 30, 2012 and their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

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

signed "PricewaterhouseCoopers LLP"

Chartered Accountants
Vancouver, British Columbia

NORTH AMERICAN TUNGSTEN CORPORATION LTD.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS AT SEPTEMBER 30, 2013 AND 2012
FIGURES IN THOUSANDS OF CANADIAN DOLLARS

	Note(s)	September 30, 2013	September 30, 2012
ASSETS			
Current assets			
Cash and cash equivalents	6	$ 203	$ 2,124
Accounts receivable	7	9,025	17,153
Inventories	8	7,642	6,556
Prepaid expenses		888	825
Derivative instruments	9	29	-
		17,787	26,658
Accounts receivable	7	5,358	-
Property, plant and equipment	10	25,494	31,630
Mineral property - Mactung	11	18,731	17,668
Reclamation deposits	18 & 20	5,469	5,012
		$ 72,839	$ 80,968
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities	12	$ 16,416	$ 20,595
Bank loans	15	24,679	21,850
Current portion of customer advances	14	2,705	768
Current portion of equipment loans and capital leases	16	2,807	7,053
Current portion of notes payable	17	4,934	-
Current portion of reclamation liability	18	963	-
Convertible debentures	13	2,917	2,353
		55,421	52,619
Customer advances	14	5,358	2,950
Notes payable	17	2,000	-
Equipment loans and capital leases	16	482	2,126
Reclamation liabilities	18	7,480	8,404
Other obligations		-	268
		70,741	66,367
SHARE CAPITAL AND DEFICIT			
Share capital	19	64,836	64,673
Contributed surplus	19	6,267	5,667
Deficit		(69,005)	(55,739)
		2,098	14,601
		$ 72,839	$ 80,968

Going concern 1
Commitments and Contingencies 20 & 21

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 YEARS ENDED SEPTEMBER 30, 2013 AND 2012
FIGURES IN THOUSANDS OF CANADIAN DOLLARS

(figures in thousands of dollars except for per share amounts)	Note(s)	For the year ended September 30, 2013	September 30, 2012
REVENUES			
Sales	27	$ 79,818	$ 107,524
EXPENSES			
Cost of sales	22	79,951	93,668
General and administrative	23	5,893	3,453
Interest and financing costs		3,399	3,119
Impairment of property, plant and equipment	10	1,757	16,200
Accretion of financial liabilities	13, 16 & 17	1,409	1,380
Exploration		514	-
Share-based compensation	19	358	441
Equity loss of associate		-	303
Loss (gain) on disposal of assets		16	(14)
Gain on disposal of associate		-	(78)
Foreign exchange gain		(37)	(109)
Interest and other income		(82)	(487)
Gain on revaluation of derivatives	9 & 13	(94)	(509)
NET LOSS		(13,266)	(9,843)
OTHER COMPREHENSIVE LOSS			
Cumulative translation adjustment		-	(15)
NET COMPREHENSIVE LOSS		$ (13,266)	$ (9,858)
Loss per share	28		
Basic		$ (0.06)	$ (0.04)
Diluted		$ (0.06)	$ (0.04)
Weighted average number of shares (in thousands)			
Basic		237,438	237,123
Diluted		237,438	237,123

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

NORTH AMERICAN TUNGSTEN CORPORATION LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2013 AND 2012
FIGURES IN THOUSANDS OF CANADIAN DOLLARS

	Note(s)	For the year ended September 30, 2013	For the year ended September 30, 2012
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES			
Net loss		$ (13,266)	$ (9,843)
Items not affecting cash:			
Amortization and depreciation	10 & 22	7,546	19,934
Impairment of property, plant and equipment	10	1,757	16,200
Accretion of financial liabilities	13, 16 & 17	1,409	1,380
Share-based compensation	19	358	441
Equity loss of associate		-	303
Loss (gain) on disposal of assets		16	(14)
Gain on disposal of associate		-	(78)
Foreign exchange loss (gain) on customer advances	14	349	(319)
Foreign exchange loss (gain) on financial liabilities		93	(121)
Accretion of reclamation obligations	18	179	116
Gain on revaluation of derivatives	9 & 13	(94)	(509)
		(1,653)	27,490
Adjustment for:			
Interest and financing costs paid		3,205	2,804
Change in non-cash working capital	24	2,578	(8,759)
Increase in reclamation deposits	20	(400)	(400)
		3,730	21,135
CASH FLOWS USED IN INVESTING ACTIVITIES			
Proceeds on disposal of assets		-	14
Expenditure on Mactung development	11	(1,093)	(1,430)
Proceeds on disposal of associate		-	1,015
Purchase of property, plant and equipment	10	(4,118)	(29,434)
		(5,211)	(29,835)
CASH FLOWS FROM FINANCING ACTIVITIES			
Net decrease in equipment loans and capital leases	16	(5,890)	(1,869)
Net increase in notes payable	17	2,574	-
Working capital loan borrowings	15	-	12,000
Bank loan borrowings, net	15	2,085	497
Net increase (decrease) in customer advances	14	3,996	-
Interest and financing costs paid		(3,205)	(2,804)
		(440)	7,824
CHANGE IN CASH AND CASH EQUIVALENTS		(1,921)	(876)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD		2,124	3,000
CASH AND CASH EQUIVALENTS, END OF PERIOD		$ 203	$ 2,124
Represented by:			
Cash		$ 168	$ 2,089
Cash equivalents	6	35	35
		$ 203	$ 2,124
Supplemental cash flow information	24		

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

NORTH AMERICAN TUNGSTEN CORPORATION LTD.
CONSOLIDATED STATEMENTS OF EQUITY
FOR THE YEARS ENDED SEPTEMBER 30, 2013 AND 2012
FIGURES IN THOUSANDS OF CANADIAN DOLLARS EXCEPT NUMBER OF COMMON SHARES

For the year ended ended September 30, 2013 and 2012

	Note(s)	Number of Common Shares	Common Shares	Contributed Surplus	Accumulated other comprehensive income (loss)	Deficit	Total Equity
Balance at September 30, 2011		237,123,058	$ 64,673	$ 5,226	$ 15	$ (45,896)	$ 24,018
Share-based compensation	19	-	-	441	-	-	441
Net loss		-	-	-	-	(9,843)	(9,843)
Cumulative translation adjustment		-	-	-	(15)	-	(15)
Balance at September 30, 2012		237,123,058	$ 64,673	$ 5,667	$ -	$ (55,739)	$ 14,601
Common shares issued	19	1,000,000	163	-	-	-	163
Warrants issued	19			242			242
Share-based compensation	19	-	-	358	-	-	358
Net loss		-	-	-	-	(13,266)	(13,266)
Balance at September 30, 2013		238,123,058	$ 64,836	$ 6,267	$ -	$ (69,005)	$ 2,098

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 the Yukon Territory; and other tungsten exploration prospects. The Company is incorporated under the CBCA. The address of the head office is suite 1640 - 1188 West Georgia Street, Vancouver, British Columbia, Canada.

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and on the basis of accounting principles applicable to a going concern, which assumes that the Company will be able to continue operation for the foreseeable future and will be able to 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 year ended September 30, 2013 there was a net loss of $13.3 million (year ended September 30, 2012 the net loss was $9.8 million) and there was a deficiency of working capital of $37.6 million (September 30, 2012 - $26.0 million).

As described in Note 15, following the recognition of the $16.2 million impairment provision at September 30, 2012, the Company was in breach of the debt to tangible net worth covenant of the HSBC credit facility. On January 25, 2013 HSBC waived all previous covenant breaches to December 31, 2012. During fiscal 2013 and at September 30, 2013 the Company was in breach of the covenants and subsequently HSBC waived the breaches to December 31, 2013.

In October 2013 the Company failed to redeem USD$2.7 million of the outstanding convertible debentures (Note 13) and USD$4.0 million notes payables (Note 17). Forbearance was provided until December 31, 2013.

During the year ended September 30, 2013, the Company's banker ("HSBC") informed the Company that the $24.0 million HSBC credit facilities are to be fully repaid not later than December 31, 2013 (Note 15). Subsequent to September 30, 2013 HSBC provided extensions to the credit facilities to June 30, 2014. Under the terms of the extensions, the guaranteed letter of credit along with the Put Agreement has been extended. The Company is currently in discussions with other financial institutions to replace the HSBC credit facilities.

The USD$2.0 million working capital loan guarantee fee (Note 15), USD$2.7 million convertible debentures (Note 13) and USD$4.0 million Queenwood Capital Partners II LLC (Queenwood II) notes payable (Note 17) all matured as of December 31, 2013. As of this date, the Company refinanced these debts along with additional financing of USD$1.3 million into USD$10 million of Convertible Debentures from Queenwood II. Queenwood Capital Partners LLC, Queenwood II and three directors of the Company combined hold USD$8.5 million of the Convertible Debentures. The Convertible Debentures will mature on December 31, 2015 (Note 32). The Convertible Debenture offering includes a potential overallotment of up to USD$3.0 million. The conversion feature of the Convertible Debentures is pending approval by the non-participating shareholders.

Subsequent to September 30, 2013 the Company entered into a new tungsten delivery contract (Note 27) with an existing customer. In conjunction with the tungsten delivery contract a loan was arranged for USD$2.5 million and an existing USD$2.2 million advance from the customer was rolled into the loan arrangement. The combined loan of USD$4.7 million matures on December 31, 2018 (Note 32).

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 cash flows from operations which will require increased mill throughput and recovery from the Cantung mine. The Company implemented 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. Future operations will also be impacted by market conditions and 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 consolidated financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

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 January 14, 2014.

b. Principles of consolidation

These consolidated financial statements include the financial statements of the Company and the entities controlled by the Company (its subsidiaries). Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those of the Company.

Intercompany balances and transactions, including any unrealised income and expenses arising from intercompany transactions, are eliminated in preparing the consolidated financial statements.

The consolidated financial statements include the accounts of the Company and its subsidiaries. The significant subsidiaries are 100% owned and include Numbered Company Inc. incorporated in Delaware (functional currency is US Dollars "USD") and International Carbitech Industries Inc., incorporated in British Columbia (functional currency is CND).

c. Inventories

Concentrate inventories are comprised of tungsten and copper concentrates. Tungsten inventories include all direct costs incurred in production including labour, materials, cost of freight to the mine site, depreciation and attributable overhead costs of administration at the mine site. Net realisable value for intermediates and tungsten concentrate inventories is determined based on the Company's average realised tungsten sales price for the month.

Copper concentrate is a by-product of the tungsten production process. The cost of copper inventory is determined based on the relative sales value approach, where the total production costs for the period when the copper was produced are allocated based on the estimated sales value of the copper compared to the estimated sales value of the tungsten. Net realisable value for copper inventories is determined based on the market sales price for copper at the end of the reporting period less the costs to sell.

Ore stockpile inventory consists of stockpiled ore on the surface and includes all directly attributable costs up to that point of production including associated waste rock stripping costs.

Supplies inventory is valued at average cost.

All inventories are carried at the lower of cost and net realisable value. If the net realisable value of an item of inventory is below its cost, it is written down to net realisable value in the period. In subsequent periods, if the circumstances that caused the inventory to be written down below cost no longer exist or there is clear evidence of an increase in net realisable value has occurred, the write down can be reversed to the extent that the new carrying amount is the lower of the original cost or the revised net realisable value.

d. Deferred stripping

Stripping costs providing access to additional sources of ore that are expected to provide future benefits are capitalised as deferred stripping costs within property, plant and equipment. Deferred stripping costs are amortised over the estimated tons of ore made available by the stripping campaign and are transferred to stockpile inventory as the ore tons are mined. Deferred stripping is initially measured at cost and subsequently carried at cost or its revalued amount less amortisation and impairment losses.

e. Property, plant and equipment

Property, plant and equipment are initially recorded at fair value and are carried at cost less accumulated depreciation and write-downs. Property, plant and equipment are amortized using the unit of production method. The Company does not have any property, plant and equipment that are accounted for under the revaluation model.

Repairs and maintenance costs are charged to the statement of comprehensive loss during the period in which they are incurred, except when these repairs significantly extend the life of an asset or result in an operating improvement. In these instances the portion of these repairs relating to the betterment is capitalized as part of plant and equipment. Major overhauls are capitalized to each asset in the period that they are incurred and the costs associated with the original asset derecognised.

Property, plant and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. Subsequent costs are included in each asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost can be measured reliably. The carrying amount of a replaced asset is derecognised when replaced.

The major categories of property, plant and equipment are as follows:

Major categories	Depreciation method
Mine development costs	Unit of production
Mining equipment	Unit of production
Plant and buildings	Unit of production
Tailings management	Unit of production
Equipment under capital lease	Unit of production
Reclamation assets	Unit of production

Mine development costs include costs of access drifts, ramps, tunnels and infrastructure to access ore bodies, which are estimated to provide benefits to the Company for future production. Costs are assigned to individual ore bodies and are amortized using the unit of production method based on the estimated recoverable tungsten units associated with the ore body.

The Company allocates the amount initially recognised in respect of an item of property, plant and equipment to its significant components and depreciates separately each component over its useful life. Residual values, method of depreciation and useful lives of the assets are reviewed at least annually and adjusted if appropriate. Gains and losses on disposals of property, plant and equipment are recognised in profit or loss in the period when the disposal occurs.

f. Capital leases

Assets under capital leases are capitalized as part of property, plant and equipment and the outstanding lease obligations are shown in loans and capital leases. The interest element of leasing payments is expensed over the term of the lease and is reported in the statement of comprehensive loss as a financing cost.

g. Asset impairment

Property, plant and equipment and any intangible assets are tested for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. For the purpose of measuring recoverable amounts, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units or CGUs). The recoverable amount is the higher of an asset's fair value less costs to sell and value in use (being the present value of expected future cash flows of the relevant asset or CGU). An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

h. Borrowing costs

Borrowing costs attributable to the acquisition, construction or production of qualifying assets are added to the cost of those assets, until such time as the assets are substantially ready for their intended use. All other borrowing costs are recognised as interest expense in the statement of comprehensive loss in the period in which they are incurred.

i. Mineral property interests

Mineral property costs for the acquisition, exploration, evaluation and development of mineral property interests are capitalized on a property-by-property basis. Such expenditures include direct costs and an appropriate portion of related overhead expenditures, but do not include general overhead or administrative expenditures that do not have a specific connection with a particular area of interest. Mineral property costs are considered to be intangible assets with indefinite lives. Mineral property costs are not amortized. Each property is evaluated each reporting period or if there are indicators of impairment, in order to determine if the costs incurred to date continue to be recoverable. Capitalized costs that exceed the estimated recoverable amount are charged to the statement of comprehensive income (loss) in the period of determination. Upon sale or abandonment of mineral properties, the accumulated costs are written off and any gains or losses thereon are included in the statement of comprehensive loss in the period of determination.

When a mineral property moves from exploration into development, the costs of the property are transferred to property, plant and equipment.

j. Provisions

Provisions are made for all known obligations not otherwise recorded. These are recognised in liabilities when the Company has a present legal or constructive obligation as a result of past events and it is more likely than not that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are measured at management's best estimate of the expenditure required to settle the obligation at the end of the reporting period, and are discounted to present value where the effect is material.

k. Reclamation liabilities

Provision is made for closure, restoration and environmental rehabilitation costs (which include the dismantling and demolition of infrastructure, removal of residual materials and remediation of disturbed areas) in the financial period when the related obligation arises, based on the estimated future costs using the best information available at the statement of financial position date. At the time of establishing the provision, a corresponding asset is capitalised to property, plant and equipment as a reclamation asset, where it gives rise to a future benefit. The provision is discounted using a current market based pre-tax discount rate and the unwinding of the discount is recorded as finance costs.

The provision is reviewed each reporting period for changes to obligations, legislation or discount rates that impact estimated costs or lives of operations. The cost of the related asset is adjusted for changes in the provision resulting from changes in the estimated cash flows or discount rate and the adjusted cost of the asset is depreciated prospectively.

l. Foreign currencies

Functional and Presentation Currency
Items included in the financial statements of each consolidated entity are measured using the currency of the primary economic environment in which the entity operates (the “functional currency”). The consolidated financial statements are presented in Canadian dollars (“CND”), which is the functional currency of North American Tungsten Corporation, the parent company. The financial statements of entities that have a functional currency different from that of the Parent (“foreign operations”) are translated into Canadian dollars as follows: assets and liabilities – at the closing rate at the date of the statement of financial position, and income and expenses – at the average rate of the period (as this is considered a reasonable approximation to actual rates). All resulting changes are recognised in other comprehensive income as cumulative translation adjustments.

When an entity disposes of its entire interest in a foreign operation, or loses control, joint control, or significant influence over a foreign operation, the foreign currency gains or losses accumulated in other comprehensive income related to the foreign operation are recognised in profit or loss. If an entity disposes of part of an interest in a foreign operation which remains a subsidiary, a proportionate amount of foreign currency gains or losses accumulated in other comprehensive income related to the subsidiary is reallocated between controlling and non-controlling interests.

Transactions and balances
Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Generally, foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in currencies other than an operation’s functional currency are recognised in the statement of comprehensive loss.

m. Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. The Company recognises revenue when the amount of revenue can be reliably measured and when it is probable that the future economic benefit will flow to the Company. These criteria are generally met at the time the product is shipped to the customer and depending on the delivery conditions, title and risk have passed to the customer and acceptance of the product has been obtained when contractually required.

Tungsten concentrates are sold under pricing arrangements where final prices are determined based on quoted market prices of the refined product in a period prior to the date of sale.

Copper concentrates are sold under pricing arrangements where final prices are determined based on quoted market prices for the refined product in a period subsequent to the date of sale. Final pricing is generally determined three to four months after the date of sale. Revenues are recorded provisionally at the time of sale based on forward prices for the expected date of the final settlement. Subsequent variations in price are recognised as revenue adjustments as they occur until the price is finalized.

n. Income taxes

Income tax comprises current and deferred tax. Income tax is recognised in the statement of comprehensive loss except to the extent that it relates to items recognised directly in equity, in which case the income tax is also recognised directly in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted, at the end of the reporting period, and any adjustment to tax payable in respect of previous periods.

In general, deferred tax is recognised in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined on a non-discounted basis using tax rates and laws that have been enacted or substantively enacted at the date of the statement of financial position and are expected to apply when the deferred tax asset or liability is settled. Deferred tax assets are recognised to the extent that it is probable that the assets can be recovered.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except, in the case of subsidiaries, where the timing of the reversal of the temporary difference is controlled by the Company and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred income tax assets and liabilities are presented as non-current.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

o. Share-based compensation

The Company grants share options to directors, employees and consultants. Share options are granted with varying vesting terms over the life of the option. Each tranche in an award is considered a separate award with its own vesting period and grant date fair value. Fair value of each tranche is measured at the date of grant using the Black-Scholes option pricing model. Compensation expense is recognised over the tranche's vesting period by increasing contributed surplus based on the number of awards expected to vest. The number of awards expected to vest is reviewed at least annually, with any impact being recognised immediately. Share options that are granted to consultants (non-employees) are fair valued based on the fair value of the products and services received by the Company from the consultant. If the fair value of the products and services received cannot be reliably measured, the options are fair valued using Black-Scholes.

p. Earnings per share

Basic earnings (loss) per share ("EPS") is calculated by dividing the net income (loss) for the period attributable to equity owners of the Company by the weighted average number of common shares outstanding during the period.

Diluted EPS is calculated by adjusting the weighted average number of common shares outstanding for dilutive instruments. The number of shares included with respect to options, warrants and similar instruments is computed using the "treasury share method". The number of shares included with respect to convertible debentures and similar instruments is computed using the "if converted method". The Company's potentially dilutive common shares comprise share options granted to employees, warrants and convertible financial liabilities. When a net loss is incurred for a period, basic and diluted earnings per share are the same because the exercises of options, warrants and convertible financial liabilities are anti-dilutive.

q. Share capital

The Company records proceeds from share issuances net of share issuance costs. Share capital issued for non-monetary consideration is recorded at the fair value of the products or services received unless the fair value cannot be reasonably determined in which case the share capital is recognised at the fair value of the shares on the date the shares are issued.

3. IFRS Pronouncements – issued but not yet effective:

In November 2009, the IASB issued IFRS 9, Financial Instruments, which become effective for the Company for annual periods beginning on or after April 1, 2015.

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"), IAS 27, Separate Financial Statements ("IAS 27"), IFRS 13, Fair Value Measurement ("IFRS 13"), and amended IAS 28, Investments in Associates and Joint Ventures ("IAS 28"). Each of the new standards is effective for annual periods beginning on or after April 1, 2013 with early adoption permitted.

IFRS 9 – Financial Instruments

IFRS 9 addresses the classification, measurement and recognition of financial assets and financial liabilities. It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured at fair value and those measured at amortized cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than in net earnings, unless this creates an accounting mismatch.

IFRS 9 is effective for periods beginning on or after January 1, 2015.

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 existing IFRS, consolidation is required when an entity has 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 existing IFRS, entities have 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.

IFRIC 20 – Stripping Costs in the Production Phase of a Surface Mine

IFRIC 20 sets out the accounting for overburden waste removal (stripping) costs in the production phase of a mine. Stripping activity may create two types of benefit: i) inventory produced and ii) improved access to ore. Stripping costs associated with the former should be accounted for as a current production cost in accordance with IAS 2, Inventories. The latter should be accounted for as an addition to or enhancement of an existing asset.

The Company has determined that there is no material impact from the adoption of these new standards and is in the process of assessing the impact of IFRS 9.

4. Critical Accounting Estimates and Judgements:

The preparation of consolidation financial statements in accordance with IFRS requires the use of certain critical accounting estimates and judgments. It also requires management to exercise judgement in applying the Company's accounting policies. These judgments and estimates are based on management's best knowledge of the relevant facts, circumstances and past experiences. Significant areas where management's judgment is applied include the assessment of going-concern, costs and net realisable value for concentrate and ore stockpile inventory, property, plant and equipment (asset valuations and asset useful lives), reclamation liabilities, amortization and depreciation, impairment assessment inputs and ore reserve determinations as they relate to the amortization bases. Ore reserve determinations involve estimates of future costs and future commodity prices.

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

- The amounts recorded for depreciation, amortization, impairment of property, plant and equipment depend on estimates of tungsten reserves, the estimated economic lives of the assets, estimated salvage values, future cash flow from assets and discount rates where applicable.
- The allocation of waste stripping between ore stockpiles and deferred stripping depends on the estimate of tungsten reserves in the open pit.
- Provision for future site restoration costs depends on estimates of costs, rates of inflation, discount rates, estimated timing of progressive and future reclamation work, the regulatory environment and mine development plans which are all dependent on

the life of mine assumptions. Changes in the life of mine or any of the assumptions could materially affect the estimated liability.

- Costs that have been deferred in relation to mineral property interests have been deferred to the extent that they are expected to be recovered. The viability of exploration properties depends on the quantity and grade of mineralization, the location of the deposit in relation to infrastructure, the estimated future market prices of the minerals and political, social and environmental considerations.
- Review of asset carrying values and assessment of impairment - In accordance with the Company's accounting policy, each asset or cash generating unit is evaluated at each reporting date to determine whether there are any indications of impairment. If any such indication exists, a formal estimate of recoverable amount is performed and an impairment loss is recognized to the extent that the carrying amount exceeds the recoverable amount. The recoverable amount of an asset or cash generating unit is measured at the higher of fair value less costs to sell and value in use. The determination of fair value and value in use requires management to make estimates and assumptions about expected production and sales volumes, realised sales prices, reserves, operating costs, mine closure and restoration costs, future capital expenditures and appropriate discount rates for future cash flows. The estimates and assumptions are subject to risk and uncertainty, and as such there is the possibility that changes in circumstances will alter these projections, which may impact the recoverable amount of the assets. In such circumstances, some or all of the carrying value of the assets may be further impaired or the impairment charge reduced with the impact recorded in the statement of income.

<u>Impairment of property, plant and equipment</u>
At September 30, 2012, due to significant decline in market quotations for tungsten in the second half of calendar 2012 and other indicators of possible impairment, the Company reviewed the carrying value of the Cantung assets for impairment. As a result of the review, it was determined that the Cantung assets were impaired and an impairment charge of $16.2 million was recognized to reduce the carrying value to the recoverable amount. The recoverable amount was determined based on the value in use method using discounted future cash flows at a discount rate of 12.5%. Sensitivities for the key assumptions in the value in use calculation are as follows:

- Forecast realised sales prices - with other variables unchanged, a 10% increase in the forecast realised sales price would produce no impairment and a 10% decrease in the forecast realised sales price would produce $41.2 million impairment.
- Tons of ore available to be mined - with other variables unchanged, a 10% increase in the forecast tons of ore available to be mined would produce no impairment and a 10% decrease in the tons available to be mined would produce $38.7 million impairment.
- Discount rate - with other variables unchanged, a 1.0% increase in the discount rate would produce $17.3 million impairment and a 1.0% decrease in the discount rate would produce $15.1 million impairment.

During the year ended September 30, 2013, based on updated mine plans a cemented back-fill plant and an underground ramp were determined to be surplus to requirements and a write down of $1.8 million was recognised in the current year to reduce carrying values to recoverable amounts.

After recognising the impairment of these specific assets, the Company reviewed for changes since September 30, 2012 in the value-in-use model and the indicators of impairment for the Cantung assets and determined there was no additional impairment of the Cantung assets. The recoverable amount at September 30, 2013 was determined based on the value-in-use method using discounted future cash flows at a discount rate of 13.0%. The estimated future cash flows utilized in the value-in-use models incorporated the Company's best estimates of future tungsten production based on the mine plans, estimates of future APT quotations, operating costs and residual values. Sensitivities for the key assumptions in the value in use calculation are as follows:

- Forecast realised sales prices - with other variables unchanged, a 10% decrease in the forecast realised sales price would produce $17.0 million impairment.
- Tons of ore available to be mined - with other variables unchanged, a 10% decrease in the tons available to be mined would produce $16.5 million impairment.
- Discount rate - with other variables unchanged, a 10 % increase in the discount rate would produce no impairment.

5. Financial instruments:

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

A contract that will or may be settled in the Company's own equity and is a derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity is classified as a financial liability at FVTPL. When a financial liability contains a feature that allows the holder of the financial liability to call for the settlement of the liability at any time (due on demand or callable at the option of the holder), the entire financial liability is classified as current.

FIGURES ARE IN THOUSANDS OF CANADIAN DOLLARS

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

Cash and cash equivalents	Loans and Receivables
Accounts receivable	Loans and Receivables
Reclamation deposits	Loans and Receivables
Accounts payable and accrued liabilities	Other Financial Liabilities
Bank loans	Other Financial Liabilities
Equipment loans and capital leases	Other Financial Liabilities
Convertible debentures - interest bearing portion	Other Financial Liabilities
Notes payable	Other Financial Liabilities
Derivative instruments	Fair-Value-Through Profit or Loss

6. Cash and cash equivalents:

Cash and cash equivalents include cash in bank accounts and demand deposits with maturities from the date of acquisition of 90 days or less.

7. Accounts receivable:

	September 30, 2013	September 30, 2012
Trade receivables	$ 13,950	$ 16,359
Taxes and other receivables	433	794
	14,383	17,153
Current portion of accounts receivable	(9,025)	(17,153)
Long-term portion of accounts receivable	$ 5,358	$ -

The Company has an operating loan from HSBC, guaranteed by the Accounts Receivable Insurance Program of Export Development Canada ("EDC"), under which it borrows up to 90% of the value of applicable trade receivables from approved customers (Note 15). The Company has received prepayments from these customers that amounted to $8.1 million at September 30, 2013 (September 30, 2012 - $3.7 million) (Note 14).

8. Inventories:

	September 30, 2013	September 30, 2012
Tungsten concentrates	$ 839	$ 472
Copper concentrate	87	372
Ore stockpile	2,613	1,380
Materials and supplies	4,103	4,332
	$ 7,642	$ 6,556

FIGURES ARE IN THOUSANDS OF CANADIAN DOLLARS

9. Derivative instruments:

	September 30, 2013	September 30, 2012
USD/CND forward exchange rate sale contracts	$ 29	$ -
	$ 29	$ -

The Company operates on an international basis and therefore foreign exchange risk exposures arise from transactions denominated in a foreign currency. The foreign exchange risk arises primarily with respect to the USD dollar as sales are denominated in USD.

From time to time the Company enters into US Dollar / Canadian Dollar ("CDN") forward exchange rate sales contracts to manage its exposure to fluctuations in USD/CDN dollar exchange rates as they relate to the USD accounts receivables. The Company accounts for these contracts as investments and records changes in the fair value of these derivative instruments as an asset or liability at each reporting date with a corresponding gain or loss recognised in profit or loss for the period.

At September 30, 2013 the Company held USD$7.5 million (CDN$7.7 million) of USD/CDN forward exchange rate sales contracts with maturities over the following 39 days with exchange rates of USD/CDN1.029 to USD/CDN1.046. The settlement date value of the contracts at September 30, 2013 was CDN$7.8 million. For the year ended September 30, 2013 a gain on revaluation of derivative instruments of CDN$29 thousand was recognised (for the year ended September 30, 2012 - nil was recognised). There were no outstanding forward exchange rate contracts at September 30, 2012.

10. Property, plant and equipment:

	Equipment under capital lease	Plant and buildings	Mine development costs	Mining equipment	Tailings Management	Reclamation assets	Total
Opening cost, October 1, 2011	$ 10,610	$ 14,965	$ 25,526	$ 6,972	$ 11,582	$ 4,760	$ 74,415
Additions	2,350	1,616	14,027	4,039	2,540	600	25,172
Ending cost, September 30, 2012	12,960	16,581	39,553	11,011	14,122	5,360	99,587
Opening balance, accumulated depreciation and impairments, October 1, 2011	2,264	6,564	11,088	2,353	8,355	1,199	31,823
Depreciation	1,634	1,374	13,773	604	1,394	1,155	19,934
Impairment	723	1,457	9,095	383	2,680	1,862	16,200
Ending balance, accumulated depreciation and impairments, September 30, 2012	4,621	9,395	33,956	3,340	12,429	4,216	67,957
Ending balance, September 30, 2012	$ 8,339	$ 7,186	$ 5,597	$ 7,671	$ 1,693	$ 1,144	$ 31,630
Opening cost, October 1, 2012	$ 12,960	$ 16,581	$ 39,553	$ 11,011	$ 14,122	$ 5,360	$ 99,587
Additions	907	1,007	357	128	1,528	(140)	3,787
Project cost adjustment	.	-	(602)	-	-	-	(602)
Disposals	-	(30)	-	-	-	-	(30)
Ending cost, September 30, 2013	13,867	17,558	39,308	11,139	15,650	5,220	102,742
Opening balance, accumulated depreciation and impairments, October 1, 2012	4,621	9,395	33,956	3,340	12,429	4,216	67,957
Depreciation	1,733	1,122	2,415	1,198	792	286	7,546
Impairment	-	-	244	1,513	-	-	1,757
Disposals	-	(12)	-	-	-	-	(12)
Ending balance, accumulated depreciation and impairments, September 30, 2013	6,354	10,505	36,615	6,051	13,221	4,502	77,248
Ending balance, September 30, 2013	$ 7,513	$ 7,053	$ 2,693	$ 5,088	$ 2,429	$ 718	$ 25,494

FIGURES ARE IN THOUSANDS OF CANADIAN DOLLARS

The Company has pledged the equipment under capital lease as security to the leasing company. As part of the HSBC and other credit facilities, the Company has entered into general security agreements which include all property, plant and equipment.

At September 30, 2012, due to significant decline in market quotations for tungsten in the second half of calendar 2012 and other indicators of possible impairment, the Company reviewed the carrying value of the Cantung assets for impairment. As a result of the review, it was determined that the Cantung assets were impaired and an impairment charge of $16.2 million was recognised to reduce the carrying value to the recoverable amount. The recoverable amount was determined based on the value-in-use method using discounted future cash flows at a discount rate of 12.5%. The estimated future cash flows utilized in the value-in-use models incorporated the Company's best estimates of future tungsten production based on the mine plans, estimates of future APT quotations, operating costs and residual values. The recognition of the impairment reduced the amount of amortization to be recognized over the estimated remaining life of the property, plant and equipment by $16.2 million.

During the year ended September 30, 2013 the Company negotiated a $0.6 million reduction to the final project cost for mine development.

Included in tailings management is a waste water treatment facility totalling $0.2 million which was under development during the year ended September 30, 2013. No depreciation will be taken on this asset until commissioned.

Included in mine development costs is $0.4 million of deferred stripping costs from the fiscal 2013 open pit mining program.

Based on updated mine plans a cemented back-fill plant and an underground ramp were determined to be surplus to requirements and a write down of $1.8 million was recognised in the current year to reduce carrying values to recoverable amounts.

After recognising the impairment of these specific assets, the Company reviewed for changes since September 30, 2012 in the value-in-use model and the indicators of impairment for the Cantung assets and determined there was no additional impairment of the Cantung assets. The recoverable amount at September 30, 2013 was determined based on the value-in-use method using discounted future cash flows at a discount rate of 13.0%. The estimated future cash flows utilized in the value-in-use models incorporated the Company's best estimates of future tungsten production based on the mine plans, estimates of future APT quotations, operating costs and residual values.

11. Mineral property - Mactung:

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

Balance October 1, 2011	$	16,196
Expenditures during the year		1,472
Balance September 30, 2012	$	17,668
Expenditures during the year		1,063
Balance September 30, 2013	$	18,731

The Mactung mineral leases are located on the border of the Yukon and Northwest Territories and are held under various mineral lease agreements and claims.

On January 31, 2005 the Company entered into an Amended Royalty Agreement on the Mactung Property with Teck Resources Limited ("Teck"). For $100 thousand Teck granted the Company an option (the "Option") to reduce the Mactung Royalty from a 4% net smelter return ("NSR") to a 1% NSR, such Option to be exercisable by the Company upon:

Paying to Teck an additional $1.0 million by the earlier of:

- March 30, 2015; and
- 60 days after the receipt of a water license issued in connection with any proposed development of the properties (as such term is defined in the Mactung Royalty Agreement) for mineral production.

As the Company did not exercise the Option by March 30, 2010, it paid $200 thousand to Teck to maintain the Option.

The $300 thousand paid by the Company has been treated as a deferred royalty and will be amortized over the life of the mine once the Mactung property is brought into production. The balance at September 30, 2013, was $300 thousand (September 30, 2012 - $300 thousand).

FIGURES ARE IN THOUSANDS OF CANADIAN DOLLARS

12. Accounts payable and accrued liabilities:

	September 30, 2013	September 30, 2012
Trade payables	$ 9,287	$ 10,602
Property, plant and equipment and Mactung development costs payable	812	5,673
Royalties payable	3,728	2,962
Other payables and accrued liabilities	2,589	1,358
	$ 16,416	$ 20,595

In April 2013, the Company reached an agreement with a former mining contractor on a schedule of payments on the final amount due in respect of a contract under which mining services were provided to the Cantung mine (Note 17).

13. Convertible Debentures:

	Debt component	Derivative liability	Total liability
Balance at September 30, 2011	$ 1,877	$ 574	$ 2,451
Interest accreted	512	-	512
Gain on revaluation of derivative instrument	-	(509)	(509)
Gain on foreign exchange	(101)	-	(101)
Balance at September 30, 2012	$ 2,288	$ 65	$ 2,353
Interest accreted	514	-	514
Gain on revaluation of derivative instrument	-	(65)	(65)
Loss on foreign exchange	115	-	115
Balance at September 30, 2013	$ 2,917	$ -	$ 2,917

On October 28, 2010 the Company issued USD Convertible Debentures (“debentures”) in the principal amount of USD$2.87 million (CDN$2.93 million) for a three year term. The interest rate on the outstanding debt portion is fixed at 10% per annum compounded quarterly. Each USD$1,000 principal is convertible into 2,267 common shares at the option of the holder at any time. The Company has provided a general security agreement that has been subordinated to the Company’s senior indebtedness as security for the debentures.

Five directors participated directly and indirectly in the debentures financing for a total principal amount of USD$1.37 million (Note 25).

At September 30, 2013, the fair value of the derivative was determined to be USD$ nil (CDN$ nil) and was determined with the Black-Scholes option pricing model with the following assumptions; share price at the reporting date of $0.13, exercise price of $0.45 per share, expected life of 0.08 years, risk-free rate of 0.03%, volatility of 17.8% and a zero dividend rate.

Interest expense on the debentures is composed of the interest calculated on the face value of the debentures at 10% per annum which amounted to $291 thousand for the year ended September 30, 2013, a notional interest representing the accretion of the carrying value of the debentures due to the passage of time of $514 thousand and a foreign exchange loss of $115 thousand. A gain on revaluation of the derivative liability of $65 thousand was recognised for the period due to changes in fair value and changes in the price of the Company’s shares.

At September 30, 2012, the fair value of the derivative was determined to be USD$66 thousand (CDN$65 thousand) and was determined with the Black-Scholes option pricing model with the following assumptions; share price at the reporting date of $0.18, exercise price of $0.43 per share, expected life of 1.1 years, risk-free rate of 0.17%, volatility of 72.0% and a zero dividend rate.

Interest expense on the debentures is composed of the interest calculated on the face value of the debentures at 10% per annum which amounted to $289 thousand for the year ended September 30, 2012, a notional interest representing the accretion of the carrying value of the debentures due to the passage of time of $512 thousand and a foreign exchange gain of $101 thousand. A gain on revaluation of the derivative liability of $509 thousand was recognised for the period due to changes in fair value and changes in the price of the Company's shares.

FIGURES ARE IN THOUSANDS OF CANADIAN DOLLARS

On October 29, 2013 the Company repaid USD$170 thousand of the maturing convertible debentures and the remaining $2.7 million was forbore until December 31, 2013 under the existing terms aside from the repayment date. Subsequently the Convertible Debentures were refinanced in the USD$10 million Convertible Debentures financing (Note 32).

14. Customer advances:

	September 30, 2013		September 30, 2012	
Obligations for customer advances	$	8,063	$	3,718
Current portion of customer advances		(2,705)		(768)
Long-term portion of customer advances	$	5,358	$	2,950

During the year ended September 30, 2010, the Company received customer advances totalling USD$7.8 million (CDN$8.0 million), of which USD$4.1 million (CDN$4.4 million) has been repaid as of September 30, 2013. The remaining balances are repayable by 2015. A related party (Note 25) provided a guarantee of a letter of credit as security for one of these advances totalling USD$781 thousand at September 30, 2012 (CDN$768 thousand). The guarantee expired on December 1, 2012.

During the year ended September 30, 2013, an advance of USD$2.0 million was received from an existing customer on execution of a new tungsten delivery contract and is repayable at the end of the contract which expires on December 31, 2013. An advance of USD$2.2 million was received from a new customer on execution of a new tungsten delivery contract and is repayable by October 31, 2014 (the end of the initial contract term) or by October 31, 2016 (the end of the renewal term) if the renewal option is exercised on mutual agreement by the parties.

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 of the customer.

During the year ended September 30, 2013, the Company repaid USD$156 thousand (CDN$154 thousand) of the advances and recognised a foreign exchange loss of $348 thousand. During the year ended September 30, 2012, the Company repaid $1.7 million of the advances and recognised a foreign exchange gain of $319 thousand. See Note 20 for commitments for the customer advances.

Subsequent to September 30, 2013, the Company entered into a new tungsten delivery contract (Note 27) in conjunction with a loan arrangement with an existing customer and the USD$2.2 million advance from the customer was transferred into the loan (Note 32).

15. Bank loan and other credit facilities:

HSBC Bank Canada facilities

The Bank Operating Loan is based on a percentage of trade accounts receivable and product inventory. A letter of credit that is guaranteed by two directors of the Company (the "Sponsors") (Note 25) has been pledged as security for the Working Capital Loan. The Company has pledged the associated assets of the Non-revolving Equipment Loans as security for the Non-revolving Equipment Loans (Note 16). In the event that the Company is unable to repay the Working Capital Loan when it matures, HSBC has the option to exercise the "Put Agreement" with the guarantors or HSBC can draw on the line of credit provided by the guarantors.

During the year ended September 30, 2013 HSBC informed the Company that the Bank Operating Loan and the Working Capital Loan are to be fully repaid not later than December 31, 2013. Subsequent to September 30, 2013 HSBC provided extensions to the credit facilities to June 30, 2014. The interest rate on the Operating Loan and Working Capital Loan were increased by 2.0% per annum. The Company is investigating alternate sources of financing to replace the HSBC credit facilities on maturity. Fees of $115 thousand were paid to HSBC for the extensions and forbearance. Under the extension, the guaranteed letter of credit along with the Put Agreement has been extended. The Company has agreed to compensate the Sponsors by paying a fee of 2.25% of the amount of the outstanding balance of the letter of credit each quarter that the letter of credit remains outstanding.

FIGURES ARE IN THOUSANDS OF CANADIAN DOLLARS

The balance of the Operating and Working Capital loans are as follows:

	September 30, 2013	September 30, 2012
Operating loan	$ 11,103	$ 9,018
Working capital loan [1]	13,576	12,832
	$ 24,679	$ 21,850

1 -The Working Capital Loan balance at September 30, 2013 includes $1.6 million of accreted liability (September 30, 2012 - $852 thousand).

On May 14, 2012 the Company entered into an amendment of its credit facility with HSBC.

The credit facility contains the following financial covenants:

- the debt to tangible net worth ratio does not exceed 3.5:1 to June 30, 2013 and 2.5:1 thereafter;
- the consolidated current assets to current liabilities ratio at no time is less than 0.5:1 to June 30, 2013 and 1.1:1 thereafter.

For the HSBC covenant calculations, the secured working capital loan of $12.0 million and the $2.9 million undiscounted face value of the convertible debentures (Note 13) are classified as equity.

Following the recognition of the $16.2 million impairment provision (Note 10) at September 30, 2012, the Company was in breach of the debt to tangible net worth covenant of the HSBC credit facility and throughout fiscal 2013. HSBC has waived all previous covenant breaches to December 31, 2013.

The credit facility contains a general security agreement in favour of HSBC over the Cantung mine and associated assets.

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

Bank Operating Loan

On May 14, 2012, the Company entered into an amendment of its credit facility with HSBC.

The amended operating loan facility has a maximum of $12.0 million, of which up to USD$5.0 million of the facility may be in USD.

The borrowing base is a percentage of applicable trade accounts receivable and product inventory. The loan is supported by the Accounts Receivable Insurance Program of EDC. The loan carries interest at HSBC Bank prime rate + 2.0% per annum.

For the year ended September 30, 2013 interest expense of $457 thousand was recognised on the loan (year ended September 30, 2012 - $401 thousand).

Working Capital Loan

On October 13, 2011, the Company executed a Working Capital Loan facility with HSBC to a maximum of $12.0 million. The loan requires monthly interest payments at HSBC Bank prime + 0.25%, the balance is due on demand and the original agreement required full repayment by June 30, 2013.

A letter of credit that is guaranteed (the “Guarantee”) by two directors (the “Sponsors”) of the Company (Note 25) has been pledged as security for the Working Capital Loan, in the amount of USD$12.0 million. The facility requires that in the event that the CDN equivalent value of the letter of credit is equal to or below 95% of the outstanding balance of the loan, the Company will repay the loan balance down in the amount of the shortfall or provide the bank cash collateral in the amount of the shortfall. During the year ended September 30, 2012, an application fee of $75,000 was paid to HSBC.

The Sponsors and HSBC have entered into a Put Agreement which may be exercised by HSBC at its sole discretion, which allows HSBC to exchange the outstanding balance of the Working Capital Loan with the Sponsors for up to the USD$12.0 million letter of credit. See Note 25 for details on the compensation to the Sponsors for the Put.

In recognising the initial financial liability, it was assumed that the fee of USD$1.5 million for the Guarantee would be paid at maturity of the Working Capital Loan in June 2013. The Working Capital Loan and Guarantee was initially recognised at fair value of $12.0 million and is subsequently carried at amortized cost using the effective interest method. As the HSBC loan is interest bearing at HSBC Bank prime + 0.25%, which is a reasonable rate for this type of loan, the carrying amount approximates fair value.

FIGURES ARE IN THOUSANDS OF CANADIAN DOLLARS

For the year ended September 30, 2013, the Company recognised accretion of $1.0 million, a foreign exchange loss of $25 thousand and interest expense of $390 thousand on the loan. For the year ended September 30, 2012, the Company recognised accretion of $852 thousand, a foreign exchange gain of $20 thousand and interest expense of $394 thousand on the loan.

The Working Capital Loan balance at September 30, 2013 includes $1.6 million of accreted liability (September 30, 2012 - $852 thousand).

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. The agreement also extended the USD$12.0 million Letter of Credit ("L/C") backing the Loan that is guaranteed (the “Guarantee”) which was sponsored by two directors of the Company (the "Sponsors") and has been extended for the same period. The Sponsors and the Bank have similarly extended 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. See Note 25 for details on the compensation to the Sponsors for the Put.

Subsequent to September 30, 2013 HSBC provided an extension to the credit facility to June 30, 2014. Under the extension, the guaranteed letter of credit along with the Put Agreement has been extended. The interest rate on the Working Capital Loan was increased by 2.0% per annum.

In recognising the initial financial liability, it was assumed that the fee of USD$2.0 million (which includes the original USD$1.5 million plus an additional USD$0.5 million related to the extension) for the Guarantee will be paid at maturity of the Working Capital Loan in December 2013. The Working Capital Loan and Guarantee at June 30, 2013 was initially recognised at fair value of $13.5 million less estimated transaction costs of $0.3 million which includes the value of the 5,000,000 warrants issued to the Sponsors (Note 19) and is subsequently carried at amortized cost using the effective interest method. As the HSBC loan is interest bearing at HSBC Bank prime + 0.25%, which is a reasonable rate for this type of loan, the carrying amount approximates fair value.

Subsequent to September 30, 2013 the USD$2.0 million fee for the Guarantee was refinanced in the USD$10 million Convertible Debentures financing (Note 32).

16. Equipment loans and capital leases:

	September 30, 2013	September 30, 2012
Equipment loans	$ 1,819	$ 6,443
Capital leases	1,470	2,736
	3,289	9,179
Current portion of equipment loans and capital leases	(2,807)	(7,053)
Long-term portion of equipment loans and capital leases	$ 482	$ 2,126

See Note 20 for details of required payments for the equipment and capital leases.

HSBC Non-revolving Equipment Loans

The Company has entered into equipment loans that carry interest at rates that range from HSBC Bank Prime + 1.75% to 3.75% and mature between 2013 and 2014. The Company has pledged the associated assets of the loans as security for the loans. For the year ended September 30, 2013 the Company recognised interest expense of $201 thousand (year ended September 30, 2012 - $332 thousand).

At September 30, 2012 the long-term portion of the HSBC equipment loans totalling $397 thousand has been classified as current (Note 15). At September 30, 2013 the remaining balance of the HSBC equipment loans are classified as current as they mature within 12 months.

Caterpillar Financial Services Corporation 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. The loans mature in fiscal 2015 with interest rates of 8.5% per annum. The Company has pledged the associated assets of the loans as security for the loans. During the year ended September 30, 2013 the Company recognised interest expense of $123 thousand (year ended September 30, 2012 - $180 thousand).

FIGURES ARE IN THOUSANDS OF CANADIAN DOLLARS

Capital leases

The Company has various capital leases for equipment with maturity dates that range from fiscal 2013 to 2016 with interest rates that range from 8.5% to 20.5%. The Company has pledged the associated assets of the capital leases as security for the capital leases.

During the year ended September 30, 2013, the Company recognised interest expense of $229 thousand (year ended September 30, 2012 - $139 thousand).

17. Notes Payable

	September 30, 2013	September 30, 2012
Former mining contractor	$ 2,679	$ -
Queenwood Capital Partners II LLC	4,255	-
	6,934	-
Current portion of notes payable	(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 on the final amount due in respect of a contract under which mining services were provided to the Cantung mine.

The Company has 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 8.0%, 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.
ii. 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.

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. As the notes payable is interest bearing at a reasonable rate for this type of loan, the carrying amount approximates fair value.

During the year ended September 30, 2013 the Company recognised interest expense of $116 thousand (year ended September 30, 2012 – nil).

USD$4.0 million Note Payable

In June 2013 the Company executed a USD$4.0 million short-term credit facility with Queenwood Capital Partners II LLC (Queenwood II), a company controlled by two Directors of the Company. The facility bears interest at 12.5% annually, matures October 31, 2013 and is secured by a fixed charge over the Mactung property and a floating charge over all other assets of the Company. The security granted is subordinated to security previously granted. Financing fees of USD$100 thousand were paid to Queenwood II to execute the credit facility and legal fees of $77 thousand were incurred.

The initial financial liability was recognised at fair value of USD$4.0 million (CDN$4.2 million) less estimated transaction costs USD$174 thousand and is subsequently carried at amortized cost using the effective interest method. As the note payable is interest bearing at a reasonable rate for this type of loan, the carrying amount approximates fair value.

FIGURES ARE IN THOUSANDS OF CANADIAN DOLLARS

During the year ended September 30, 2013 the Company recognised $169 thousand of interest expense on the face value of the note at 12.5% per annum, a notional interest representing the accretion of the carrying value of the note payable due to the passage of time of $146 thousand and a foreign exchange loss of $12 thousand.

On October 28, 2013 the Queenwood II short-term credit facility matured and it was forbore to December 31, 2013 under the existing terms aside from the repayment date. Subsequently the USD$4.0 million note payable was refinanced in the USD$10 million Convertible Debentures financing (Note 32).

18. 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, 2012 - $8.7 million). For financial statement purpose this has been estimated with a market based pre-tax discount rate of 1.4% and an average rate of inflate of 1.5% (September 30, 2012 - discount rate 1.1%, inflation rate 1.8%). 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 estimated to commence during fiscal 2017 through fiscal 2018, but this timing may be deferred if a longer life is warranted, however this is not included in the current life assumptions. Due to the change in the estimated timing of the future reclamation work and lower estimated costs for the reclamation of the historic town site, the existing reclamation liability decreased by $140 thousand with a corresponding decrease to the reclamation asset.

The Cantung mine future reclamation cost was estimated by an independent engineering firm at each of September 30, 2013 and 2012. The September 30, 2013 estimate included additional costs reclaiming an apartment block and for the recontouring of the open-pit. The reclamation cost estimate from the engineering firm was used as the basis for the Company's estimate of the reclamation liability.

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

	September 30, 2013	September 30, 2012
Opening balance, reclamation liabilities	$ 8,404	$ 7,688
Accretion	179	116
Change in estimates of future costs	(140)	600
Closing balance, reclamation liabilities	$ 8,443	$ 8,404
Current portion of reclamation liability	(963)	-
Long-term portion of reclamation liability	$ 7,480	$ 8,404

During the year ended September 30, 2013, the Company recognised accretion expense of $179 thousand (year ended September 30, 2012 - $116 thousand). The accretion expense is included in interest and financing costs on the statement of comprehensive loss for the period.

The Company has posted deposits of $5.5 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 20 a).

19. Share capital:

a. Common shares

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

On June 12, 2013 1,000,000 common shares were issued to the former Chief Executive Officer of the Company as part of his employment contract settlement. The fair value of the common shares, net of issuance costs, was $163 thousand.

FIGURES ARE IN THOUSANDS OF CANADIAN DOLLARS

b. Warrants

Number of Warrants Outstanding as of September 30, 2012	Issued	Exercised	Expired	Number of Warrants Outstanding as of September 30, 2013	Exercise Price	Expiry Date
2,000,000	-	-	-	2,000,000	$1.00	27-Oct-15
11,500,000	-	-	(11,500,000)	-	$0.75	31-Mar-13
1,250,000	-	-	(1,250,000)	-	$0.50	31-Mar-13
-	5,000,000	-	-	5,000,000	$0.20	30-Jun-14
14,750,000	5,000,000	-	(12,750,000)	7,000,000		

On June 27, 2013 the Company issued 5,000,000 warrants, each exercisable at $0.20 into one common share and expire on June 30, 2014. The warrants were issued to the Sponsors of the Working Capital Loan Guarantee (the “Guarantee”) as part of the compensation to extend the Guarantee to December 31, 2013 (Note 15 and Note 25). The warrants’ value was calculated using the Black-Scholes option pricing model based on an expected life of 1.0 years, a dividend yield of 0%, a risk-free interest rate of 1.2%, an expected volatility of 69.0% based on the Company’s share trading history and a share price of $0.19, giving a per warrant fair value of $0.05 and a total value for the warrants of $242 thousand. The value of the warrants is included in the determination of the fair value of the Guarantee.

c. Share option plan

The Company has a rolling Share Option Plan which reserves up to a maximum of 10% of the issued and outstanding shares for the granting of options to eligible participants. The Option Plan provides that the Company’s Board of Directors may from time to time grant share options to acquire common shares to any participant who is an employee, officer or director of the Company or a consultant to the Company. The total number of common shares that may be reserved for issuance to any one participant pursuant to options granted under the Option Plan may not exceed 5% of the issued and outstanding shares of the Company on the date of the grant of the share options in any twelve month period. The maximum number of options granted to any one consultant may not exceed 2% of the issued and outstanding shares of the Company on the date of the grant of the options in any twelve month period and the options granted to persons employed to provide investor relation services may not exceed 2% of the issued and outstanding shares of the Company on the date of grant of the options in any 12 month period. No more than an aggregate of 10% of the issued shares of the Company, within any 12 month period may be granted to insiders; unless the Company has received disinterested shareholder approval. The options may not be granted at prices that are less than the Discounted Market Price as defined in the TSX Venture Exchange policy. Each option is exercisable, subject to vesting terms as may be determined by the Board, into one common share of the Company. In general, share options are subject to portions of the option grant vesting over a 12 month period.

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.

FIGURES ARE IN THOUSANDS OF CANADIAN DOLLARS

	Number of Options Outstanding as of September 30, 2012	Granted	Exercised	Forfeited	Cancelled	Expired	Number of Options Outstanding as of September 30, 2013	Exercise Price	Expiry Date	Options Exercisable
	175,000	-	-	-	-	(100,000)	75,000	$0.15	19-Oct-14	75,000
	1,650,000	-	-	-	-	(775,000)	875,000	$0.19	1-Feb-15	875,000
	240,000	-	-	-	(240,000)	-	-	$0.41	5-Jan-16	-
	150,000	-	-	-	-	(50,000)	100,000	$0.28	19-Jan-17	100,000
	2,135,000	-	-	-	(160,000)	(925,000)	1,050,000	$0.42	8-Mar-17	1,050,000
	150,000	-	-	-	(150,000)	-	-	$0.42	5-Apr-17	-
	-	2,075,000	-	(150,000)	-	(58,333)	1,866,667	$0.19	28-May-18	633,332
	-	50,000	-	-	-	-	50,000	$0.19	10-Jul-18	16,666
	4,500,000	2,125,000	-	(150,000)	(550,000)	(1,908,333)	4,016,667			2,749,998
Weighted Average Exercise Price	$0.32	$0.19	N/A	$0.19	$0.41	$0.30	$0.25			$0.28

During the year ended September 30, 2013 2,075,000 options were granted to employees with an exercise price of $0.185, expiring May 28, 2018. The option valuation for the issue was calculated using the Black-Scholes option pricing model based on an expected option life of 4.0 years, a dividend yield of 0%, a risk-free interest rate of 1.2%, an expected volatility of 137.7% based on the Company’s share trading history and a share price of $0.185, giving a per option fair value of $0.10. The options vest 1/3rd immediately, 1/3rd after six months and 1/3rd after a year.

The 2,075,000 options granted included 550,000 options issued to replace 550,000 options cancelled during the period. The cancellation and replacement of the options is considered a modification of share-options under IFRS. The fair value of the cancelled options at the date of cancellation was determined with the Black-Scholes option pricing model. The incremental increase in fair value between the cancelled options and the replacement options was $31 thousand and will be recognised over the vesting period of the replacement options. Share-based compensation expense for the year ended June 30, 2013 was $358 thousand which includes $28 thousand for the options that had not vested at the date of cancellation and was required to be recognised on cancellation of the options.

During the year ended September 30, 2013 50,000 options were granted to an employee with an exercise price of $0.19, expiring July 10, 2018. The option valuation for the issue was calculated using the Black-Scholes option pricing model based on an expected option life of 4.0 years, a dividend yield of 0%, a risk-free interest rate of 1.6%, an expected volatility of 139.78% based on the Company’s share trading history and a share price of $0.19, giving a per option fair value of $0.10. The options vest 1/3rd immediately, 1/3rd after six months and 1/3rd after a year.

During the year ended September 30, 2013 $358 thousand was recognised as share-based compensation expense for options that vested during the period (year ended September 30, 2012 - $441 thousand).

The outstanding options have a weighted-average exercise price of $0.25 per share (September 30, 2012 - $0.32) and the weighted-average remaining life of 3.5 years (September 30, 2012 – 3.5 years).

Subsequent to September 30, 2013 100,000 options were granted to an employee with an exercise price of $0.14 and expire on October 11, 2018 and 150,000 options were granted to employee with an exercise price of $0.10 and expire on December 4, 2018.

FIGURES ARE IN THOUSANDS OF CANADIAN DOLLARS

20. Commitments:

Contractual Obligations and Commitments	Payments due in years ended September 30						
	2014	2015	2016	2017	2018	2019	TOTAL
Mactung leases	$ 8	$ 8	$ 8	$ 8	$ 8	$ 8	$ 48
Cantung leases	43	43	43	43	43	43	$ 258
Customer advances	2,705	5,358	-	-	-	-	$ 8,063
Equipment loans	1,553	344	-	-	-	-	$ 1,897
Capital leases	1,418	108	40	-	-	-	$ 1,566
Office leases [1]	223	233	245	251	84	-	$ 1,036
Equipment rental contracts	1,782	-	-	-	-	-	$ 1,782
	$ 7,732	$ 6,094	$ 336	$ 302	$ 135	$ 51	$ 14,650

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 $5.5 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 year ended September 30, 2013 the Company posted $400 thousand of cash and reduced the posted secured promissory notes by $400 thousand.

b. Smelter royalties

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

21. 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, the Company recognised $1.8 million in "Fees, wages and benefits" as employment contract settlement expense (Note 23), and the remaining employment agreement subsequently expired. At September 30, 2013 $1.2 million remained in accounts payable for the future installments under the employment settlement agreements.

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

FIGURES ARE IN THOUSANDS OF CANADIAN DOLLARS

22. Cost of sales:

	For the year ended September 30, 2013	For the year ended September 30, 2012
Mine operating costs	$ 69,522	$ 69,136
Amortization and depreciation	7,546	19,934
Inventory changes, adjustments and write-downs	(47)	1,306
Freight, handling and conversion	2,165	2,241
Royalties	765	1,051
	$ 79,951	$ 93,668

The amount of inventory sold and recognised as cost of sales in the year, together with the $0.9 million write-down of tungsten concentrate inventories to the estimated recoverable amount in the year ended September 30, 2013, constitutes the cost of sales.

Mine operating costs by function:

	For the year ended September 30, 2013	For the year ended September 30, 2012
Mine	$ 26,371	$ 27,954
Mill	11,789	10,585
Power generation and surface maintenance	17,926	17,144
Site administration and environmental	13,436	13,453
	$ 69,522	$ 69,136

Mine operating costs by nature:

	For the year ended September 30, 2013	For the year ended September 30, 2012
Salaries and wages	$ 20,209	$ 18,385
Employee benefits	4,768	3,885
Fuel and lubricants	14,558	14,805
Materials and supplies	15,236	14,128
Mine and drill contractors	3,038	5,750
Freight, expediting and support services	7,154	7,376
Other costs	4,559	4,807
	$ 69,522	$ 69,136

FIGURES ARE IN THOUSANDS OF CANADIAN DOLLARS

23. General and administrative costs:

	For the year ended September 30, 2013	For the year ended September 30, 2012
Fees, wages and benefits	$ 3,503	$ 1,769
Loss on renegotiation of sales contract	1,133	-
Office expenses	450	941
Accounting and audit	242	277
Legal fees	145	113
Investor relations, travel and business development	217	201
Consulting	163	87
Filing fees and transfer agent fees	40	65
	$ 5,893	$ 3,453

Fees, wages and benefits for the year ended September 30, 2013 includes $1.8 million of employment contract settlement expense (Notes 21 & 25) (year ended September 30, 2012 – nil).

During the year ended September 30, 2013 accounts receivables of $1.1 million related to previous sales were written down due to the subsequent renegotiation of a sales contract.

24. Supplemental cash flow:

	For the year ended September 30, 2013	For the year ended September 30, 2012
Change in non-cash working capital:		
Accounts receivable	$ 2,770	$ (9,531)
Prepaid expenses	(62)	(97)
Inventories	(1,086)	473
Repayments of customer advances	-	(1,729)
Accounts payable and accrued liabilities	956	2,125
Change in non-cash working capital	$ 2,578	$ (8,759)

	For the year ended September 30, 2013	For the year ended September 30, 2012
Expenditures on property, plant and equipment in accounts payable and accrued liabilities	$ 629	$ 5,459
Expenditures on Mactung development in accounts payable and accrued liabilities	$ 184	$ 214
Other supplemental information:		
Total interest received	$ -	$ 10
Total interest and financing costs paid	$ 3,205	$ 2,986
Included in cash flows from operations	$ 11	$ 182

25. Related party transactions:

A director of the Company guaranteed the issuance of a letter of credit for a fee of 10% per annum of the outstanding amount of the letter of credit relating to a customer advance. The guarantee expired on December 1, 2012. For the year ended September 30, 2013 the Company recognised an expense of $11 thousand (year ended September 30, 2012 - $182 thousand) in respect to the guarantee (Note 14) to a director.

Directors of the Company participated directly and indirectly in the USD$2.87 million convertible debentures financing as to USD$1.37 million (Note 13). For the year ended September 30, 2013 the Company recognised an expense of $144 thousand (year ended September 30, 2012 - $132 thousand) of interest on these convertible debentures.

On October 13, 2011, two directors of the Company sponsored (the "Sponsors") the Company for the HSBC Working Capital Loan (Note 15), by backing a letter of credit to HSBC in the amount of USD$12.0 million and entered into a Put Agreement with HSBC. The Put Agreement may be exercised by HSBC, at its sole discretion, which allows HSBC to exchange the outstanding balance of the Working Capital Loan with the Sponsors for up to the USD$12.0 million of the letter of credit.

In exchange for entering into the Put Agreement ("Guarantee") and backing the letter of credit, the Company agreed to compensate the two Sponsors in the following manner;

a. pay the Sponsors in USD on the last day of each calendar quarter, an aggregate amount equal to 1.75% of the maximum outstanding principal amount of the line of credit during the immediately preceding calendar quarter (or portion thereof), which payments began on December 31, 2011;
b. pay to the Sponsors, an aggregate amount equal to USD$1.5 million on the earlier of:
   (i) the date the Loan is paid in full;
   (ii) the date the Loan is put to the Sponsors pursuant to the Put Agreement; or
   (iii) the date the letter of credit is drawn upon for payment of the Loan;
c. upon certain events of default of the payments due to Sponsors on the last day of each quarter, increase to an aggregate amount equal to 3.0% of the maximum outstanding principal amount of the line of credit during the immediately preceding calendar quarter (or portion thereof); and the payment to the Sponsors will increase to USD$2.0 million from USD$1.5 million;
d. the Company entered a General Security Agreement which grants security over the Company's assets including the Mactung project, which is subordinated to the security under the Reclamation Security Agreement (Note 20 a).

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. The agreement 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 has been extended for the same period. The Sponsors and the Bank have similarly extended 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 two Sponsors in the following manner;

a. pay the Sponsors (in US dollars) on the last day of each calendar quarter, an aggregate amount equal to 1.25% 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 will expire one year after issuance (Note 19).

During the year ended September 30, 2013 the Company recognised an expense of $794 thousand in respect of the original and extension of the Guarantee to these Sponsors (year ended September 30, 2012 - $820 thousand).

During the year ended September 30, 2013 the Company recognised $613 thousand for professional and consulting fees to directors or companies related to director(s) and $201 thousand included in interest and finance costs. During the year ended September 30, 2012 the Company recognised $375 thousand of professional and consulting fees to directors or companies related to directors(s) and nil included in interest and finance costs.

FIGURES ARE IN THOUSANDS OF CANADIAN DOLLARS

During the year ended September 30, 2013, the Company recognised compensation for key management personnel of $3.4 million which includes salaries and fees, benefits and directors fees and $0.2 million of share-based compensation. Included in the $3.4 million is $1.8 million of employment contract settlements to former executives of the Company. During the year ended September 30, 2012, the Company paid key management personnel compensation of $1.4 million which includes salaries and fees, benefits and directors fees and $0.4 million of share-based compensation.

The above transactions were in the normal course of operations.

Chief Executive Officer 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 receive compensation equal to three years of his base salary which totals $1.4 million, which is payable in instalments of $458 thousands in June 2013 (paid), on December 6, 2013 (paid) and June 6, 2014. The $1.4 million settlement expense was recognised in Fees, wages and benefits with General and administrative costs for the year ended September 30, 2013 (Note 23), 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 Fees, wages and benefits during the year ended September 30, 2013.

26. Segmented information:

The Company operates in the single business segment of tungsten mining and processing. Copper production is a by-product of that segment.

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

	For the year ended					
	September 30, 2013			September 30, 2012		
TUNGSTEN:						
North America	$	37,738	49%	$	221	0%
Europe		19,618	26%		37,790	36%
Asia		19,469	25%		66,373	64%
		76,825	100%		104,384	100%
COPPER:						
North America		2,993	100%		2,217	71%
Asia		-	0%		923	29%
		2,993	100%		3,140	100%
	$	79,818		$	107,524	

Substantially all of the Company's assets are located in Canada.

27. Sales and concentration of receivables:

The Company had delivery contracts for tungsten concentrate which expired during fiscal 2012 and 2013 that contained target delivery quantities. The contracts did not contain any penalties for shortfalls in target delivery quantities. Under these contracts, the Company sold tungsten concentrates. The Company had a separate contract for copper concentrates.

During the year ended September 30, 2013 the Company negotiated new tungsten delivery contracts with an existing customer as well as a new customer. Thereafter the Company had three main delivery contracts for tungsten concentrate which expire during fiscal 2014 and 2015, as well as the 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.

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 of the customer (Note 14).

Subsequent to September 30, 2013 the existing copper delivery contract was extended under similar terms to December 31, 2015.

Subsequent to September 30, 2013 the Company negotiated a new tungsten delivery contract in conjunction with a USD$4.7 million loan arrangement (Note 32), with an existing customer that is effective February 1, 2014. The tungsten delivery contract is for an initial term of the latter 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 loan arrangement 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). In the event of default by the Company under the terms of the delivery contract, the customer has the right to demand immediate fully repayment of the outstanding balance under the loan arrangement.

Sales to six customers accounted for 100% of sales made in the year ended September 30, 2013 (year ended September 30, 2012 – 100% to six customers). The Company has four major customers from which revenues individually amount to more than 10% of the total revenue for the year ended September 30, 2013 (September 30, 2012 was two customers). Revenue from customers individually were $28.0 million, $19.6 million, $18.7 million and $9.7 million for the year ended September 30, 2013 (September 30, 2012 - $50.0 million and $37.8 million).

As at September 30, 2013, $13.8 million in receivables was due from three primary customers (September 30, 2012 - $16.3 million from four customers).

28. Loss Per Share:

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

(in thousands except per share amounts)	For the year ended September 30, 2013	September 30, 2012
Loss per share:		
Basic	$ (0.06)	$ (0.04)
Diluted	$ (0.06)	$ (0.04)
Net loss for the period:		
Attributed to common shareholders - basic	$ (13,266)	$ (9,843)
Attributed to common shareholders - diluted	$ (13,266)	$ (9,843)
Weighted average shares outstanding:		
Weighted average shares outstanding - basic	237,438	237,123
Dilutive securities:		
Stock options	-	-
Weighted average shares outstanding - diluted	237,438	237,123
Shares excluded from the determination of diluted loss per share:		
Stock options	3,967	4,500
Warrants	7,000	14,750
Convertible debentures	6,506	6,506
	17,473	25,756

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

Subsequent to September 30, 2013 the convertible debentures that were due to mature was forbore to December 31, 2013. There have been no significant issuances of new potentially dilutive securities subsequent to September 30, 2013 with the exception of the Convertible Debentures (see Note 32).

29. Capital management:

The Company defines its capital as convertible debentures, notes payables, short-term and long-term debt, share capital and contributed surplus. The Company's objectives when managing its capital are:

- to ensure that the Company will be able to continue as a going concern; and
- to maximize the return to shareholders while limiting risk exposure.

To assist in the management of the Company's capital, the Company prepares an annual budget, which is approved by the Board of Directors. Actual results are reviewed against the budget monthly. The Company may adjust its capital structure by issuing new shares, issuing new debt, replacing existing debt, selling assets to reduce debt and reducing operating and capital expenditure levels.

Additional information regarding capital management is disclosed in Note 1. Long-term debt covenants which could restrict the Company's capital management options are disclosed in Note 15.

30. Financial risk factors:

a. Fair value

The Company has financial assets which include cash and cash equivalents, derivative instruments, reclamation deposits, trade and other 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 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 (see 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. from derived prices); and
Level 3 - inputs for the asset or liability that are not based upon observable market data.

Categories of Financial Assets

The estimated fair values of the Company's financial assets were determined based on level 2 inputs. The Company has no financial assets 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 fair values of the cash and cash equivalents, trade and other receivables and reclamation deposits approximate their carrying value due to their short-term nature and high level of liquidity.

b. Risk exposure and risk management

The Company is exposed in varying degrees to a variety of financial risks. The type of risk exposures and the way in which such exposure is managed is provided as follows:

i. Foreign Exchange Risk

The Company operates on an international basis and therefore foreign exchange risk exposures arise from transactions denominated in a foreign currency. The foreign exchange risk arises primarily with respect to the USD dollar ("USD") as sales are denominated in USD. For the year ended September 30, 2013, with other variables unchanged a $0.01 strengthening (weakening) of the Canadian dollar against the USD would result in a decrease (increase) of $0.8 million on net earnings.

At September 30, 2013, the Company held USD denominated bank overdraft balances of $2.5 million, accounts receivable of $13.5 million, USD/CDN forward exchange rate sales contracts of $7.5 million, accounts payable of $0.3 million and loans and other financial liabilities of $5.4 million and notes payable of $4.1 million. At September 30, 2012, the Company held USD denominated bank balances of $1.9 million, accounts receivable of $16.6 million, accounts payable of $0.4 million and loans and other financial liabilities of $5.1 million.

ii. Credit Risk

The Company is exposed to credit-related losses in the event of non-performance by counterparties to the financial instruments. Credit exposure is minimized by dealing with only credit worthy counterparties and by having Economic Development Canada ("EDC") insure the Company's receivables from its primary customers for up to 90% of the total outstanding amounts. Accounts receivable for three of the primary customers totalled $13.8 million at September 30, 2013 (September 30, 2012 – four customers totalled $16.3 million). At September 30, 2013, no trade and other receivables were past due or impaired.

The maximum exposure of the Company to credit risk is represented by all financial assets as shown in the statement of financial position. Cash and cash equivalents are deposited with high credit quality financial institution as determined by ratings agencies.

iii. Interest Rate Risk

The Company's interest rate risk mainly arises from the interest earned on cash and cash equivalents and floating rate interest paid on debt. The interest rate management policy is generally to borrow at fixed rates to match the duration of the long lived assets. In some circumstances, floating rate funding may be used for short-term borrowing. Cash and cash equivalents receive interest based on market rates.

FIGURES ARE IN THOUSANDS OF CANADIAN DOLLARS

At September 30, 2013, $0.35 thousand (September 30, 2012 - $0.35 thousand) of guarantee investment certificates carried floating interest rates of under 1.0%. For financial liabilities, interest is payable at fixed or variable rates on the equipment loans, capital leases, HSBC bank loans, notes payables and convertible debentures.

For the year ended September 30, 2013, with other variables unchanged, a 1.0% increase in the HSBC Bank prime rate would decrease net earnings by $0.2 million for the year.

iv. Liquidity Risk

The Company manages liquidity risk by maintaining adequate cash and cash equivalent balances and by utilizing lines of credit to meet short-term cash requirements while managing accounts payable and accounts receivables. Management continuously monitors and reviews both actual and forecasted cash flows and also matches the maturity profile of financial assets and liabilities. The Company's cash and cash equivalents are invested in bank accounts and demand deposits which are available on demand for the Company's programs. Additional information regarding liquidity risk is disclosed in Note 1 and Note 15. The Company's contractual obligations are disclosed in Note 20.

Contractual undiscounted cash flow requirements for financial liabilities as at September 30, 2013 are as follows:

	Payments due in years ended September 30						
	2014	2015	2016	2017	2018	More than 5 years	TOTAL
Bank operating loan	$ 11,103	$ -	$ -	$ -	$ -	$ -	$ 11,103
Bank working capital loan and guarantee	14,065	-	-	-	-	-	$ 14,065
Accounts payable and accrued liabilities	16,416	-	-	-	-	-	$ 16,416
Notes payable	5,020	2,000	-	-	-	-	$ 7,020
Convertible debentures	2,963	-	-	-	-	-	$ 2,963
Equipment loans and capital leases	2,971	452	40	-	-	-	$ 3,463
	$ 52,538	$ 2,452	$ 40	$ -	$ -	$ -	$ 55,030

v. Commodity Price Risk

The value of the Company's mineral resource properties is related to the price of tungsten.

Tungsten prices historically have fluctuated and are affected by numerous factors outside of the Company's control, including, but not limited to, changes in short and long-term supply and demand, forward sales by producers and traders and levels of worldwide production. The profitability of the Company's operations is highly correlated to the market price of tungsten. If the metal price were to decline for a prolonged period below the cost of production of the Company's mine, it might not be economically feasible to continue operations.

For the year ended September 30, 2013, with other variables unchanged, a USD$10.00 increase or decrease in the realised price per MTU (Metric Tonne Unit) of tungsten concentrate would increase (decrease) net earnings by $2.9 million based on the sales volume for the period. The Company has not entered into forward sales contracts with fixed tungsten concentrate prices, has not hedged any of its sales and does not have any hedging or other commodity based risk protections respecting its operations.

FIGURES ARE IN THOUSANDS OF CANADIAN DOLLARS

31. Deferred Income Taxes

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

	For the years ended September 30, 2013	September 30, 2012
Loss before income taxes	$ (13,266)	$ (9,843)
Canadian federal and provincial income tax rates	26.50%	26.88%
Income tax recovery based on the above rates	$ (3,515)	$ (2,646)
Increase (decrease) due to:		
Non-deductible expenses	$ 230	$ 111
Other	(57)	(18)
Differences between foreign and Canadian tax rates	-	(33)
Change in Canadian long term tax rates	-	36
Changes in unrecognized deferred tax assets	3,342	2,550
Income tax recovery	$ -	$ -

The components of deferred income and mining taxes are as follows:	For the years ended September 30, 2013	September 30, 2012
Deferred income and mining tax assets:		
Non-capital losses	$ 9,400	$ 7,192
Share issuance costs and other	175	148
Property, plant and equipment and mineral property interests	6,385	4,323
Capital lease obligation	846	940
Capital losses	782	1,653
Reclamation obligation	2,237	2,227
Total deferred tax assets	19,825	16,483
Allowance for unrecognized deferred tax assets	(19,825)	(16,483)
Net deferred tax assets	$ -	$ -

An allowance has been recorded against the net potential deferred income tax assets associated with these tax assets and certain other deductible temporary differences as their utilization is not considered more likely than not at this time. The Company recognises the benefit of tax assets only to the extent of anticipated future taxable income that can be reduced by the tax losses.

At September 30, 2013 the Company has non-capital losses of approximately $34.5 million (September 30, 2012 - $27.1 million) which are not recognised as deferred tax assets. The gross amount of the non-capital tax losses with respect of Canadian operations expire as follows:

2028	$ 5,665
2030	11,151
2031	10,317
2033	5,383
	$ 32,516

In addition to the non-capital losses, the Company has a capital loss in the United States of approximately USD$1.9 million that expires in 2017 and capital losses of $0.6 million in Canada with no expiry date. The Company has tax basis in its property, plant and equipment and mineral properties of $66.0 million which have no expiry date.

32. Subsequent events:

Customer Loan Arrangement

Subsequent to September 30, 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 an existing USD$2.2 million advance from the customer was rolled into the loan arrangement (Note 14). The combined loan of USD$4.7 million matures on December 31, 2018, bears interest of 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. The loan could be required to be repaid in full on the expiry of the tungsten delivery contract (Note 27). The loan provides the lender the right to convert the outstanding balance of the loan into a convertible note at any time, which in turn could be converted into commons shares of the Company at specified rates. The loan is secured by a subordinate charge on the Company's Mactung property. The USD$2.5 million loan proceeds are required to be used for the development of the production of tungsten concentrates at the Cantung mine.

Convertible Debentures

The USD$2.0 million working capital loan guarantee fee (Note 15), USD$2.7 million convertible debentures (Note 13) and USD$4.0 million Queenwood Capital Partners II LLC (Queenwood II) notes payable (Note 17) all matured as of December 31, 2013. As of that date, the Company refinanced these debts along with additional financing of USD$1.3 million into USD$10 million of Convertible Debentures from Queenwood II. Queenwood Capital Partners LLC, Queenwood II and three directors of the Company combined hold USD$8.5 million of the Convertible Debentures. The Convertible Debenture offering includes a potential overallotment of up to USD$3.0 million. The Convertible Debentures bear interest at 11% per annum, payable quarterly and will mature on December 31, 2015. The conversion feature of the Convertible Debentures is pending approval by the non-participating shareholders. If approved, the Convertible Debentures can be converted into common shares of the Company at any time at the greater of $0.12 per share and the 10 day volume weighted average closing price of the Company shares on the date of shareholder approval. If the conversion feature is not approved by the shareholders, the interest rate of the debenture increases to 18% and becomes payable monthly including arrears. The Company has provided a general security agreement that has been subordinated to the Company's senior indebtedness as security for the debentures.