NORTH AMERICAN TUNGSTEN CORPORATION LTD

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED
SEPTEMBER 30, 2014 AND 2013

January 13, 2015

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, 2014 and September 30, 2013 and the consolidated statements of loss and comprehensive loss, cash flows and equity for the years then ended, and the related notes, which comprise a summary of 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, 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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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, 2014 and September 30, 2013 and their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards.

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

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

	Note(s)	September 30, 2014	September 30, 2013
ASSETS			
Current assets			
Cash and cash equivalents		$ 363	$ 203
Accounts receivable	6	1,252	9,025
Inventories	7	14,064	7,642
Prepaid expenses		944	888
Derivative instruments	8	-	29
		16,623	17,787
Accounts receivable	6	2,595	5,358
Property, plant and equipment	9	27,149	25,494
Mineral property - Mactung	10	19,661	18,731
Reclamation deposits	19 & 21	5,931	5,469
		$ 71,959	**$ 72,839**
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities	11	$ 16,426	$ 16,416
Bank loans	12	-	24,679
Callidus loan	13	10,128	-
Current portion of customer advances	14	426	2,705
Current portion of customer loans	15	1,974	-
Current portion of debentures	16	-	2,917
Current portion of equipment loans and capital leases	17	259	2,807
Current portion of notes payable	18	2,000	4,934
Current portion of reclamation liabilities	19	597	963
		31,810	55,421
Customer advances	14	3,360	5,358
Customer loans	15	6,090	-
Debentures	16	11,564	-
Equipment loans and capital leases	17	210	482
Notes payable	18	12,584	2,000
Reclamation liabilities	19	9,394	7,480
		75,012	70,741
SHARE CAPITAL AND DEFICIT			
Share capital	20	64,836	64,836
Contributed surplus	20	7,762	6,267
Deficit		(75,651)	(69,005)
		(3,053)	2,098
		$ 71,959	**$ 72,839**

Going concern	1
Commitments and contingencies	21 & 22
Subsequent events	34

ON BEHALF OF THE BOARD

"signed"

Kurt E. Heikkila

"signed"

Bryce M. A. Porter

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

NORTH AMERICAN TUNGSTEN CORPORATION LTD.
CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS
FOR THE YEARS ENDED SEPTEMBER 30, 2014 AND 2013
FIGURES IN THOUSANDS OF CANADIAN DOLLARS

(figures in thousands of dollars except for per share amounts)	Note(s)	For the year ended September 30, 2014	September 30, 2013
REVENUES			
Sales	29	$ 85,209	$ 79,818
EXPENSES			
Cost of sales	23	80,088	79,951
Interest and financing costs	24	5,213	3,399
General and administrative costs	25	2,949	5,893
Foreign exchange loss (gain)		2,275	(37)
Accretion of financial liabilities	12, 13, 16 & 18	1,481	1,409
Exploration		507	514
Share-based compensation	20	48	358
Loss (gain) on revaluation of derivatives	8 & 16	29	(94)
Loss on disposal of assets		5	16
Impairment of property, plant and equipment	9	-	1,757
Interest and other income		(218)	(82)
NET LOSS BEFORE INCOME TAXES		**(7,168)**	**(13,266)**
Deferred income tax recovery	33	522	-
NET LOSS AND COMPREHENSIVE LOSS		**(6,646)**	**(13,266)**
Loss per share	30		
Basic and diluted		$ (0.03)	$ (0.06)
Weighted average number of shares (in thousands)			
Basic and diluted		238,123	237,438

NORTH AMERICAN TUNGSTEN CORPORATION LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2014 AND 2013
FIGURES IN THOUSANDS OF CANADIAN DOLLARS

	Note(s)	For the year ended September 30, 2014	September 30, 2013
CASH FLOWS FROM OPERATING ACTIVITIES			
Net loss		$ (6,646)	$ (13,266)
Items not affecting cash:			
Amortization and depreciation	9	7,928	7,546
Accretion of financial liabilities	12, 13, 16 & 18	1,481	1,409
Accretion of reclamation liabilities	19	124	179
Inventory write-down	23	612	914
Share-based compensation	20	48	358
Impairment of property, plant and equipment	9	-	1,757
Loss on disposal of assets		5	16
Foreign exchange loss		1,968	442
Deferred income tax recovery		(522)	-
Loss (gain) on revaluation of derivatives	8 & 16	29	(94)
Interest and financing costs		5,156	3,205
		10,183	**2,466**
Adjustment for:			
Change in non-cash working capital	26	1,012	1,664
Increase in reclamation deposits	21	(400)	(400)
		10,795	**3,730**
CASH FLOWS USED IN INVESTING ACTIVITIES			
Expenditure on Mactung property	10	(989)	(1,093)
Purchase of property, plant and equipment	9	(8,597)	(4,118)
		(9,586)	**(5,211)**
CASH FLOWS USED IN FINANCING ACTIVITIES			
Equipment loans and capital leases, net	17	(2,820)	(5,890)
Debentures, net	16	2,257	-
Notes payable, net	18	11,965	2,574
Working Capital Loan	12	(12,000)	-
Operating Loan, net	12	(11,103)	2,085
Callidus loan, net	13	9,871	-
Customer advances	14	426	3,996
Customer loans	15	5,422	-
Interest and financing costs paid		(5,156)	(3,205)
		(1,138)	**(440)**
Effect of exchange rate changes on cash and cash equivalents		**89**	**-**
CHANGE IN CASH AND CASH EQUIVALENTS		**160**	**(1,921)**
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD		203	2,124
CASH AND CASH EQUIVALENTS, END OF PERIOD		**$ 363**	**$ 203**
Represented by:			
Cash		$ 363	$ 168
Cash equivalents		-	35
		$ 363	**$ 203**
Supplemental cash flow information	26		

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, 2014 AND 2013
FIGURES IN THOUSANDS OF CANADIAN DOLLARS EXCEPT NUMBER OF COMMON SHARES

	Note(s)	Number of common shares	Share capital	Contributed surplus	Deficit	Total equity
Balance at September 30, 2012		**237,123,058**	**$ 64,673**	**$ 5,667**	**$ (55,739)**	**$ 14,601**
Common shares issued		1,000,000	163	-	-	**163**
Warrants issued	20			242		**242**
Share-based compensation	20	-	-	358	-	**358**
Net loss		-	-	-	(13,266)	**(13,266)**
Balance at September 30, 2013		**238,123,058**	**$ 64,836**	**$ 6,267**	**$ (69,005)**	**$ 2,098**
Conversion feature of convertible debentures, net of taxes of $294	16	-	-	815	-	**815**
Capital contribution on Queenwood II promissory note, net of taxes of $228	18	-	-	632	-	**632**
Share-based compensation	20	-	-	48	-	**48**
Net loss		-	-	-	(6,646)	**(6,646)**
Balance at September 30, 2014		**238,123,058**	**$ 64,836**	**$ 7,762**	**$ (75,651)**	**$ (3,053)**

1. Nature of operations and going concern:

North American Tungsten Corporation Ltd. (the "Company") is engaged in tungsten mining and related activities including acquisition, exploration, development and processing of ore and concentrates. The Company owns the Cantung mine in the Northwest Territories; the Mactung mineral property on the border of Yukon and Northwest Territories; and other tungsten exploration prospects. The Company is incorporated under the Canadian Business Corporations Act ("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, 2014 the Company recorded a net loss of $6.6 million (year ended September 30, 2013 the net loss was $13.3 million). At September 30, 2014 the Company had a working capital deficiency of $15.2 million (September 30, 2013 - $37.6 million) and shareholders' deficit of $3.1 million (September 30, 2013 - shareholders' equity of $2.1 million).

The ability of the Company to continue as a going concern depends upon continued support from its shareholders, lenders and customers. The Company will need to generate positive net earnings. To accomplish this, the Company commenced a mine and mill improvement project to increase mill throughput and metallurgical recovery, which is near completion at September 30, 2014. In addition, it will be necessary to roll-over, extend, replace or refinance existing loan facilities as they mature, arrange new financing or convert existing debts into equity.

Subsequent to September 30, 2014, the Company executed a promissory note with Queenwood Capital Partners II LLC ("Queenwood II") for up to USD$3.0 million to provide near term liquidity and working capital (Note 34).

Subsequent to September 30, 2014, the Company extended the Callidus Capital Corporation ("Callidus") loan to May 31, 2016 and borrowed additional funds of $3.65 million (Note 34). Of the additional funds received, $2.0 million was used to repay a promissory note that matured on December 31, 2014. The repayment of any principal amounts to Queenwood II is fully subordinated to the repayment of the Callidus loan.

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

2. Significant accounting policies:

a. Basis of preparation

These consolidated financial statements are prepared in accordance with IFRS as issued by the International Accounting Standards Board ("IASB"). The consolidated financial statements have been prepared on a historical cost basis except for financial instruments classified as fair value through profit or loss ("FVTPL") which are stated at their fair value.

The Board of Directors approved these financial statements on January 13, 2015.

b. Basis of consolidation

These consolidated financial statements include the financial statements of the Company and the entities controlled by the Company (its subsidiaries). Control is defined as the exposure, or rights, to variable returns from involvement with an investee and the ability to affect those returns through power over the investee. Power over an investee exists when the Company has existing rights that give the Company the ability to direct the activities that significantly affect the investee's returns. This control is generally evidenced through owning more than 50% of the voting rights or currently exercisable potential voting rights of a subsidiary's share capital. 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 financial statements of the Company and its subsidiaries listed in the following table:

Name of subsidiary	Country of incorporation	Ownership interest	Functional currency
Numbered Company Inc.	Delaware, United States of America	100%	USD
International Carbitech Industries Inc. (1)	British Columbia, Canada	100%	CND

(1) International Carbitech Industries Inc. was dissolved by way of voluntary dissolution under the CBCA on March 21, 2014.

c. Foreign currency translation

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 functional currency of the Company is the Canadian dollar ("CND"). The consolidated financial statements are presented in CND, which is the Company's presentation currency.

Translation of foreign operations

The results and financial position of entities that have a functional currency different from the presentation currency are translated into the presentation currency 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 (loss) 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 (loss) 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 (loss) related to the subsidiary is reallocated between controlling and non-controlling interests.

Transactions and balances

Foreign currency transactions are translated into the functional currency of an entity 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 period end exchange rates of monetary assets and liabilities denominated in currencies other than an entity's functional currency are recognised in income (loss) for the period.

d. Financial instruments

Financial assets and financial liabilities are recognised on the statement of financial position when the Company becomes a party to contractual provisions of the financial instrument. All financial instruments are measured at fair value on initial recognition. Measurement in subsequent periods depends on the category of financial instruments. FVTPL financial assets and liabilities are subsequently measured at fair value with gains, losses and transactions costs recognised in income (loss) 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. Available for sale financial assets are subsequently measured at fair value with unrealised gains and losses, including changes in foreign exchange rates, recognised in other comprehensive income (loss).

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
Callidus loan	Other financial liabilities
Customer loans	Other financial liabilities
Equipment loans and capital leases	Other financial liabilities
Debentures & convertible debentures (interest bearing portion)	Other financial liabilities
Notes payable	Other financial liabilities
Derivative instruments	FVTPL

e. 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.

f. Inventories

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

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 mining costs to the specific stage of production including, for material from the open pit, associated waste rock stripping costs.

Supplies inventory is valued at weighted 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 that an increase in net realisable value has occurred, the write down is reversed to the extent that the new carrying amount is the lower of the original cost or the revised net realisable value.

g. Property, plant and equipment

Property, plant and equipment are initially recorded at cost and are carried at cost less accumulated depreciation and write-downs. Property, plant and equipment are amortized using the unit of production method.

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.

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 the 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.

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

Major categories	Depreciation method
Mine infrastructure assets	Unit of production
Buildings, equipment and plant	Unit of production
Tailings management	Unit of production
Equipment under capital leases	Unit of production

Mine infrastructure assets 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 specific ore body. When the estimated recoverable tungsten units associated with the costs have been mined and it is determined that no future material benefit will be provided by the assets, a retirement is recorded to remove the costs and associated accumulated depreciation.

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

Costs associated with the stripping of overburden or waste rock in an open pit that provide access to additional sources of ore and 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 less amortisation and impairment losses.

h. Capital leases

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

i. 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 complete and ready for their intended use. All other borrowing costs are recognised as interest and financing costs in the statement of comprehensive loss in the period in which they are incurred.

j. 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. Mineral property costs are considered to be intangible assets. Mineral property costs are not amortized. Each property is evaluated each reporting period for 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 loss. Upon sale or abandonment of mineral properties, the accumulated costs are derecognised and any gains or losses thereon are included in the statement of loss.

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

k. Impairment of non-financial assets

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). In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but to an amount that does not exceed the carrying amount that would have been determined had no impairment loss been previously recognised. A reversal of an impairment loss is recognised immediately in the statement of loss.

l. Compound financial instruments

Compound financial instruments issued by the Company comprise convertible debentures that contain an option to convert a portion or the entire amount into equity at the option of the holder and the number of shares to be issued does not vary. The liability component of a compound financial instrument is recognised initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognised initially as the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts. Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortized cost with accretion due to the passage of time recognised as an expense in the statement of comprehensive loss. The equity component of a compound financial instrument is not re-measured subsequent to initial recognition except on conversion or expiry.

m. 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 interest and financing costs.

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

n. 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 when title, risk and benefit have passed to the customer and acceptance of the product has been obtained when contractually required. Typically revenue is recognised when product is delivered to customer facilities or when loaded on a vessel at an international shipping port.

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 two to three 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.

o. Income taxes

Income tax comprises current and deferred tax. Income tax is recognised in the statement of comprehensive income (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 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 except 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.

p. 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. The 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 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.

q. Earnings (loss) 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 would be anti-dilutive.

r. 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. Adoption of new and amended IFRS pronouncements:

The Company adopted the new and amended pronouncements listed below as at October 1, 2013 in accordance with transitional provisions outlined in the respective standards. The Company has determined that there is no material impact from the adoption of these new standards with the exception of additional note disclosures on the adoption of IFRS 13.

IFRS 10 – Consolidated Financial Statements

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

IFRS 11 – Joint Arrangements

IFRS 11 requires a venture to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation the venturer will recognise its share of the assets, liabilities, revenue and expenses of the joint operation. Under pre-existing IFRS, entities had the choice to proportionately consolidate or equity account for interests in incorporated 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 subsidiaries, joint arrangements and associates. 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 pre-existing IFRS, guidance on measuring and disclosing fair value was dispersed among the specific standards requiring fair value measurements and in many cases does not reflect a clear measurement basis or consistent disclosures.

4. IFRS pronouncements – issued but not yet effective:

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 for liabilities 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 (loss) rather than in net earnings, unless this creates an accounting mismatch. The Company does not expect IFRS 9 to have a material impact on the consolidated financial statements. IFRS 9 is effective for annual periods beginning on or after January 1, 2018.

IFRS 15 – Revenue from Contracts with Customers

IFRS 15 was issued by the IASB in May 28, 2014. The objective of the standard is to establish principles about the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer. The standard replaces IAS 11 – Construction Contracts, IAS 18 – Revenue, IFRIC 13 – Customer Loyalty Programmes, IFRIC 15 – Agreements for the Construction of Real Estate, IFRIC 18 – Transfer of Assets from Customers and SIC 31 – Revenue – Barter Transactions involving Advertising Services. The standard is effective for annual periods beginning on or after January 1, 2017, with early adoption permitted. The Company is currently assessing the impact of adopting IFRS 15.

IFRIC 21 – Levies

IFRIC 21 clarifies that an entity recognises a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. IFRIC 21 is effective for annual periods beginning on or after January 1, 2014. The Company does not expect IFRIC 21 to have a material impact on the consolidated financial statements.

5. Critical accounting estimates and judgments:

The preparation of these consolidated financial statements requires the use of certain critical accounting estimates and judgments. It also requires management to exercise judgment in applying the Company's accounting policies. These estimates and judgments are based on management's best knowledge of relevant facts, circumstances and past experiences. Significant areas where management's judgment is applied include: assessment of the Company's ability to continue as a going concern, useful lives of property, plant and equipment, impairment assessment inputs to determine valuation of property, plant and equipment, reclamation liabilities, amortization and depreciation and ore reserve determinations as they relate to the amortization bases.

Certain amounts recognised in the financial statements are subject to measurement uncertainty. The recognised 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 and amortization depend on estimates of tungsten reserves, the estimated economic lives of the assets and estimated salvage values.
- The allocation of waste stripping between ore stockpiles and deferred stripping depends on the estimate of tungsten reserves in the open pit.
- Reclamation liabilities 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.

FIGURES ARE IN THOUSANDS OF CANADIAN DOLLARS

- In assessing the recoverable amount of property, plant and equipment in the event indicators of impairment are identified, the fair value less costs to sell and value in use assessment require 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 comprehensive loss.

Impairment of property, plant and equipment

As at September 30, 2014, the Company identified indicators of impairment associated with its property, plant and equipment. The recoverable amount 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 in the value in use model incorporated the Company's best estimates of the following assumptions: future tungsten production based on the mine plan, reserves, future sales prices, operating costs and discount rates. Sensitivities for the key assumptions in the value in use model are as follows:

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

6. Accounts receivable:

	September 30, 2014	September 30, 2013
Trade receivables	$ 3,039	$ 13,950
Taxes and other receivables	808	433
	3,847	14,383
Current portion of accounts receivable	(1,252)	(9,025)
Long-term portion of accounts receivable	**$ 2,595**	**$ 5,358**

7. Inventories:

	September 30, 2014	September 30, 2013
Tungsten concentrates	$ 3,788	$ 839
Copper concentrates	86	87
Ore stockpile	5,301	2,613
Materials and supplies	4,889	4,103
	$ 14,064	**$ 7,642**

8. Derivative instruments:

	September 30, 2014	September 30, 2013
USD/CND forward exchange rate sale contracts	$ -	$ 29
	$ -	**$ 29**

There were no outstanding forward exchange rate contracts at September 30, 2014. At September 30, 2013 the Company held USD$7.5 million (CDN$7.7 million) of USD/CDN forward exchange rate sales contracts with exchange rates of USD/CDN1.029 to USD/CDN1.046. For the year ended September 30, 2014 a loss on revaluation of derivative instruments of $29 thousand was recognised (September 30, 2013 – gain of $29 thousand).

FIGURES ARE IN THOUSANDS OF CANADIAN DOLLARS

9. Property, plant and equipment:

	Equipment under capital lease	Buildings, equipment and plant	Mine infrastructure assets	Tailings management	Total
Opening cost, October 1, 2012	$ 12,960	$ 31,110	$ 40,415	$ 15,102	$ 99,587
Additions	907	1,058	334	1,488	3,787
Project cost adjustment	.	-	(602)	-	(602)
Disposals	-	(30)	-	-	(30)
Transfer between categories	(5,868)	5,868	-	-	-
Ending cost, September 30, 2013	7,999	38,006	40,147	16,590	102,742
Opening balance, accumulated depreciation and impairments, October 1, 2012	4,621	15,054	34,634	13,648	67,957
Depreciation	1,733	2,477	2,461	875	7,546
Impairment	-	1,513	244	-	1,757
Disposals	-	(12)	-	-	(12)
Transfer between categories	(2,884)	2,884	-	-	-
Ending balance, accumulated depreciation and impairments, September 30, 2013	3,470	21,916	37,339	14,523	77,248
Ending balance, September 30, 2013	**$ 4,529**	**$ 16,090**	**$ 2,808**	**$ 2,067**	**$ 25,494**
Opening cost, October 1, 2013	$ 7,999	$ 38,006	$ 40,147	$ 16,590	$ 102,742
Additions	564	6,248	168	2,733	9,713
Disposals	-	(110)	-	-	(110)
Transfer to ore stockpile - inventory	-	-	(125)	-	(125)
Transfer between categories	(7,572)	7,572	-	-	-
Ending cost, September 30, 2014	991	51,716	40,190	19,323	112,220
Opening balance, accumulated depreciation and impairments, October 1, 2013	3,470	21,916	37,339	14,523	77,248
Depreciation	1,358	4,257	1,808	505	7,928
Disposals	-	(105)	-	-	(105)
Transfer between categories	(4,489)	4,489	-	-	-
Ending balance, accumulated depreciation and impairments, September 30, 2014	339	30,557	39,147	15,028	85,071
Ending balance, September 30, 2014	**$ 652**	**$ 21,159**	**$ 1,043**	**$ 4,295**	**$ 27,149**

As part of the Callidus loan, the Company has entered into a general security agreement which includes all property, plant and equipment (Note 13) except for specific assets which are held as security for the promissory note with the former mining contractor (Note 18).

Included in tailings management is a raise on a tailings pond totalling $2.2 million which was under construction during the year ended September 30, 2014. Depreciation will commence on this asset in October 2014.

Included in mine infrastructure assets is $0.2 million (September 30, 2013 - $0.4 million) of deferred stripping costs from the fiscal 2013 open pit mining program.

At September 30, 2014 the Company assessed the Cantung assets for indicators of impairment and noted the presence of specific indicators. As a result, the Company reviewed the carrying value of the Cantung assets for potential impairment. The recoverable amount of the Cantung assets at September 30, 2014 was determined based on the value in use method using future cash flows discounted at a rate of 13.0%. The estimated future cash flows utilized in the value in use model incorporated the Company's best estimates of future tungsten production based on the mine plan, reserves, future sales prices and operating costs. Based on the value in use model, the carrying value of the Cantung assets are recoverable and no impairment charge is required.

FIGURES ARE IN THOUSANDS OF CANADIAN DOLLARS

10. Mineral property - Mactung:

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

Balance October 1, 2012	**$**	**17,668**
Expenditures during the year		1,063
Balance September 30, 2013	**$**	**18,731**
Expenditures during the year		930
Balance September 30, 2014	**$**	**19,661**

The Mactung mineral leases are located on the border of 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; or
- 60 days after the receipt of a water license issued in connection with any proposed development of the properties (as such term is defined in the Mactung Royalty Agreement) for mineral production.

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

11. Accounts payable and accrued liabilities:

	September 30, 2014		September 30, 2013	
Trade payables	$	9,663	$	9,287
Property, plant and equipment and Mactung property costs payable		446		812
Royalties payable		4,562		3,728
Other payables and accrued liabilities		1,755		2,589
	$	**16,426**	**$**	**16,416**

12. Bank loans:

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

	September 30, 2014		September 30, 2013	
Operating Loan	$	-	$	11,103
Working Capital Loan		-		13,576
	$	**-**	**$**	**24,679**

HSBC Bank Canada ("HSBC") credit facilities

Operating Loan

The Company had an Operating Loan facility with HSBC to a maximum of $12.0 million, of which up to USD$5.0 million of the facility was available in USD. The borrowing base was a percentage of applicable trade accounts receivable and product inventory. The loan carried interest at HSBC prime rate + 2.0% per annum to the maturity date which was subsequently extended with an increase in interest rate of 2.0% per annum. The loan contained a general security agreement in favour of HSBC over the Cantung mine and associated assets. During the year ended September 30, 2014 the Company repaid the balance of the Operating Loan facility which was then cancelled.

FIGURES ARE IN THOUSANDS OF CANADIAN DOLLARS

Working Capital Loan

The Company had a Working Capital Loan facility with HSBC to a maximum of $12.0 million. The loan required monthly interest payments at HSBC Bank prime + 0.25% to the maturity date which was subsequently extended with an increase in interest rate of 2.0% per annum.

A letter of credit that was guaranteed (the "Guarantee") by two directors (the "Sponsors") of the Company (Note 27) was pledged as security for the Working Capital Loan, in the amount of USD$12.0 million. The Sponsors and HSBC entered into a Put Agreement exercisable by HSBC at its sole discretion, allowing HSBC to exchange the outstanding balance of the Working Capital Loan with the Sponsors for up to a USD$12.0 million letter of credit.

Under the extension of the credit facility to June 30, 2014, the Guarantee and the Put Agreement were also extended. The Company compensated 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 remained outstanding. For the year ended September 30, 2014 the Company recognised an interest and financing cost of $750 thousand in respect of the Guarantee to the Sponsors (year ended September 30, 2013 - $794 thousand).

A fee payable to the Sponsors of USD$2.0 million for the Guarantee was due December 31, 2013. During the year ended September 30, 2014 the USD$2.0 million fee was refinanced in the Debentures (Note 16). For the year ended September 30, 2014 the Company recognised accretion of $497 thousand related to the fee (September 30, 2013 - $1.0 million).

On June 16, 2014 HSBC issued a demand for full repayment of the loan balance and issued the Put notice, allowing HSBC to exchange the outstanding balance of the loan with the Sponsors within 30 days. On July 2, 2014 the Company executed a USD$12.0 million promissory note with Queenwood II (Note 18) to replace its $12.0 million Working Capital Loan which was then repaid in full.

13. Callidus loan:

Balance at September 30, 2013	**$**	**-**
Callidus loan		11,000
Principal repayments		(450)
Transaction costs		(679)
Accretion		257
Balance at September 30, 2014	**$**	**10,128**

On May 14, 2014 the Company executed an $11.0 million loan with Callidus. The loan is for a term of 1 year, repayable on demand and bears interest at 18% per annum with interest payable quarterly. Principal repayments of $150 thousand per month commenced on July 31, 2014 with the remaining balance due on maturity. Included in transaction costs, the Company paid a non-refundable facility fee of 1% of the Callidus loan ($110 thousand) to Callidus and a finder's fee of $75 thousand was paid to a third party. The Company has provided security in the form of a first charge over all assets of the Company, excluding the Mactung property, accounts receivable from a customer and all mining and mineral leases, claims and tenures. The repayment of any principal amounts to debenture holders is fully subordinated to the repayment of the Callidus loan.

Of the loan proceeds, $5.8 million was used to repay the balance of the HSBC Operating Loan facility (Note 12) and $1.0 million was used to repay certain equipment loans and capital leases (Note 17). The remaining proceeds of the loan were used to provide working capital to the Company.

FIGURES ARE IN THOUSANDS OF CANADIAN DOLLARS

14. Customer advances:

	September 30, 2014	September 30, 2013
Customer advances	$ 3,786	$ 8,063
Current portion of customer advances	(426)	(2,705)
Long-term portion of customer advances	**$ 3,360**	**$ 5,358**

On December 19, 2013, the Company entered into a loan arrangement with an existing customer and the pre-existing USD$2.2 million advance from that customer was rolled into the loan (Note 15).

On February 20, 2014, the Company entered into a new tungsten delivery contract with another existing customer. Under the terms of the new delivery agreement, the existing USD$3.0 million customer advance will bear interest at 3.0% per annum, with quarterly interest payments commencing on March 31, 2014. The customer advance is repayable by February 1, 2017 (the end of the initial contract term) or by mutual agreement by February 1, 2019 (the end of the optional contract renewal periods). See Note 29 for details of the tungsten delivery contract.

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

On July 2, 2014 the Company executed a supplier financing agreement with a customer and its financial institution whereby the customer's financial institution pays for tungsten concentrate shipments within 3 to 5 business days of being invoiced. The financial institution charges a fee for providing this service of which $64 thousand was expensed in interest and financing costs for the year ended September 30, 2014. The customer pays their financial institution for the product within normal payment terms. Due to the provisions in the tungsten delivery contract, the Company had been paid for shipments that had not been recognised as revenue at September 30, 2014, resulting in a $0.4 million customer advance.

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

15. Customer loans:

	September 30, 2014	September 30, 2013
Customer loans	$ 8,064	$ -
Current portion of customer loans	(1,974)	-
Long-term portion of customer loans	**$ 6,090**	**$ -**

On December 19, 2013, the Company entered into a new tungsten delivery contract with an existing customer (Note 29). In conjunction with the tungsten delivery contract a loan was arranged for USD$2.5 million and the existing USD$2.2 million advance from the customer (Note 14) was rolled into the loan. The combined USD$4.7 million loan matures on December 31, 2018 and bears interest at 3.0% per annum with quarterly interest payments commencing on March 31, 2014. Equal principal repayments of USD$293,750 per quarter commence on March 31, 2015 and continue each quarter thereafter with the final payment on December 31, 2018.

On February 20, 2014, the Company entered into a new tungsten delivery contract with another existing customer (Note 29). In conjunction with the tungsten delivery contract a loan was arranged for USD$2.5 million. The loan matures on March 31, 2017 and bears interest at 3.0% per annum with quarterly interest payments commencing on March 31, 2014. Equal principal repayments of USD$293,750 per quarter commence on March 31, 2015 and continue each quarter thereafter with the final payment of USD$150,000 on March 31, 2017.

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

FIGURES ARE IN THOUSANDS OF CANADIAN DOLLARS

16. Debentures:

Balance at October 1, 2012	**$**	**2,353**
Accretion		514
Gain on revaluation of derivative instrument		(65)
Loss on foreign exchange		115
Balance at September 30, 2013	**$**	**2,917**
Accretion		41
Loss on foreign exchange		92
Repayments and roll-over into new convertible debentures		(3,050)
Issuance of debentures and convertible debentures		11,728
Allocation of proceeds to equity for the conversion features		(1,108)
Transaction costs		(41)
Accretion		441
Loss on foreign exchange		544
Balance at September 30, 2014	**$**	**11,564**

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

The USD$2.7 million of the convertible debentures, along with the USD$2.0 million Working Capital Loan guarantee fee (Note 12) and USD$4.0 million Queenwood II notes payable (Note 18) all matured as of December 31, 2013. The Company refinanced these debts along with additional financing of USD$2.3 million from Queenwood II into USD$11.0 million of debentures. The conversion feature of the Convertible Debentures received approval by the non-participating shareholders on February 21, 2014. The regulators approved USD$9.0 million as convertible ("Convertible Debentures") and USD$2.0 million as non-convertible ("Debentures").

Queenwood Capital Partners LLC, Queenwood II and three directors of the Company combined hold USD$7.6 million of the Convertible Debentures and USD$2.0 million of the Debentures.

The Convertible Debentures bear interest at 11% per annum, payable quarterly and mature on December 31, 2015. The Convertible Debentures can be converted at any time into common shares of the Company at a rate of CDN$0.12 per share with a fixed exchange rate of CND$1.00 = USD$0.94, for an effective conversion rate of CDN$0.1128. The Debentures bear interest at 18% per annum, payable quarterly and mature on December 31, 2015. The Company has provided a general security agreement that has been subordinated to the Company's other secured indebtedness, as security for the debentures (Note 13).

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

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

17. Equipment loans and capital leases:

	September 30, 2014	September 30, 2013
Equipment loans	$ -	$ 1,819
Capital leases	469	1,470
	469	3,289
Current portion of equipment loans and capital leases	(259)	(2,807)
Long-term portion of equipment loans and capital leases	**$ 210**	**$ 482**

Refer to Note 21 for details of required payments for the equipment loans and capital leases.

FIGURES ARE IN THOUSANDS OF CANADIAN DOLLARS

HSBC Non-revolving Equipment Loans

The Company had equipment loans that carried interest at rates that range from HSBC Bank Prime + 1.75% to 3.75% and matured in 2014. During the year ended September 30, 2014 the Company repaid the balance of the loans.

Caterpillar Financial Services Corporation ("Caterpillar") Loan Facility

During the year ended September 30, 2010, the Company entered into loans to purchase power generation, heat recovery equipment and electrical control systems for $3.5 million. The loans carried interest rates of 8.5% per annum.

During the year ended September 30, 2014 the $0.7 million remaining balance of the Caterpillar loans was repaid with proceeds from the Callidus loan (Note 13).

Capital leases

The Company has various capital leases for equipment with maturity dates that range from fiscal 2014 to 2018 and interest rates that range from 5.6% to 19.9%. The Company has pledged the acquired assets as security for the capital leases.

During the year ended September 30, 2014 capital leases with remaining balances of $0.3 million were repaid with proceeds from the Callidus loan (Note 13).

18. Notes payable:

	September 30, 2014	September 30, 2013
Former mining contractor	$ 2,000	$ 2,679
Queenwood II	12,584	4,255
	14,584	6,934
Current portion of notes payable	(2,000)	(4,934)
Long-term portion of notes payable	**$ 12,584**	**$ 2,000**

Queenwood II – USD$12.0 million promissory note

On July 2, 2014 the Company executed a USD$12.0 million promissory note with Queenwood II to replace its $12.0 million Working Capital Loan facility with HSBC which expired June 30, 2014 (Note 12). The maturity date for the Queenwood II promissory note is October 1, 2015. Interest is payable at 12% per annum with interest payable quarterly on March 31, June 30, September 30 and December 31 of each year, with any remaining accrued and unpaid interest payable on the maturity date. Transaction costs associated with the execution of the promissory note were $157 thousand including $100 thousand to Queenwood II. The Company has provided a general security agreement that has been subordinated to the Company's other secured indebtedness, as security for the promissory note (Note 13). Two directors of the Company collectively own all of the issued and outstanding units of Queenwood II.

The interest rate charged by Queenwood II was determined to be less than the market interest rate for the Company. As Queenwood II is considered a related party, this resulted in a capital contribution of $0.8 million recorded into contributed surplus and accretion being recognised over the term of the promissory note. The initial carrying value of the loan was $11.8 million and the effective interest rate on the promissory note is 12%.

Former mining contractor – 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 at the Cantung mine.

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

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

FIGURES ARE IN THOUSANDS OF CANADIAN DOLLARS

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.

Queenwood II - USD$4.0 million note payable

In June 2013 the Company executed a USD$4.0 million short-term credit facility with Queenwood II. The facility carried interest at 12.5% per annum, matured on October 31, 2013. The security granted was subordinated to security previously granted.

On October 31, 2013 the Queenwood II short-term credit facility matured and forbearance was provided to December 31, 2013 under the existing terms aside from the repayment date. On December 31, 2013 the USD$4.0 million note payable was refinanced in the USD$9.0 million Convertible Debentures financing (Note 16).

19. Reclamation liabilities:

The Company's total undiscounted amount of estimated future cash flows required to settle the Cantung mine reclamation obligation is $9.8 million (September 30, 2013 - $8.9 million). For financial statement purposes this has been estimated with a market based pre-tax discount rate of 1.4% and an average rate of inflation of 1.6% (September 30, 2013 - discount rate 1.4%, inflation rate 1.5%). Based on the life of mine plan at September 30, 2014 the estimated timing of the reclamation work was revised with the majority of the reclamation work estimated to commence during fiscal 2018 through fiscal 2019. Due to the change in the estimated timing of the future reclamation work and higher estimated costs for the reclamation of the tailings ponds, the existing reclamation liability increased by $1.3 million with a corresponding increase to the reclamation asset.

The Cantung mine future reclamation cost was estimated by an independent engineering firm at each of September 30, 2014 and 2013.

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 discussions with the regulators, which could result in increases or decreases in the amount of the reclamation provision.

	September 30, 2014	September 30, 2013
Opening balance, reclamation liabilities	$ 8,443	$ 8,404
Accretion	124	179
Change in estimates of future costs	1,301	(140)
Additions	123	-
Closing balance, reclamation liabilities	**$ 9,991**	**$ 8,443**
Current portion of reclamation liabilities	(597)	(963)
Long-term portion of reclamation liabilities	**$ 9,394**	**$ 7,480**

The Company has posted deposits of $5.9 million in cash and $5.9 million in the form of secured promissory notes which are held in escrow as security for the mine reclamation obligations under the water license for the Cantung mine issued by the Mackenzie Valley Land and Water Board (Note 21 a).

20. Share capital:

a. Common shares

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

FIGURES ARE IN THOUSANDS OF CANADIAN DOLLARS

b. Warrants

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

During the year ended September 30, 2013, the Company issued 5,000,000 warrants to the Sponsors of the Working Capital Loan Guarantee (Note 12) as part of the compensation to extend the Guarantee to December 31, 2013. The value of the warrants was included in the determination of the fair value of the Guarantee. The warrants expired on June 30, 2014.

c. Share options

The Company has a rolling Share Option Plan ("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, director or consultant of 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 12 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 12 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 of Directors, into one common share of the Company.

Options outstanding as of September 30, 2013	Granted	Exercised	Forfeited	Cancelled	Expired	Options outstanding as of September 30, 2014	Exercise price	Expiry date	Options exercisable
75,000	-	-	-	-	-	75,000	$ 0.15	19-Oct-14	75,000
875,000	-	-	-	-	(325,000)	550,000	$ 0.19	1-Feb-15	550,000
100,000	-	-	-	-	-	100,000	$ 0.28	19-Jan-17	100,000
1,050,000	-	-	-	-	(400,000)	650,000	$ 0.42	8-Mar-17	650,000
1,866,667	-	-	(266,666)	-	(200,001)	1,400,000	$ 0.19	28-May-18	1,400,000
50,000	-	-	-	-	-	50,000	$ 0.19	10-Jul-18	50,000
-	100,000	-	(33,334)	-	-	66,666	$ 0.14	30-Nov-14	66,666
-	150,000	-	-	-	-	150,000	$ 0.10	4-Dec-18	50,000
4,016,667	**250,000**	**-**	**(300,000)**	**-**	**(925,001)**	**3,041,666**			**2,941,666**
Weighted average exercise price									
$0.25	$0.12	N/A	$0.18	N/A	$0.29	$0.23			$0.24

The outstanding options have a weighted average exercise price of $0.24 per share (September 30, 2013 - $0.25) and a weighted average remaining life of 2.6 years (September 30, 2013 – 3.5 years).

FIGURES ARE IN THOUSANDS OF CANADIAN DOLLARS

Share options granted during the year were valued using the Black-Scholes option pricing model with the following input values:

	For the year ended	
	September 30, 2014	September 30, 2013
Exercise price	$0.10 to $0.14	$0.185 to $0.19
Share price	$0.10 to $0.14	$0.185 to $0.19
Expected life	4.0 years	4.0 years
Dividend yield	0%	0%
Risk-free interest rate	1.6% to 1.7%	1.2% to 1.6%
Expected volatility	139%	138% to 139%
Calculated fair value per option	$0.05 to $0.07	$0.10

The share options generally vest in thirds over 12 to 18 months. During the year ended September 30, 2014 $48 thousand was recognised as share based compensation expense (September 30, 2013 - $358 thousand).

21. Commitments:

Contractual obligations and commitments	Payments due in the years ended September 30, 2015	2016	2017	2018	2019	Total
Mactung leases and royalty option payment	$ 1,006	$ 6	$ 6	$ 6	$ 6	$ 1,030
Cantung leases	56	56	56	56	56	280
Customer advances	426	-	3,360	-	-	3,786
Customer loans	1,974	2,632	1,813	1,316	329	8,064
Capital leases	259	135	73	2	-	469
Office leases [1]	233	245	251	84	-	813
Equipment purchase and rental contracts	200	-	-	-	-	200
	$ 4,154	**$ 3,074**	**$ 5,559**	**$ 1,464**	**$ 391**	**$ 14,642**

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

a. Water license

The Mackenzie Valley Land and Water Board ("MVLWB") issued the Company's type "A" Water License ("license"), which expires January 29, 2016.

The security deposit required under the Company's licenses is $11.7 million. The Company has posted $5.9 million in cash and $5.9 million in the form of secured promissory notes pursuant to the Reclamation Security Agreement ("RSA"). The RSA further provides for:

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

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

During the year ended September 30, 2014 the Company posted $400 thousand of cash and the posted secured promissory notes were reduced by $500 thousand for the posted cash and accumulated interest. In conjunction with renewing the water license beyond January 29, 2016 the security deposit associated with the license may be amended.

b. Smelter royalties

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

FIGURES ARE IN THOUSANDS OF CANADIAN DOLLARS

22. Contingencies:

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

23. Cost of sales:

	For the year ended September 30, 2014	For the year ended September 30, 2013
Mine operating costs	$ 73,871	$ 69,522
Amortization and depreciation	7,928	7,546
Freight and handling	1,801	2,165
Royalties	834	765
Inventory changes, adjustments and write-downs	(4,346)	(47)
	$ 80,088	**$ 79,951**

The amount of inventory sold and recognised as cost of sales in the year, together with the $0.6 million write-down of tungsten concentrate inventories to the estimated recoverable amount in the year ended September 30, 2014 (year ended September 30, 2013 - $0.9 million), constitutes the cost of sales.

Mine operating costs by function:	For the year ended September 30, 2014	For the year ended September 30, 2013
Mine	$ 27,867	$ 26,371
Power generation and surface maintenance	18,549	17,926
Site administration and environmental	14,420	13,436
Mill	13,035	11,789
	$ 73,871	**$ 69,522**

Mine operating costs by nature:	For the year ended September 30, 2014	For the year ended September 30, 2013
Salaries and wages	$ 21,760	$ 20,196
Fuel and lubricants	16,256	14,461
Materials and supplies	15,892	15,206
Freight, expediting and support services	7,616	7,154
Employee benefits	5,067	4,768
Other costs	4,677	4,542
Mine and drill contractors	2,603	3,195
	$ 73,871	**$ 69,522**

FIGURES ARE IN THOUSANDS OF CANADIAN DOLLARS

24. Interest and financing costs:

	For the year ended September 30, 2014	For the year ended September 30, 2013
Bank loans and associated agreements	$ 1,688	$ 1,751
Debentures	1,178	293
Callidus loan	752	-
Notes payable	709	385
Other	377	394
Customer advances and loans	363	11
Equipment loans and capital leases	146	565
	$ 5,213	**$ 3,399**

25. General and administrative costs:

	For the year ended September 30, 2014	For the year ended September 30, 2013
Fees, wages and benefits	$ 1,214	$ 3,503
Office expenses	479	450
Consulting	364	163
Accounting and audit	349	242
Legal fees	301	145
Investor relations, travel and business development	204	217
Filing fees and transfer agent fees	38	40
Loss on renegotiation of sales contract	-	1,133
	$ 2,949	**$ 5,893**

Fees, wages and benefits for the year ended September 30, 2014 includes nil (year ended September 30, 2013 - $1.8 million) of employment contract settlement expense (Note 27).

During the year ended September 30, 2013 the Company incurred a loss of $1.1 million related to accounts receivable that were written down due to the subsequent renegotiation of a sales contract.

FIGURES ARE IN THOUSANDS OF CANADIAN DOLLARS

26. Supplemental cash flow:

	For the year ended September 30, 2014	For the year ended September 30, 2013
Change in non-cash working capital:		
Accounts receivable	$ 7,831	$ 2,770
Prepaid expenses	(56)	(62)
Inventories	(6,909)	(2,000)
Accounts payable and accrued liabilities	146	956
	$ 1,012	**$ 1,664**

	For the year ended September 30, 2014	For the year ended September 30, 2013
Changes in accounts payable and accrued liabilities affecting cash flows used in investing activities:		
Expenditures on property, plant and equipment	$ 321	$ 629
Expenditures on Mactung property	$ 125	$ 184

27. Related party transactions:

Directors of the Company participated directly and indirectly in the USD$11.0 million Debenture and Convertible Debentures financing as to USD$9.6 million (Note 16). For the year ended September 30, 2014 the Company recognised an expense of $1.0 million (year ended September 30, 2013 - $144 thousand) of interest on these Debentures and Convertible Debentures.

On June 14, 2013 the Company and HSBC agreed to terms for the extension of the $12.0 million Working Capital Loan facility to December 31, 2013 (Note 12). HSBC provided a further extension of the loan to June 30, 2014. Under the extension, the rate for the Guarantee increased to 2.25% per quarter and the Guarantee and Put Agreement were extended. In exchange for extending the Guarantee and Put Agreement, the Company compensated the Sponsors in the following manner:

a. paid the Sponsors (in USD) on the last day of each calendar quarter, an aggregate amount equal to 2.25% (1.25% up to December 31, 2013) of the maximum outstanding principal amount of the letter of credit during the immediately preceding calendar quarter (or portion thereof), payments began on March 31, 2014. For the year ended September 30, 2014 the Company recognised an expense of $750 thousand in respect of these payments (year ended September 30, 2013 - $794 thousand); and
b. reimbursed the Sponsors' expenses in respect of this transaction which totalled $34 thousand.

The guarantee fee of USD$2.0 million, as compensation to the Sponsors for the guarantee of the Working Capital Loan matured, as of December 31, 2013. The Company refinanced the fee into the USD$2.0 million Debentures (Note 16). For the year ended September 30, 2014 the Company recognised accretion of $497 thousand related to the fee (September 30, 2013 - $1.0 million).

On June 16, 2014 HSBC issued a demand for full repayment of the loan balance and issued the Put notice, allowing HSBC to exchange the outstanding balance of the loan with the Sponsors within 30 days. On July 2, 2014 the Company executed a USD$12.0 million promissory note with Queenwood II (Note 18) to replace its $12.0 million Working Capital Loan which was then cancelled. During the year ended September 30, 2014 the Company recognised an expense of $528 thousand (year ended September 30, 2013 - nil) of interest on the Queenwood II notes payable.

During the year ended September 30, 2014 the Company recognised $1.6 million (year ended September 30, 2013 - $0.6 million) for professional and consulting fees to directors or companies related to directors.

Key management includes directors and officers of the Company. During the year ended September 30, 2014 the Company recognised compensation for key management of $0.3 million which includes salaries and fees, benefits and directors fees and nil of share-based compensation. 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.

The above transactions were in the normal course of operations.

FIGURES ARE IN THOUSANDS OF CANADIAN DOLLARS

28. 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, 2014			September 30, 2013		
TUNGSTEN:						
Europe	$	40,108	48%	$	37,738	49%
North America		39,230	47%		19,618	26%
Asia		3,871	5%		19,469	25%
		83,209	**100%**		**76,825**	**100%**
COPPER:						
North America		2,000	100%		2,993	100%
		2,000	**100%**		**2,993**	**100%**
	$	**85,209**		**$**	**79,818**	

All of the Company's non-current assets are located in Canada.

29. Sales and concentration of receivables:

The Company had three main delivery contracts for tungsten concentrate which expired or were replaced with new contracts during fiscal 2014, as well as a copper delivery contract. The contracts contain target delivery quantities and do not contain financial penalties for shortfalls in target delivery quantities.

During the year ended September 30, 2014 the Company negotiated a new tungsten delivery contract in conjunction with a USD$4.7 million loan arrangement (Note 15), with an existing customer that was effective February 1, 2014 and a new tungsten delivery contract in conjunction with a USD$2.5 million loan arrangement (Note 15) with an existing customer that was effective March 1, 2014. The Company also extended an existing copper delivery contract under similar terms to December 31, 2015.

The tungsten delivery contracts have similar terms and conditions. Each contract is for an initial term of the later of 3 years to February 1, 2017 or the completion of the delivery quantity for the initial term. The customer has the right, at its sole discretion, to extend the contract under the initial term until all amounts under the related loan arrangements have been repaid in full. If neither party gives notice of termination of the contract by February 1, 2016 the contract automatically is extended for an additional year to February 1, 2018 (year 4). If neither party gives notice of termination of the contract by February 1, 2017 the contract automatically is extended for an additional year to February 1, 2019 (year 5). The contracts contain quarterly and annual target delivery quantities and do not contain financial penalties for shortfalls in target delivery quantities. The contracts contain provisions that could allow the customer to terminate the delivery contract if quantities or concentrate specifications are not achieved for three consecutive months or if target delivery quantities are not achieved. In the event of default by the Company under the terms of the delivery contract, the customer has the right to demand immediate full repayment of the outstanding balance under the loan arrangement. In the event of termination of the delivery contract by the customer, the customer advances would become due on demand of the customer (Note 14).

Sales to four customers accounted for 100% of sales made in the year ended September 30, 2014 (year ended September 30, 2013 – 100% to six customers). The Company has two major customers from which revenues individually amount to more than 10% of the total revenue for the year ended September 30, 2014 (September 30, 2013 was four customers).

	For the year ended			
		September 30, 2014		September 30, 2013
Customer A	$	40,108	$	19,618
Customer B		39,230		27,998
Customer C		-		18,652
Customer D		-		9,740

As at September 30, 2014, $3.0 million in receivables was due from three customers (September 30, 2013 - $13.8 million from three customers).

30. 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, 2014	September 30, 2013
Loss per share:		
Basic and diluted	$ (0.03)	$ (0.06)
Net loss for the year:		
Attributed to common shareholders - basic and diluted	$ (6,646)	$ (13,266)
Weighted average shares outstanding:		
Weighted average shares outstanding - basic and diluted	238,123	237,438
Shares excluded from the determination of diluted loss per share:		
Stock options	3,042	3,967
Warrants	2,000	7,000
Convertible debentures	79,787	6,506
	84,829	17,473

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.

There have been no significant issuances of new potentially dilutive securities subsequent to September 30, 2014.

31. Capital management:

The Company defines its capital as cash and cash equivalents, short-term and long-term financial debt, share capital and contributed surplus. The Company's objectives when managing its capital are:

- to maintain liquidity;
- 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 budgets and forecasts which are reviewed by the Board of Directors. Actual results are reviewed against budget on a monthly basis and forecasts are updated. 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.

32. Financial risk management:

a. Fair value estimation

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

FIGURES ARE IN THOUSANDS OF CANADIAN DOLLARS

The Company's financial assets are measured and recognised according to a fair value hierarchy that reflects the significance of inputs used in making fair value measurements, based on the lowest level of input that is significant to the fair value measurement, as follows:

Level 1 - quoted prices in active markets for identical assets or liabilities;
Level 2 - inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
Level 3 - inputs for the asset or liability that are not based upon observable market data.

Categories of financial instruments

The estimated fair values of the Company's financial assets and liabilities were determined based on Level 2 inputs. The Company has no financial assets or liabilities that have fair value determined based on Level 3 inputs.

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

	September 30, 2014	September 30, 2013
Financial assets		
Loans and receivables		
Cash and cash equivalents	$ 363	$ 203
Accounts receivable	3,847	14,383
Reclamation deposits	5,931	5,469
Fair-value-through-profit or loss		
USD/CDN forward exchange rate contracts	-	29
Financial liabilities		
Other financial liabilities		
Accounts payable and accrued liabilities	$ 16,426	$ 16,416
Bank loans	-	24,679
Callidus loan	10,128	-
Customer loans	8,064	-
Debentures & convertible debentures (interest bearing portion)	11,564	2,917
Equipment loans and capital leases	469	3,289
Notes payable	14,584	6,934

b. Financial risk factors

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 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 as sales are denominated in USD. For the year ended September 30, 2014, 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 (September 30, 2013 - $0.8 million).

FIGURES ARE IN THOUSANDS OF CANADIAN DOLLARS

As at September 30, 2014 and 2013 the Company is exposed to currency risk through the following financial assets and financial liabilities denominated in USD at settlement values:

	September 30, 2014	September 30, 2013
	USD	USD
Cash and cash equivalents	$ (257)	$ (2,489)
Accounts receivable	2,714	13,539
Accounts payable	(339)	(320)
Bank loans	-	(1,529)
Customer advances	(3,000)	(7,825)
Customer loans	(7,200)	-
Debentures	(11,000)	(2,870)
Equipment loans and capital leases	-	(1,070)
Notes payable	(12,000)	(4,000)
	$ (31,082)	**$ (6,564)**

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. Accounts receivable for three of the primary customers totalled $3.0 million at September 30, 2014 (September 30, 2013 – three customers totalled $13.8 million). At September 30, 2014, 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 institutions 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 variable interest rates paid on debt instruments. The interest rate management policy is generally to borrow at fixed rates to match the duration of the long lived assets. Floating rate funding may be used for short-term borrowing. Cash and cash equivalents receive interest based on market rates.

For the year ended September 30, 2014, 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 debt instruments 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. The Company's contractual obligations are disclosed in Note 21.

FIGURES ARE IN THOUSANDS OF CANADIAN DOLLARS

Contractual undiscounted cash flow requirements for financial liabilities as at September 30, 2014 are as follows:

	Payments due in years ended September 30,						
	2015	2016	2017	2018	2019	More than 5 years	Total
Accounts payable and accrued liabilities	16,426	-	-	-	-	-	$ 16,426
Callidus loan	10,550	-	-	-	-	-	$ 10,550
Customer loans	1,974	2,632	1,813	1,316	329	-	$ 8,064
Notes payable	2,000	13,440	-	-	-	-	$ 15,440
Debentures	-	12,320	-	-	-	-	$ 12,320
Capital leases	286	147	72	2	-	-	$ 507
	$ 31,236	**$ 28,539**	**$ 1,885**	**$ 1,318**	**$ 329**	**$ -**	**$ 63,307**

33. Deferred income taxes:

Income tax expense differs from the amount that would result from applying the Canadian federal and provincial income tax rates to net loss before income taxes. These differences result from the following items:

	For the years ended September 30, 2014	September 30, 2013
Loss before income taxes	$ (7,168)	$ (13,266)
Canadian federal and provincial income tax rates	26.50%	26.50%
Income tax recovery based on the above rates	$ (1,900)	$ (3,515)
Increase (decrease) due to:		
Non-deductible expenses	$ 213	$ 230
Foreign exchange and other	476	(57)
Differences between foreign and Canadian tax rates	-	-
Changes in unrecognized deferred tax assets	689	3,342
Income tax expense (recovery)	**$ (522)**	**$ -**

The components of deferred income and mining taxes are as follows:	For the years ended September 30, 2014	September 30, 2013
Unrecognized deferred tax assets:		
Non-capital losses	$ 9,646	$ 9,400
Share issuance costs and other	157	175
Property, plant and equipment and mineral property interests	7,341	6,385
Capital leases and loans	(14)	846
Capital losses	737	782
Reclamation liabilities	2,647	2,237
Total unrecognized deferred tax assets	**$ 20,514**	**$ 19,825**

FIGURES ARE IN THOUSANDS OF CANADIAN DOLLARS

At September 30, 2014 the Company has non-capital losses of approximately $35.9 million (September 30, 2013 - $34.5 million) which are not recognised as deferred tax assets. 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. The gross amount of the non-capital tax losses for which a tax benefit has not been recorded expire as follows:

2028	$	5,665
2030		11,746
2031		11,279
2032		626
2033		5,687
2034		862
	$	**35,865**

In addition to the non-capital losses, the Company has a capital loss in the United States of approximately USD$2.1 million that expires in 2017 and capital losses of $0.2 million in Canada with no expiry date.

34. Subsequent events:

Queenwood II – Promissory note

Subsequent to September 30, 2014 the Company executed a promissory note with Queenwood II for up to a maximum aggregate principal amount of USD$3.0 million. The Company has drawn the full amount on the promissory note. Interest is payable at a rate of 18% per annum with interest payable quarterly in arrears on March 31, June 30, September 30 and December 31 of each year, with any remaining accrued and unpaid interest payable on maturity. The Company has provided a general security agreement that has been subordinated to the Company's other secured indebtedness, as security for the promissory note (Note 13). Two directors of the Company collectively own all of the issued and outstanding units of Queenwood II.

Callidus loan

Subsequent to September 30, 2014 the Company extended the Callidus loan (Note 13) to May 31, 2016 and borrowed additional funds of $3.65 million. The interest rate and monthly principal repayment terms remain unchanged. Callidus earned a facility fee in the amount of $154 thousand in respect of the increase and extension of the loan agreement, which is due at maturity. Of the additional funds received, $2.0 million was used to repay a promissory note that matured on December 31, 2014 (Note 18). The remaining proceeds will be used for capital projects and working capital. The repayment of any principal amounts to debenture holders and Queenwood II is fully subordinated to the repayment of the Callidus loan.