

## INTERIM MANAGEMENT DISCUSSION AND ANALYSIS Q1 2012

This discussion and analysis of financial position and results of operations of North American Tungsten Corporation Ltd., the “Management Discussion and Analysis” (MD&A), is prepared as of March 1, 2012, and should be read in conjunction with the unaudited interim consolidated financial statements for the three months ended December 31, 2011 and the audited consolidated financial statements for the year ended September 30, 2011. This MD&A reviews the business of North American Tungsten Corporation Ltd. (the “Company”) and compares the Company’s financial results for the quarter ended December 31, 2011 (Q1 2012) with those of the quarter ended December 31, 2010 (Q1 2011). Additional information relating to the Company including its Annual Information Filing is available on SEDAR at [www.sedar.com](http://www.sedar.com). The Company is listed on the TSX Venture Exchange (symbol: NTC) and the Company has share purchase warrants which trade on the TSX Venture Exchange.

North American Tungsten Corporation Ltd. is engaged in tungsten mining and related activities which includes the acquisition, exploration, development and processing of ores and concentrates. The Company owns the Cantung mine in the Northwest Territories; the Mactung mineral property on the border of the Yukon Territory and the Northwest Territories; other tungsten exploration prospects.

The December 31, 2011 financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) applicable to the preparation of interim financial statements, including IAS 34 “Interim Financial Reporting” and IFRS 1 “First-Time Adoption of IFRS”. For comparative purposes, all financial statement amounts related to the quarter ended December 31, 2010 and the year ended September 30, 2011, have been restated in accordance with IFRS. All other periods remain unchanged from the numbers originally reported under Canadian Generally Accepted Accounting Principles (“Canadian GAAP” or “CGAAP”). Note 2 of the unaudited interim consolidated financial statements of the Company disclose the Company’s significant accounting policies. All \$ figures are in thousands of CDN dollars unless otherwise specified (except per share, option prices, warrant prices and per unit information).

Certain statements made may constitute forward-looking statements. Such statements involve a number of known and unknown risks, uncertainties and other factors. Actual results, performance and achievements may be materially different from those expressed or implied by these forward-looking statements.

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## HIGHLIGHTS AND OUTLOOK

The Company's Q1 2012, that ended December 31, 2011, was marked by:

- EBITDA of \$10.5 million (EBITDA is a non-IFRS measure, see "Summary of Financial Results" for reconciliation to IFRS)
  - Revenue was \$26.4 million with a realized average sale price of USD\$362/mtu.
  - Net income was \$6.6 million or \$0.03 per share (basic and diluted).
  - Cash inflow from operations before change in non-cash working capital was \$9.7 million.
  - Results were driven by production of over 800 mtus per day, average grade of 1.12% WO<sub>3</sub> and mill recovery of 77.3%.
  - Production rose to 76,686 mtus and sales rose to 70,988 mtus. Unit cost of production decreased.
- Sales realizations that now materially reflect the strongest tungsten market in decades due to high demand and limited supply.
- Increasing investor interest in the Company's large Mactung project.
- The execution of a secured \$12.0 million working capital loan.

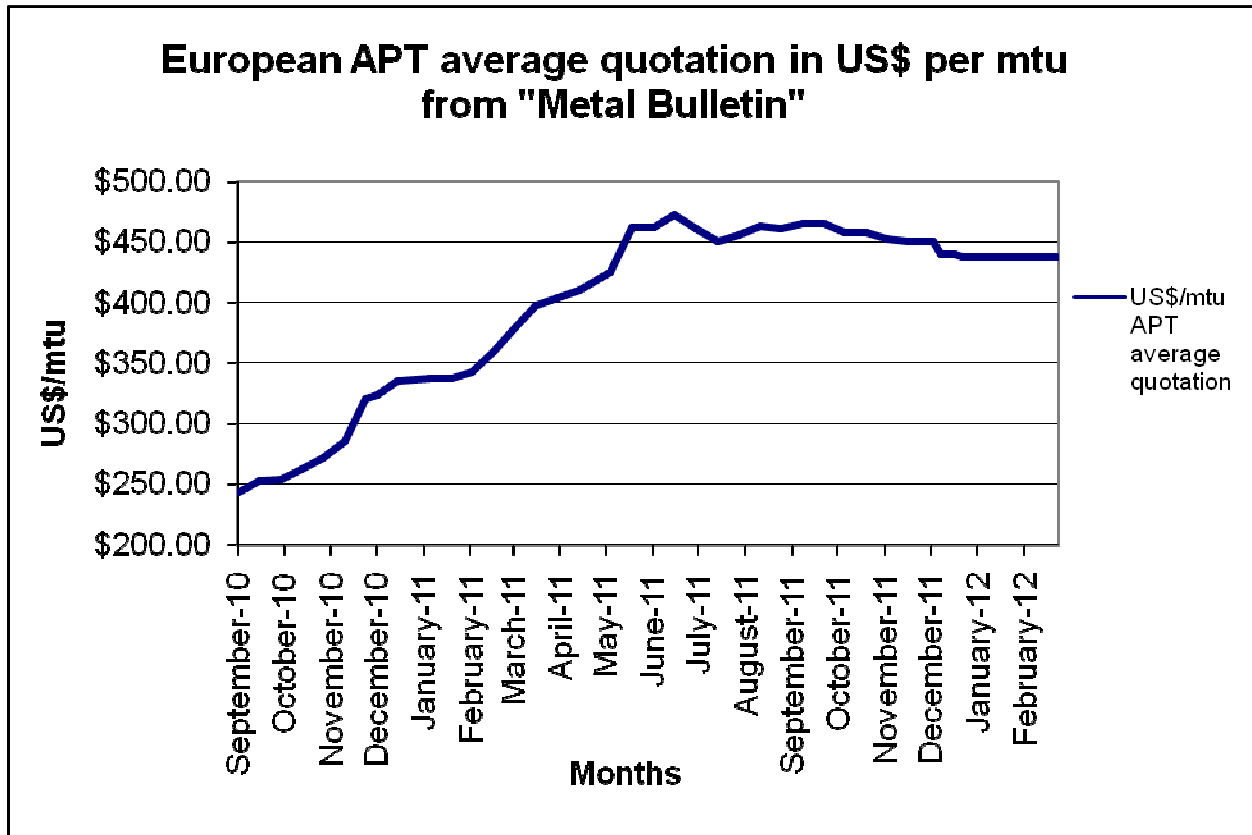
During the period, the Company averaged over 950 tonnes (1,050 tons) per day, mined and processed. The primary focus on developing access to higher grades of ore within the mine has begun to be realized with average grade of 1.12% WO<sub>3</sub> being processed during the period.

Mine access ways by contractors for Cantung's West Extension will be up to date and complete within the next few months. Until then, tonnes and grade delivered from the underground may fluctuate. For the future, it is expected that further development of the West Extension at Cantung will provide the tons and grade necessary for profitable operations. There is good potential for additional resources in the West Extension. The historically high prices now available for tungsten materials provide an opportunity for positive cash flows from operations for fiscal 2012 and beyond. The capital investments that have been made and are in progress are enabling the Company to increase production. In Q1 2012, the Company announced a new zone, the "Amber zone", located near the lower West Extension and the Central Flats area.

In the long-term, there is major potential for additional shareholder value from the large Mactung project. Industry fundamentals provide an increasingly strong case to develop Mactung. The Company is in active discussions in this regard.

## TUNGSTEN PRICE

The Metal Bulletin ammonium paratungstate ("APT") European Free Market Average Quotation in US Dollars ("USD") is \$437.50/mtu at December 31, 2011.



- During Q1 2012, the Company's average sales realization per mtu was close to 80% of APT market quotations, while in fiscal 2011 sales realization per mtu lagged behind the market due to the sales contract terms and delays in deliveries.
- The average price realized on the Company's concentrate sales was USD\$362.35/mtu during Q1 2012 and was USD\$261.25/mtu in fiscal 2011 as compared to the average APT quotation for Q1 2012 of USD\$449.79 and the average APT quotation for fiscal 2011 of USD\$393.36/mtu (APT quotations are Metal Bulletin European quotations, the basis for most concentrate pricing).
- Quotations for APT have flattened into a range between USD\$430.00/mtu to USD\$450.00/mtu. The Company expects that APT prices will remain strong for 2012 and 2013 due to strong demand and limited near term supply.
- The Company's expectation that the improving economic conditions, strengthening commodity prices and re-stocking by manufacturers would drive the recovery in tungsten demand and price appears to have been realized. The market has improved dramatically from the 2009 cyclical low. The Metal Bulletin European APT average quotation climbed to USD\$457.50/mtu at September 30, 2011, up from USD\$197.50/mtu at September 30, 2009. The current tungsten spot market is active with inquiries from consumers particularly from the United States and Asia.

## OPERATIONS

### Cantung Mine

Following the restart of operations in October 2010, the ramp-up of production was slower and more difficult than planned. Recently, production has improved considerably. Completion of an access drift and ventilation to develop better grade sections in the West extension is being driven ahead at present and is planned to be completed in May 2012. Production in Q1 2012 was 76,000 mtus which was above plan. The mill processed 88,000 tonnes of ore with an average grade of 1.12% WO<sub>3</sub>. The average mill recovery was 77.3% which was 5.2% higher than the average recovery in Q1 2011, which demonstrates the benefits of the capital program during fiscal 2011.

Capacity, efficiency, ventilation and underground access were improved in 2011. Results in 2012 will benefit from completion of the current major capital programs including:

- New equipment upgrades for power generation have increased the available power supply and the power management system should increase reliability and efficiency.
- The heat recovery system is in construction and will reduce fuel costs for heating in the mill and heat mill process water thereby helping to produce higher recoveries.
- Upgrades and replacements to mill equipment have resulted in significant improvement of mill recovery. The average recovery was 77.3% for Q1 2012 compared to average recovery of 75.3% for fiscal 2011 and 69.0% for fiscal 2010.
- New and efficient underground haul-dump equipment was acquired and older equipment has been retired.
- Back-fill is required to allow for production in areas of the mine that would otherwise not be accessible. In the West Extension, after the "Primary Units" have been mined, they will be filled with cemented back-fill to allow the mining of "Secondary Units". The hydraulic cemented back-fill system is currently under construction.
- New ventilation access has been designed and construction has commenced to increase ventilation throughout the mine and to allow for access to the deeper sections of the mine where grades are higher, as well as a second means of egress from the mine. Construction will continue throughout the year with the majority of the construction completed by Q3 2012.
- Underground diamond definition drilling will continue during the year as well as underground and surface exploration drilling in areas around the mine complex with the intention to expand the reserves of the mine.

The mining industry in Northern Canada has been impacted by increasing cost pressures on operating costs with respect to labour, energy and supplies. Personnel turnover/retention continues to be and may remain to be an issue going forward as long as the mining sector remains robust as there are limited supply of individuals with the required skill sets. This has resulted in delays in the development in the West Extension and will continue to present challenges going forward.

Engineering and a pilot project commenced to determine the feasibility of reprocessing tailings from the older tailings ponds through the mill for ore WO<sub>3</sub> recovery and underground disposition through the hydraulic cemented back-fill system. The potential benefits of this process would be the recovery of low grade ore from the tails and reduction of surface tailings which may reduce future reclamation costs.

In Q1 2012, the Company announced that its underground diamond drill exploration program has identified a new "Amber zone". This zone is located near to the "below 3700 level" section of the West Extension and the Central Flats area. The Amber zone is located outside the currently defined deposit.

### Mactung Project Update

Development of the Mactung project is a significant part of the Company's future operations given the size and scope of the deposit. The National Instrument 43-101 Compliant Technical Report on the Mactung Property, Yukon Territory, Canada ("Feasibility Study") dated April 3, 2009 prepared by Wardrop, A Tetra Tech Company showed a \$276 million NPV and a \$402 million capital expenditure requirement, all based on an ammonium paratungstate ("APT") price of USD\$300 per mtu. It will be necessary for the Company to seek and obtain financial partner(s) to fully develop the project to operational status. The development of the Mactung project will enhance the Company's position as a leading supplier of tungsten concentrate.

In order to most effectively and responsively move forward to create greater shareholder value from Mactung, the Company's Board of Directors established a special committee in Q2 2011 to explore all strategic alternatives relating to the Mactung deposit. The Board believes that the value of the Mactung deposit is not currently reflected in the Company's share price. The timing of the Company's decision takes into account the status of the permitting and licensing, historically high tungsten prices, significant global merger and acquisition activities, a growing worldwide demand for tungsten and related significant potential

shortfalls in worldwide tungsten supply. The special committee has garnered significant interest from several industry leaders and the process to most effectively and responsively move the project forward to create greater shareholder value will continue during fiscal 2012.

The Company completed laboratory testing of additional core samples from Mactung to provide information required in the response for the supplementary information as requested by the Yukon Environmental and Socio-economic Assessment Board ("YESAB") on the Mactung Project Proposal pursuant to the Yukon Environmental and Socio-economic Assessment Act ("YESAA"). The Company continued with water sampling programs for surface monitoring, hydrology and groundwater quality. The Company filed its Supplementary Information Request response to YESAB on October 25, 2011. YESAB has determined that the information submitted is satisfactory and the Executive Committee has now commenced preparation of the Draft Screening Report. The draft report is expected to be completed by March 2012, though YESAB can request an extension.

The Yukon Territorial Government has issued a class IV mining land use permit (#LQ00253) to allow continuing exploration and development of the Mactung property. The permit includes road construction and underground development.

Government and community relations discussions will continue during 2012.

#### **Finance**

The Company has negative working capital and high debt levels. Following completion of the major 2011 capital program and the catch up of underground development, it is expected that net cash flows from operations will be positive in fiscal 2012. Provided recent levels of production can be maintained or exceeded and the market price for tungsten remains strong for fiscal 2012, the Company's liquidity position should improve. Cash flow from operations before changes in non-cash working capital was \$9.7 million for Q1 2012.

Although operating cash flow improved significantly in Q1 2012, significant amounts of capital expenditures relating to mine development, tailings impoundment, cemented back-fill system and ventilation system could require additional financings during 2012.

A secured \$12.0 million Working Capital Loan was arranged with HSBC and was drawn down during Q1 2012, with the proceeds in part utilized to pay down trade payables.

## SUMMARIZED FINANCIAL RESULTS

Operating highlights	Three Months Ended	
	December 31, 2011	December 31 2010
Tonnes Milled	88,460	71,616
Feed Grade %	1.12	1.03
Recovery%	77.3	72.1
Tungsten concentrate produced (mtu's)	76,686	52,972
Tungsten concentrate sold (mtu's)	70,988	36,383
Average realized sales price \$US/mtu	\$ 362.35	\$ 200.51
Costs of sales per mtu <sup>1</sup>	\$ 247.77	\$ 288.32
Copper sold (lbs)	-	-
Copper revenue	\$ -	\$ -
Quarterly average \$US foreign exchange rate (US\$1 to CDN)	\$ 1.0230	\$ 1.0102
<b>Financial Data (in \$000's)</b>		
Revenues	\$ 26,422	\$ 7,370
<b>Mine site cost of sales:</b>		
Mine	6,116	5,818
Mill	2,786	2,197
Power generation and surface maintenance	4,293	3,181
Site administration and environmental	3,158	2,355
<b>Subtotal</b>	<b>16,353</b>	<b>13,551</b>
Inventory change, adjustments and write-downs	(1,779)	(3,474)
Amortization and depreciation	3,015	413
<b>Mine site cost of sales</b>	<b>17,589</b>	<b>10,490</b>
Freight, handling and conversion	407	167
Royalties	260	75
Accretion of reclamation liabilities	29	37
<b>Other costs</b>	<b>696</b>	<b>279</b>
Gross margin <sup>2</sup>	\$ 8,166	\$ (3,362)
Net earnings (loss)	\$ 6,593	\$ (4,386)
EBITDA <sup>3</sup>	\$ 10,542	\$ (3,703)

**NOTE: Gross margin, cost of sales per mtu and EBITDA are non-IFRS financial performance measured with no standard definition under IFRS**

1) Cost of sales per mtu is determined by dividing the mine site cost of sales by the number of mtus sold during the period

2) Gross margin is determined by taking revenue less mine site cost of sales less other costs excluding accretion of reclamation liabilities

3) EBITDA = Net income before taxes with interest and financing costs, interest income, depreciation and amortization and accretion removed

## REVIEW OF FINANCIAL RESULTS

During fiscal 2010, the Cantung mine had been shutdown and was in care and maintenance for the period from October 18, 2009 to the restart on October 7, 2010. During the quarter ended December 31, 2010, start up occurred, operations were ramping up but there were issues and disruptions. These issues negatively affected the results for Q1 2011. For Q1 2012, the mine was in full production, and as such, comparison of the results to Q1 2011 may not be meaningful.

### Q1 2012 compared to Q1 2011 for revenue and cost of goods sold

Net income for Q1 2012 was \$6.6 million or \$0.03 per share (basic and diluted), compared to a net loss of \$4.4 million or (\$0.02) per share in Q1 2011. The net income for Q1 2012 was impacted by the following factors:

- Revenues increased to \$26.4 million on the sale of 70,988 mtus with an average realized sales price of \$370.69/mtu (USD\$362.35/mtu) and cost of sales of \$247.78/mtu for a margin of \$114.57/mtu net of freight and royalties compared to \$7.4 million for Q1 2011 on the sale of 36,383 mtus with an average realized sales price of \$202.56/mtu (USD\$200.50/mtu) and cost of sales of \$288.32/mtu for a negative margin of \$0.85.76/mtu net of freight and royalties.
- Tungsten concentrate production for Q1 2012 was 76,686 mtus from a mill feed of 88,460 tonnes with an average grade of 1.12% WO<sub>3</sub> and average mill recovery of 77.3% compared to production of 52,972 mtus from a mill feed of 71,617 tonnes with an average grade of 1.03 WO<sub>3</sub> and average mill recovery of 72.1%.
- Basic and diluted earnings per share was \$0.03 for the period compared to (\$0.02) for Q1 2011.

### Expenses & Other Items

Financial data (in \$000's)	Three Months Ended		
	December 31		
	2011	2010	Change
Expenses:			
General and administrative	\$ 781	\$ 711	\$ 70
Accretion of financial liabilities	329	90	239
Interest and financing costs	722	266	456
Equity loss of TDI	84	242	(158)
Stock based compensation	12	13	(1)
Exploration expenses	21	23	(2)
Interest income	(146)	(11)	(135)
Foreign exchange (gain)	(112)	(111)	(1)
	\$ 1,691	\$ 1,223	\$ 468
Other items:			
Gain on revaluation of derivative liability	\$ 147	\$ 124	\$ 23
Recovery of deferred income taxes	\$ -	\$ 112	\$ 112

### Q1 2012 compared to Q1 2011 for expenses and other items

- For Q1 2012 accretion of financial liabilities increased to \$329 thousand from \$90 thousand in Q1 2011. Accretion has increased due to the addition of the convertible debenture in Q1 2011, which resulted in the recognition of \$90 thousand of accretion in Q1 2011 compared to \$131 thousand for Q1 2012. During Q1 2012 the Company arranged the \$12.0 million working capital loan. Accretion of \$193 thousand was recognized during Q1 2012 with respect to the guarantee on the working capital loan agreement (Q1 2011 - \$nil)
- Interest and financing costs increased to \$722 thousand compared to \$266 thousand in Q1 2011 primarily due to the Company having \$33.2 million of interest and finance cost bearing obligations at December 31, 2011 compared to \$6.1 million at December 31, 2010.

## SUMMARY OF QUARTERLY INFORMATION

in \$000's, except per share amounts	2012	2011				2010 *		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Revenue	\$ 26,422	\$ 17,549	\$ 19,287	\$ 11,446	\$ 7,370	\$ 32	\$ 390	\$ 3,738
Net earnings (loss)	\$ 6,593	\$ (4,907)	\$ 1,771	\$ (7,952)	\$ (4,386)	\$ (5,946)	\$ (2,384)	\$ (2,110)
Income (Loss) per share, basic and diluted	\$ 0.03	\$ (0.02)	\$ 0.01	\$ (0.04)	\$ (0.02)	\$ (0.03)	\$ (0.01)	\$ (0.01)
Cash flow from operations before changes in non-cash working capital	\$ 9,718	\$ 1,145	\$ 2,317	\$ (7,085)	\$ (4,101)	\$ (5,598)	\$ (2,104)	\$ (1,777)

\* This figures are CGAAP as they are pre-transition to IFRS

The Company's results over the quarters above have been driven by:

- initially weak tungsten prices followed by a strong upward price trend which continued to Q3 2011 and then have flattened;
- efforts to ramp up production levels at the Cantung Mine following its closure between October 2009 and October 2010;
- the exchange rate of U.S Dollar to Canadian dollar; and
- improved levels of production, grade and mill recoveries due to the capital expenditures

## LIQUIDITY, CAPITAL RESOURCES AND GOING CONCERN

### Going Concern

The Company has negative working capital and high debt levels. Following completion of the major 2011 capital program and the catch up of underground development, it is expected that net cash flows from operations will be positive in fiscal 2012. Provided recent levels of production can be maintained or exceeded and the market price for tungsten remains strong for fiscal 2012, the Company's liquidity position will improve. Cash flows from operations before changes in non-cash working capital was \$9.7 million for Q1 2012.

Although operating cash flows improved significantly in Q4 2011 and Q1 2012, significant amounts of capital expenditures relating to mine development, tailings impoundment, cemented back-fill system and ventilation system may require additional financings during 2012.

A secured \$12.0 million Working Capital Loan was arranged with HSBC and was drawn down during Q1 2012, with the proceeds utilized to pay down trade payables

Note 1 of the unaudited interim consolidated financial statement discloses the following that relates to going concern:

"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 realize 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.

The Company re-started the Cantung mine in October 2010. For the three months ended December 31, 2011, the net income was \$6.6 million (year ended September 30, 2011, the net loss was \$15.5 million) and there was a deficiency of working capital of \$21.2 million (September 30, 2011 - \$23.1 million). The Company acknowledged a breach with the conditions of its bank operating loan during the year ended September 30, 2011 and the Company's bank has agreed to forbear certain covenant breaches provided that amended covenants are met in the future. At December 31, 2011, the Company was not in breach of the covenants.



The Company's ability to continue as a going concern is dependent upon on its ability to meet its covenants related to its HSBC Credit Facilities (the "Bank" or "HSBC"), continued shareholder support and its ability to generate positive cash flows from the Cantung operations. Additional funding may be required for development and working capital. Eventual development of the Mactung project will require further major external funding. While the market prices for tungsten remains strong, there is no assurance that the Company will succeed in arranging all necessary finance or maintain the continuing support of its creditors. During the three months ended December 31, 2011, the Company executed a Working Capital Loan facility with HSBC to a maximum of CDN\$12.0 million.

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

### Liquidity Outlook

Factors that will impact liquidity in the forthcoming months:

- Various capital improvements have been completed during the ramp up period, however, there will be further capital expenditures required on tailings ponds (including geotechnical drilling), ongoing underground mine development, back-fill system, ventilation and heat recovery projects during fiscal 2012.
- The Company's average sales realization per mtu has improved materially.
- Quotations for APT have flattened into a range between USD\$430.00/mtu to USD\$450.00/mtu. The Company expects that APT prices will remain strong for 2012 and 2013 due to strong demand and limited near term supply.
- For several months, production will continue to be adversely impacted on a sporadic basis by the development in the West Extension; thereafter improved results are expected from the West Extension.

### Cash Flow Q1 2012 compared to Q1 2011

Summarized Cash Flow Activity (in \$000's)	Three Months Ended	
	December 31, 2011	December 31 2010
Cash flow from operating activities before changes in non cash working capital	\$ 9,718	\$ (4,101)
Change in non-cash working capital	(4,160)	(4,886)
Provided by (used in) operating activities	6,044	(8,943)
Provided by (used in) investing activities	(12,709)	(3,441)
Provided by (used in) financing activities	8,381	10,648
Increase (decrease) in cash and cash equivalents	1,716	(1,736)
Cash and cash equivalents, beginning of period	3,000	2,276
Cash and cash equivalents, end of period	\$ 4,716	\$ 540

Statement of Financial Position (in \$000's)	As at	
	December 31 2011	December 31 2010
Cash and cash equivalents	\$ 4,716	\$ 540
Current assets	24,856	13,620
Total assets	92,145	58,418
Current liabilities	46,023	23,703
Total financial debt, including current portion <sup>1</sup>	36,520	18,410
Total liabilities	61,527	34,033
Shareholders' equity	30,618	24,386
<b>Statistics:</b>		
Working Capital <sup>2</sup>	(21,167)	(10,083)
Working Capital ratio <sup>3</sup>	0.54	0.57

1 - Includes current and long-term portions of operating line, bank loans, capital leases, customer advances and convertible debenture

2 - Current assets less current liabilities

3 - Current assets divided by current liabilities

#### Q1 2012 compared to Q1 2011 for liquidity and cash flows

At December 31, 2011, the Company had cash and cash equivalents of \$4.7 million and a working capital deficiency of \$21.2 million compared to cash and cash equivalents at September 30, 2011 of \$3.0 million and a working capital deficiency of \$23.1 million. Liquidity has improved in Q1 2012 due to positive cash flows from operations of \$6.0. Repayment of the bank operating loan was net \$1.7 million and repayments of capital leases and equipment loans were \$1.3 million.

The Company arranged a secured \$12.0 million Working Capital Loan with HSBC which was drawn down during Q1 2012, with the proceeds utilized to pay down trade payables. For the HSBC covenant calculations, the secured working capital loan of \$12.0 million and the convertible debentures of \$2.4 million are classified as equity.

Cash flow from operations was \$6.0 million for Q1 2012, an increase of \$14.9 million compared to a use of cash by operations of \$8.9 million for Q1 2011. The increase in cash flow from operations for Q1 2012 was due to revenues increased to \$26.4 million on the sale of 70,988 mtus with an average realized sales price of \$370.69/mtu (USD\$362.35/mtu) and cost of sales of \$247.78/mtu for a margin of \$114.57/mtu net of freight and royalties compared to sales of \$7.4 million for Q1 2011 from the sale of 36,373 mtus with an average realized sales price of \$202.56/mtu (USD\$200.50/mtu) and cost of sales of \$288.32/mtu for a negative margin of \$85.76/mtu net of freight and royalties.

Cash flow used in investing activities increased to \$12.7 million for Q1 2012 as the Company paid \$12.4 million for property, plant and equipment additions relating to the fiscal 2011 capital expenditure program, compared to \$3.3 million in Q1 2011. The property, plant and equipment additions were financed partially from operations and from the proceeds from the working capital loan which was used to pay down trade accounts payable.

Cash flow from financing activities was \$8.4 million for Q1 2012 compared to \$10.6 million for Q1 2011. During Q1 2012, the Company received proceeds of \$12.0 million from the working capital loan and paid down \$1.3 million in equipment loans and capital leases and paid down the bank operating line by net \$1.7 million. During Q1 2011 the Company received proceeds of \$2.6 million from an equity unit issuance, increased loans and capital leases by \$5.2 million and received \$2.9 million on the issuance of convertible debentures.



## Contractual Obligations

Contractual Obligations	Payments due in years ended September 30						
	2012 <sup>1</sup>	2013	2014	2015	2016	2017	TOTAL
Mactung leases	\$ 8	\$ 8	\$ 8	\$ 8	\$ 8	\$ 8	\$ 48
Cantung leases	18	43	43	43	43	43	\$ 233
Customer advances	2,066	3,051	-	-	-	-	\$ 5,117
Equipment loans	3,064	4,348	897	357	-	-	\$ 8,666
Capital leases	1,452	705	24	4	-	-	\$ 2,185
Office leases <sup>2</sup>	166	55	-	-	-	-	\$ 221
Mactung royalty agreement <sup>3</sup>	-	-	-	1,000	-	-	\$ 1,000
	<b>\$ 6,774</b>	<b>\$ 8,210</b>	<b>\$ 972</b>	<b>\$ 1,412</b>	<b>\$ 51</b>	<b>\$ 51</b>	<b>\$ 17,470</b>

1 - Figures in the 2012 column represent payments for the remainder of fiscal 2012.

2 - The office lease requires a monthly payment of \$18 thousand which includes estimated operating costs and expires on December 31, 2012.

3 - See note 10 for details of the Mactung royalty agreement requirements

The Company also has commitments of \$1.0 million relating to capital projects at December 31, 2011.

### 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 license is \$11.7 million, of which the Company has posted \$4.7 million in cash and \$7.0 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 1<sup>st</sup> of September, 1<sup>st</sup> of December, 1<sup>st</sup> of March, and 1<sup>st</sup> of June to reduce the amounts pledged under the promissory notes until \$nil is outstanding under the promissory notes;
- the cash components payable to Department of Indian and Northern Affairs ("DIAND") to increase under certain events.

Any security amounts owing under the license and monies owed by way of secured promissory notes are secured by a Security Agreement charging specific assets. Any funds in excess of ultimate reclamation costs will be returned to the Company.

During the three months ended December 31, 2011, the Company posted \$100 thousand of cash and reduced the posted secured promissory notes by \$100 thousand.

## OTHER INFORMATION

### Ore Reserves

#### Mactung Project

The "Amended Technical Report on the Mactung Property" Yukon Territories, Canada", dated April 3, 2009, was filed on May 18, 2010, on SEDAR and is available under the Company's profile at [www.sedar.com](http://www.sedar.com).

The Mactung Project is forecast to run at 2,000 tonnes per day from an underground operation using conventional long hole plus cut and fill mining methods. An underground primary crusher and conveyor will supply ore to the surface facility where the ore will be processed into both a premium gravity concentrate (67% WO<sub>3</sub>) and a flotation concentrate (55% WO<sub>3</sub>). Recovery of WO<sub>3</sub> is expected to average 81.7% and the mine will average 829,000 STU's of WO<sub>3</sub> in concentrates during its first five years of operation.

<b>Mactung Probable Mineral Reserves</b>			
<b>Zone</b>	<b>Tonnes</b>	<b>Grade (WO<sub>3</sub>%)</b>	<b>MTUs</b>
Upper 2B	8,588,000	1.13%	9,676,958
Lower 2B	2,202,000	1.42%	3,129,703
<b>Total Probable Reserves</b>	<b>10,790,000</b>	<b>1.19%</b>	<b>12,806,661</b>

Estimated using a mining cut-off grade of 0.616% WO<sub>3</sub>

Total indicated resources for the mineral deposit are 33.0 million tonnes grading 0.88% WO<sub>3</sub> (tungsten trioxide) with an additional 11.8 million tonnes grading 0.78% WO<sub>3</sub> in the inferred resource category. Underground indicated mineral reserves have been calculated to be 8.2 million tonnes grading 1.09% WO<sub>3</sub>. The project is based on an 11.2 year underground mine with the potential to expand the mine life by another 17 years with open pit exploitation of the near surface, lower grade mineral resources. This additional potential mine life would further enhance the project economics but it has not been included in the current bankable feasibility study.

<b>Indicated and Inferred Mineral Resource</b>			
<b>Classification</b>	<b>Tonnes</b>	<b>Grade (WO<sub>3</sub>%)</b>	<b>MTUs</b>
Indicated	33,029,000	0.88%	29,065,520
Inferred	11,857,000	0.78%	9,248,460
<b>Total Indicated and Inferred</b>	<b>44,886,000</b>	<b>0.85%</b>	<b>38,313,980</b>

#### Notes:

1. CIM definitions were followed for mineral resources.
2. Mineral resources are estimated at a block cut-off grade of 0.5% WO<sub>3</sub>.
3. A MTU is 10 kg WO<sub>3</sub>.
4. Differences in totals due to round.
5. There are no measured mineral resources in the estimates.

## Cantung Mine

An updated Technical Report on the Cantung mine was dated January 31, 2011, was filed on February 9, 2011 on SEDAR and is available under the Company's profile at [www.sedar.com](http://www.sedar.com).

The updated Mineral Reserves and Mineral Resources as of October 1, 2010 are summarized in Tables 1-1, 1-3 and 1-4.

**TABLE 1-1 CANTUNG PROBABLE MINERAL RESERVES**

Zone	Tons	Grade (WO <sub>3</sub> %)	STU'S
West Extension 3600 Area	553,432	1.47	813,650
E Zone Pillars	541,860	1.00	539,701
Pit Underground	598,162	1.05	627,986
<b>TOTAL Probable Reserves</b>	<b>1,693,454</b>	<b>1.17</b>	<b>1,981,337</b>

Notes:

1. Mineral Reserves conform to CIM and NI43-101 requirements.
2. All Mineral Reserves are classified as Probable.
3. Mineral Reserves are estimated at a cut-off grade of 0.80% WO<sub>3</sub>.
4. A minimum mining width of 15 feet was used.
5. The E Zone Pillars include the West Extension, E-Zone, Main Zone Pillars.

**TABLE 1-3 CANTUNG INDICATED MINERAL RESOURCES**

Zone	Tons	Grade (WO <sub>3</sub> %)	STU'S
West Extension Below 3700el	344,485	1.49	513,283
West Extension Below 3570el	305,324	1.46	445,773
West Extension	115,601	1.20	138,652
E-Zone	24,183	1.97	47,738
Main Zone Pillars	387,448	1.27	491,461
Central Flats	6,198	1.07	6,646
South Flats	38,990	1.64	64,079
Pit/PUG	1,230,580	0.83	1,021,381
<b>TOTAL Indicated Resources</b>	<b>2,452,809</b>	<b>1.11</b>	<b>2,729,013</b>

Notes:

1. Mineral Resources conform to CIM and NI43-101 requirements.
2. Mineral Resources are estimated at a cut-off grade of 0.5% WO<sub>3</sub> for underground as well as Pit and PUG
3. All Mineral Resources are listed as Indicated
4. Pit/PUG refers to Pit Underground

**TABLE 1-4 CANTUNG INFERRED MINERAL RESOURCES**

Zone	Tons	Grade (WO <sub>3</sub> %)	STU'S
West Extension Below 3700el	571	0.92	525
West Extension Below 3700el	15,371	1.15	17,677
Pit/PUG	417,323	0.83	346,378
<b>TOTAL Inferred Resources</b>	<b>433,265</b>	<b>0.84</b>	<b>364,580</b>

Notes:

1. Mineral Resources conform to CIM and NI43-101 requirements.
2. Mineral Resources are estimated at a cut-off grade of 0.5% WO<sub>3</sub> for underground as well as Pit and PUG
3. All Mineral Resources are listed as Inferred
4. Pit/PUG refers to Pit Underground

## Equity

<b>Outstanding Equity Securities</b>	<b>As of March 1, 2012</b>	<b>As of December 31, 2011</b>
<b>Common shares</b>	237,123,058	237,123,058
<b>Share options</b>	3,626,700	3,336,700
<b>Warrants</b>	14,750,000	14,750,000

At December 31, 2011, the Company had USD\$2.87 million of convertible debentures outstanding which expire on October 27, 2013. The holders of the convertible debentures can convert them to common shares at any time. If fully converted, the Company would be required to issue 6,506,290 common shares.

## Related Party Transactions

Accounts receivable from TDI as at December 31, 2011, was \$0.1 million (September 30, 2011 - \$nil million, October 1, 2010 - \$1.3 million).

A director of the Company guaranteed the issuance of a letter of credit for a fee of 10% per annum of the outstanding amount of the letter of credit relating to a customer advance. For the three months ended December 31, 2011, the Company paid \$61 thousand (three months ended December 31, 2010 - \$94) to the director in respect to the guarantee.

Directors of the Company participated directly and indirectly in the USD\$2.87 million convertible debenture financing as to USD\$1.37 million.

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

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

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

During the three months ended December 31, 2011, the Company paid \$190 thousand to the directors in respect to the letter of credit. A fee of \$12 thousand was paid to Queenwood, which has directors in common and common ownership interests in the Company, to arrange the letter of credit for the Company.

During the three months ended December 31, 2011, the Company paid \$82 thousand for professional and consulting fees to directors or companies related to director(s) (three months ended December 31, 2010 - \$38 thousand).

The above transactions were in the normal course of operations, occurring on terms and conditions that are similar to those of transactions with unrelated parties and were measured at the exchange amount.

## Off-Balance Sheet Arrangements

The Company is not a party to any off-balance sheet arrangements that have, or are reasonably likely to have, a current or future material effect on the Company's financial condition, changes in financial condition, revenues, expenses, results of operations, liquidity, capital expenditures or capital resources.

## Critical Accounting Estimates

The preparation of financial statements in conformity with IFRS requires management to make assumptions and estimates that affect the amounts reported in the financial statements and notes thereto. Financial results as determined by actual events could be different from those estimates. Significant areas requiring such estimates are depreciation, impairment analysis, stock based compensation, asset retirement obligations, inventory, life of mine assumptions and the composition of future income taxes. Although management believes the estimates used in preparing its financial statements are reasonable, actual results may be different from these estimates.

The significant accounting policies of the Company are described in Note 2 of the December 31, 2011, unaudited interim consolidated financial statements. The policies which the Company believes are the most critical to assist with understanding and evaluating its reported financial results include the following:

### Revenue recognition

Revenue is recognized when it is probable that the economic benefits will flow to the Company and delivery has occurred, the sales price is fixed or determinable, and collectability is reasonably assured. These criteria are generally met at the time the product is shipped and delivered to the customer and, depending on the delivery conditions, title and risk have passed to the customer and acceptance of the product, when contractually required, has been obtained.

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

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

See "Commodity Price Risk" in the Financial Instruments section of this MD&A for further explanation of the potential impact due to price fluctuations of commodities.

### Asset Impairment

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

### Inventories

Concentrate inventory is comprised of tungsten and copper concentrates. Intermediates comprise products that have been further upgraded to ammonium paratungstate (APT), tungsten blue oxide (TBO) and other tungsten products. Tungsten inventories include all direct costs incurred in production including labour, materials, cost of freight to the mine site, depreciation and attributable overhead costs of administration at the mine site. Net realizable value for intermediates and tungsten concentrate inventories is determined based on the Company's average realized tungsten sales price for the month.

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

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



Supplies inventory is valued at average cost.

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

#### **Asset Retirement Obligation**

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 balance sheet 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 included in finance costs.

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

At September 30, 2011, the Company reviewed the reclamation liability. The Company estimated that additional third party specialists would be utilized for the removal of hazardous waste and building materials from the site. The liability also increased for estimated costs relating to the control of water from underground facilities. The Company increased the estimated costs of erosion protection for tailings ponds and for post closure site monitoring activities. The Company discusses reclamation plans with regulators when there has been significant new mine developments and on an on-going basis with respect to the expectations of the types and levels of reclamation activities to be performed.

The Company's total undiscounted amount of estimated cash flows required to settle the Cantung mine reclamation obligation is \$8.0 million (September 30, 2010 - \$4.2 million) which has been discounted using a current market based pre-tax discount rate of 1.3% (September 30, 2010 – 1.9%). The majority of the reclamation work is estimated to commence during fiscal 2014 through fiscal 2016 but this timing could be deferred if the life of the mine is extended due to the discovery of additional reserves or due to the reprocessing of tailings. The reclamation obligation reflects the Company's best estimates of costs and timing of reclamation work. The estimated liability will be revised in the future for changes to the mine reclamation plan, changes in regulations and the on-going discussions with the regulators. Changes may become necessary as a result of continuing reviews of site conditions, estimated costs and contingencies provided and could result in increases or decreases in the amount of the provision.

Recent trends in regulatory expectations in Northern Canada are to require protection against catastrophic events possible within an extended and up to 1,000 year scenario; while monitoring activities are being extended in some cases to 30 years following closure of operations. Accordingly, the Company's updated reclamation plan reflects on-going discussions with regulators, provision for increased estimated costs to protect the river basin, to seal the underground mine complex and incorporates increased utilization of specialized contractors to handle the disposal of certain buildings.

The Company plans to carry out most reclamation work using its own organization. By contrast, the security posted under the water license is based on the mobilization and demobilization of third party crews to carry out all necessary work. Security posted in cash and secured promissory notes therefore exceeds the Company's cost estimate.

#### **Financial Instruments**

##### *Financial Assets and Liabilities*

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

Available-For-Sale financial assets are subsequently measured at fair value with unrealized gains and losses, including changes in foreign exchange rates, are recognized in other comprehensive income.

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

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
Accounts payable and accrued liabilities	Other Financial Liabilities
Bank operating and working capital loans	Other Financial Liabilities
Equipment loans	Other Financial Liabilities
Convertible debentures - interest bearing portion	Other Financial Liabilities
Other obligations	Other Financial Liabilities
Derivatives	Fair-Value-Through Profit or Loss

### *Financial Risk Factors*

#### **a. Fair value**

The Company has financial assets and liabilities which include cash and cash equivalents, reclamation deposits, accounts receivable, accounts payable, bank loans, equipment loans and capital leases and the interest bearing component of the convertible debenture, the carrying values of which approximate fair values.

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

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

#### **Categories of Financial Assets and Liabilities**

The fair value of all 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 fair values of the cash and cash equivalents, accounts receivable, reclamation deposits, accounts payable and accrued liabilities, bank operating loan, bank working capital loan and other obligations approximate their carrying values due to their short-term nature and high level of liquidity. The interest bearing portion of the convertible debenture and the equipment loans are carried at amortized cost which approximates the fair value of the liabilities.

#### **b. Risk exposure and risk management**

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

##### **i. Foreign Exchange Risk**

The Company operates on an international basis and therefore, foreign exchange risk exposures arise from transactions denominated in a foreign currency. The foreign exchange risk arises primarily with respect to the US dollar (“USD”). The cash flows from Canadian (“CND”) operations are exposed to foreign exchange risk as commodity sales are denominated in US dollars, and the majority of operating expenses are in Canadian dollars. For the three

months ended December 31, 2011, with other variables unchanged a \$0.01 strengthening (weakening) of the Canadian dollar against the US dollar would result in a decrease (increase) of \$0.3 million on net earnings.

#### ii. Credit Risk

The Company is exposed to credit-related losses in the event of non-performance by counterparties to the financial instruments. Credit exposure is minimized by dealing with only credit worthy counterparties and by having Economic Development Canada (“EDC”) insure the Company’s receivables from its primary customers for up to 90% of the total outstanding amounts. Accounts receivable for five of the primary customers totalled \$7.8 million at December 31, 2011 (September 30, 2011 – four customers totalled \$6.9 million), all of which is current (see Note 18).

The maximum exposure of the Company to credit risk is represented by the amounts shown in the balance sheet for cash and cash equivalents and accounts receivable. Cash and cash equivalents are deposited with a Tier-1, high credit quality financial institution, as determined by ratings agencies.

#### iii. Interest Rate Risk

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

At December 31, 2011, \$0.03 million (September 30, 2011 - \$0.03 million) of guarantee investment certificates carried floating interest rates of under 1.0%. For financial liabilities, interest is payable on the equipment loans and capital leases, with interest rates ranging from 4.50% to 16.00%. \$5.4 million of the equipment loans carry rates of Bank Prime + from 1.75% to 3.75%. HSBC bank financing carry rates of Bank Prime + from 0.25% to 2.0% (see Note 14)..

As at December 31, 2011, with other variables unchanged, a 1.0% increase in the HSBC Bank prime rate would decrease net earnings by \$0.2 million for the period.

#### iv. Liquidity Risk

The Company manages liquidity risk by maintaining adequate cash and cash equivalent balances and by appropriately utilizing lines of credit. Management continuously monitors and reviews both actual and forecasted cash flows and also matches the maturity profile of financial assets and liabilities. The Company ensures that there is sufficient capital in order to meet short-term business requirements, after taking into account cash flows from operations and the Company’s holdings of cash and cash equivalents. The Company’s cash and cash equivalents are invested in bank accounts and bankers’ acceptances which are available on demand for the Company’s programs. Additional information regarding liquidity risk is disclosed in Note 1 and Note 14. The Company’s contractual obligations are disclosed in Note 18.

#### v. Commodity Price Risk

The value of the Company’s mineral resource properties is related to the price of tungsten. The Company does not have any hedging or other commodity based risks respecting its operations.

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

For the three months ended December 31, 2011, with other variables unchanged, a USD\$10 increase or decrease in the realized price per MTU (Metric tonne unit) of tungsten concentrate would increase (decrease) net earnings by \$0.7 million based on the sales volume for the period. The Company has not hedged any of its sales and has not entered into forward sales contracts with fixed tungsten concentrate prices.

## Capital Management

The Company defines its capital as shareholders' equity, consisting of share capital, convertible debentures, contributed surplus, short term and long term debt. The Company's objectives when managing its capital are:

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

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

Additional information regarding capital management is disclosed in Note 1 to the financial statements. Long term debt covenants which could restrict the Company's capital management options are disclosed in Note 14 to the financial statements.

## International financial reporting standards ("IFRS")

The Canadian Accounting Standards Board ("AcSB") announced that 2011 is the changeover date for publicly accountable enterprises to use IFRS, replacing Canada's own GAAP. The changeover was effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The three months ended December 31, 2011, is the first reporting period under IFRS.

Full disclosure of the Company's accounting policies in accordance with IFRS can be found in Notes 2 to those financial statements. Those financial statements also include reconciliations of the previously disclosed comparative periods financial statements prepared in accordance with Canadian generally accepted accounting principles to IFRS as set out in Note 29.

The interim consolidated financial statements should be read in conjunction with the Canadian GAAP annual financial statements for the year ended September 30, 2011. Note 29 disclose IFRS information for the year ended September 30, 2011, that is material to the understanding of these consolidated interim financial statements.

## First-time Adoption Exemptions Applied

IFRS 1, which governs the first-time adoption of IFRS, generally requires accounting policies to be applied retrospectively to determine the opening statement of financial position on our transition date of October 1, 2010 and allows certain elective exemptions from retrospective application on the transition to IFRS. The elections the Company has chosen to apply and that are considered significant to the Company include decisions to:

- Not restate previous business combinations and the accounting thereof under "IFRS 3 - Business Combinations";
- Not apply "IFRS 2 - Share-based Payments" to liabilities arising from share-based payment transactions that had vested before October 1, 2010;
- Apply "IFRIC 1 - Changes in Existing Decommissioning, Restoration and Similar Liabilities" as of the date of transition to IFRS. IFRIC 1 requires specified changes in decommissioning, restoration or similar liabilities to be added to or deducted from the cost of the asset to which it relates and the adjusted depreciable amount of the asset to then be depreciated prospectively over its remaining useful life;
- Apply the requirements of "IAS 23 -Borrowing Costs" to capitalize borrowing costs on qualifying assets effective October 1, 2010; and
- Apply the "IAS 21 - The Effect of Changes in Foreign Exchange Rates" election to reset the cumulative translation adjustment reserve for all foreign operations to zero at October 1, 2010; and
- Apply the "IAS 17 – Leases" election which allows entities to determine whether an arrangement contains a lease based on the facts and circumstances at the transition date rather than at the lease inception date.

## Explanation of the Adjustments between Canadian GAAP to IFRS

The following paragraphs explain the significant differences between Canadian GAAP and the current IFRS accounting policies applied by the Company. These differences result in the adjustments in the reconciliations above.

### i. Reclamation liabilities

The adjustment on transition to IFRS measures the reclamation liabilities in accordance with IAS 37, Provisions, Contingent Liabilities and Contingent Assets. The Company applied the IFRS 1 exemption to not retrospectively apply IFRIC 1, Changes in Existing Decommissioning, Restoration and Similar Liabilities. This optional exemption allowed the Company to apply a short-cut method and record an adjustment for the opening depreciated cost of the decommissioning and restoration asset under IFRS on transition. Under IFRS, the reclamation liability is required to be recalculated using a period ending discount rate at each reporting period. The change in the discount rate is adjusted through the reclamation asset and liability. Accordingly, at October 1, 2010, and December 31, 2010, no adjustment was required due to assumptions and discount rates under CND GAAP being immaterially different from the assumptions required by IFRS. At September 30, 2011, the Company recorded an adjustment to increase the reclamation asset relating to the Cantung Mine by \$0.66 million with an offsetting increase the reclamation liability by \$0.66 million. With the adjustment to the reclamation asset occurring on September 30, 2011, there is no impact to the Statement of Comprehensive Income for the year ended September 30, 2011.

### ii. Current portion of loans and capital leases

As detailed in Note 14, the Company has a credit facility with HSBC which contained debt covenants. The Company acknowledged a breach of the net tangible worth ratio and the current assets to current liabilities ratio during the 1st quarter of fiscal 2011 and HSBC provided a waiver of the breach subsequent to December 31, 2010. Under IFRS, a covenant breach that provides the lender the right to demand repayment of the loan that is not remedied prior to the reporting date requires that the entire amount of the affected loan be classified as a current liability until the default is remedied. As such, the \$182 thousand long-term portion of the equipment loans has been classified as current at October 1, 2010 and \$3.7 million at December 31, 2010.

### iii. Convertible debenture

Under CND GAAP, the debenture had been classified into the debt and equity components using the credit adjusted rate. The carrying amount of the financial liability was first determined by discounting the stream of future principal and interest payments at the rate of interest (12.5%) prevailing at the date of issue for instruments of similar term and risk. The equity component equalled the amount determined by deducting from the carrying amount of the compound instrument the amount of the debt component. For accounting purposes, the debt component was assigned a value of \$2.744 million (USD\$2.693 million) and the conversion rights were assigned a value of \$0.181 million (USD\$0.177 million).

Note 12 details the accounting treatment for the Convertible Debenture under IFRS, with the conversion feature treated as an embedded derivative (liability) and fair valued at inception and the residual allocated to the interest bearing portion of the liability. In addition, when a conversion feature allows the holder to convert the financial liability at the holder's option without any restriction, this is the equivalent of the liability being due on demand and as such the amount of the financial liability that can be converted is classified as a current liability.

As the convertible debenture was not issued until October 28, 2010, there is no impact to the October 1, 2010, opening IFRS Statement of Financial Position. At December 31, 2010, in the IFRS Statement of Financial Position, current liabilities increased by \$2.8 million, long-term liabilities decreased by \$2.7 million and equity decreased by \$0.2 million. For the three months ended December 31, 2010, in the Statement of Comprehensive Income, accretion increased by \$75 thousand, foreign exchange gain decreased by \$41 thousand and \$32 thousand of transaction costs were capitalized into the determination of the fair value of the convertible debenture, a gain on revaluation of the derivative liability of \$124 thousand was recognized with the net comprehensive loss decreasing by \$40 thousand. At September 30, 2011, in the IFRS Statement of Financial Position, current liabilities increased by \$2.5 million, long-term liabilities decreased by \$2.9 million and equity decreased by \$0.2 million. For the year ended September 30, 2011, in the Statement of Comprehensive Income, accretion increased by \$401 thousand, foreign exchange gain increased by \$39 thousand and \$32 thousand of transaction costs were capitalized into the determination of the fair value of the convertible debenture, a gain on revaluation of the derivative liability of \$614 thousand was recognized with the net comprehensive loss decreasing by \$614 thousand

iv. Share capital

Under CND GAAP, the Company issued flow-through shares prior to the date of transition to IFRS. Under CND GAAP, the flow-through shares were recognized in share capital at the issuance price. When the tax benefits of the exploration expenditures are renounced to the flow-through shareholders, the Company recognizes a reduction of share capital for the renounced tax assets at the applicable tax rate.

Under IFRS, the flow-through shares are recognized into share capital at the closing price on the date of issuance with the premium paid for the flow-through shares recognized as a liability. When the tax benefits of the exploration expenditures are renounced to the flow-through shareholders, the Company recognizes a deferred income tax expense in the Statement of Comprehensive Income with the offset to Deferred Income Taxes on the Statement of Financial Position.

As the flow-through share issuances and renouncements occurred prior to the date of transition to IFRS, the impact that would have occurred in the Statement of Comprehensive Income is recognized in the opening Deficit in the Statement of Financial Position. At October 1, 2010, the Company recognized an increase to share capital of \$561 thousand with an increase in the deficit of \$561 thousand.

v. Accumulated Other Comprehensive Income (“AOCI”)

Under CND GAAP, stand-alone foreign subsidiaries are translated into the Parent’s functional currency using the temporal method where monetary items are translated at the closing rate, non-monetary items and equity are translated at historical rates and net income is translated at the average rate.

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

Due to the different methodologies, the Company foreign operations were retranslated at October 1, 2010, and under the IFRS 1 election for “IAS 21 - The Effect of Changes in Foreign Exchange Rates”, the Company elected to reset the cumulative translation adjustment reserve for all foreign operations to zero at October 1, 2010. The net effect was to reduce the carrying value of the Investment in TDI by \$1.1 million and to increase the opening deficit by \$1.1 million. For the three months ended December 31, 2010, the effect was to reduce the Investment in TDI by \$1.3 million, recognize a CTA of \$133 thousand and a net reduction to the deficit of \$1.1 million. For the year ended September 30, 2011, the effect was to reduce the Investment in TDI by \$382 thousand with a net reduction to the deficit of \$400 thousand. In addition, for the year ended September 30, 2011, TDI recorded a net loss of USD\$10.3 million which included impairment provisions totalling USD\$9.0 million in respect of property, equipment, licenses and patents. Under CND GAAP, the Company’s share was to record as an equity loss of \$5.3 million which reduced its net investment in TDI to \$0.95 million. Due to the change in methodologies under IFRS, the Company’s share of the equity loss was reduced by \$750 thousand to \$4.6 million which reduced its net investment in TDI to \$0.6 million.

The Company incurred in excess of \$60 thousand relating to the transition to IFRS.

**CAUTION ON FORWARD-LOOKING INFORMATION**

Certain of the statements made and information contained herein is “forward-looking information” within the meaning of the Ontario Securities Act. Forward-looking statements are subject to a variety of risks and uncertainties which could cause actual events or results to differ from those reflected in the forward-looking statements, including, without limitation, risks and uncertainties relating to foreign currency fluctuations; risks inherent in mining including environmental hazards, industrial accidents, unusual or unexpected geological formations, ground control problems and flooding; risks associated with the estimation of mineral resources and reserves and the geology, grade and continuity of mineral deposits; the possibility that future exploration, development or mining results will not be consistent with the Company’s expectations; the potential for and effects of labour disputes or other unanticipated difficulties with or shortages of labour or interruptions in production; actual ore mined varying from estimates of grade, tonnage, dilution and metallurgical and other characteristics; the inherent uncertainty of production and cost estimates and the potential for unexpected costs and expenses, commodity price

fluctuations; uncertain political and economic environments; changes in laws or policies, delays or the inability to obtain necessary governmental permits; and other risks and uncertainties, including those described under Risk Factors Relating to the Company's Business in the Company's Annual Information Form and in each management discussion and analysis. Forward-looking information is in addition based on various assumptions including, without limitation, the expectations and beliefs of management, the assumed long term price of tungsten and copper; that the Company can access financing, appropriate equipment and sufficient labour and that the political environment where the Company operates will continue to support the development and operation of mining projects. Should one or more of these risks and uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those described in forward-looking statements. Accordingly, readers are advised not to place undue reliance on forward-looking statements.

## **NON-IFRS MEASURERS**

Throughout this document, we have provided measures prepared in accordance with IFRS, as well as some non-IFRS performance measures as additional information for users of the stakeholders who also use them to evaluate our performance.

Since there is no standard method for calculating non-IFRS measures, they are not a reliable way to compare us against other companies. Non-IFRS measures should be used along with other performance measures prepared in accordance with IFRS. We have defined our non-IFRS measures in the tables where they are presented and reconciled them with the IFRS measures we report.

These measures may differ from those used by other companies and may not be directly comparable to such measures as reported by other companies. We disclose these measures, which have been derived from our financial statements and applied on a consistent basis, because we believe they are of assistance in understanding the results of our operations and financial position and are meant to provide further information about our financial results to stakeholders.

## **RISK AND UNCERTAINTIES**

The Company operates in the mining industry which is subject to numerous significant risks.

### **Risks Associated with Loan Agreements**

The Company's HSBC loan agreement contains financial covenants. At December 31, 2011, the Company was not in breach of the covenants. It is management's opinion that the revised covenants are achievable based on the current planned levels of production and tungsten prices.

There can be no assurance that going forward the Company will be able to stay within the financial covenants due to the other risks disclosed below. In addition, if the Company breached the covenants, there is no assurance that HSBC would not demand repayment of the outstanding loan balances.

### **Risks associated with the Cantung mine**

In recent years of operations, the Cantung mine has successfully added more tons to its ore reserves than have been extracted by mining. It is uncertain if, or for how long, it will be able to add new economic ore reserves in the future, but it is certain that the mine has a limited life. There are uncertainties in planning the operation of the mine in the years remaining and projecting expected results. Significant capital investments are required to develop ore reserves and construct tailings impoundment facilities which may require additional funding.

The revenues and operations of the Cantung mine are subject to effects of tungsten price volatility; change in exchange rates, production risks and other risks inherent in the mining and metals business as described in the Company's Annual Information Form.

### **Risks associated with the Mactung project**

There can be no assurance that development or construction activities at the Mactung project will commence in accordance with current expectations or at all.

Risks include: capital outlays and returns on invested funds that may be expected; risks that regulatory approvals may not be granted or may be delayed; risks that adequate financing may not be available on reasonable terms; risks that a down cycle will affect metal prices including tungsten; and other risks inherent to the mining and metals business as described in the Company's Annual Information Form.

**Risks associated with Ore Reserves and Resources**

Readers are advised to refer to the independent technical reports for detailed information on the Company's material properties. Those technical reports provide the date of each reserve and resource estimate, details of the key assumptions, methods and parameters used in the estimates, details of quality and grade or quality of the reserve and a general discussion of the extent to which the estimate may be materially affected by any known environmental, permitting, legal, taxation, socio-political, marketing, or other relevant issues. The technical reports also provide information with respect to data verification in the estimation.

**Risks associated with Tungsten Diversified Industries**

As a result of the reorganization on December 9, 2008 of Tungsten Diversified Industries, LLC ("TDI"), the Company's interest was diluted from 100% to 43.2%. The remaining 56.8% is held by Tundra Particle Technologies, LLC ("Tundra") (43.2%) and Queenwood Capital Partners LLC ("Queenwood") (13.6%). Tundra has common ownership interests with the Company and Queenwood has a director in common and common ownership interests in the Company. The Company's interest in TDI is accounted for under the equity method.

For the year ended September 30, 2011, TDI recorded a net loss of USD\$10.3 million which included impairment provisions totalling USD\$9.0 million in respect of property, equipment, licenses and patents. The impairment reflected the absence of additional funds required to develop its business and the need for a long-term supply contract for tungsten feedstock. The Company's share is recorded as an equity loss of \$4.6 million which reduced its net investment in TDI to \$0.58 million. The Company continues to regard this investment as important for its long-term strategy of forward integration into down-stream products. The Company reviewed the Investment in TDI for indicators of further impairment at September 30, 2011 and determined that the investment at \$0.58 million is not impaired.

There is risk that the TDI will not eventually develop full scale operations integrated with those of the Company.

**Tungsten Price Volatility**

The profitability of the Company's operation is significantly affected by changes in the tungsten price. The tungsten price can fluctuate widely and is affected by numerous factors beyond the Company's control including market demand, inflation and expectations with respect to the rate of inflation, international economic and political trends, currency exchange fluctuations, new mine developments, governmental stockpile policies, duties and regulations affecting international trade.

If tungsten prices were to decline significantly or for an extended period of time, the Company might be unable to continue its operations, develop its properties, nor fulfill its obligations under its permits and licenses. As a result, the Company might lose its interest in, or be forced to sell some of its properties. At present, the outlook for tungsten prices is relatively strong; however cyclical movements must be expected.

**Currency Fluctuations**

The Company maintains its accounts in Canadian currency and most of its costs are denominated in that currency. The Company's tungsten concentrate is sold in United States dollars ("USD") and the Company is subject to fluctuations in the rates of currency exchange between United States dollars and the Canadian dollars. Due to currency fluctuations, construction, development and other costs may also be higher than the Company anticipates. The Company has facilities in place to hedge a portion of its cash flows against currency exchange risks. A five percent change in Canadian dollar in relation to the US dollar prices would have a significant impact under full production conditions.

The Company has assets in the United States and may, in future, acquire properties in other countries. Foreign operations will be subject to foreign currency fluctuations and such fluctuations may materially affect the Company's financial position and results.



## Glossary of Terms

APT	Ammonium paratungstate is an intermediate product which is one of the principal chemical forms in which tungsten is traded
Capex	Capital expenditure requirement to develop a project
Concentrates	The valuable fraction of an ore that is left after waste material is removed in processing
Cu	Copper
MB	Metal Bulletin of London that issues high and low quotations for APT (as well as various other metals) on a frequent basis
MTU	Metric tonne unit of 1 percent of a metric tonne (22.046 pounds) of contained $WO_3$
NPV	Net present value
Scheelite	A brown tetragonal mineral, $CaWO_4$ . It is found in pneumatolytic veins associated with quartz, and fluoresces to show a blue color. Scheelite is a mineral of tungsten
STU	Short ton unit is 20 pounds of $WO_3$ contained in concentrate
TBO	Tungsten blue oxide is a finely divided blue-violet crystalline powder used primarily for the production of tungsten metal powder and tungsten carbide
Ton	An imperial unit equal to 2,000 pounds
Tonne	A metric unit equal to 2,204.6 pounds (1,000 kilograms)
Tungsten concentrates	Concentrates generally containing between 40 and 75 percent $WO_3$
W	The elemental symbol for tungsten
West Extension	A continuation (down dip and to the west) of the main E-Zone ore body
$WO_3$	Tungsten tri-oxide (containing 79.33% W) a compound of tungsten and oxygen