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MANAGEMENT DISCUSSION AND ANALYSIS Q2 2012
FOR THE THREE AND SIX MONTHS ENDED MARCH 31, 2012

This discussion and analysis of financial position and results of operations of North American Tungsten Corporation Ltd. (the "Company"), the "Management Discussion and Analysis" (MD&A), is prepared as of May 14, 2012, and should be read in conjunction with the unaudited interim consolidated financial statements for the three and six months ended March 31, 2012 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. and compares the Company's financial results for the quarter ended March 31, 2012 (Q2 2012) with those of the quarter ended March 31, 2011 (Q2 2011). It similarly reviews results for the six months ended March 31, 2012 (H1 2012) with those of the six months ended March 31, 2011 (H1 2011). Additional information relating to the Company including its Annual Information Filing is available on SEDAR at www.sedar.com. The Company's common shares are listed on the TSX Venture Exchange (symbol: NTC) and the Company has share purchase warrants that 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 operating mine in the Northwest Territories; the Mactung mineral property on the border of the Yukon Territory and the Northwest Territories; and other exploration prospects.

The March 31, 2012 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 relating to periods after September 30, 2010, have been restated in accordance with IFRS. All periods prior to there 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 discloses the Company's significant accounting policies. All $ figures in the tables 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

Following excellent results in Q1 2012, the Company's operations continued to be profitable in Q2 2012. Net income for H1 2012 was $9.1 million, an improvement of $21.4 million over the same period last year when the Company was in ramp up mode following restart. Key highlights and comments are as follows:

- Earnings for H1 2012 have been strong but trended down in Q2
  - *net income was $2.5 million in Q2 2012 and $9.1 million in H1 2012*
  - *sales revenues and realized sales prices were strong and rising through* H1 2012
  - *revenues were $33.4 million in Q2 2012 and $59.8 million in H1 2012*
  - *tungsten sales revenues averaged $378/mtu in Q2 2012 and $371/mtu in H1 2012*
  - *the previous lag in realizing increased market prices is now eliminated*

- Amortization and depreciation increased in Q2 2012, negatively impacting net earnings
  - *amortization recorded was $5.1 million in Q2 2012 and $8.2 million in H1 2012*
  - *depreciation is higher for ore from the West Extension development*
  - *it is an objective to increase West Extension resources and reduce amortization unit costs by 2013*

- Costs of mining increased in Q2 2012
  - *higher cost contract mining increased in Q2 but will be phased out after Q3*
  - *due to distance, the cost of transportation from the West Extension zones is higher*

- EBITDA remains strong
  - *EBITDA is a non-IFRS measure, see" Summary of Financial Results"*
  - *EBITDA was $8.8 million in Q2 2012 and $19.3 million in H1 2012*

- Operating cash flows are substantial
  - *operating cash flows were $8.4 million in Q2 2012 and $14.5 million in H1 2012*

- Capital outlays remain high
  - *Cantung outlays were $5.7 million in Q2 2012 and $18.1 million in H1 2012*
  - *the current improvement program will be largely completed in Q3 2012*
  - *construction of additional tailings storage will be undertaken in H2 2012*

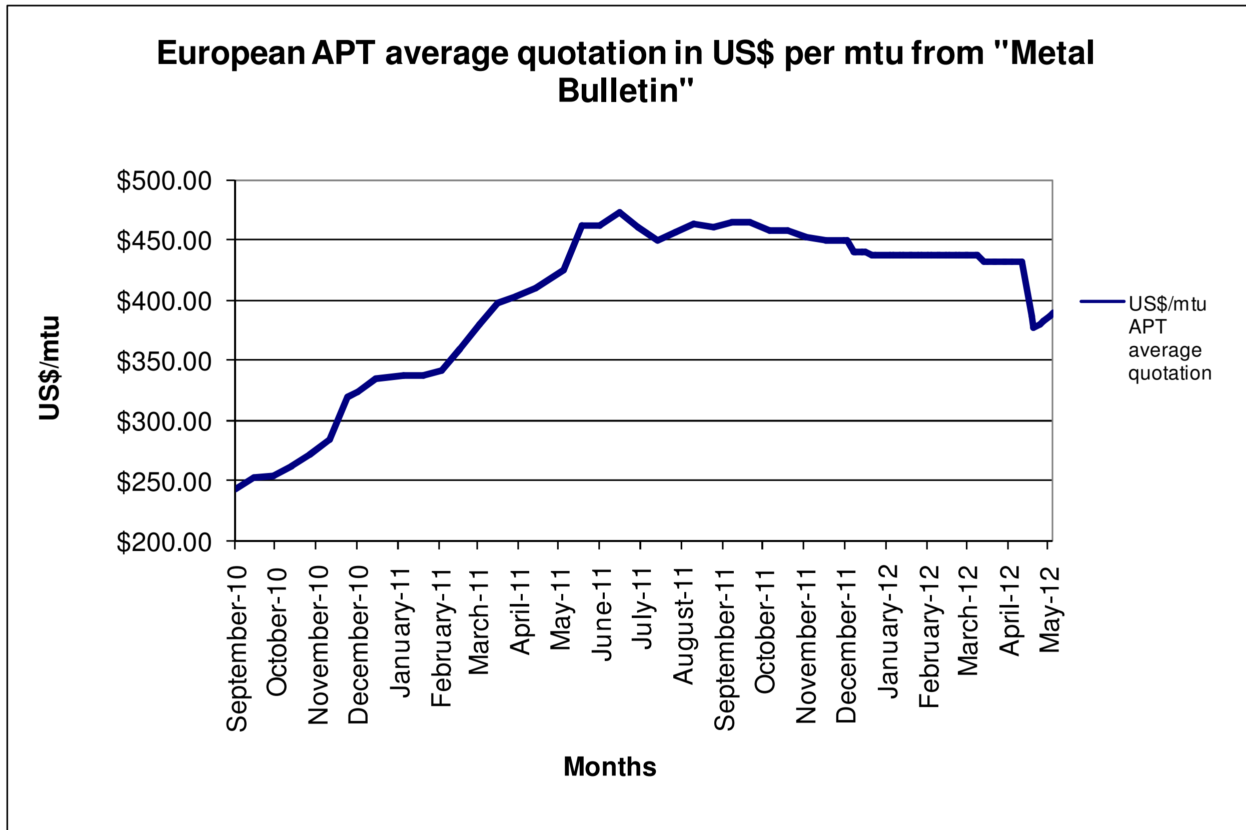
- Debt outstanding has increased
  - *bank loans increased by $4.4 million in Q2 2012 and $14.7 million in H1 2012*
  - *net repayments on equipment loans and capital leases were $1.3 million in Q2 2012 and $2.7 million in H1 2012*

- Cash and cash equivalents totalled $9.4 million at March 31, 2012

Cantung milled an average of 922 tonnes per day in Q2 and 942 tonnes per day in H1 2012. The feed grade averaged 1.12% WO_3 in both Q2 and H1; while the recovery averaged 76.0% in Q2 and 76.6% in H1 2012. Nonetheless, on a daily and monthly basis there is significant variability in the tonnes, grade and recovery. Significant fluctuations in monthly and quarterly results must be expected until development of additional zones provides more flexibility in mining.

TUNGSTEN PRICE

The average Metal Bulletin ammonium paratungstate ("APT") European Free Market Quotation in US dollars ("USD") was USD$432.50/mtu at March 31, 2012 and is USD$390.00/mtu at May 14, 2012.



- Prices forecast for APT from Roskill Information Services "Tungsten: Market Outlook to 2016, 10th edition 2011", are between USD$350/mtu and USD$440/mtu through 2016 and take into account growing demand and anticipated new sources of supply coming into the market.
- Quotations for APT had flattened into a range between USD$455.00/mtu to USD$430.00/mtu during H1 2012. In April 2012, the average quotation declined to a low of $377.50/mtu and then recovered to $390/mtu. The Company expects that APT quotations will remain strong for 2012 and 2013 due to strong demand and limited near term supply.
- During Q2 2012, the Company's average sales realization per mtu was over 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$378.19/mtu during Q2 2012 and was USD$261.25/mtu in fiscal 2011 as compared to the average APT quotation for Q2 2012 of USD$436.35 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).

OPERATIONS

Cantung Mine

Consistent with the Q1 2012 production results, the Q2 2012 production was above plan. There were 71,729 mtus produced in Q2 2012 compared to 76,628 mtus in Q1 2012. 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. The mill processed 172,000 tonnes of ore with an average grade of 1.12% WO_3 at an average mill recovery of 76.6% during the winter period (Q1 and Q2 2012).

Capacity, efficiency, ventilation and underground access were improved in 2011 and are continuing to be improved with the 2012 capital programs. Results in 2012 should 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 has increased reliability and efficiency.
- 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 and should be complete by the end of the 3rd quarter.
- New ventilation access have 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. The project should be completed by the end of the 3rd quarter.
- 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 majority of the underground program, during the quarter focused on the Amber Zone. Secondary targets include an area off the 3950 Main Haulage.
- Feasibility and laboratory work has commenced on the viability of a full scale Tailings Recovery Program for the recovery of the tailings stored in TP3 & TP4. A preliminary Capital Project Scope has been determined and areas have been investigated for final tailings storage.

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.

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 was expected to be completed by March 2012 but the YESAB requested an extension to July 2012. The

Company has ramped up the water quality sampling with samples now being collected monthly in order to have the required data for the water license application that will follow the YESAA report.

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. Net cash flows from operations have been positive in fiscal 2012. Provided planned levels of production can be achieved and the market price for tungsten remains strong for fiscal 2012, the Company's liquidity position should benefit; however, there are significant factors that may impact liquidity. These include the possible level of future capital spending for the Mactung project and outlays required at the Cantung mine particularly for tailings management and storage. Cash to be generated from future Cantung operations will be subject to the various risks associated with mining and, for the immediate future, increased risks of fluctuating output. Cantung will have little flexibility in selecting ore to be mined until completion of development of the West Extension and the possible addition of other minable zones.

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.

By agreement with the Company's bank ("HSBC"), drawings under the operating loan facility exceed the former $8.0 million nominal amount of the facility. At March 31, 2012, $11.2 million had been drawn.

Subsequent to Q2 2012, the Company negotiated with HSBC to increase the operating loan from $8.0 million to $12.0 million. In addition, HSBC agreed to accept interest only payments from April 30, 2012 to September 30, 2012 on two of the equipment loans, with the deferred principal repayments (totalling $1.4 million) added to the remaining amortization term of the loans.

SUMMARIZED FINANCIAL RESULTS

Operating highlights	Six Months Ended March 31, 2012	Three Months Ended March 31, 2012	Three Months Ended December 31, 2011
Tonnes Milled	172,377	83,917	88,460
Feed Grade %	1.12	1.12	1.12
Recovery%	76.6	76.0	77.4
Tungsten concentrate produced (mtu's)	148,357	71,729	76,628
Tungsten concentrate sold (mtu's)	153,850	82,861	70,989
Average realized sales price $US/mtu	$ 370.88	$ 378.19	$ 362.35
Costs of sales per mtu[1]	$ 289.79	$ 325.79	$ 247.77
Copper sold (lbs)	491,318	491,318	-
Copper revenue	$ 1,999	$ 1,999	$ -
Quarterly average $US foreign exchange rate (US$1 to CDN)	$ 1.0104	$ 1.0001	$ 1.0230
Financial Data (in $000's)			
Revenues	$ 59,829	$ 33,407	$ 26,422
Mine site cost of sales:			
Mine	14,256	8,140	6,116
Mill	5,433	2,647	2,786
Power generation and surface maintenance	8,816	4,523	4,293
Site administration and environmental	6,460	3,302	3,158
Subtotal	34,965	18,612	16,353
Inventory change, adjustments and write-downs	1,454	3,233	(1,779)
Amortization and depreciation	8,165	5,150	3,015
Mine site cost of sales	44,584	26,995	17,589
Freight, handling and conversion	1,189	782	407
Royalties	586	326	260
Other costs	1,775	1,108	667
Gross margin[2]	$ 13,470	$ 5,304	$ 8,166
Net income (loss)	$ 9,115	$ 2,522	$ 6,593
EBITDA[3]	$ 19,294	$ 8,752	$ 10,542

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 on care and maintenance for the period from October 18, 2009 to the restart on October 7, 2010. During Q1 2011 operations were ramping up but there were issues and disruptions. These issues negatively affected the results for Q1 2011 and Q2 2011. For Q1 2012 and Q2 2012, the mine was in full production, and as such, comparison of the results to Q1 2011 andQ2 2011 may not be meaningful.

Three months ended Q2 2012 compared to Q2 2011 for revenue and cost of goods sold
Net income for Q2 2012 was $2.5 million or $0.01 per share (basic and diluted), compared to a net loss of $8.0 million or ($0.04) per share in Q2 2011. The net income for Q2 2012 was impacted by the following factors:

- Revenues increased to $33.4 million on the sale of 82,861 mtus with an average realized sales price of $378.23/mtu (USD$378.19/mtu) and cost of sales of $325.79/mtu for a margin of $52.44/mtu net of freight and royalties compared to $11.4 million for Q2 2011 on the sale of 50,834 mtus with an average realized sales price of $231.22/mtu (USD$228.17/mtu) and cost of sales of $343.73/mtu for a negative margin of $112.51/mtu net of freight and royalties. Included in the revenue of $33.4 million was $2.0 million for the sale of 491,318lbs of copper which is a by-product of the tungsten mining compared to no copper sales in the three months ended March 31, 2011.
- During Q2 2012, changes in sales contracts resulted in 13,394 additional mtus recognized as sold for Q2 2012 ($5.2 million of revenue).
- Tungsten concentrate production for Q2 2012 was 71,729 mtus from a mill feed of 83,917 tonnes with an average grade of 1.12% WO_3 and average mill recovery of 76.0% compared to production of 43,728 mtus from a mill feed of 76,980 tonnes with an average grade of 0.85% WO_3 and average mill recovery of 73.4%.
- Mine operating costs increased to $18.6 million in Q2 2012 from $16.0 million in Q2 2011. During Q2 2012 more contract mining occurred than in Q2 2011 and fuel costs were $1.0 million higher in Q2 2012 compared to Q2 2011 due partially to weather and increased power requirements.
- Basic and diluted earnings per share was $0.01 for the period compared to ($0.04) for Q2 2011.

Three months ended Q2 2012 compared to Q1 2012 for revenue and cost of goods sold
Net income for Q2 2012 was $2.5 million or $0.01 per share (basic and diluted), compared to a net income of $6.6 million or $0.03 per share in Q1 2012. The net income for Q2 2012 was impacted by the following factors:

- Revenues increased to $33.4 million on the sale of 82,861 mtus with an average realized sales price of $378.23/mtu (USD$378.19/mtu) and cost of sales of $325.79/mtu for a margin of $52.44/mtu net of freight and royalties compared 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 $247.77/mtu for a margin of $122.92/mtu net of freight and royalties. Included in the revenue of $33.4 million was $2.0 million for the sale of 491,318lbs of copper which is a by-product of the tungsten mining compared to no copper sales in the three months ended March 31, 2011.
- During Q2 2012, changes in sales contracts resulted in 13,394 additional mtus recognized as sold for Q2 2012 ($5.2 million of revenue).
- Gross margin decreased as cost of goods sold for Q2 2012 increased to $325.79/mtu compared to $247.77/mtu for Q1 2012. The increase in cost of goods sold is mainly due to production costs from the 3600 level being higher than from the upper levels of the mine and during Q2 2012, production was primarily from the 3600 level and below. In addition, depreciation and amortization for Q2 2012 increased to $5.2 million from $3.0 million in Q1 2012 due to the increased production from the 3600 level which has a higher capitalized cost per mtu than the higher areas of the mine. Underground diamond definition drilling will continue during the year with the intention to expand the reserves of the mine, which in turn will reduce the depreciation cost per mtu produced from the 3600 level and below.
- Mine costs increased to $8.1 million in Q2 2012 from $6.1 million in Q1 2012. During Q2 2012 more contract mining occurred than in Q1 2012, that has a higher cost and which will be phased out after Q3 2012.

Six months ended March 31, 2012 compared to six months ended March 31, 2011 for revenue and cost of goods sold
Net income for the six months ended March 31, 2012 was $9.1 million or $0.04 per share (basic and diluted), compared to a net loss of $12.3 million or ($0.06) per share for the six months ended March 31, 2011. The net income for the six months ended March 31, 2012 was impacted by the following factors:

- Revenues increased to $59.8 million on the sale of 153,850 mtus with an average realized sales price of $374.75/mtu (USD$370.88/mtu) and cost of sales of $289.79/mtu for a margin of $84.96/mtu net of freight and royalties for the six months ended March 31, 2012 compared to $18.8 million on the sale of 87,217 mtus with an average realized sales

price of $214.66/mtu (USD$214.34/mtu) and cost of sales of $320.61/mtu for a negative margin of $105.95/mtu net of freight and royalties for the six months ended March 31, 2011. Included in the revenue of $59.8 million was $2.0 million for the sale of 491,318lbs of copper which is a by-product of the tungsten mining compared to no copper sales in the six months ended March 31, 2011.

- Tungsten concentrate production for the six months ended March 31, 2012 was 148,357 mtus from a mill feed of 172,377 tonnes with an average grade of 1.12% WO_3 and average mill recovery of 76.6% compared to production of 96,700 mtus from a mill feed of 155,923 tonnes with an average grade of 0.94% WO_3 and average mill recovery of 72.7%.
- Basic and diluted earnings per share was $0.04 for the period compared to ($0.06) for the six months ended March 31, 2011.

Expenses & Other Items

Financial data (in $000's)	Three Months Ended March 31			Six Months Ended March 31		
	2012	2011	Change	2012	2011	Change
Expenses:						
General and administrative	$ 873	$ 723	$ 150	$ 1,675	$ 1,457	$ 218
Accretion of financial liabilities	349	132	217	678	222	456
Interest and financing costs	854	442	412	1,605	745	860
Equity loss of TDI	120	135	(15)	204	377	(173)
Stock based compensation	188	41	147	200	54	146
Loss (gain) on disposal of assets	-	(2)	2	-	(2)	2
Interest and other income	(123)	(7)	(116)	(269)	(15)	(254)
Foreign exchange loss (gain)	99	44	55	(13)	(67)	54
	$ 2,360	$ 1,508	$ 852	$ 4,080	$ 2,771	$ 1,309
Other items:						
Loss on revaluation of derivative liability	$ (422)	$ (144)	$ (278)	$ (275)	$ (20)	$ (255)
Recovery of deferred income taxes	$ -	$ 60	$ 60	$ -	$ 171	$ 171

Q2 2012 compared to Q2 2011 for expenses and other items

- For Q2 2012 accretion of financial liabilities increased to $349 thousand from $132 thousand in Q2 2011. During Q1 2012 the Company arranged the $12.0 million working capital loan. Accretion of $218 thousand was recognized during Q2 2012 with respect to the guarantee on the working capital loan agreement (Q2 2011 - $nil).
- Interest and financing costs increased to $854 thousand in Q2 2012 compared to $442 thousand in Q2 2011 primarily due to the Company having $36.6 million of interest and finance cost bearing obligations at March 31, 2012 compared to $18.7 million at March 31, 2011.
- The loss on revaluation of derivative liability increased to $422 thousand for Q2 2012 from $144 thousand for Q2 2011. The derivative is the conversion feature in the convertible debenture and the value of the derivative fluctuates based on the share price of the Company compared to the effective conversion price for the convertible debenture and fluctuations in the USD/CAD exchange rates. The Company's share price had increased from $0.27 at December 31, 2011 to $0.41 at March 31, 2012 while the effective conversion price of the convertible debenture was $0.44, which increased the value of the conversion feature which is recognized as a loss to the Company.

Six months ended March 31, 2012 compared to the six months ended March 31, 2011 for expenses and other items

- For the six months ended March 31, 2012 accretion of financial liabilities increased to $678 thousand from $222 thousand for the six months ended March 31, 2011. Accretion has increased due to the addition of the convertible debentures in Q1 2011, which resulted in the recognition of $257 thousand of accretion for the six months ended March 31, 2012 compared to $213 thousand for the six months ended March 31, 2011. During Q1 2012 the Company arranged the $12.0 million working capital loan. Accretion of $411 thousand was recognized during the six months ended March 31, 2012 with respect to the guarantee on the working capital loan agreement (six months ended March 31, 2011 - $nil).
- Interest and financing costs increased to $1,605 thousand for the six months ended March 31, 2012, compared to $745 thousand for the six months ended March 31, 2011 primarily due to the Company having $36.6 million of interest and finance cost bearing obligations at March 31, 2012 compared to $18.7 million at March 31, 2011.

- The loss on revaluation of derivative liability increased to $275 thousand for the six months ended March 31, 2012 from $20 thousand for the six months ended March 31, 2011. The derivative is the conversion feature in the convertible debenture and the value of the derivative fluctuates based on the share price of the Company compared to the effective conversion price for the convertible debenture and fluctuations in the USD/CAD exchange rates. The Company's share price had increased from $0.26 at September 30, 2011 to $0.41 at March 31, 2012 while the effective conversion price of the convertible debenture was $0.44, which increased the value of the conversion feature which is recognized as a loss to the Company.

SUMMARY OF QUARTERLY INFORMATION

	2012		2011				2010 *	
in $000's, except per share amounts	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Revenue	$ 33,407	$ 26,422	$ 17,549	$ 19,287	$ 11,446	$ 7,370	$ 32	$ 390
Net income (loss)	$ 2,522	$ 6,593	$ (4,907)	$ 1,771	$ (7,952)	$ (4,386)	$ (5,946)	$ (2,384)
Income (loss) per share, basic and diluted	$ 0.01	$ 0.03	$ (0.02)	$ 0.01	$ (0.04)	$ (0.02)	$ (0.03)	$ (0.01)
Cash flow from operations before changes in non-cash working capital	$ 8,608	$ 9,689	$ 1,108	$ 2,280	$ (7,159)	$ (4,138)	$ (5,598)	$ (2,104)

* 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 the USD to the Canadian dollar impacts revenue as sales are denominated in USD; 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 should be positive in fiscal 2012. Provided planned levels of production can be achieved and the market price for tungsten remains strong for fiscal 2012, the Company's liquidity position should benefit; however, there are significant factors that may impact liquidity. These include the possible level of future capital spending for the Mactung project and outlays required at the Cantung mine particularly for tailings management and storage and to complete the 2012 capital improvement programs. Cash to be generated from future Cantung operations will be subject to the various risks associated with mining and, for the immediate future, increased risks of fluctuating output. Cantung will have little flexibility in selecting ore to be mined until completion of development of the West Extension and the possible addition of other minable zones.

Although operating cash flows improved significantly in Q1 and Q2 2012, significant amounts of capital expenditures relating to mine development, tailings management and storage, 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

Outstanding drawings under the operating loan facility from HSBC were increased to $11.2 million at March 31, 2012 from $8.5 million at September 30, 2011.

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 six months ended March 31, 2012, the net income was $9.1 million (year ended September 30, 2011, the net loss was $15.5 million) and there was a deficiency of working capital of $9.5 million (September 30, 2011 - $23.1 million). As described in Note 14, 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 March 31, 2012, 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 $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 in fiscal 2011 and 2012, however there will be further capital expenditures required on tailings management and storage (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 which has contributed to the positive cash flows from operations.
- Quotations for APT had flattened into a range between USD$455.00/mtu to USD$430.00/mtu during H1 2012. In April 2012, the average quotation declined to a low of $377.50/mtu and then recovered to $390/mtu. The Company expects that APT quotations will fluctuate but 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 due to limited flexibility in selecting ore to be mined until completion of the West Extension; thereafter improved results are expected from the West Extension.

Cash Flow Q1 & Q2 2012 compared to Q1 & Q2 2011

Summarized Cash Flow Activity (in $000's)	Three Months Ended March 31 2012	2011	Change	Six Months Ended March 31 2012	2011	Change
Cash flow from operating activities before changes in non cash working capital	$ 8,608	$ (7,159)	$ 15,767	$ 18,297	$ (11,297)	$ 29,594
Change in non-cash working capital	(981)	3,284	(4,265)	(5,141)	(1,602)	(3,539)
Provided by (used in) operating activities	8,376	(3,607)	11,983	14,546	(12,342)	26,888
Provided by (used in) investing activities	(5,992)	(6,762)	770	(18,701)	(10,203)	(8,498)
Provided by (used in) financing activities	2,251	15,023	(12,772)	10,506	25,463	(14,957)
Increase (decrease) in cash and cash equivalents	4,635	4,654	(19)	6,351	2,918	3,433
Cash and cash equivalents, beginning of period	4,716	540	4,176	3,000	2,276	724
Cash and cash equivalents, end of period	$ 9,351	$ 5,194	$ 4,157	$ 9,351	$ 5,194	$ 4,157

Statement of Financial Position (in $000's)	As at March 31, 2012	2011
Cash and cash equivalents	$ 9,351	$ 5,194
Current assets	31,476	19,440
Total assets	101,152	72,030
Current liabilities	40,948	33,260
Total financial debt, including current portion [1]	39,725	26,126
Total liabilities	67,833	78,440
Shareholders' equity	33,319	26,851
Statistics:		
Working Capital [2]	(9,472)	(13,820)
Working Capital ratio [3]	0.77	0.58

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

2 - Current assets less current liabilities

3 - Current assets divided by current liabilities

Q2 2012 compared to Q2 2011 for liquidity and cash flows

At March 31, 2012, the Company had cash and cash equivalents of $9.4 million and a working capital deficiency of $9.5 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 Q2 2012 due to positive cash flows from operations of $8.4 million. $5.7 million was invested in property, plant and equipment during the quarter, repayment of equipment loans and leases was $1.3 million and the bank operating loan was increased by $4.4 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 $2.9 million are classified as equity.

Cash flow from operations was $8.4 million for Q2 2012, an increase of $12.0 million compared to a use of cash by operations of $3.6 million for Q2 2011. The increase in cash flow from operations for Q2 2012 was due to revenue increasing to $33.4

million, gross margin increasing to $5.3 million and net income increasing to $2.5 million compared to revenue of $11.4 million, gross margin of negative $6.4 million and a net loss of $8.0 million for Q2 2011.

Cash flow used in investing activities decreased slightly to $6.0 million for Q2 2012 compared to $6.8 million in Q2 2011.

Cash flow from financing activities was $2.3 million for Q2 2012 compared to $15.0 million for Q2 2011. During Q2 2012, the Company paid down equipment loans and leases by $1.3 million. During Q2 2011 the Company received proceeds of $10.7 million from an equity unit issuance and increased loans and capital leases by $4.7 million net of repayments.

Six months ended March 31, 2012 compared to the six months ended March 31, 2011

At March 31, 2012, the Company had cash and cash equivalents of $9.4 million and a working capital deficiency of $9.5 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 Q2 2012 due to positive cash flows from operations of $14.5 million. $18.1 million was invested in property, plant and equipment during the quarter, repayment of equipment loans and leases was $2.7 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 $2.9 million are classified as equity.

Cash flow from operations was $14.5 million for the six months ended March 31, 2012 compared to a use of cash by operations of $12.3 million for the six months ended March 31, 2011. The increase in cash flow from operations for the six months ended March 31, 2012 was due to revenue increasing to $59.8 million, gross margin increased to $13.5 million and net income increasing to $9.1 million compared to revenue of $18.8 million, gross margin of negative $9.7 million and a net loss of $12.3 million for the six months ended March 31, 2011.

Cash flow used in investing activities increased to $18.7 million for the six months ended March 31, 2012, as the Company paid $18.1 million for investment in property, plant and equipment relating to capital expenditure program, compared to $9.8 million in the six months ended March 31, 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 $10.5 million for the six months ended March 31, 2012 compared to $25.5 million for the six months ended March 31, 2011. During the six months ended March 31, 2012, the Company received proceeds of $12.0 million from the working capital loan, increased the bank operating loan by net $2.7 million and paid down $2.7 million in equipment loans and capital leases. During the six months ended March 31, 2011, the Company received proceeds of $13.4 million from equity unit issuances, increased loans and capital leases by net $9.9 million and received $2.9 million on the issuance of convertible debentures.

Capital Resources

HSBC Bank Canada Facilities ("HSBC" or the "bank")

As part of the credit facilities the Company and the HSBC entered into a general security agreement over the Company's assets.

The Company acknowledged a breach of each of the net tangible worth ratio and the current assets to current liabilities ratio during fiscal 2011. The Bank has agreed to forbear these breaches provided that:

- the debt to tangible net worth ratio does not exceed 3.5:1 for fiscal 2012;
- the consolidated current assets to current liabilities ratio at no time is less than 0.5:1 for fiscal 2012.

For the HSBC covenant calculations, the secured working capital loan of $12.0 million and the convertible debentures of $2.9 million are classified as equity.

It is management's opinion that the revised covenants are achievable based on the current planned levels of production and tungsten prices.

Loans, capital leases and other debt finance

The Company has equipment loans and capital leases, an operating loan, a working capital loan and convertible debentures outstanding at March 31, 2012, which the Company has executed to finance the capital programs for the Cantung Mine.

Share issuances

On March 31, 2011 the Company closed a bought-deal private placement of 23,000,000 units (the "Units") of the Company which includes the exercise in full of the over-allotment options for 3,000,000 additional Units, for aggregate gross proceeds of $11.5 million (the "Offering"). The Units were sold at a price of $0.50 per Unit. Each Unit consists of one common share in the capital of the Company (a "Common Share") and one-half of a share purchase warrant. Each warrant entitles the holder to purchase one Common Share at a price of $0.75 for a period of two years, expiring March 31, 2013.

The Company paid the Underwriters a cash fee of $625 thousand and 1,250,000 broker units (the "Broker Units"). Each Broker Unit is exercisable into one common share and one-half of a share purchase warrant at a price of $0.75, expiring on March 31, 2013. Professional and regulatory fees totalling $375 thousand were incurred in connection with the financing.

The planned and actual use of proceeds from the bought deal private placement is as follows:

(in $000's)	Planned Use Of Proceeds for Short Form Prospectus Dated March 24, 2011	Use of Proceeds to March 31, 2012	Balance Use of Proceeds
Gross Proceeds	$ 11,500		
Commissions	$ 625		
Net Proceeds	$ 10,875		
Expected use			
Expenses of the Offering	$ 375	$ 375	$ -
Mactung Project	1,500	1,000	500
Cantung Mine Development	4,000	4,000	-
Cantung Mine Equipment	1,000	1,000	-
Working Capital	4,000	4,000	-
Total	**$ 10,875**	**$ 10,375**	**$ 500**

Contractual Obligations

	Payments due in years ended September 30						
Contractual Obligations	**2012[1]**	**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	1,559	-	-	2,993	-	-	$ 4,552
Equipment loans	633	5,313	1,238	357	-	-	$ 7,541
Capital leases	956	705	24	4	-	-	$ 1,689
Office leases[2]	110	55	-	-	-	-	$ 165
Mactung royalty agreement[3]	-	-	-	1,000	-	-	$ 1,000
	$ 3,284	**$ 6,124**	**$ 1,313**	**$ 4,405**	**$ 51**	**$ 51**	**$ 15,228**

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 $0.5 million relating to capital projects at March 31, 2012.

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 $4.8 million in cash and $6.9 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 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 six months ended March 31, 2012, the Company posted $200 thousand of cash and reduced the posted secured promissory notes by $200 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.

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_3) and a flotation concentrate (55% WO_3). Recovery of WO_3 is expected to average 81.7% and the mine will average 829,000 STU's of WO_3 in concentrates during its first five years of operation.

Mactung Probable Mineral Reserves

Zone	Tonnes	Grade (WO_3%)	MTUs
Upper 2B	8,588,000	1.13%	9,676,958
Lower 2B	2,202,000	1.42%	3,129,703
Total Probable Reserves	10,790,000	1.19%	12,806,661

Estimated using a mining cut-off grade of 0.616% WO3

Total indicated resources for the mineral deposit are 33.0 million tonnes grading 0.88% WO_3 (tungsten trioxide) with an additional 11.8 million tonnes grading 0.78% WO_3 in the inferred resource category. Underground indicated mineral reserves have been calculated to be 8.2 million tonnes grading 1.09% WO_3. 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.

Indicated and Inferred Mineral Resource

Classification	Tonnes	Grade (WO_3%)	MTUs
Indicated	33,029,000	0.88%	29,065,520
Inferred	11,857,000	0.78%	9,248,460
Total Indicated and Inferred	44,886,000	0.85%	38,313,980

Notes:

1. CIM definitions were followed for mineral resources.
2. Mineral resources are estimated at a block cut-off grade of 0.5% WO3.
3. A MTU is 10 kg WO3.
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.

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_3 %)	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
TOTAL Probable Reserves	**1,693,454**	**1.17**	**1,981,337**

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_3.*
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_3%)	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
TOTAL Indicated Resources	**2,452,809**	**1.11**	**2,729,013**

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_3 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_3%)	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
TOTAL Inferred Resources	**433,265**	**0.84**	**364,580**

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_3 for underground as well as Pit and PUG
3. All Mineral Resources are listed as Inferred
4. Pit/PUG refers to Pit Underground

Equity

Outstanding Equity Securities	As of May 14, 2012	As of March 31, 2012
Common shares	237,123,058	237,123,058
Share options	4,575,000	4,425,000
Warrants	14,750,000	14,750,000

At March 31, 2012, 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

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 six months ended March 31, 2012, the Company recognized an expense of $113 thousand (six months ended March 31, 2011 - $181 thousand) in respect to the guarantee (See Note 13) to a director.

Directors of the Company participated directly and indirectly in the USD$2.87 million convertible debentures financing as to USD$1.37 million (See Note 12).

On October 13, 2011, two directors of the Company sponsored (the "Sponsors") the Company for the HSBC Working Capital Loan (see Note 14), 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 USD on the last day of each calendar quarter, an aggregate amount equal to 1.75% of the maximum outstanding principal amount of the line of credit during the immediately preceding calendar quarter (or portion thereof), which payments began on December 31, 2011;
b. pay to the Sponsors, an aggregate amount equal to USD$1.5 million on the earlier of:
   (i) the date the Loan is paid in full;
   (ii) the date the Loan is put to the Sponsors pursuant to the Put Agreement; or
   (iii) the date the letter of credit is drawn upon for payment of the Loan;
c. upon certain events of default 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 six months ended March 31, 2012, the Company recognized an expense of $397 thousand in respect to the letter of credit to these directors. 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 six months ended March 31, 2012, the Company recognized $268 thousand for professional and consulting fees to directors or companies related to director(s) (six months ended March 31, 2011 - $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 March 31, 2012, 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, 2011 - $8.0 million) which has been discounted using a current market based pre-tax discount rate of 1.3%. 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 debentures, 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 debentures 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 USD. The cash flows from Canadian ("CND") operations are exposed to foreign exchange risk as commodity sales are denominated in USD, and the majority of operating expenses are in Canadian dollars. For the six months ended March 31, 2012, with other variables unchanged a $0.01 strengthening (weakening) of the Canadian dollar against the USD would result in a decrease (increase) of $0.8 million on net earnings.

At March 31, 2012, the Company held USD denominated bank balances of $9.3 million, accounts receivable of $12.8 million, accounts payable of $0.5 million and loans and other financial liabilities of $5.5 million. At September 30, 2011, the Company held USD denominated bank balances of $2.7 million, accounts receivable of $6.5 million, accounts payable of $0.4 million and loans and other financial liabilities of $4.8 million.

ii. Credit Risk

The Company is exposed to credit-related losses in the event of non-performance by counterparties to the financial instruments. Credit exposure is minimized by dealing with only credit worthy counterparties and by having Economic Development Canada ("EDC") insure the Company's receivables from its primary customers for up to 90% of the total outstanding amounts. Accounts receivable for five of the primary customers totalled $12.8 million at March 31, 2012 (September 30, 2011 – four customers totalled $6.9 million), all of which is current.

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 March 31, 2012, $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%. $4.7 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%.

For the six months ended March 31, 2012, with other variables unchanged, a 1.0% increase in the HSBC Bank prime rate would decrease net earnings by $0.3 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 of the financial statements. 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 six months ended March 31, 2012, with other variables unchanged, a USD$10 increase or decrease in the realized price per MTU (Metric tonne unit) of tungsten concentrate would increases (decrease) net earnings by $1.6 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, was 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. Note 29 of the consolidated interim financial statements for the six months ended March 31, 2012 provides the IFRS reconciliation for the comparative period ended March 31, 2011.

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 March 31, 2011 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.

Under IFRS, accretion of a reclamation liability is considered a financing activity and as such the accretion expense is included in interest and financing costs rather than being disclosed as a separate expense. The impact in the Statement of Other Comprehensive Income for the year ended September 30, 2011 is to reduce the accretion on reclamation obligation and to increased the interest and financing costs by $148 thousand and for the three and six months ended March 31, 2011 to decrease the accretion of reclamation obligation and to increase the interest and financing costs by $37 thousand and $74 thousand respectively.

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 $3.95 million at March 31, 2011.

iii. Convertible debentures

Under CND GAAP, the debentures 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 Debentures 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 debentures were not issued until October 28, 2010, there is no impact to the October 1, 2010, opening IFRS Statement of Financial Position. At March 31, 2011, in the IFRS statement of financial position, current liabilities increased by $3.0 million, long-term liabilities decreased by $2.6 million and equity decreased by $0.2 million. For the six months ended March 31, 2011, in the statement of comprehensive income, accretion increased by $184 thousand, foreign exchange gain decreased by $67 thousand and $32 thousand of transaction costs were capitalized into the determination of the fair value of the convertible debentures, a loss on revaluation of the derivative liability of $20 thousand was recognized with the net comprehensive loss increasing by $239 thousand. For the three months ended March 31, 2011, in the statement of comprehensive income, accretion increased by $109 thousand, foreign exchange loss increased by $26 thousand and $32 thousand of transaction costs were capitalized into the determination of the fair value of the convertible debentures, a loss on revaluation of the derivative liability of $144 thousand was recognized with the net comprehensive loss increasing by $279 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 debentures, 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 six months ended March 31, 2011, the effect was to reduce the Investment in TDI by $1.4 million, increase the equity loss on TDI by $5 thousand, recognized a CTA of $257 thousand and a net reduction to the deficit of $1.1 million. For the three months ended March 31, 2011, the effect was to reduce the Investment in TDI by $132 thousand, reduce the deferred income tax liability by $5 thousand, increase the equity loss on TDI by $1 thousand recognized a CTA of $124 thousand and a net increase to the deficit of $2 thousand. 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 March 31, 2012, 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

43.2%of Tungsten Diversified Industries, LLC ("TDI") is owned by the Company. 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 was recorded as an equity loss of $4.6 million which reduced its net investment in TDI at September 30, 2011 to $0.57 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 $0.57 million is not impaired.

For the six months ended March 31, 2012, the Company's share of the equity loss of TDI was $204 thousand (six months ended March 31, 2011 - $372 thousand), which reduced the investment in TDI to $348 thousand.

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, CaWO4. 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