NORTH AMERICAN TUNGSTEN CORPORATION LTD

UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED DECEMBER 31, 2012 AND 2011

Q1/13

NORTH AMERICAN TUNGSTEN CORPORATION LTD.
INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS AT DECEMBER 31, 2012 AND SEPTEMBER 30, 2012
FIGURES IN THOUSANDS OF CANADIAN DOLLARS
UNAUDITED

	Note(s)	December 31, 2012	September 30, 2012
ASSETS			
Current assets			
Cash and cash equivalents		$ 409	$ 2,124
Accounts receivable	4	4,616	17,153
Inventories	5	14,126	6,556
Prepaid expenses		691	816
		19,842	26,649
Accounts receivable	4	5,173	-
Property, plant and equipment	6	29,785	31,630
Mineral property - Mactung	7	17,961	17,668
Mineral properties - other		9	9
Reclamation deposits	13 & 15	5,126	5,012
		$ 77,896	**$ 80,968**
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities	8	$ 18,806	$ 20,595
Bank loans	11 &12	21,594	21,850
Current portion of customer advances	10	2,612	768
Current portion of equipment loans and capital leases	11 &12	6,068	7,053
Convertible debentures	9	2,460	2,353
		51,540	52,619
Customer advances	10	5,173	2,950
Equipment loans and capital leases	11 &12	1,804	2,126
Reclamation liabilities	13	8,517	8,404
Other obligations		273	268
		67,307	66,367
SHARE CAPITAL AND DEFICIT			
Share capital	14	64,673	64,673
Contributed surplus	14	5,667	5,667
Deficit		(59,751)	(55,739)
		10,589	14,601
		$ 77,896	**$ 80,968**
Going concern	1		
Commitments and Contingencies	15 & 16		

ON BEHALF OF THE BOARD

"signed"

Stephen M. Leahy

"signed"

Bryce M. A. Porter

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

NORTH AMERICAN TUNGSTEN CORPORATION LTD.
INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
FOR THE THREE MONTHS ENDED DECEMBER 31, 2012 AND 2011
FIGURES IN THOUSANDS OF CANADIAN DOLLARS
UNAUDITED

(figures in thousands of dollars except for per share amounts)	Note(s)	For the three months ended December 31, 2012	December 31, 2011
REVENUES			
Sales	21	$ 11,464	$ 26,422
EXPENSES			
Cost of sales	5 & 17	13,605	18,256
Interest and financing costs		726	751
General and administrative	18	655	781
Accretion of financial liabilities	9 & 11	349	329
Exploration		228	21
Stock based compensation	14	-	12
Equity loss of associate		-	84
Loss on disposal of assets		16	-
Foreign exchange gain		(36)	(112)
Interest and other income		(16)	(146)
Gain on revaluation of derivative liability	9	(51)	(147)
NET INCOME (LOSS)		**(4,012)**	**6,593**
OTHER COMPREHENSIVE INCOME (LOSS)			
Cumulative translation adjustment		-	(7)
NET COMPREHENSIVE INCOME (LOSS)		**$ (4,012)**	**$ 6,586**
Earnings/(loss) per share	22		
Basic		$ (0.02)	$ 0.03
Diluted		$ (0.02)	$ 0.03
Weighted average number of shares (in thousands)			
Basic		237,123	237,123
Diluted		237,123	238,641

NORTH AMERICAN TUNGSTEN CORPORATION LTD.
INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE THREE MONTHS ENDED DECEMBER 31, 2012 AND 2011
FIGURES IN THOUSANDS OF CANADIAN DOLLARS
UNAUDITED

	Note(s)	For the three months ended December 31, 2012	December 31, 2011
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES			
Net income (loss)		$ (4,012)	$ 6,593
Items not affecting cash:			
Amortization and depreciation	6 & 17	1,803	3,015
Equity loss of associate		-	84
Stock based compensation	14	-	12
Accretion of financial liabilities	9 & 11	349	328
Loss on disposal of assets		16	-
Accretion of reclamation obligations	13	45	29
Foreign exchange gain on customer advances	10	(71)	(169)
Foreign exchange loss (gain) on financial liabilities		45	(27)
Gain on revaluation of derivative liability	9	(51)	(147)
		(1,876)	**9,718**
Adjustment for:			
Interest and financing costs paid		691	596
Change in non-cash working capital	19	1,365	(3,690)
Increase in reclamation deposits	15	(100)	(100)
		80	**6,524**
CASH FLOWS USED IN INVESTING ACTIVITIES			
Expenditure on Mactung development	7	(305)	(305)
Purchase of property, plant and equipment	6	(3,143)	(12,404)
		(3,448)	**(12,709)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Net decrease in equipment loans and capital leases	12	(1,307)	(1,334)
Working capital loan borrowings	11	-	12,000
Bank loan borrowings, net	11	(487)	(1,689)
Net increase (decrease) in customer advances	10	4,138	(480)
Interest and financing costs paid		(691)	(596)
		1,653	**7,901**
CHANGE IN CASH AND CASH EQUIVALENTS		**(1,715)**	**1,716**
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD		2,124	3,000
CASH AND CASH EQUIVALENTS, END OF PERIOD		**$ 409**	**$ 4,716**
Represented by:			
Cash		$ 374	$ 4,681
Cash equivalents	3	35	35
		$ 409	$ 4,716
Supplemental cash flow information	19		

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

NORTH AMERICAN TUNGSTEN CORPORATION LTD.
INTERIM CONSOLIDATED STATEMENTS OF EQUITY
FOR THE THREE MONTSH ENDED DECEMBER 31, 2012 AND 2011
FIGURES IN THOUSANDS OF CANADIAN DOLLARS EXCEPT NUMBER OF COMMON SHARES
UNAUDITED

For the three months ended December 31, 2011

(in thousands of dollars except number of common shares)	Note(s)	Number of Common Shares	Common Shares	Contributed Surplus	Accumulated other comprehensive income (loss)	Deficit	Total Equity
Balance at October 1, 2011		**237,123,058**	**$ 64,673**	**$ 5,226**	**$ 15**	**$ (45,896)**	**$ 24,018**
Stock based compensation	14	-	-	12	-	-	**12**
Net income		-	-	-	-	6,593	**6,593**
Comprehensive loss for the period		-	-	-	(7)	-	**(7)**
Balance at December 31, 2011		**237,123,058**	**$ 64,673**	**$ 5,238**	**$ 8**	**$ (39,303)**	**$ 30,616**

For the three months ended December 31, 2012

	Note(s)	Number of Common Shares	Common Shares	Contributed Surplus	Accumulated other comprehensive income (loss)	Deficit	Total Equity
Balance at October 1, 2012		**237,123,058**	**$ 64,673**	**$ 5,667**	**$ -**	**$ (55,739)**	**$ 14,601**
Net loss		-	-	-	-	(4,012)	**(4,012)**
Balance at December 31, 2012		**237,123,058**	**$ 64,673**	**$ 5,667**	**$ -**	**$ (59,751)**	**$ 10,589**

1. Nature of operations and going concern:

North American Tungsten Corporation Ltd. (the "Company") is engaged in tungsten mining and related activities including acquisition, exploration, development and processing of ore and concentrate. The Company owns the Cantung mine in the Northwest Territories; the Mactung mineral property in the Yukon Territory; and other tungsten exploration prospects. The Company is domiciled and incorporated in British Columbia, Canada. The address of the head office is suite 1640 – 1188 West Georgia Street, Vancouver, British Columbia, Canada.

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and on the basis of accounting principles applicable to a going concern, which assumes that the Company will be able to continue operation for the foreseeable future and will be able to realise its assets and discharge its liabilities in the normal course of business. There are conditions and events that cast significant doubt on the validity of this assumption.

The Company re-started the Cantung mine in October 2010. For the three months ended December 31, 2012 there was a net loss of $4.0 million (year ended September 30, 2012 the net loss was $9.8 million) and there was a deficiency of working capital of $31.7 million (September 30, 2012 - $26.0 million). As described in Note 11, following the recognition of the $16.2 million impairment provision at September 30, 2012, the Company was in breach of the debt to tangible net worth covenant of the HSBC credit facility. On January 25, 2013, HSBC waived all previous covenant breaches to September 30, 2012 and to December 31, 2012. The Company and HSBC are discussing revised covenants to be established for future periods.

The ability of the Company to continue as a going concern depends upon continued support from its shareholders, lenders and customers. In addition, the Company will need to improve operating profitability and to roll-over, extend, replace or refinance existing loan facilities as they mature or arrange new financing. Future operations will also be impacted by market conditions and prices for tungsten concentrates and the ability of the Cantung mine to maintain positive cash flows from operations while containing non-operating outlays if and as necessary.

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

2. Significant accounting policies:

a. Basis of preparation and first-time adoption of IFRS

These interim consolidated financial statements have been prepared in accordance with International Accounting Standard 34 Interim Financial Reporting ("IAS 34") as issued by the International Accounting Standards Board ("IASB"). These interim financial statements should be read in conjunction with the Company's most recently issued annual audited consolidated financial statements which includes information necessary or useful to understanding the Company's business and financial statement presentation. In particular, the Company's significant accounting policies were presented in Note 2 of the consolidated financial statements for the year ended September 30, 2012, and have been consistently applied in the preparation of these interim financial statements.

The Board of Directors approved these financial statements on February 25, 2013.

3. Cash and cash equivalents:

Cash and cash equivalents include cash in bank accounts, demand deposits, money-market investments and bankers' acceptances with maturities from the date of acquisition of 90 days or less.

The HSBC operating loan facility has a maximum of $12.0 million and can be exceeded by up to $3.0 million with the excess secured by USD cash deposits at HSBC (see Note 11). The USD cash deposits are restricted from use, until the operating loan balance is paid down to the $12.0 million borrowing limit.

FIGURES ARE IN THOUSANDS OF CANADIAN DOLLARS

4. Accounts Receivable:

	December 31, 2012	September 30, 2012
Trade receivables	$ 9,076	$ 16,359
Taxes and other receivables	713	794
	9,789	17,153
Current portion of accounts receivable	(4,616)	(17,153)
Long-term portion of accounts receivable	**$ 5,173**	**$ -**

The Company has an operating loan from HSBC, guaranteed by the Accounts Receivable Insurance Program of Export Development Canada (“EDC”), under which it borrows up to 90% of the value of trade receivables from approved customers (Note 11). The Company has received prepayments from these customers that amounted to $7.8 million at December 31, 2012 (September 30, 2012 - $3.7 million) (Note 10).

5. Inventory:

	December 31, 2012	September 30, 2012
Tungsten concentrates	$ 8,440	$ 472
Ore stockpile	1,273	1,380
Copper concentrate	210	372
Materials and supplies	4,203	4,332
	$ 14,126	**$ 6,556**

The amount of inventory sold and recognised as cost of sales in the period, together with the $0.8 million write-down of tungsten concentrate inventories to the estimated recoverable amount in the three months ended December 31, 2012, constitutes the cost of sales (see Note 17).

FIGURES ARE IN THOUSANDS OF CANADIAN DOLLARS

6. Property, plant and equipment:

	Equipment under capital lease	Plant and buildings	Mine development costs	Mining equipment	Tailings	Reclamation assets	Total
Opening cost, October 1, 2011	$ 10,610	$ 14,965	$ 25,526	$ 6,972	$ 11,582	$ 4,760	$ 74,415
Additions	2,350	1,616	14,027	4,039	2,540	600	25,172
Ending cost, September 30, 2012	12,960	16,581	39,553	11,011	14,122	5,360	99,587
Opening balance and accumulated depreciation, October 1, 2011	2,264	6,564	11,088	2,353	8,355	1,199	31,823
Depreciation	1,634	1,374	13,773	604	1,394	1,155	19,934
Impairment	723	1,457	9,095	383	2,680	1,862	16,200
Ending balance, accumulated depreciation and impairments, September 30, 2012	4,621	9,395	33,956	3,340	12,429	4,216	67,957
Ending balance, September 30, 2012	**$ 8,339**	**$ 7,186**	**$ 5,597**	**$ 7,671**	**$ 1,693**	**$ 1,144**	**$ 31,630**
Opening cost, October 1, 2012	$ 12,960	$ 16,581	$ 39,553	$ 11,011	$ 14,122	$ 5,360	$ 99,587
Additions	133	135	-	49	193	68	578
Project cost adjustment	-	-	(602)	-	-	-	(602)
Disposals	-	(30)	-	-	-	-	(30)
Ending cost, December 31, 2012	13,093	16,686	38,951	11,060	14,315	5,428	99,533
Opening balance, accumulated depreciation and impairments, October 1, 2012	4,621	9,395	33,956	3,340	12,429	4,216	67,957
Depreciation	384	265	744	257	115	38	1,803
Disposals	-	(12)	-	-	-	-	(12)
Ending balance, accumulated depreciation and impairments, December 31, 2012	5,005	9,648	34,700	3,597	12,544	4,254	69,748
Ending balance, December 31, 2012	**$ 8,088**	**$ 7,038**	**$ 4,251**	**$ 7,463**	**$ 1,771**	**$ 1,174**	**$ 29,785**

The Company has pledged the equipment under capital lease as security to the leasing company. As part of the HSBC credit facilities, the Company and HSBC entered into a general security agreement which includes all property, plant and equipment. The Company has provided a general security agreement that has been subordinated to the Company's senior indebtedness as security for the debentures.

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

Following the impairment that reduced the carrying value of Cantung assets as of September 30, 2012, depreciation and amortization charges have been reduced. The impairment calculation was based on management's best estimate that operations will continue through fiscal 2016. A longer life is possible, particularly as improvements are under investigation, but are not included in the current life assumptions.

Included in tailings is $0.8 million for a tailings storage facility which was under development during the current period and the year ended September 30, 2012. No amortization will be taken on these assets until commissioned.

During the three months ended December 31, 2012 the Company negotiated a $0.6 million reduction to the final project cost for mine development, which is included as the project cost adjustment in the current period.

FIGURES ARE IN THOUSANDS OF CANADIAN DOLLARS

7. Mineral property - Mactung:

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

Balance October 1, 2011	**$**	**16,196**
Expenditures during the year		1,472
Balance September 30, 2012	**$**	**17,668**
Expenditures during the period		293
Balance December 31, 2012	**$**	**17,961**

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

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

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

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

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

The $300 thousand paid by the Company has been treated as a deferred royalty and will be amortized over the life of the mine once the Mactung property is brought into production. The balance at December 31, 2012, was $300 thousand (September 30, 2012 - $300 thousand).

8. Accounts Payable:

	December 31, 2012		September 30, 2012	
Trade payables	$	12,396	$	10,602
Property, plant and equipment and Mactung development costs payable		2,424		5,673
Royalties payable		3,061		2,962
Other payables and accrued liabilities		925		1,358
	$	**18,806**	**$**	**20,595**

9. Convertible Debentures:

	Debt component		Derivative liability		Total liability	
Balance at September 30, 2011	**$**	**1,877**	**$**	**574**	**$**	**2,451**
Interest accreted		512		-		512
Loss (gain) on revaluation of derivative liability		-		(509)		(509)
Loss (gain) on foreign exchange		(101)		-		(101)
Balance at September 30, 2012	**$**	**2,288**	**$**	**65**	**$**	**2,353**
Interest accreted		126		-		126
Loss (gain) on revaluation of derivative liability		-		(51)		(51)
Loss (gain) on foreign exchange		32		-		32
Balance at December 31, 2012	**$**	**2,446**	**$**	**14**	**$**	**2,460**

FIGURES ARE IN THOUSANDS OF CANADIAN DOLLARS

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

At December 31, 2012, the fair value of the derivative was determined to be USD$14 thousand (CDN$14 thousand) and was determined with the Black-Scholes option pricing model with the following assumptions; share price at the reporting date of $0.15, exercise price of $0.44 per share, expected life of 0.82 years, risk-free rate of 0.16%, volatility of 67.5% and a zero dividend rate.

Interest expense on the debentures is composed of the interest calculated on the face value of the debentures at 10% per annum which amounted to $72 thousand for the three months ended December 31, 2012, a notional interest representing the accretion of the carrying value of the debentures due to the passage of time of $126 thousand and a foreign exchange loss of $32 thousand. A gain on revaluation of the derivative liability of $51 thousand was recognised for the period due to changes in fair value and changes in the price of the Company's shares.

At September 30, 2012, the fair value of the derivative was determined to be USD$66 thousand (CDN$65 thousand) and was determined with the Black-Scholes option pricing model with the following assumptions; share price at the reporting date of $0.18, exercise price of $0.43 per share, expected life of 1.1 years, risk-free rate of 0.17%, volatility of 69.0% and a zero dividend rate.

Interest expense on the debentures is composed of the interest calculated on the face value of the debentures at 10% per annum which amounted to $73 thousand for the three months ended December 31, 2011, a notional interest representing the accretion of the carrying value of the debentures due to the passage of time of $131 thousand and a foreign exchange gain of $23 thousand. A gain on revaluation of the derivative liability of $147 thousand was recognised for the period due to changes in fair value and changes in the price of the Company's shares.

Five directors participated directly and indirectly in the debentures financing for a total principal amount of USD$1.37 million (See Note 20).

10. Customer advances:

During the year ended September 30, 2010, the Company received customer advances totalling USD$7.8 million (CND$8.0 million). The advances are repayable by 2015. A related party (see Note 20) provided a guarantee of a letter of credit as security for one of these advances totalling USD$781 thousand at September 30, 2012 (CND$768 thousand). The guarantee expired on December 1, 2012.

During the three months ended December 31, 2012, an advance of USD$2.0 million was received from an existing customer on execution of a new tungsten delivery contract and will be repaid over the term of the contract which expires on December 31, 2013. An advance of USD$2.2 million was received from a new customer on execution of a new tungsten delivery contract and is repayable by April 30, 2014 (the end of the initial contract term) or by April 30, 2016 (the end of the renewal term) if the renewal option is exercised on mutual agreement by the parties.

During the three months ended December 31, 2012, the Company repaid $154 thousand of the advances and recognised a foreign exchange gain of $71 thousand. During the three months ended December 31, 2011, the Company repaid $480 thousand of the advances and recognised a foreign exchange loss of $30 thousand. See Note 15 for commitments for the customer advances.

	December 31, 2012	September 30, 2012
Obligations for customer advances	$ 7,785	$ 3,718
Current portion of customer advances	(2,612)	(768)
Long-term portion of customer advances	**$ 5,173**	**$ 2,950**

11. Bank loan and other credit facilities:

HSBC Bank Canada facilities

The Bank Operating Loan is based on a percentage of trade accounts receivable and product inventory, a letter of credit that is guaranteed by two directors of the Company (see Note 20) has been pledged as security for the Working Capital Loan and the Company has pledged the associated assets of the Non-revolving Equipment Loans as security for the Non-revolving Equipment Loans (see Note 12). In the event that the Company is unable to repay the Working Capital Loan when it matures, HSBC has the option to exercise the guarantee and the guarantors would become the creditors of the Working Capital Loan.

FIGURES ARE IN THOUSANDS OF CANADIAN DOLLARS

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

	December 31, 2012	September 30, 2012
Operating loan	$ 8,531	$ 9,018
Working capital loan	13,063	12,832
	$ 21,594	**$ 21,850**

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

The credit facility contains the following financial covenants:

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

For the HSBC covenant calculations, the secured working capital loan of $12.0 million and the $2.9 million undiscounted face value of the convertible debentures (Note 9) are classified as equity.

HSBC provided waivers of past covenant breaches to June 30, 2013 conditional on compliance of amended covenants in future periods. Following the recognition of the $16.2 million impairment provision at September 30, 2012, the Company was in breach of the debt to tangible net worth covenant of the HSBC credit facility. At September 30, 2012 the long-term portion of the HSBC equipment loans totalling $397 thousand were classified as current (see Note 12). On January 25, 2013, HSBC waived all previous covenant breaches to September 30, 2012 and to December 31, 2012. The Company and HSBC are discussing revised covenants to be established for future periods.

The credit facility contains a general security agreement in favour of HSBC Bank Canada (the “Bank” or “HSBC”) over the Cantung mine and associate assets.

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

Bank Operating Loan

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

The amended operating loan facility has a maximum of $12.0 and can be exceeded by up to $3.0 million with the excess secured by USD cash deposits at HSBC.

Up to USD$5.0 million of the facility may be in USD.

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

For the three months ended December 31, 2012, interest expense of $112 thousand was recognised on the loan (three months ended December 31, 2011 - $22 thousand).

Working Capital Loan

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

A letter of credit that is guaranteed by two directors (the “Sponsors”) of the Company (see Note 20) has been pledged as security for the Working Capital Loan, in the amount of USD$12.0 million. The facility requires that in the event that the CND equivalent value of the letter of credit is equal to or below 95% of the outstanding balance of the loan, the Company will repay the loan balance down in the amount of the shortfall or provide the bank cash collateral in the amount of the shortfall. During the year ended September 30, 2012, an application fee of $75,000 was paid to HSBC.

The Sponsors and HSBC have entered into a Put Agreement which may be exercised by HSBC at its sole discretion, which allows HSBC to exchange the outstanding balance of the Working Capital Loan with the Sponsors for up to the USD$12.0 million letter of credit. As part of the compensation to the Sponsors for entering into the Put Agreement (“Guarantee’) and funding the letter of credit, the Company agreed to compensate the two Sponsors by making a payment equal to USD$1.5 million on the earlier of:

FIGURES ARE IN THOUSANDS OF CANADIAN DOLLARS

(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.

See Note 20 for further details on the compensation for the Put Agreement.

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

For the three months ended December 31, 2012, the Company recognised accretion of $218 thousand, a foreign exchange loss of $12 thousand and interest expense of $97 thousand on the loan. For the three months ended December 31, 2011, the Company recognised accretion of $193 thousand, a foreign exchange gain of $4 thousand and interest expense of $85 thousand on the loan.

The Working Capital Loan balance at December 31, 2012 includes $1.0 million of accreted liability (September 30, 2012 - $852 thousand).

12. Equipment loans and capital leases:

	December 31, 2012	September 30, 2012
Equipment loans	$ 5,572	$ 6,443
Capital leases	2,300	2,736
	7,872	9,179
Current portion of equipment loans and capital leases	(6,068)	(7,053)
Long-term portion of equipment loans and capital leases	**$ 1,804**	**$ 2,126**

Non-revolving Equipment Loans

See Note 15 for details of required payments for the equipment and capital leases.

The Company has entered into equipment loans that carry interest at rates that range from HSBC Bank Prime + 1.75% to 3.75%, mature between 2013 and 2014. The Company has pledged the associated assets of the loans as security for the loans. For the three months ended December 31, 2012, the Company recognised interest expense of $73 thousand (three months ended December 31, 2011 - $96 thousand).

At September 30, 2012 the long-term portion of the HSBC equipment loans totalling $397 thousand has been classified as current (see Note 11 for details).

Caterpillar Financial Services Corporation Loan Facility
During the year ended September 30, 2010, the Company entered into loans to purchase power generation, heat recovery equipment and electrical control systems for $3.5 million. The loans mature in fiscal 2015 with interest rates of 8.5% per annum. The Company has pledged the associated assets of the loans as security for the loans. During the three months ended December 31, 2012, the Company recognised interest expense of $36 thousand (three months ended December 31, 2011 - $51 thousand).

Capital leases

The Company has various capital leases for equipment with maturity dates that range from fiscal 2013 to 2015 with interest rates that range from 6.4% to 13.3%. The Company has pledged the associated assets of the capital leases as security for the capital leases.

Interest expense in the amount of $69 thousand was recognised on capital leases for the three months ended December 31, 2012 (three months ended December 31, 2011 - $42 thousand).

FIGURES ARE IN THOUSANDS OF CANADIAN DOLLARS

13. Reclamation liabilities:

The Company's total undiscounted amount of estimated future cash flows required to settle the Cantung mine reclamation obligation is $9.2 million (September 30, 2012 - $8.7 million) which has been discounted using a current market based pre-tax discount rate of 1.3%. Following the impairment that reduced the carrying value of Cantung assets as of September 30, 2012, depreciation and amortization charges have been reduced. The impairment calculation was based on management's best estimate that operations will continue through fiscal 2016. Due to this extension the reclamation liability increased by $68 thousand with a corresponding increase to the reclamation asset. The majority of the reclamation work is estimated to commence during fiscal 2017 through fiscal 2019 but this timing could be deferred as a longer life is possible, particularly as improvements are under investigation, but are not included in the current life assumptions.

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.

The Cantung mine future reclamation cost was estimated by an independent engineering firm at September 30, 2012. The estimate included additional costs for post-closure monitoring, sampling and reporting activities. The reclamation cost estimate from the engineering firm was used as the basis for the Company's estimate of the reclamation liability.

	Quarter ended December 31, 2012	Year ended September 30, 2012
Opening balance, reclamation liabilities	$ 8,404	$ 7,688
Accretion	45	116
Change in estimates of future costs	68	600
Closing balance, reclamation liabilities	**$ 8,517**	**$ 8,404**

The accretion expense is included in interest and financing costs on the statement of comprehensive income (loss) for the period.

The Company has posted deposits of $5.1 million in cash and $6.6 million in the form of secured promissory notes which are held in escrow as security for the mine reclamation obligations under the water license for the Cantung mine issued by the Mackenzie Valley Land and Water Board (See Note 15 a.)

14. Share capital:

a. Capital stock

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

b. Warrants

Number of Warrants Outstanding as of September 30, 2012	Issued	Exercised	Expired	Number of Warrants Outstanding as of December 31, 2012	Exercise Price	Expiry Date
2,000,000	-	-	-	2,000,000	$1.00	27-Oct-15
11,500,000	-	-	-	11,500,000	$0.75	31-Mar-13
1,250,000	-	-	-	1,250,000	$0.50	31-Mar-13
14,750,000	**-**	**-**	**-**	**14,750,000**		

FIGURES ARE IN THOUSANDS OF CANADIAN DOLLARS

c. Stock option plan

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

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

	Number of Options Outstanding as of September 30, 2012	Granted	Exercised	Forfeited	Cancelled	Expired	Number of Options Outstanding as of December 31, 2012	Exercise Price	Expiry Date	Options Exercisable
	175,000	-	-	-	-	-	175,000	$0.15	19-Oct-14	175,000
	1,650,000	-	-	-	-	-	1,650,000	$0.19	1-Feb-15	1,650,000
	240,000	-	-	-	-	-	240,000	$0.41	5-Jan-16	240,000
	150,000	-	-	-	-	-	150,000	$0.28	19-Jan-17	83,333
	2,135,000	-	-	-	-	-	2,135,000	$0.42	8-Mar-17	1,369,999
	150,000	-	-	-	-	-	150,000	$0.42	5-Apr-17	50,000
	4,500,000	**-**	**-**	**-**	**-**	**-**	**4,500,000**			**3,568,332**
Weighted Average Exercise Price	$0.32	N/A	N/A	N/A	N/A	N/A	$0.32			$0.30

The outstanding options have a weighted-average exercise price of $0.32 per share (September 30, 2012 - $0.32) and the weighted-average remaining life of 3.2 years (September 30, 2011 – 3.5 years).

During the three months ended December 31, 2012 $nil thousand was recognised as share-based compensation expense for options that vested during the period (three months ended December 31, 2011 - $12 thousand).

FIGURES ARE IN THOUSANDS OF CANADIAN DOLLARS

15. Commitments:

Contractual Obligations and Commitments	Payments due in years ended September 30						
	2013 [1]	2014	2015	2016	2017	2018	TOTAL
Mactung leases	$ 8	$ 8	$ 8	$ 8	$ 8	$ 8	$ 48
Cantung leases	38	43	43	43	43	43	$ 253
Customer advances	-	2,612	5,173	-	-	-	$ 7,785
Equipment loans	3,939	1,578	344	-	-	-	$ 5,861
Capital leases	1,350	1,103	70	40	-	-	$ 2,563
Office leases [2]	132	223	233	245	251	84	$ 1,168
Equipment rental contract	206	-	-	-	-	-	$ 206
	$ 5,673	**$ 5,567**	**$ 5,871**	**$ 336**	**$ 302**	**$ 135**	**$ 17,884**

1 - Figures in the 2013 column are for the remainder of fiscal 2013

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

a. Water license

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

The security deposit required under the Company's license is $11.7 million. The Company has posted $5.1 million in cash and $6.6 million in the form of secured promissory notes pursuant to the Reclamation Security Agreement ("RSA"). The RSA further provides for:

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

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

During the three months ended December 31, 2012 the Company posted $100 thousand of cash and reduced the posted secured promissory notes by $100 thousand.

b. Smelter royalties

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

16. Contingencies:

Pursuant to agreements with officers, in the event of their contracts being terminated, the Company would be liable for payments totalling $1.8 million.

Pursuant to contracts with directors, in the event of a change in control of the Company, the Company would be liable for payments totalling $0.4 million.

FIGURES ARE IN THOUSANDS OF CANADIAN DOLLARS

17. Cost of sales:

	For the three months ended December 31, 2012	For the three months ended December 31, 2011
Mine operating costs	$ 17,798	$ 16,353
Amortization and depreciation	1,803	3,015
Inventory changes, adjustments and write-downs	(6,554)	(1,779)
Freight, handling and conversion	459	407
Royalties	99	260
	$ 13,605	**$ 18,256**

The amount of inventory sold and recognised as cost of sales in the period, together with the $0.8 million write-down of tungsten concentrate inventories to the estimated recoverable amount in the three months ended December 31, 2012, constitutes the cost of sales (see Note 5).

Inventory changes, adjustments and write-downs for the three months ended December 31, 2012 included accounts receivables write-offs of $1.1 million related to previous sales.

Mine operating costs by function:

	For the three months ended December 31, 2012	For the three months ended December 31, 2011
Mine	$ 6,942	$ 6,116
Mill	2,977	2,786
Power generation and surface maintenance	4,831	4,293
Site administration and environmental	3,048	3,158
	$ 17,798	**$ 16,353**

Mine operating costs by nature:

	For the three months ended December 31, 2012	For the three months ended December 31, 2011
Salaries and wages	$ 4,936	$ 4,446
Employee benefits	1,120	846
Fuel and lubricants	3,967	4,172
Materials and supplies	4,058	3,058
Mine and drill contractors	1,040	1,012
Freight, expediting and support services	1,598	1,789
Other costs	1,079	1,030
	$ 17,798	**$ 16,353**

FIGURES ARE IN THOUSANDS OF CANADIAN DOLLARS

18. General and administrative costs:

	For the three months ended December 31, 2012	For the three months ended December 31, 2011
Fees, wages and benefits	$ 416	$ 416
Office expenses	122	120
Accounting and audit	60	48
Legal fees	4	124
Investor relations, travel and business development	24	32
Consulting	25	21
Filing fees and transfer agent fees	4	20
	$ 655	**$ 781**

19. Supplemental cash flow:

	For the three months ended December 31, 2012	For the three months ended December 31, 2011
Change in non-cash working capital:		
Accounts receivable	$ 7,364	$ (1,201)
Prepaid expenses	125	(844)
Inventories	(7,570)	(2,057)
Accounts payable and accrued liabilities	1,446	412
Change in non-cash working capital	**$ 1,365**	**$ (3,690)**

	For the three months ended December 31, 2012	For the three months ended December 31, 2011
Expenditures on property plant and equipment in accounts payable and accrued liabilities	$ 2,222	$ 3,955
Expenditures on Mactung development in accounts payable and accrued liabilities	$ 202	$ 172
Other supplemental information:		
Total interest received	$ -	$ 10
Total interest and financing costs paid	$ 702	$ 738
Included in cash flows from operations	$ 11	$ 61

20. 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 three months ended December 31, 2012 the Company recognised an expense of $11 thousand (three months ended December 31, 2011 - $61 thousand) in respect to the guarantee (See Note 10) to a director. The guarantee expired on December 1, 2012.

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 9). For the three months ended December 31, 2012 the Company recognised an expense of $34 thousand (three months ended December 31, 2011 - $35 thousand) of interest on these convertible debentures.

On October 13, 2011, two directors of the Company sponsored (the "Sponsors") the Company for the HSBC Working Capital Loan (see Note 11), by backing a letter of credit to HSBC in the amount of USD$12.0 million and entered into a Put Agreement with HSBC. The Put Agreement may be exercised by HSBC, at its sole discretion, which allows HSBC to exchange the outstanding balance of the Working Capital Loan with the Sponsors for up to the USD$12.0 million of the letter of credit.

FIGURES ARE IN THOUSANDS OF CANADIAN DOLLARS

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

a. pay the Sponsors in USD on the last day of each calendar quarter, an aggregate amount equal to 1.75% of the maximum outstanding principal amount of the line of credit during the immediately preceding calendar quarter (or portion thereof), which payments began on December 31, 2011;
b. pay to the Sponsors, an aggregate amount equal to USD$1.5 million on the earlier of:
   (i) the date the Loan is paid in full;
   (ii) the date the Loan is put to the Sponsors pursuant to the Put Agreement; or
   (iii) the date the letter of credit is drawn upon for payment of the Loan;
c. upon certain events of default of the payments due to Sponsors on the last day of each quarter, increase to an aggregate amount equal to 3.0% of the maximum outstanding principal amount of the line of credit during the immediately preceding calendar quarter (or portion thereof); and the payment to the Sponsors will increase to USD$2.0 million from USD$1.5 million;
d. the Company has granted a security interest over the Mactung project to the Sponsors which is subordinated to the security under the Reclamation Security Agreement (Note 15 a).

A fee of $12 thousand was paid to Queenwood, which has a director in common and common ownership interests in the Company, to arrange the letter of credit for the Company.

During the three months ended December 31, 2012 the Company recognised an expense of $209 thousand in respect of the letter of credit to these Sponsors (three months ended December 31, 2011 - $190 thousand).

During the three months ended December 31, 2012 the Company recognised $74 thousand for professional and consulting fees to directors or companies related to director(s) (three months ended December 31, 2011 - $83 thousand).

The above transactions were in the normal course of operations.

21. Segmented information:

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

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

	For the three months ended					
	December 31, 2012			December 31, 2011		
TUNGSTEN:						
Asia	$	6,460	62%	$	15,246	58%
North American		4,014	38%		3,135	12%
Europe		-	0%		8,041	30%
		10,474	**100%**		**26,422**	**100%**
COPPER:						
North America		990	100%		-	
		990	**100%**		**-**	**0%**
	$	**11,464**		**$**	**26,422**	

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

At December 31, 2012		**Canada**		**United States**		**Total**
Current assets	$	19,693	$	149	$	19,842
Non-current assets		58,054		-		58,054
Total assets	**$**	**77,747**	**$**	**149**	**$**	**77,896**

At September 30, 2012		**Canada**		**United States**		**Total**
Current assets	$	26,500	$	149	$	26,649
Non-current assets		54,319		-		54,319
Total assets	**$**	**80,819**	**$**	**149**	**$**	**80,968**

The non-current assets in Canada at December 31, 2012 includes $5.1 million of financial instruments (September 30, 2012 - $5.0 million).

22. Earnings Per Share:

Earnings (loss) per share, calculated on the basic and diluted basis, is as follows:

	For the three months ended			
(in thousands except per share amounts)		**December 31, 2012**		**December 31, 2011**
Earnings (loss) per share:				
Basic	$	(0.02)	$	0.03
Diluted	$	(0.02)	$	0.03
Net income (loss) for the period:				
Attributed to common shareholders - basic	$	(4,012)	$	6,593
Attributed to common shareholders - diluted	$	(4,012)	$	6,593
Weighted average shares outstanding:				
Weighted average shares outstanding - basic		237,123		237,123
Dilutive securities:				
Stock options		-		1,518
Weighted average shares outstanding - diluted		237,123		238,641
Shares excluded from the determination of diluted earnings per share:				
Stock options		4,500		1,742
Warrants		14,750		14,750
Convertible debentures		6,506		6,506
		25,756		22,998

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

There have been no significant issuances of potentially dilutive securities subsequent to December 31, 2012.

23. Subsequent Events:

On January 26, 2013 the Company signed a letter of intent with Queenwood Capital Partners II LLC, a company controlled by two Directors of the Company, for a USD$4.0 million short-term credit facility. The short-term credit facility will bear interest at 12.5% annually, mature October 31, 2013, and security to be granted over the Mactung property, subordinated to security previously granted.