NORTH AMERICAN TUNGSTEN CORPORATION LTD

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED
SEPTEMBER 30, 2012 AND 2011

January 25, 2013

Independent Auditor's Report

To the Shareholders of North American Tungsten Corporation Ltd.

We have audited the accompanying consolidated financial statements of North American Tungsten Corporation Ltd. and its subsidiaries, which comprise the consolidated statements of financial position as at September 30, 2012, September 30, 2011 and October 1, 2010 and the consolidated statements of comprehensive income (loss), consolidated statements of cash flows and equity for the years ended September 30, 2012 and September 30, 2011, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditor's responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of North American Tungsten Corporation Ltd. and its subsidiaries as at September 30, 2012,

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

September 30, 2011 and October 1, 2010 and their financial performance and their cash flows for the years ended September 30, 2012 and September 30, 2011 in accordance with International Financial Reporting Standards.

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

signed "PricewaterhouseCoopers LLP"

Chartered Accountants
Vancouver, BC

NORTH AMERICAN TUNGSTEN CORPORATION LTD.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS AT SEPTEMBER 30, 2012, SEPTEMBER 30, 2011 AND OCTOBER 1, 2010
FIGURES IN THOUSANDS OF CANADIAN DOLLARS

	Note(s)	September 30, 2012	September 30, 2011	October 1, 2010
ASSETS			(restated - note 31)	(restated - note 31)
Current assets				
Cash and cash equivalents		$ 2,124	$ 3,000	$ 2,276
Accounts receivable	7	17,153	7,622	1,977
Inventories	8	6,556	7,701	2,259
Prepaid expenses		816	719	344
		26,649	19,042	6,856
Investment in Tungsten Diversified Industries, LLC ("TDI")	9	-	568	5,136
Property, plant and equipment	10	31,630	42,592	17,484
Mineral property - Mactung	11	17,668	16,196	15,182
Mineral properties - other		9	9	9
Reclamation deposits	17 & 19	5,012	4,566	4,128
		$ 80,968	**$ 82,973**	**$ 48,795**
LIABILITIES				
Current liabilities				
Accounts payable and accrued liabilities	12	$ 20,595	$ 23,229	$ 7,146
Bank loans	15	21,850	8,521	-
Current portion of customer advances	14	768	2,621	2,958
Current portion of equipment loans and capital leases	15 & 16	7,053	5,349	1,216
Convertible debentures	13	2,353	2,451	-
		52,619	42,171	11,320
Customer advances	14	2,950	3,145	5,017
Equipment loans and capital leases	15 & 16	2,126	5,699	1,619
Reclamation liabilities	17	8,404	7,688	3,979
Other obligations		268	252	235
Deferred income tax	30	-	-	365
		66,367	58,955	22,535
SHARE CAPITAL AND DEFICIT				
Share capital	18	64,673	64,673	53,546
Contributed surplus	18	5,667	5,226	3,135
Accumulated other comprehensive income	31	-	15	-
Deficit	31	(55,739)	(45,896)	(30,421)
		14,601	24,018	26,260
		$ 80,968	**$ 82,973**	**$ 48,795**

Going concern	1
Commitments and Contingencies	19 & 22

ON BEHALF OF THE BOARD

"signed"

Stephen M. Leahy

"signed"

Bryce M. A. Porter

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

NORTH AMERICAN TUNGSTEN CORPORATION LTD.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
FOR THE YEARS ENDED SEPTEMBER 30, 2012 AND 2011
FIGURES IN THOUSANDS OF CANADIAN DOLLARS

(figures in thousands of dollars except for per share amounts)	Note(s)	For the year ended September 30, 2012	September 30, 2011
			(restated - note 31)
REVENUES			
Sales	23 & 28	$ 107,524	$ 55,652
EXPENSES			
Cost of sales	8 & 24	93,668	62,886
Impairment of property, plant and equipment	10	16,200	-
General and administrative	25	3,453	2,977
Interest and financing costs		3,119	1,760
Accretion of financial liabilities	13 & 15	1,380	477
Stock based compensation	18	441	78
Equity loss of TDI	9	303	4,568
Loss (gain) on disposal of assets		(14)	90
Gain on disposal of associate	9	(78)	-
Foreign exchange gain		(109)	(250)
Interest and other income		(487)	(159)
Gain on revaluation of derivative liability	13	(509)	(945)
NET LOSS BEFORE INCOME TAXES		**(9,843)**	**(15,830)**
Deferred income tax recovery	30	-	355
NET LOSS		**(9,843)**	**(15,475)**
OTHER COMPREHENSIVE LOSS			
Cumulative translation adjustment	9	(15)	15
NET COMPREHENSIVE LOSS		**$ (9,858)**	**$ (15,460)**
Earnings/(loss) per share	29		
Basic		$ (0.04)	$ (0.07)
Diluted		$ (0.04)	$ (0.07)
Weighted average number of shares (in thousands)			
Basic		237,123	224,975
Diluted		237,123	224,975

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

NORTH AMERICAN TUNGSTEN CORPORATION LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2012 AND 2011
FIGURES IN THOUSANDS OF CANADIAN DOLLARS

	Note(s)	For the years ended September 30, 2012	September 30, 2011
			(restated - note 31)
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES			
Net loss		$ (9,843)	$ (15,475)
Items not affecting cash:			
Amortization and depreciation	10 & 24	19,934	3,499
Equity loss of TDI	9	303	4,568
Gain on disposal of associate	9	(78)	-
Stock based compensation	18	441	78
Accretion of financial liabilities	13 & 15	1,380	477
Impairment of property, plant and equipment	10	16,200	-
Loss (gain) on disposal of assets		(14)	90
Accretion of reclamation obligations	17	116	148
Foreign exchange loss (gain) on customer advances	14	(319)	30
Foreign exchange loss (gain) on financial liabilities		(121)	44
Loss (gain) on revaluation of derivative liability	13	(509)	(945)
Deferred income tax recovery		-	(355)
		27,490	**(7,841)**
Adjustment for:			
Interest and financing costs paid		2,804	1,288
Change in non-cash working capital	26	(8,759)	(5,867)
Increase in reclamation deposits	19	(400)	(400)
		21,135	**(12,820)**
CASH FLOWS USED IN INVESTING ACTIVITIES			
Proceeds on disposal of assets		14	170
Expenditure on Mactung development	26	(1,430)	(1,003)
Proceeds on disposal of associate	9	1,015	-
Purchase of property, plant and equipment	26	(29,434)	(17,138)
		(29,835)	**(17,971)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Issuance of capital stock units	18	-	13,176
Net increase (decrease) in equipment loans and capital leases	16	(1,869)	8,213
Issuance of convertible debenture	13	-	2,893
Working capital loan borrowings	15	12,000	-
Bank loan borrowings, net	15	497	8,521
Interest and financing costs paid		(2,804)	(1,288)
		7,824	**31,515**
CHANGE IN CASH AND CASH EQUIVALENTS		**(876)**	**724**
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR		3,000	2,276
CASH AND CASH EQUIVALENTS, END OF YEAR		**$ 2,124**	**$ 3,000**
Represented by:			
Cash		$ 2,089	$ 2,965
Cash equivalents	6	35	35
		2,124	$ 3,000
Supplemental cash flow information	26		

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

NORTH AMERICAN TUNGSTEN CORPORATION LTD.
CONSOLIDATED STATEMENTS OF EQUITY
FOR THE YEARS ENDED SEPTEMBER 30, 2012 AND 2011
FIGURES IN THOUSANDS OF CANADIAN DOLLARS EXCEPT NUMBER OF COMMON SHARES

For the years ended September 30, 2012 and 2011

	Note(s)	Number of Common Shares	Common Shares	Contributed Surplus	Accumulated other comprehensive income (loss)	Deficit	Total Equity
Balance at October 1, 2010	31	**206,790,058**	**$ 53,546**	**$ 3,135**	**$ -**	**$ (30,421)**	**$ 26,260**
Stock based compensation	18	-	-	78	-	-	**78**
Exercise of stock options	18	333,000	77	(27)	-	-	**50**
Private placement of units	18	30,000,000	12,197	1,963	-	-	**14,160**
Share issuance costs		-	(1,147)	77	-	-	**(1,070)**
Net loss from operations		-	-	-	-	(15,475)	**(15,475)**
Cumulative translation adjustment		-	-	-	15	-	**15**
Balance at September 30, 2011		**237,123,058**	**$ 64,673**	**$ 5,226**	**$ 15**	**$ (45,896)**	**$ 24,018**
Stock based compensation	18	-	-	441	-	-	**441**
Net loss from operations		-	-	-	-	(9,843)	**(9,843)**
Cumulative translation adjustment		-	-	-	(15)	-	**(15)**
Balance at September 30, 2012		**237,123,058**	**$ 64,673**	**$ 5,667**	**$ -**	**$ (55,739)**	**$ 14,601**

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 year ended September 30, 2012, the net loss was $9.8 million (year ended September 30, 2011 the net loss was $15.5 million) and there was a deficiency of working capital of $26.0 million (September 30, 2011 - $23.1 million). As described in Note 15, 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 the breach provided that amended covenants are met in the future. 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. 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

The financial statements are prepared in accordance with Canadian generally accepted accounting principles as stated in the Handbook of the Canadian Institute of Chartered Accountants ("CICA Handbook"). In 2010, the CICA Handbook was revised to incorporate International Financial Reporting Standards ("IFRS"), and require publicly accountable enterprises to apply such standards effective for years beginning on or after January 1, 2011. Accordingly, these are the Company's first annual consolidated financial statements under IFRS. In these financial statements, the term "Canadian GAAP" refers to Canadian GAAP before the adoption of IFRS.

These consolidated financial statements have been prepared in accordance with IFRS as issued by the International Accounting Standards Board and IFRS 1, First-Time Adoption of International Financial Reporting Standards ("IFRS 1"). Subject to certain transition elections disclosed below, the accounting policies have been consistently applied in the opening IFRS statement of financial position as at October 1, 2010 and throughout all years presented, as if these policies had always been in effect. Note 31 discloses the impact of the transition to IFRS on our reported statement of financial position, statement of comprehensive income (loss) and statement of cash flows, including the nature and effect of significant changes in accounting policies from those used in the consolidated financial statements of the Company, for the year ended September 30, 2011, prepared in accordance with Canadian GAAP.

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

b. Basis of measurement

These consolidated financial statements have been prepared on a historical cost basis except for financial instruments classified as fair-value-through profit and loss which are stated at their fair value.

c. Principles of consolidation

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

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

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

d. Investment in associates

During fiscal 2011 and until its disposal in 2012, the Company had a 43.2% interest in Tungsten Diversified Industries, LLC incorporated in Minnesota, USA (functional currency is USD), which is considered an associate.

Associates are entities over which the Company has significant influence, but not control. The financial results of the Company's investments in its associates are included in the Company's results according to the equity method. Subsequent to the acquisition date, the Company's share of profits or losses of associates is recognised in the statement of comprehensive income (loss) and its share of other comprehensive income (loss) of associates is included in the other comprehensive income (loss) account.

Unrealised gains on transactions between the Company and an associate are eliminated to the extent of the Company's interest in the associate. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Dilution gains and losses arising from changes in interests in investments in associates are recognised in the statement of comprehensive income (loss).

The Company assesses at each year-end whether there is any objective evidence that its interests in associates are impaired. If impaired, the carrying value of the Company's share of the underlying assets of associates is written down to its estimated recoverable amount (being the higher of fair value less cost to sell and value in use) and charged to the statement of comprehensive income.

e. Inventories

Concentrate inventories are 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 realisable value for intermediates and tungsten concentrate inventories is determined based on the Company's average realised tungsten sales price for the month.

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

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

Supplies inventory is valued at average cost.

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

f. Property, plant and equipment

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

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

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

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

Major categories	Depreciation method
Mine development costs	Unit of production
Mining equipment	Unit of production
Plant and buildings	Unit of production
Equipment under capital lease	Unit of production
Reclamation assets	Straight-line over remaining life of mine

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

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

g. Capital leases

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

h. Asset impairment

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

i. Borrowing costs

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

j. Mineral property interests

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

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

k. Provisions

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

l. Reclamation liabilities

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

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

m. Foreign currencies

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

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

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

n. Revenue recognition

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

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

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

o. Income taxes

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

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

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

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

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

Tax on income in interim periods is accrued using the tax rate that would be applicable to expected total annual earnings.

p. Stock based compensation

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

q. Earnings per share

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

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

r. Share capital

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

3. IFRS Pronouncements – issued but not yet effective:

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

In May 2011, the IASB issued IFRS 10, Consolidated Financial Statements ("IFRS 10"), IFRS 11, Joint Arrangements ("IFRS 11"), IFRS 12, Disclosure of Interests in Other Entities ("IFRS 12"), IAS 27, Separate Financial Statements ("IAS 27"), IFRS 13, Fair Value Measurement ("IFRS 13"), and amended IAS 28, Investments in Associates and Joint Ventures ("IAS 28"). Each of the new standards is effective for annual periods beginning on or after April 1, 2013 with early adoption permitted.

IFRS 9 – Financial Instruments

IFRS 9 was issued in November 2009. It addresses classification and measurement of financial assets and replaces the multiple category and measurement models in IAS 39 for debt instruments with a new mixed measurement model having only two categories: amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments and such instruments are either recognised at fair value through profit or loss or at fair value through other comprehensive income. Where such equity instruments are measured at fair value through other comprehensive income, dividends, to the extent not clearly representing a return of investment, are recognised in profit or loss; however, other gains and losses (including impairments) associated with such instruments remain in accumulated comprehensive income indefinitely.

Requirements for financial liabilities were added in October 2010 and they largely carried forward existing requirements in IAS 39, except that fair value changes due to credit risk for liabilities designated as fair value through profit and loss would generally be recorded in other comprehensive income.

IFRS 9 is required to be applied for accounting periods beginning on or after January 1, 2015, with earlier adoption permitted.

IFRS 10 – Consolidation

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

IFRS 11 – Joint Arrangements

IFRS 11 requires a venture to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation the venturer will recognise its share of the assets, liabilities, revenue and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interests in joint ventures. IFRS 11 supersedes IAS 31, Interests in Joint Ventures, and SIC-13, Jointly Controlled Entities-Non-monetary Contributions by Venturers.

IFRS 12 – Disclosure of Interests in Other Entities

IFRS 12 establishes disclosure requirements for interests in other entities, such as joint arrangements, associates, special purpose vehicles and off-balance sheet vehicles. The standard carries forward existing disclosures and also introduces significant additional disclosure requirements that address the nature of, and risks associated with, an entity's interests in other entities.

IFRS 13 – Fair Value Measurement

IFRS 13 is a comprehensive standard for the fair value measurement and disclosure requirements for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. It also establishes disclosures about fair value measurement. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and in many cases does not reflect a clear measurement basis or consistent disclosures.

The Company is in the process of assessing the impact of these new standards.

4. Critical Accounting Estimates and Judgements

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

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

- The amounts recorded for depreciation, amortization, impairment of property, plant and equipment and mine development costs depend on estimates of tungsten reserves, the estimated economic lives of the assets, estimated salvage values, future cash flow from assets and discount rates where applicable.
- Provision for future site restoration costs depends on estimates of costs, rates of inflation, discount rates, estimated timing of progressive and future reclamation work, the regulatory environment and mine development plans which are all dependent on the life of mine assumptions. Changes in the life of mine or any of the assumptions could materially affect the estimated liability.
- Costs that have been deferred in relation to mineral property interests have been deferred to the extent that they are expected to be recovered. The viability of exploration properties depends on the quantity and grade of mineralization, the location of the deposit in relation to infrastructure, the estimated future market prices of the minerals.
- Deferred income tax assets and liabilities are dependent on estimated timing of future events, cash flows, income tax rates and profitability of operations.
- Review of asset carrying values and assessment of impairment - In accordance with the Company's accounting policy, each asset or cash generating unit is evaluated at each reporting date to determine whether there are any indications of impairment. If any such indication exists, a formal estimate of recoverable amount is performed and an impairment loss is recognized to the extent that the carrying amount exceeds the recoverable amount. The recoverable amount of an asset or cash generating unit is measured at the higher of fair value less costs to sell and value in use. The determination of fair value and value in use requires management to make estimates and assumptions about expected production and sales volumes, realised sales prices, reserves, operating costs, mine closure and restoration costs, future capital expenditures and appropriate discount rates for future cash flows. The estimates and assumptions are subject to risk and uncertainty, and as such there is the possibility that changes in circumstances will alter these projections, which may impact the recoverable amount of the assets. In such circumstances, some or all of the carrying value of the assets may be further impaired or the impairment charge reduced with the impact recorded in the statement of income.

<u>Impairment of property, plant and equipment</u>

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

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

5. Financial instruments:

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

FIGURES ARE IN THOUSANDS OF CANADIAN DOLLARS

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
Trade and other receivables	Loans and Receivables
Reclamation deposits	Loans and Receivables
Accounts payable and accrued liabilities	Other Financial Liabilities
Bank operating and working capital loans	Other Financial Liabilities
Equipment loans and capital leases	Other Financial Liabilities
Convertible debentures - interest bearing portion	Other Financial Liabilities
Other obligations	Other Financial Liabilities
Derivatives	Fair-Value-Through Profit or Loss

6. 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.

On May 14, 2012, the Company entered into an amendment of its credit facility with HSBC. The amended HSBC operating loan facility has a maximum of $12.0 million (previously $8.0 million with up to $4.0 million excess borrowings permitted with the excess secured by USD cash deposits at HSBC). The $12.0 million maximum can be exceeded by up to $3.0 million with the excess secured by USD cash deposits at HSBC (see Note 15). The USD cash deposits are restricted from use, until the operating loan balance is paid down to the $12.0 million borrowing limit. At September 30, 2012, cash of USD$nil was required to be kept on deposit in relation to this loan facility (September 30, 2011 – USD$0.5 million).

7. Accounts Receivable:

	September 30, 2012	September 30, 2011	October 1, 2010
Trade receivables	$ 16,359	$ 6,862	$ 1,351
Taxes and other receivables	794	760	626
	$ 17,153	**$ 7,622**	**$ 1,977**

8. Inventories:

	September 30, 2012	September 30, 2011	October 1, 2010
Tungsten concentrates	$ 472	$ 3,066	$ -
Tungsten intermediates	-	893	-
Ore stockpile	1,380	228	-
Copper concentrate	372	-	-
Materials and supplies	4,332	3,514	2,259
	$ 6,556	**$ 7,701**	**$ 2,259**

The amount of inventories sold and recognised as an expense in the year, together with the June 30, 2012 write-down of the tungsten concentrates inventories, constitute the cost of sales (see Note 24).

FIGURES ARE IN THOUSANDS OF CANADIAN DOLLARS

9. Investment in Tungsten Diversified Industries, LLC:

During fiscal 2011 and 2012, 43.2% of Tungsten Diversified Industries, LLC ("TDI") was owned by the Company. The remaining 56.8% was 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. For October 1, 2011 to July 30, 2012, the Company's share of the equity loss of TDI was $303 thousand (year ended September 30, 2011 - $4.5 million), which reduced the investment in TDI to $265 thousand.

In July 2012, the Company arranged the sale of the investment in TDI and certain tungsten intermediaries to Tundra Particle Technologies, LLC. for gross proceeds of USD$1.0 million.

The Company's net investment in TDI is as follows:

Balance - October 1, 2010	**$**	**5,136**
Share of losses for the year		(4,422)
Cumulative translation adjustment on foreign operations		(146)
Balance - September 30, 2011		**568**
Share of losses for October 1, 2011 to July 30, 2012		(303)
Disposal of investment in associate		(265)
Balance - September 30, 2012	**$**	**-**

Determination of the gain on disposal of associate:

Proceeds of sale	$	1,015
Recycling of cumulative translation adjustment		(15)
Carrying value of the net assets sold in the transaction		
Investment in TDI (membership units)		(265)
Tungsten intermediaries		(657)
		(937)
Gain on disposal of associate	**$**	**78**

FIGURES ARE IN THOUSANDS OF CANADIAN DOLLARS

10. Property, plant and equipment:

	Equipment under capital lease	Plant and buildings	Mine development costs	Mining equipment	Tailings	Reclamation assets	Total
Opening cost, October 1, 2010	$ 4,811	$ 14,706	$ 13,073	$ 5,909	$ 8,704	$ 1,199	$ 48,402
Additions	5,799	2,487	12,453	1,689	2,878	3,561	28,867
Disposals	-	(2,228)	-	(626)	-	-	(2,854)
Ending cost, September 30, 2011	10,610	14,965	25,526	6,972	11,582	4,760	74,415
Opening balance, accumulated depreciation and impairments, October 1, 2010	1,231	8,130	11,088	2,093	7,554	822	30,918
Depreciation	1,033	514	-	774	801	377	3,499
Disposals	-	(2,080)	-	(514)	-	-	(2,594)
Ending balance, accumulated depreciation and impairments, September 30, 2011	2,264	6,564	11,088	2,353	8,355	1,199	31,823
Ending balance, September 30, 2011	**$ 8,346**	**$ 8,401**	**$ 14,438**	**$ 4,619**	**$ 3,227**	**$ 3,561**	**$ 42,592**
Opening cost, October 1, 2011	$ 10,610	$ 14,965	$ 25,526	$ 6,972	$ 11,582	$ 4,760	$ 74,415
Additions	2,350	1,616	14,027	4,039	2,540	600	25,172
Ending cost, September 30, 2012	12,960	16,581	39,553	11,011	14,122	5,360	99,587
Opening balance, accumulated depreciation and impairments, October 1, 2011	2,264	6,564	11,088	2,353	8,355	1,199	31,823
Depreciation	1,634	1,374	13,773	604	1,394	1,155	19,934
Impairment	723	1,457	9,095	383	2,680	1,862	16,200
Ending balance, accumulated depreciation and impairments, September 30, 2012	4,621	9,395	33,956	3,340	12,429	4,216	67,957
Ending balance, September 30, 2012	**$ 8,339**	**$ 7,186**	**$ 5,597**	**$ 7,671**	**$ 1,693**	**$ 1,144**	**$ 31,630**

For the year ended September 30, 2012, $19.9 million of amortization and depreciation was recognised as an expense (year ended September 30, 2011 - $3.5 million).

Included in plant and building is a tailings back-fill system and a heat recovery system totalling $4.9 million which were under development during the year ended September 31, 2011 and 2012. Included in tailings is $0.7 million for a tailings storage facility which was under development during the year ended September 30, 2012. No amortization will be taken on these assets until commissioned.

The Company has pledge 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.

FIGURES ARE IN THOUSANDS OF CANADIAN DOLLARS

11. Mineral property - Mactung:

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

Balance October 1, 2010	**$**	**15,182**
Expenditures during the year		1,014
Balance September 30, 2011	**$**	**16,196**
Expenditures during the year		1,472
Balance September 30, 2012	**$**	**17,668**

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

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

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

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

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

The $300 thousand paid by the Company has been treated as a deferred royalty and will be amortized over the life of the mine once the Mactung property is brought into production. The balance at September 30, 2012, was $300 thousand (September 30, 2011 - $300 thousand).

12. Accounts Payable:

	September 30, 2012	September 30, 2011	October 1, 2010
Trade payables	$ 10,602	$ 9,113	$ 1,988
Property, plant and equipment and Mactung development costs payable	5,673	10,493	2,419
Royalties payable	2,962	1,912	1,368
Other payables and accrued liabilities	1,358	1,711	1,371
	$ 20,595	**$ 23,229**	**$ 7,146**

FIGURES ARE IN THOUSANDS OF CANADIAN DOLLARS

13. Convertible Debentures:

	Debt component	Derivative liability	Total liability
Balance at October 1, 2010	$ -	$ -	$ -
Initial recognition	1,377	1,519	2,896
Interest accreted	461	-	461
Loss (gain) on revaluation of derivative liability	-	(945)	(945)
Loss (gain) on foreign exchange	39	-	39
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**

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.

When a compound financial liability is issued by the Company that contains an option to convert a portion or the entire amount into equity, on the date of issuance the debt and equity components are separated. If the conversion feature meets the fixed-for-fixed requirements the carrying amount of the financial liability component is first determined by discounting the stream of future principal and interest payments at the rate of interest prevailing at the date of issue for instruments of similar term and risk. The conversion component is classified as equity and is equal to the residual amount determined by deducting the carrying amount of the debt from the face value of the compound financial liability. Subsequent to the initial recognition, the debt component is carried at amortized cost and the equity component is carried at the initial recognised amount and is not fair valued at each reporting date. Fixed-for-fixed means that a specified amount of debt is converted into a specified amount of equity and that ratio does not vary based on changes in other factors.

If the conversion feature does not meet the fixed-for-fixed requirement and the amount of debt converted or equity to be issued varies based on change in other factors, the conversion feature is considered to be an embedded derivative. The derivative is fair valued at the date of issuance using an option pricing model and is classified as a liability. The interest bearing portion of the compound financial instrument is equal to the residual amount determined by deducting the fair value of the derivative from the face value of the compound financial liability. Subsequent to the initial recognition, the derivative is fair valued at each reporting date with changes in fair value recognised in profit or loss and the carrying amount of the interest bearing component is measured using the effective interest method.

When a compound financial instrument contains a conversion feature that 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.

The fair value of the derivative at issuance was determined to be USD$1.49 million (CDN$1.52 million) and was determined with the Black-Scholes option pricing model with the following assumptions; share price at date of issuance $0.42, exercise price of $0.45 per share, expected life of three years, risk-free rate of 0.56%, volatility of 90.6% and a zero dividend rate.

The interest bearing portion was allocated the residual amount of USD$1.35 million (CDN$1.38 million) net of transaction costs of USD$31 thousand (CND$32 thousand).

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 0.36%, 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 $289 thousand for the year ended September 30, 2012, a notional interest representing the accretion of the carrying value of the debentures due to the passage of time of $512 thousand and a foreign exchange gain of $101 thousand. A gain on revaluation of the derivative liability of $509 thousand was recognised for the year due to changes in fair value and changes in the price of the Company's shares.

FIGURES ARE IN THOUSANDS OF CANADIAN DOLLARS

At September 30, 2011, the fair value of the derivative was determined to be USD$0.56 million (CDN$0.57 million) and was determined with the Black-Scholes option pricing model with the following assumptions; share price at the reporting date of $0.26, exercise price of $0.46 per share, expected life of 2.1 years, risk-free rate of 0.42%, volatility of 90.0% and a zero dividend rate.

For the year ended September 30, 2011, the Company recognised interest expense of $283 thousand, a notional interest representing the accretion of the carrying value of the debentures due to the passage of time of $461 thousand and a foreign exchange loss of $39 thousand. A gain on revaluation of the derivative liability of $945 thousand was recognised for the year 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 27).

14. Customer advances:

During the year ended September 30, 2010, the Company received customer advances totalling $7.975 million (USD$7.75 million). The advances are repayable by 2015 (See Note 19).

During the year ended September 30, 2012, the Company repaid $1,729 thousand of the advances and recognised a foreign exchange gain of $319 thousand. During the year ended September 30, 2011, the Company repaid $2,239 thousand of the advances and recognised a foreign exchange loss of $30 thousand.

A related party (see Note 27) provided a guarantee of a letter of credit as security for a customer advance of USD$781 thousand at September 30, 2012 (CND$768 thousand).

	September 30, 2012	September 30, 2011	October 1, 2010
Obligations for customer advances	$ 3,718	$ 5,766	$ 7,975
Current portion of customer advances	(768)	(2,621)	(2,958)
Long-term portion of customer advances	**$ 2,950**	**$ 3,145**	**$ 5,017**

Subsequent to year end 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.

15. Bank loan and other credit facilities:

HSBC Bank Canada facilities

The Bank Operating Loan is based on a percentages of trade accounts receivable and product inventory, a letter of credit that is guaranteed by two directors of the Company (see note 27) 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 16). In the event that the Company is unable to repay the Working Capital Loan when it matures, HSBC has the option to exercise the guarantee and the guarantors would become the creditors of the Working Capital Loan.

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

	September 30, 2012	September 30, 2011	October 1, 2010
Operating loan	$ 9,018	$ 8,521	$ -
Working capital loan	12,832	-	-
	$ 21,850	**$ 8,521**	**$ -**

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 agreed to forbear the breach provided that amended covenants are met in the future.

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

The credit facility contains the following financial covenants:

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

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

HSBC provided waivers of past covenant breaches to June 30, 2013 conditional on compliance of amended covenants in future periods. The Company was in breach of the amended debt to tangible net worth bank covenant at September 30, 2012. A covenant breach under the HSBC credit facility would cause all affected balances to become due on demand at the discretion of HSBC. At September 30, 2012 the long-term portion of the HSBC equipment loans totalling $397 thousand has been classified as current (see Note 16). 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 million (previously $8.0 million with up to $4.0 million excess borrowings permitted with the excess secured by USD cash deposits at HSBC). The $12.0 million maximum 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 year ended September 30, 2012, interest expense of $401 thousand was recognised on the loan (year ended September 30, 2011 - $228 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 27) 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:

(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 27 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.

FIGURES ARE IN THOUSANDS OF CANADIAN DOLLARS

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

The Working Capital Loan balance at September 30, 2012, includes $852 thousand of accreted liability.

16. Equipment loans and capital leases:

	September 30, 2012	September 30, 2011	October 1, 2010
Equipment loans	$ 6,443	$ 8,595	$ 440
Capital leases	2,736	2,453	2,395
	9,179	11,048	2,835
Current portion of equipment loans and capital leases	(7,053)	(5,349)	(1,216)
Long-term portion of equipment loans and capital leases	**$ 2,126**	**$ 5,699**	**$ 1,619**

Non-revolving Equipment Loans

See Note 19 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 year ended September 30, 2012, the Company recognised interest expense of $332 thousand (year ended September 30, 2011 - $408 thousand).

On May 14, 2012, HSBC agreed to accept interest only payments from April 30, 2012 up to and including 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.

At September 30, 2012 the long-term portion of the HSBC equipment loans totalling $397 thousand has been classified as current (see Note 15 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 year ended September 30, 2012, the Company recognised interest expense of $180 thousand (year ended September 30, 2011 - $231 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 $139 thousand was recognised on capital leases for the year ended September 30, 2012 (year ended September 30, 2011 - $85 thousand).

17. Reclamation liabilities:

The Company's total undiscounted amount of estimated cash flows required to settle the Cantung mine reclamation obligation is $8.7 million (September 30, 2011 and September 30, 2010 - $8.0 million) which has been discounted using a current market based pre-tax discount rate of 1.1%. 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.

FIGURES ARE IN THOUSANDS OF CANADIAN DOLLARS

	September 30, 2012	September 30, 2011
Opening balance, reclamation liabilities	$ 7,688	$ 3,979
Accretion	116	148
Change in estimates of future costs	600	89
Additions	-	3,472
Closing balance, reclamation liabilities	**$ 8,404**	**$ 7,688**

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.

The Company has posted deposits of $5.0 million in cash and $6.7 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 19 a.)

18. Share capital:

a. Capital stock

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

b. Bought-Deal Private Placement

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 net proceeds from the unit offering were allocated between the common shares and the warrants based on the relative fair value method. The warrants were valued using the following assumptions:

- Share price of $0.43
- Exercise price of $0.75
- Risk free interest rate of 1.73%
- Dividend yield of 0%
- Expected volatility of 84.16%
- Expected warrant life of 2 years

FIGURES ARE IN THOUSANDS OF CANADIAN DOLLARS

c. Warrants

Number of Warrants Outstanding as of September 30, 2011	Issued	Exercised	Expired	Number of Warrants Outstanding as of September 30, 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	$0.75	31-Mar-13
14,750,000	**-**	**-**	**-**	**14,750,000**		

d. 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.

During the year ended September 30, 2012:

- 150,000 options were granted to an employee with an exercise price of $0.18, expiring on November 29, 2016. The option valuation for the issue was calculated using the Black-Scholes option pricing model based on an expected option life of 4.0 years, a dividend yield of 0%, a risk free interest rate of 1.0%, an expected volatility of 85% and a share price of $0.18, giving a per option fair value of $0.11. The options vest 1/3rd after 6 months, 1/3rd after a year and 1/3rd after 18 months.
- 150,000 options were granted to employees with an exercise price of $0.28, expiring on January 19, 2017. The option valuation for the issue was calculated using the Black-Scholes option pricing model based on an expected option life of 4.0 years, a dividend yield of 0%, a risk free interest rate of 1.1%, an expected volatility of 86% and a share price of $0.28, giving a per option fair value of $0.17. The options vest in tranches between 4 to 18 months.
- 2,135,000 options were granted to directors, officers and employees with an exercise price of $0.42, expiring on March 8, 2017. The option valuation for the issue was calculated using the Black-Scholes option pricing model based on an expected option life of 4.0 years, a dividend yield of 0%, a risk free interest rate of 1.33%, an expected volatility of 89% and a share price of $0.42, giving a per option fair value of $0.27. The options vest in tranches between immediately to 18 months.
- 150,000 options were granted to an employee with an exercise price of $0.42, expiring on April 5, 2017. The option valuation for the issue was calculated using the Black-Scholes option pricing model based on an expected option life of 4.0 years, a dividend yield of 0%, a risk free interest rate of 1.46%, an expected volatility of 89% and a share price of $0.42, giving a per option fair value of $0.27. The options vest in even tranches between 5 to 18 months.

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.

FIGURES ARE IN THOUSANDS OF CANADIAN DOLLARS

	Number of Options Outstanding as of September 30, 2011	Granted	Exercised	Forfeited	Cancelled	Expired	Number of Options Outstanding as of September 30, 2012	Exercise Price	Expiry Date	Options Exercisable
	1,056,700	-	-	-	(51,700)	(1,005,000)	-	$1.25	19-Mar-12	-
	75,000	-	-	-	-	(75,000)	-	$1.28	14-Jun-12	-
	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)	-	-	-	$0.32	7-Jul-16	-
	-	150,000	-	(150,000)	-	-	-	$0.18	29-Nov-16	-
	-	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
	3,346,700	**2,585,000**	**-**	**(300,000)**	**(51,700)**	**(1,080,000)**	**4,500,000**			**3,568,332**
Weighted Average Exercise Price	$0.57	$0.40	N/A	$0.25	$1.25	$1.25	$0.32			$0.30

The outstanding options have a weighted-average exercise price of $0.32 per share (September 30, 2011 - $0.57) and the weighted-average remaining life of 3.5 years (September 30, 2011 – 2.6 years).

During the year ended September 30, 2012, $441 thousand was recognised as share-based compensation expense (year ended September 30, 2011 - $78 thousand).

19. Commitments:

Contractual Obligations and Commitments	Payments due in years ended September 30 2013	2014	2015	2016	2017	2018	TOTAL
Mactung leases	$ 8	$ 8	$ 8	$ 8	$ 8	$ 8	$ 48
Cantung leases	43	43	43	43	43	43	$ 258
Customer advances	768	-	2,950	-	-	-	$ 3,718
Equipment loans	5,607	828	344	-	-	-	$ 6,779
Capital leases	1,874	1,048	24	-	-	-	$ 2,946
Office leases [1]	186	223	233	245	251	84	$ 1,222
Equipment rental contract	206	-	-	-	-	-	$ 206
	$ 8,692	**$ 2,150**	**$ 3,602**	**$ 296**	**$ 302**	**$ 135**	**$ 15,177**

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

a. Water license

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

The security deposit required under the Company's license is $11.7 million. The Company has posted $5.0 million in cash and $6.7 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 year ended September 30, 2012, the Company posted $400 thousand of cash and reduced the posted secured promissory notes by $400 thousand.

b. Smelter royalties

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

20. 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; 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. Long-term debt covenants which could restrict the Company's capital management options are disclosed in Note 15.

21. Financial risk factors:

a. Fair value

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

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

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

Categories of Financial Assets

The fair value of the Company's financial assets was determined based on level 2 inputs. The Company has no financial assets that have fair value determined based on level 3 inputs.

The Company has determined the estimated fair values of its financial instruments based upon appropriate valuation methodologies. The fair values of the cash and cash equivalents, trade and other receivables and reclamation deposits approximate their carrying value due to their short-term nature and high level of liquidity.

b. Risk exposure and risk management

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

i. Foreign Exchange Risk

The Company operates on an international basis and therefore, foreign exchange risk exposures arise from transactions denominated in a foreign currency. The foreign exchange risk arises primarily with respect to the USD dollar ("USD") as sales are denominated in USD. For the year ended September 30, 2012, with other variables unchanged a $0.01 strengthening (weakening) of the Canadian dollar against the USD would result in a decrease (increase) of $1.1 million on net earnings.

At September 30, 2012, the Company held USD denominated bank balances of $1.9 million, accounts receivable of $16.6 million, accounts payable of $0.4 million and loans and other financial liabilities of $5.1 million. 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 four of the primary customers totalled $16.3 million at September 30, 2012 (September 30, 2011 – four customers totalled $6.9 million), all of which is current. At September 30, 2012, no trade and other receivables were past due or impaired.

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

iii. Interest Rate Risk

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

At September 30, 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 6.4% to 13.3%. HSBC equipment loans carry rates of HSBC Bank Prime + from 1.75% to 3.75%. HSBC bank financing carry rates of Bank Prime + from 0.25% to 2.0% (see Note 15 & 16).

For the year ended September 30, 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 year.

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. Liquidity risk is mitigated on customer receivables as the Company insures customer receivables through Export Development Canada or receives an advance payment prior to shipment of product. Additional information regarding liquidity risk is disclosed in Note 1 and Note 15. The Company's contractual obligations are disclosed in Note 19.

FIGURES ARE IN THOUSANDS OF CANADIAN DOLLARS

Contractual undiscounted cash flow requirements for financial liabilities as at September 30, 2012 are as follows:

	Payments due in years ended September 30						
	2013	2014	2015	2016	2017	More than 5 years	TOTAL
Bank operating loan	$ 9,018	$ -	$ -	$ -	$ -	$ -	$ 9,018
Bank working capital loan and guarantee	13,515	-	-	-	-	-	$ 13,515
Accounts payable and accrued liabilities	20,595	-	-	-	-	-	$ 20,595
Convertible debentures	-	2,899	-	-	-	-	$ 2,899
Equipment loans and capital leases	7,481	1,876	368	-	-	-	$ 9,725
Other obligations	-	-	-	-	-	371	$ 371
	$ 50,609	**$ 4,775**	**$ 368**	**$ -**	**$ -**	**$ 371**	**$ 56,123**

v. Commodity Price Risk

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

Tungsten prices historically have fluctuated and are affected by numerous factors outside of the Company's control, including, but not limited to, 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 year ended September 30, 2012, with other variables unchanged, a USD$10.00 increase or decrease in the realised price per MTU (Metric Tonne Unit) of tungsten concentrate would increase (decrease) net earnings by $2.8 million based on the sales volume for the period. The Company has not entered into forward sales contracts with fixed tungsten concentrate prices, has not hedged any of its sales and does not have any hedging or other commodity based risk protections respecting its operations.

22. 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.

23. Sales and concentration of receivables:

The Company has delivery contracts for tungsten concentrate which expire during fiscal 2012 and 2013 that contain target delivery quantities. The contracts do not contain any penalties for shortfalls in target delivery quantities. Under these contracts, the Company sells tungsten concentrates. The Company has a separate contract for copper concentrates.

Subsequent to September 30, 2012, the Company negotiated new delivery contracts with an existing customer as well as a new customer. Thereafter, the Company has three main delivery contracts for tungsten concentrate which expire during fiscal 2014 and 2015, as well as the copper contract which expires in December 2013. The contracts contain target delivery quantities and do not contain any penalties for shortfalls in target delivery quantities.

Sales to six customers accounted for 100% of sales made in the year ended September 30, 2012 (year ended September 30, 2011 – 100% to five customers). The Company has two major customers from which revenues individually amount to more than 10% of the total revenue for the year ended September 30, 2012 (September 30, 2011 was four customers). Revenue from customers individually were $50.0 million and $37.8 million for the year ended September 30, 2012 (September 30, 2011 - $21.4 million, $18.9 million, $7.6 million and $6.5 million).

As at September 30, 2012, $16.3 million in receivables was due from four primary customers (September 30, 2011 - $6.9 million from four customers).

FIGURES ARE IN THOUSANDS OF CANADIAN DOLLARS

24. Cost of sales:

	For the years ended			
	September 30, 2012		September 30, 2011	
Mine operating costs	$	69,136	$	60,632
Amortization and depreciation		19,934		3,499
Inventory changes, adjustments and write-downs		1,306		(3,013)
Freight, handling and conversion		2,241		1,224
Royalties		1,051		544
	$	**93,668**	**$**	**62,886**

Included in inventory changes, adjustments and write-downs for the year ended September 30, 2012 is a write-down of inventory of $288 thousand to net realisable value due to costs incurred and lost production during the suspension of operations.

Mine operating costs by function:

	For the years ended			
	September 30, 2012		September 30, 2011	
Mine	$	27,954	$	24,469
Mill		10,585		10,374
Power generation and surface maintenance		17,144		14,426
Site administration and environmental		13,453		11,363
	$	**69,136**	**$**	**60,632**

Mine operating costs by nature:

	For the years ended			
	September 30, 2012		September 30, 2011	
Salaries and wages	$	18,385	$	16,840
Employee benefits		3,885		3,469
Fuel and lubricants		14,805		13,077
Materials and supplies		14,128		12,289
Mine and drill contractors		5,750		5,362
Freight, expediting and support services		7,376		6,565
Other costs		4,807		3,030
	$	**69,136**	**$**	**60,632**

FIGURES ARE IN THOUSANDS OF CANADIAN DOLLARS

25. General and administrative costs:

	For the years ended September 30, 2012	For the years ended September 30, 2011
Fees, wages and benefits	$ 1,769	$ 1,444
Office expenses	941	682
Accounting and audit	277	199
Legal fees	113	181
Investor relations, travel and business development	201	221
Consulting	87	222
Filing fees and transfer agent fees	65	28
	$ 3,453	**$ 2,977**

26. Supplemental cash flow:

	For the years ended September 30, 2012	For the years ended September 30, 2011
Change in non-cash working capital:		
Accounts receivable	$ (9,531)	$ (5,645)
Prepaid expenses	(97)	(377)
Inventories	473	(5,442)
Accounts payable and accrued liabilities	2,140	7,836
Repayment of customer advances	(1,744)	(2,239)
Change in non-cash working capital	**$ (8,759)**	**$ (5,867)**

	For the years ended September 30, 2012	For the years ended September 30, 2011
Expenditures on property plant and equipment in accounts payable and accrued liabilities	$ 5,459	$ 10,321
Expenditures on Mactung development in accounts payable and accrued liabilities	$ 214	$ 172
Cash flows used in financing activities:		
Transaction costs included in issuance of share capital	$ -	$ 249
Other supplemental information:		
Total interest received	$ -	$ 17
Total interest and financing costs paid	$ 2,986	$ 1,625
Included in cash flows from operations	$ 182	$ 337

27. 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 year ended September 30, 2012, the Company recognised an expense of $182 thousand (year ended September 30, 2011 - $333 thousand) in respect to the guarantee (See Note 14) to a director. Subsequent to year end, 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 13). For the year ended September 30, 2012, the Company recognised an expense of $132 thousand (year ended

FIGURES ARE IN THOUSANDS OF CANADIAN DOLLARS

September 30, 2011 - $124 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 15), by backing a letter of credit to HSBC in the amount of USD$12.0 million and entered into a Put Agreement with HSBC. The Put Agreement may be exercised by HSBC, at its sole discretion, which allows HSBC to exchange the outstanding balance of the Working Capital Loan with the Sponsors for up to the USD$12.0 million of the letter of credit.

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

a. pay the Sponsors in USD on the last day of each calendar quarter, an aggregate amount equal to 1.75% of the maximum outstanding principal amount of the line of credit during the immediately preceding calendar quarter (or portion thereof), which payments began on December 31, 2011;
b. pay to the Sponsors, an aggregate amount equal to USD$1.5 million on the earlier of:
   (i) the date the Loan is paid in full;
   (ii) the date the Loan is put to the Sponsors pursuant to the Put Agreement; or
   (iii) the date the letter of credit is drawn upon for payment of the Loan;
c. upon certain events of default of the payments due to Sponsors on the last day of each quarter, increase to an aggregate amount equal to 3.0% of the maximum outstanding principal amount of the line of credit during the immediately preceding calendar quarter (or portion thereof); and the payment to the Sponsors will increase to USD$2.0 million from USD$1.5 million;
d. the Company has granted a security interest over the Mactung project to the Sponsors which is subordinated to the security under the Reclamation Security Agreement (Note 19 a).

During the year ended September 30, 2012, the Company recognised an expense of $820 thousand in respect of the letter of credit to these Sponsors. 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 year ended September 30, 2012, the Company recognised $375 thousand for professional and consulting fees to directors or companies related to director(s) (year ended September 30, 2011 - $406 thousand).

During the year ended September 30, 2012, the Company paid key management personnel compensation of $1.4 million which includes salaries and fees, benefits and directors fees and $0.4 million of stock-based compensation. During the year ended September 30, 2011, the Company paid key management personnel compensation of $1.1 million which includes salaries and fees, benefits and directors fees and $0.1 million of stock-based compensation.

Accounts receivable includes a note receivable from TDI for $nil at September 30, 2012 (September 30, 2011 - $0.1 million).

The above transactions were in the normal course of operations.

28. Segmented information:

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

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

	For the years ended					
	September 30, 2012			September 30, 2011		
TUNGSTEN:						
Asia	$	66,373	64%	$	28,986	53%
Europe		37,790	36%		18,871	35%
North America		221	0%		6,798	12%
		104,384	**100%**		**54,655**	**100%**
COPPER:						
Asia		923	29%		997	100%
North America		2,217	71%		-	0%
		3,140	**100%**		**997**	**100%**
TOTAL	**$**	**107,524**		**$**	**55,652**	

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

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**

At September 30, 2011	**Canada**	**United States**	**Total**
Current assets	$ 18,149	$ 893	$ 19,042
Non-current assets	63,363	568	63,931
Total assets	**$ 81,512**	**$ 1,461**	**$ 82,973**

At October 1, 2010	**Canada**	**United States**	**Total**
Current assets	$ 6,856	$ -	$ 6,856
Non-current assets	36,803	5,136	41,939
Total assets	**$ 43,659**	**$ 5,136**	**$ 48,795**

The non-current assets in Canada at September 30, 2012 includes $5.0 million of financial instruments (September 30, 2011 - $4.6 million, October 1, 2010 - $4.1 million). The non-current assets in the United States at September 30, 2012, September 30, 2011 and October 1, 2010 contain $nil million of financial instruments.

29. Earnings Per Share:

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

	For the years ended	
(in thousands except per share amounts)	**September 30, 2012**	**September 30, 2011**
Earnings (loss) per share:		
Basic	$ (0.04)	$ (0.07)
Diluted	$ (0.04)	$ (0.07)
Net income (loss) for the period:		
Attributed to common shareholders - basic	$ (9,843)	$ (15,475)
Attributed to common shareholders - diluted	$ (9,843)	$ (15,475)
Weighted average shares outstanding:		
Weighted average shares outstanding - basic	237,123	224,975
Dilutive securities:		
Stock options	-	-
Weighted average shares outstanding - diluted	237,123	224,975
Shares excluded from the determination of diluted earnings per share:		
Stock options	4,500	3,347
Warrants	14,750	14,750
Convertible debentures	6,506	6,506
	25,756	24,603

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 September 30, 2012.

FIGURES ARE IN THOUSANDS OF CANADIAN DOLLARS

30. Deferred Income Taxes

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

	For the years ended	
	September 30, 2012	September 30, 2011
Earnings (loss) before income taxes	$ (9,843)	$ (15,830)
Canadian federal and provincial income tax rates	26.88%	28.38%
Income tax recovery based on the above rates	$ (2,646)	$ (4,493)
Increase (decrease) due to:		
Non-deductible expenses	$ 111	$ 50
Other	(18)	-
Differences between foreign and Canadian tax rates	(33)	(593)
Change in Canadian long term tax rates	36	158
Changes in unrecognized deferred tax assets	2,550	4,523
Income tax recovery	**$ -**	**$ (355)**
Consists of:		
US deferred income tax expense (recovery)	$ -	$ (355)
	$ -	**$ (355)**

The change for the year in the Company's deferred tax position was as follows:	For the years ended	
	September 30, 2012	September 30, 2011
Opening balance	$ -	$ 365
Deferred tax expense (recovery)	-	(355)
Foreign currency translation	-	(10)
Ending balance	**$ -**	**$ -**

The components of deferred income and mining taxes are as follows:	For the years ended	
	September 30, 2012	September 30, 2011
Deferred income and mining tax assets:		
Non-capital losses	$ 7,192	$ 7,003
Share issuance costs and other	148	374
Property, plant and equipment and mineral property interests	4,323	2,299
Capital lease obligation	940	650
Capital losses	1,653	-
Investment in TDI	-	1,569
Reclamation obligation	2,227	2,037
Total deferred tax assets	16,483	13,932
Allowance for unrecognized deferred tax assets	(16,483)	(13,932)
Net deferred tax assets	**$ -**	**$ -**

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

FIGURES ARE IN THOUSANDS OF CANADIAN DOLLARS

At September 30, 2012 the Company has non-capital losses of approximately $27.1 million (September 30, 2011 - $26.4 million, October 1, 2010 - $16.8 million) which are not recognised as deferred tax assets. The gross amount of the non-capital tax losses with respect of Canadian operations expire as follows:

2028	$	5,672
2030		11,151
2031		10,317
	$	**27,140**

In addition to the non-capital losses, the Company has a capital loss in the United States of approximately USD$3.9 million that expires in 2017 and capital losses of $0.6 million in Canada with no expiry date. The Company has tax basis in its property, plant and equipment and mineral properties of $63.6 million which have no expiry date.

31. Transition to International Financial Reporting Standards:

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 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;
- 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.

Reconciliation between Canadian GAAP and IFRS

IFRS employs a conceptual framework that is similar to Canadian GAAP. However, significant differences exist in certain matters of recognition, measurement and disclosure. While adoption of IFRS has not changed the Company’s actual cash flows, it has resulted in changes to the Company’s reported financial position and results of operations. In order to allow the users of the financial statements to better understand these changes, the Company’s opening statement of financial position at October 1, 2010, the statements of financial position at September 30, 2011 and statements of comprehensive income for the year ended September 30, 2011, have been reconciled to IFRS and presented below, along with explanations of the resulting differences.

FIGURES ARE IN THOUSANDS OF CANADIAN DOLLARS

Reconciliation of the Statement of Financial Position from Canadian GAAP to IFRS:

	Reference	September 30, 2011			October 1, 2010		
ASSETS		**CND GAAP**	**Adjustments**	**IFRS**	**CND GAAP**	**Adjustments**	**IFRS**
Investment in TDI	v	$ 950	(382)	568	$ 6,268	(1,132)	5,136
Property, plant and equipment	i	41,932	660	42,592	17,484	-	17,484
Other		39,813	-	39,813	26,175	-	26,175
Total assets		**82,695**	**278**	**82,973**	**49,927**	**(1,132)**	**48,795**
Current liabilities							
Current portion of loans and capital leases	ii	$ 5,349	-	5,349	$ 1,034	182	1,216
Convertible debentures	iii	-	2,451	2,451	-	-	-
Other		34,371	-	34,371	10,104	-	10,104
Total current liabilities		39,720	2,451	42,171	11,138	182	11,320
Convertible debentures	iii	2,884	(2,884)	-	-	-	-
Loans and capital leases	ii	5,699	-	5,699	1,801	(182)	1,619
Reclamation liabilities	i	7,028	660	7,688	3,979	-	3,979
Deferred income taxes	v	-	-	-	355	10	365
Other		3,397	-	3,397	5,252	-	5,252
Total liabilities		58,728	227	58,955	22,525	10	22,535
SHARE CAPITAL AND DEFICIT							
Share capital	iv	$ 64,362	311	64,673	$ 53,235	311	53,546
Equity component of convertible debenture	iii	181	(181)	-	-	-	-
Contributed surplus		5,226	-	5,226	3,135	-	3,135
Accumulated other comprehensive income	v	-	15	15	-	-	-
Deficit	iii	(45,802)	614		(28,968)	-	
	iv		(311)			(311)	
	v	-	(397)	(45,896)	-	(1,142)	(30,421)
Total shareholders' equity		23,967	51	24,018	27,402	(1,142)	26,260
Total shareholders' equity and liabilities		**$ 82,695**	**278**	**82,973**	**$ 49,927**	**(1,132)**	**48,795**

FIGURES ARE IN THOUSANDS OF CANADIAN DOLLARS

Reconciliation of the Statement of Comprehensive Income from Canadian GAAP to IFRS:

	Reference		Year ended September 30, 2011		
			CND GAAP	Adjustments	IFRS
Accretion of financial liabilities	iii	$	76	401	477
Accretion of reclamation obligation	i		148	(148)	-
Interest and financing costs	i, iii		1,644	116	1,760
Foreign exchange loss (gain)	iii		(211)	(39)	(250)
Equity loss on TDI	v		5,318	(750)	4,568
Gain (loss) on revaluation of derivative liability	iii		-	945	945
NET INCOME (LOSS) AFTER INCOME TAXES		$	(16,832)	1,357	(15,475)
OTHER COMPREHENSIVE INCOME (LOSS)					
Cumulative translation adjustment	v		-	15	15
NET COMPREHENSIVE INCOME (LOSS)		**$**	**(16,832)**	**1,372**	**(15,460)**

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 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 for the increase in the reclamation asset.

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 increase the interest and financing costs by $148.

ii. Current portion of loans and capital leases

As detailed in Note 15, 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. At September 30, 2011, the Company was within the bank covenant and as such the long-term portion of the liability was classified as long-term.

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 13 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 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 recognised with the net comprehensive loss decreasing by $944 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 recognised in share capital at the issuance price. When the tax benefits of the exploration expenditures are renounced to the flow-through shareholders, the Company recognises a reduction of share capital for the renounced tax assets at the applicable tax rate.

Under IFRS, the flow-through shares are recognised into share capital at the closing price on the date of issuance with the premium paid for the flow-through shares recognised as a liability. When the tax benefits of the exploration expenditures are renounced to the flow-through shareholders, the Company recognises 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 recognised in the opening deficit in the statement of financial position. At October 1, 2010, the Company recognised an increase to share capital of $311 thousand with an increase in the deficit of $311 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 recognised 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 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.

Statement of Cash Flows

The IFRS transition adjustments noted above did not have an impact on cash and cash equivalents. The adjustments noted above were non-cash in nature which affected the non-cash items included in net income (loss) for the periods and as such did not affect the cash flows from investing and financing activities. Some classifications of cash flows were adjusted to be consistent with the requirements of IRFS and these adjustments did not impact the net cash flows. Under CND GAAP, the interest paid on financing activities was included in the net cash flows from operations. Under IFRS interest paid on financing activities has been removed from operating activities and included in financing activities as “Interest and financing costs paid”.