



Unaudited Consolidated Interim Financial Statements

For the Three Months Ended December 31, 2011

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Almonty Industries Inc.

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Notice of No Auditor Review of Condensed Consolidated Interim Financial Statements

Pursuant to National Instrument 51-102 – *Continuous Disclosure Obligations*, financial statements must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited condensed consolidated interim financial statements of Almonty Industries Inc. (“**Almonty**” or the “**Company**”) for the period ended December 31, 2011 have been prepared by the Company’s management and are the responsibility of the Company’s management. The Company’s independent auditor has not performed a review of these financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of condensed interim financial statements by an entity’s auditor.

Consolidated Balance Sheet**As at December 31, 2011**

(in 000's of Canadian dollars unless otherwise noted)

	Note	December 31, 2011	September 30, 2011
Assets			
Current Assets			
Cash and cash equivalents	17	1,826	1,156
Trade receivable	16	1,375	-
VAT/HST receivable	16	567	1,024
Inventories	15	1,711	2,595
Other current assets		265	233
Total Current Assets		5,744	5,008
Non-Current Assets			
Property, plant and equipment	7	9,798	10,585
Mine development	8	9,385	9,362
Deferred tax assets		5,181	5,719
Other non-current assets		576	641
Total Non-Current Assets		24,940	26,307
Total Assets		30,684	31,315
Liabilities			
Current Liabilities			
Trade and other payables	18	3,410	2,884
Capital lease	19	59	33
Transaction liabilities	5	518	762
Other accrued liabilities	18	808	779
Total Current Liabilities		4,795	4,458
Non-Current Liabilities			
Non-interest bearing obligation	18	357	503
Capital lease	19	141	17
Deferred tax liabilities		4,227	4,709
Restoration provision	11	434	451
Total Non-Current Liabilities		5,159	5,680
Total Liabilities		9,954	10,138
Shareholders' Equity			
Share capital	14	21,958	21,958
Contributed surplus	14	1,262	1,217
Accumulated other comprehensive income (loss)		(1,131)	107
Deficit		(1,359)	(2,105)
Total Shareholders' Equity		20,730	21,177
Total Liabilities and Shareholders' Equity		30,684	31,315

On behalf of the Board:

“Lewis Black”

 Lewis Black, Director, President & CEO

“Mark Trachuk”

 Mark Trachuk, Director

See accompanying notes

Consolidated Statement of Operations and Comprehensive Loss

For the Three Month Period Ended December 31, 2011

(in 000's of Canadian dollars unless otherwise noted)

	Note	
Revenue	12	6,485
Cost of sales		3,415
Gross Profit		<u>3,070</u>
Expenses		
General and administrative		(734)
Other income		75
Non-cash compensation	14	(45)
Earnings before the undernoted items		<u>2,366</u>
Depreciation and amortization – Los Santos Project		(942)
Amortization of fair value increment at acquisition		(609)
Other amortization		(57)
Earnings before the undernoted items		<u>758</u>
Interest expense		12
Earnings before taxes		<u>746</u>
Income tax provision		
Current		-
Deferred		-
Net income after tax		<u>746</u>
Net Income for Period		<u>746</u>
Other Comprehensive Loss		<u>(1,238)</u>
Total Comprehensive Loss for the Period		<u>(492)</u>
Earnings (loss) Per Share		
	13	
Basic income (loss) per share		<u>\$0.01</u>
Diluted income (loss) per share		<u>\$0.01</u>

See accompanying notes

Consolidated Statement of Changes in Shareholders' Equity

For the Three Month Period Ended December 31, 2011

(in 000's of Canadian dollars unless otherwise noted)

	Share Capital	Contributed Surplus	Deficit	Accumulated Other Comprehensive Income	Shareholders' Equity
Balance at September 30, 2011	21,958	1,217	(2,105)	107	21,177
Equity capital issued	-	-	-	-	-
Contributed surplus (warrants and options issued)	-	45	-	-	45
Net income for the period	-	-	746	-	746
Foreign currency translation adjustment	-	-	-	(1,238)	(1,238)
Transaction costs on share issue	-	-	-	-	-
Balance at December 31, 2011	21,958	1,262	(1,359)	(1,131)	20,730

See accompanying notes

Consolidated Statement of Cash Flows

For the Three Month Period Ended December 31, 2011

(in 000's of Canadian dollars unless otherwise noted)

Cash Flows From Operating Activities

Net income for the period	746
Add (deduct) non-cash items:	
Non-cash compensation expense	45
Depreciation and amortization	1,551
Other net non-cash charges	22
	<u>2,364</u>
Net change in non-cash working capital	(117)
Net Cash Flows Used in Operating Activities	<u>2,247</u>

Cash Flows From Investing Activities

Additions to property, plant and equipment	(1,772)
Net Cash Flows Used in Investing Activities	<u>(1,772)</u>

Cash Flows From Financing Activities

Capital leases	183
Non-cash interest expense	12
Net Cash Flows From Financing Activities	<u>195</u>

Net Increase in Cash and Cash Equivalents During the Period

Cash and cash equivalents at beginning of period	1,156
Cash and Cash Equivalents at End of Period	<u>1,826</u>

See accompanying notes

Notes to the Consolidated Financial Statements

(in 000's of Canadian dollars unless otherwise noted)

1. Description of Business

On September 23, 2011, Daytal Resources Spain, S.L. (“**Daytal**”) was acquired by 7887523 Canada Inc. (“**Almonty Sub**”) from Heemskirk Europe PLC and Heemskirk Consolidated Limited (“**Heemskirk**”). Immediately following this transaction, Almonty Sub completed the reverse acquisition of RCG Capital Inc. (“**RCG**”), a capital pool company that was listed on the TSX Venture Exchange (Note 9). Upon the closing of the transaction on September 23, 2011, RCG changed its name to Almonty Industries Inc. and continued trading on the TSX Venture Exchange under the symbol “AII”. Almonty Sub was incorporated on June 9, 2011 for the express purpose of completing the transactions described above in this paragraph. As such there are no comparative year figures available for the three month period ended December 31, 2011.

2. Basis of Preparation of the Consolidated Financial Statements

a) Statement of compliance

The unaudited consolidated financial statements of Almonty for the three month period ended December 31, 2011 have been prepared in accordance with International Financial Reporting Standards (“**IFRS**”).

The consolidated financial statements were authorized for issuance by the Board of Directors of the Company on February 13, 2012.

b) Basis of preparation

The consolidated financial statements have been prepared on a going concern basis and include the accounts of the 100% owned subsidiaries of the Company, Daytal and Almonty Sub.

The accounting policies and methods of computation adopted in the preparation of the financial statements of the subsidiaries are consistent with those adopted and disclosed in Note 3.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which Almonty obtained control, and continue to be consolidated until the date when such control ceases. All intra-group balances, transactions, unrealized gains and losses resulting from intra-group transactions and dividends have been eliminated in full on consolidation.

c) Economic dependence

Almonty's wholly owned indirect subsidiary, Daytal has a long-term supply agreement with one customer who participates in the global tungsten business. Currently 100% of the output of Daytal's operations is sold to this customer. Almonty is economically dependent on the revenue received from this customer in order to be able to meet its current obligations. There is no guarantee that Almonty would be able to find an alternative customer or customers on market terms similar to its existing supply agreement should this current customer cease operations or become unable to pay Almonty under the current contract.

Daytal has a long term contract with Sanchez y Lago (“SYL”) under which SYL carries out contract mining activities for Daytal at the Los Santos Project. Daytal currently does not have any mining capabilities of its own and relies on SYL for all mining activity, including waste rock removal, pit development and delivery of ore to Daytal’s crushing and processing plant. The current SYL contract expires in April 2012. Daytal intends to renew its contract with SYL when the current contract expires. There is no guarantee that Daytal will be able to negotiate a new contract with SYL and, in the event that a new contract is entered into, there is no guarantee that it will be on terms favourable to Daytal. Should Daytal be unable to renew its contract with SYL there is no guarantee that Daytal will be able to replace SYL with another contract mining firm. Any disruption in the contract mining services provided by SYL would have a negative impact on Daytal’s short-term economic viability.

d) New accounting standards and interpretations

New accounting standards and interpretations not yet adopted

The following standards, amendments to standards and interpretations have been identified as those which may impact the consolidated financial statements of Almonty. They have been issued but are not yet effective and are available for early adoption; however, they have not been applied in preparing the consolidated financial statements.

Reference	Title	Application date for Almonty
IAS 1	Presentation of Financial Statements (revised)	October 1, 2012
IAS 12	Income Taxes (amended)	October 1, 2012
IFRS 9	Financial Instruments	October 1, 2013
IFRS 10	Consolidated Financial Statements	October 1, 2013
IFRS 11	Joint Arrangements	October 1, 2013
IFRS 12	Disclosure of Interests in Other Entities	October 1, 2013
IFRS 13	Fair Value Measurement	October 1, 2013
IAS 19	Employee Benefits (revised)	October 1, 2013

The adoption of these new or amended standards is not expected to have a material impact on the consolidated financial statements of Almonty.

3. **Significant Accounting Judgments, Estimates and Assumptions**

The preparation of Almonty's consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities and contingent liabilities at the date of the consolidated financial statements and reported amounts of revenue and expenses during the reporting period. Estimates and assumptions are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual outcomes can differ from these estimates.

As these unaudited interim consolidated financial statements do not contain all of the disclosure required under IFRS for audited financial statements, they should be read in conjunction with the notes to the Company's audited consolidated financial statements for the period ended September 30, 2011.

4. **Segment Information**

Management monitors the business of Almonty as a single reporting segment whose operations relate to the exploration and mining of tungsten in Spain. All output is sold under a long-term supply agreement to an individual entity with global operations in the tungsten supply chain. As Almonty operates as a single segment, the consolidated financial statements should be read as a whole for the results of this operating segment.

5. Business Combinations – Acquisitions

Daytal Resources Spain, S.L.

Almonty acquired 100% of the share capital of Daytal, a company holding a 100% interest in the Los Santos Project, on September 23, 2011. The principal business of Daytal is the advancement of exploration, development and production activities at the Los Santos Project. The mine at the Los Santos Project is a sheelite mineral deposit consisting of the tungstate of calcium that is an ore of tungsten. The mine is located about 50 kilometres from Salamanca, in western Spain. The mine has been in production since 2008 and produces a tungsten concentrate product which is currently sold under a long-term supply agreement. The mine was opened in 2008 and commissioned in July 2010.

	Fair Value at Acquisition Date
Assets	
Property, plant and equipment	10,563
Mine development	9,332
Deferred tax asset	5,690
Other non-current assets	638
Inventories	2,257
Other current assets	1,033
Cash and cash equivalents	281
	<u>29,794</u>
Liabilities	
Trade and other payables	3,364
Capital lease	50
Other liabilities and accruals	17
Long-term non-interest bearing trade payables	500
Deferred tax liability	4,685
Restoration provision	449
	<u>9,065</u>
Total Identifiable Net Assets	<u>20,729</u>
Cash paid	14,427
Shares and warrants transferred at fair value	6,234
Total Consideration Transferred	<u>20,661</u>
Bargain purchase gain recorded in income	68
Direct costs attributable to the acquisition	<u>786</u>
Net cash acquired with Daytal	281
Cash paid	(14,427)
Transaction costs incurred	(786)
Net Consolidated Cash Outflow	<u>(14,932)</u>

The fair values disclosed above have been determined by management after review of the mine plan and review of the fair market value of the assets acquired.

The bargain purchase gain is a result of the excess of the fair market value of the net assets acquired over the purchase consideration. Mine development and property, plant and equipment will be amortized over the useful life of the mine based on a unit of production. See Note 7 regarding property, plant and equipment and Note 8 regarding mine development.

For the three month period ended December 31, 2011, Daytal contributed \$6,485 to consolidated revenue, \$2,484 and \$1,071 to consolidated net income.

6. **Related Party Transactions**

There were no related party transactions that occurred in the three month period ended December 31, 2011.

Compensation of Key Management Personnel of Almonty

	Three Months Ended December 31, 2011
Short-term cash compensation	50
Long-term directors' incentive share-based compensation	45
Total Compensation of Key Management Personnel	95

7. Property, Plant and Equipment

	Property, Plant and Equipment
Cost at September 30, 2011	10,624
Additions	242
Translation adjustment	(580)
Cost at December 31, 2011	<u>10,286</u>
Accumulated Amortization at September 30, 2011	39
Amortization charge	
three months ended December 31, 2011	449
Accumulated Amortization at September 30, 2011	<u>488</u>
Closing Net Book Value	<u>9,798</u>

8. Mine Development

	Mine Restoration	Inferred Resource	Mine Development	Total
Cost at September 30, 2011	390	1,188	7,803	9,381
Additions	-	-	1,530	1,530
Translation adjustment	(19)	(65)	(321)	(405)
Cost at September 30, 2011	<u>371</u>	<u>1,123</u>	<u>9,012</u>	<u>10,506</u>
Accumulated amortization at September 30, 2011	-	-	19	19
Amortization charge	-	-	1,102	1,102
Accumulated amortization at December 31, 2011	-	-	1,121	1,121
Closing net book value	<u>371</u>	<u>1,123</u>	<u>7,892</u>	<u>9,385</u>

9. Reverse Acquisition

On September 23, 2011, RCG acquired Almonty Sub, a private company existing under the laws of Canada (Note 1). RCG issued 36,374,260 common shares in exchange for the 36,374,260 issued and outstanding common shares of Almonty Sub. In connection with the completion of the reverse acquisition on September 23, 2011, RCG changed its name to Almonty Industries Inc.

In accordance with IFRS 3, *Business Combinations*, the substance of the transaction is a reverse acquisition of a non-operating company. The transaction does not constitute a business combination as RCG does not meet the definition of a business under IFRS 3. As a result, the transaction is accounted for as a capital transaction with Almonty Sub being identified as the accounting acquirer and the equity consideration being measured at fair value. The resulting consolidated statement of financial position is presented as a continuance of Almonty Sub.

The consideration is comprised of the issuance of 637,181 common shares of Almonty Sub to the shareholders of RCG at a price of \$1.00 per share and issuance of 82,455 options to former RCG agents and directors (Note 14) for a total consideration of \$677.

In accordance with IFRS 2, *Share-based Payments*, any excess of the fair value of the shares issued by Almonty Sub over the value of the net monetary assets of RCG is recognized in the consolidated statement of operations and comprehensive loss.

Based on the statement of financial position of RCG at the time of the transaction, the net liabilities at estimated fair values that were acquired by Almonty Sub resulted in a charge to the consolidated statement of comprehensive loss as follows:

Net liabilities acquired	21
Consideration of common shares deemed to be issued and options	677
Listing Expense	698

10. Commitments and Contingent Liabilities

Almonty, through its wholly-owned indirect subsidiary, Daytal, owns the Los Santos Project, located approximately 50 kilometres from the town of Los Santos, near Salamanca in western Spain. Daytal leases the land where the Los Santos Project is located from several individual property owners as well as the municipalities of Los Santos and Fuenterroble. The leases range from 10 to 25 years and have expiry dates between 2017 and 2032. On all leases greater than 10 years, Daytal has the right to terminate the leases under certain circumstances without penalty. Annual lease commitments total €221 (C\$292) and are payable throughout the year on the anniversary dates of the individual leases.

The mining license was granted to Daytal in September 2002, for a period of 30 years, extendable for 90 years. Daytal is required to pay annual land taxes (approximately €2/year) to the government. This amount is related to the surface covered and not to the production of minerals. There are no other royalty payments.

11. Restoration Provision

Almonty has recognized a restoration provision of \$434 (\$451 as at September 30, 2011) with respect to Daytal's future obligation to restore and reclaim the Los Santos Project once it has ceased to mine tungsten ore from the Los Santos Project. The restoration provision represents the present value of rehabilitation costs relating to the mine site which are expected to be incurred in 2019 after the mine ceases production. This provision has been created based on Almonty's internal estimates. Assumptions based on the current economic environment have been made which management believes are a reasonable basis upon which to estimate the future liability. These estimates are reviewed regularly to take into account any material changes to the assumptions. Actual rehabilitation costs will ultimately depend upon future market prices for the necessary decommissioning work required which will reflect current market conditions at that time. The timing of the rehabilitation is likely to depend on when the mine ceases to produce at economically viable rates. This in turn will depend on Almonty's ability to extend the mine life through additional exploration and also on the future price of WO_3 concentrate.

Banco Popular has posted a bank warranty of €180 (C\$237) on behalf of Daytal with the Region of Castilla y Leon, Trade and Industry Department as a form of deposit to cover the expected costs of restoring the mining property as required by Daytal's Environmental Impact Statement that forms a part of its mining and exploitation license on the Los Santos Project provision. The bank warranty cannot be cancelled unless such cancellation is approved by the government of Castilla y Leon upon approval of the completion of the restoration work. The bank warranty is undrawn and carries a quarterly stand-by fee of approximately €1 per quarter.

12. Revenue

During the three months ended December 31, 2011 Almonty mined 135,557 tonnes of ore at a weighted average grade of 0.301% WO_3 . The Company processed 122,673 tonnes of ore at a weighted average grade of 0.245% WO_3 for a total contained MTU WO_3 processed of 30,042. Tungsten concentrate recovery for the period averaged 56.3% and Almonty shipped 16,243 MTU of high grade concentrate (65.0% or higher WO_3) and 1,802 MTU of low grade concentrate (between 45.0% and 65.0% WO_3). Gross revenue for the three month period totalled \$6,485.

13. Earnings per Share

Basic earnings per share amounts are calculated by dividing net income for the period by the weighted average number of common shares outstanding during the period.

	Three Months Ended December 31, 2011
Net income for the period attributable to Almonty shareholders	\$746
Weighted average number of common shares outstanding	37,011,441
Basic earnings per common share	<u>\$0.01</u>
Net income for the period attributable to Almonty shareholders	\$746
Weighted average number of fully diluted common shares outstanding	42,071,690
Diluted earnings per common share	<u>\$0.01</u>

See Note 22, "Subsequent Events", for additional information regarding transactions involving common shares or potential common shares between the reporting date and the date of completion of these consolidated financial statements.

14. Share Capital and Contributed Surplus

	Number of Shares	Amount
Authorized		
Unlimited common shares, without par value		
Common shares issued		
Shares issued for cash	16,963,840	17,427
Shares issued to Almonty Partners LLC	13,850,420	-
Shares issued to Heemskirk as part of Daytal acquisition	5,560,000	5,560
Shares issued to RCG shareholders as part of the reverse acquisition	637,181	637
Less agents' warrants issued as part of Daytal acquisition		(140)
Less common share issuance costs as part of Daytal acquisition		(1,526)
Total Share Capital	37,011,441	21,958
	Number of Warrants/Options	Amount
Contributed surplus		
Warrants issued to Heemskirk	3,701,144	674
Warrants issued to agents	656,650	140
Options issued to former RCG agents and directors	82,455	40
Compensation options issued to directors/officers	1,250,000	408
Total Contributed Surplus	5,690,249	1,262
Total Share Capital and Contributed Surplus	42,701,690	23,220

During the period ended September 30, 2011, Almonty issued 16,963,840 common shares for gross proceeds of \$17,427 at a value of \$1.00 per common share in connection with the acquisition of Daytal and Almonty Sub's subscription receipt financing that closed on September 23, 2011. Proceeds of the financing were received in both US dollars and Canadian dollars. On closing of the acquisition of Daytal and reverse acquisition with RCG, the funds held in escrow were released. Also on closing of the acquisition of Daytal, Almonty issued 5,560,000 common shares to Heemskirk at an implied value of C\$1.00 per share as partial consideration for the issued and outstanding shares of Daytal. See Note 5.

The following assumptions were used for the Black-Scholes valuation of the agents' warrants and the Heemskirk warrants:

Risk-free interest rate	2.25%
Expected life of agents' warrants	2 years
Expected life of Heemskirk's warrants	3 years
Annualized volatility	35%
Dividend rate	0%
Strike price per agents' warrant	\$1.00
Strike price per Heemskirk warrant	\$1.25

The following assumptions were used for the Black-Scholes valuation of the former RCG directors' and agents' options:

Risk-free interest rate	2.15%
Expected life of former RCG directors' options	9 years
Expected life of former RCG agents' options	1 years
Annualized volatility	35%
Dividend rate	0%
Strike price per former RCG directors' options	\$0.67
Strike price per former RCG agents' options	\$0.67

Incentive Stock Options

Almonty adopted RCG's stock option plan under which it can grant options to directors, officers, employees and consultants for up to 10% of the issued and outstanding common shares. Under the plan, the exercise price of an option may not be less than the closing market price during the trading day immediately preceding the date of the grant of the option, less any applicable discount allowed by the TSX Venture Exchange. The options can be granted for a maximum term of 10 years and vest at the discretion of the Board of Directors of Almonty.

On September 26, 2011, Almonty granted 1,250,000 incentive stock options to directors, officers and employees of the Company and its subsidiaries. Each option is exercisable for one common share in the capital of Almonty at a price of \$1.00 per share for a period of ten years from the date of grant. 750,000 of the options vested immediately and 500,000 of the options vest over a two year period. The grant resulted in a stock-based compensation expense, using the Black-Scholes option pricing model, of \$363 being recorded in the period ended September 30, 2011. The weighted average fair value of the stock options granted was \$0.48 per option.

During the three months ended December 31, 2011 the Company recorded non-cash compensation expense of \$45 related to the vesting of a portion of the 500,000 options granted on September 26, 2011 that vest over a two year period. While the options vest in two instalments on the anniversary of the grant date, the Company has recorded the non-cash compensation expense as if each tranche of options vest evenly over the two year period. The notional number of options associated with the non-cash compensation expense totalled 62,500, leaving 437,500 options whose expense will be recognized over the remaining 21 months of the vesting period.

The following assumptions were used for the Black-Scholes valuation of incentive stock options granted:

Risk-free interest rate	2.15%
Expected life of options	10 years
Annualized volatility	35%
Dividend rate	0%
Strike price	\$1.00

As at December 31, 2011 the following options and warrants are outstanding:

	Number of Options/Warrants	Exercise Price	Expiry Date
Incentive stock options ¹	1,250,000	\$1.00	25/09/2021
Heemskirk warrants	3,701,144	\$1.25	22/09/2014
Agents' warrants	656,650	\$1.00	22/09/2013
Former RCG incentive stock options	59,967	\$0.67	30/06/2020
Former RCG agents' options	22,488	\$0.67	30/06/2012
Total Options /Warrants	5,690,249		

¹ 500,000 incentive stock options vest in two tranches of 250,000 on the first and second anniversary of the grant date of September 26, 2011.

15. Inventories

	December 31, 2011	September 30, 2011
Stores and fuel	612	647
Ore and in-process ore	1,005	836
Finished goods – WO ₃ concentrate	94	1,112
Total inventories	\$1,711	\$2,595

16. Receivables

As at December 31, 2011 there was \$1,375 (\$nil as at September 30, 2011) in trade receivables outstanding relating to the sale of tungsten concentrate under the Company's long-term supply agreement.

As at December 31, 2011, Almonty recognized VAT recoverable in the amount of \$497 (\$961 as at September 30, 2011) and HST recoverable in the amount of \$70 (\$63 as at September 30, 2011) for a total VAT/HST receivable of \$567 (\$1,024 as at September 30, 2011).

17. Cash and Cash Equivalents

Cash at banks in deposit accounts that earn interest at floating rates based on daily bank deposit rates totalled \$1,826 (\$1,156 as at September 30, 2011). Almonty only deposits cash surpluses with major banks of high quality credit standing.

As at December 31, 2011, Almonty did not have any undrawn committed borrowing facilities.

18. Accounts Payable and Accrued Liabilities

	December 31, 2011	September 30, 2011
Trade and other payables	3,410	2,884
Sundry accruals	321	216
Accrued transaction costs	518	762
Accrued payroll and payroll taxes	200	404
Accrued audit fees	142	142
Total Accounts Payable and Accrued Liabilities	4,591	4,408
Current portion of capital lease (Note 19)	59	33
Current portion of non-interest bearing trade payable	145	17
Total Current Liabilities	4,795	4,458

The non-interest bearing obligation of \$502 is due for payment beginning September 1, 2012 with \$16 due and payable thereon followed by 14 equal monthly instalments of \$43.

19. Capital Lease

	December 31, 2011	
	Minimum Lease Payment	Present Value of MLP
Within one year	61	59
After one year but not more than five years	163	141
After more than five years	-	
Total Minimum Lease Payments	224	200

The capital leases relate to certain industrial equipment (forklifts, front-end loader and vehicles) that Almonty leases. Ownership of the equipment reverts to Almonty at the end of each lease. The leases carry an implied interest rate of between 2.75% and 4.50% and, in addition to the minimum lease payments, include operating payments related to maintenance, service and insurance that total \$6 in 2012 and \$3 in 2013, after which time the leases associated with these operating payments will have expired.

20. Financial Instruments, and Financial Risk Management Objectives and Policies

Classification of Financial Instruments

Financial instruments classified as fair value through profit or loss are carried at fair value on the consolidated balance sheet, and changes in fair values are recognized in net loss for the period.

The following table provides the allocation of financial instruments and their associated financial instrument classifications as at December 31, 2011:

Measurement basis	FVTPL ¹	Loans and Receivables / Other Financial Liabilities	Total
	(Fair value)	(Amortized cost)	
Financial assets			
Cash and cash equivalents	1,826	-	1,826
Trade receivables	-	1,375	1,375
VAT / HST receivable	-	567	567
Total	1,826	1,942	3,768
Financial Liabilities			
Trade and other payables	-	3,410	3,410
Capital lease	-	200	200
Transaction liabilities	-	518	518
Other accrued liabilities	-	1,181	1,181
Non-interest bearing obligation	-	502	502
Total	-	5,811	5,811

¹ *Financial instruments classified as fair value through profit and loss.*

Fair Value Hierarchical Levels

Fair value hierarchical levels are directly determined by the amount of subjectivity associated with the valuation inputs of these assets and liabilities, and are as follows:

- Level 1 - Inputs are unadjusted, quoted prices in active markets for identical assets or liabilities at the measurement date.
- Level 2 - Inputs (other than quoted prices included in Level 1) are either directly or indirectly observable for the asset or liability through correlation with market data at the measurement date and for the duration of the instrument's anticipated life.
- Level 3 - Inputs reflect management's best estimate of what market participants would use in pricing the asset or liability at the measurement date. Consideration is given to the risk inherent in the valuation technique and the risk inherent in the inputs to determining the estimate.

As of December 31, 2011, cash and cash equivalents of \$1,826 (\$1,156 as at September 30, 2011), which is carried at fair value, was based on Level 1 inputs.

Financial Risk Management Objectives and Policies

Almonty's principal financial instruments comprise cash deposits and finance leases.

The main purpose of these instruments is to provide cash flow funding for the operations of Almonty and its wholly-owned indirect subsidiary, Daytal. Almonty has various other financial

assets and liabilities such as trade receivables and trade payables, which arise directly from operations.

The main risks arising from Almonty's financial instruments are interest rate risk, foreign currency risk, commodity price risk, credit risk and liquidity risk.

Interest rate risk

Almonty's exposure to the risk of changes in market interest rates relates primarily to cash at banks and on hand with a floating interest rate and amounts payable to Almonty under its supplier finance program that is part of its long-term supply agreement with its major customer.

Foreign currency risk

Almonty's wholly-owned indirect subsidiary, Daytal, operates in Spain in Euros (€). Its output is a commodity that is primarily denominated in United States dollars (USD\$) and Almonty's reporting currency is in Canadian dollars (CAD\$). As such, Almonty's consolidated balance sheet can be significantly be affected by movements between the three currencies (CAD\$, USD\$ and €). During the three months ended December 31, 2011 the value of the € relative to the CAD\$ declined significantly from €1.00 = CAD\$1.3865 as at October 1, 2011 to €1.00 = CAD\$1.3193 as at December 31, 2011 resulting in the Company recording a cumulative translation adjustment loss of (\$1,238) for the three months ended December 31, 2011 (\$107 gain for the period June 9, 2011 to September 30, 2011). This amount is recorded as other comprehensive income (loss) on the Consolidated Statement of Operations and Comprehensive Loss and accumulated other comprehensive income (loss) as a separate line item in Shareholders' Equity.

Commodity price risk

Almonty's policy is to maintain exposure to commodity price movements at its mining operations. Almonty had \$1,375 in trade receivables related to tungsten sales under its long-term supply agreement as at December 31, 2011 (\$nil as at September 30, 2011).

Credit risk

Almonty's maximum exposure to credit risk, excluding the value of any collateral or other security, is the creditworthiness of its customer that is operating as counterparty to Almonty's supplier financing program. All invoices submitted to its major customer under its long-term supply agreement are subject to a supplier finance program. Almonty assigns all trade receivables that are subject to the supplier finance program to a third party bank and receives prepayment from the bank on the invoices assigned. The availability of this program rests solely on the ability of Almonty's customer to continually pay down the supplier financing facility as it comes due in order to ensure Almonty has access to draw on the facility when it ships WO₃ concentrate to its customer under the agreement. If Almonty were to no longer have access to the supplier financing program it would revert to normal trade terms with its customer.

The Company had \$567 in VAT/HST receivables outstanding as at December 31, 2011 (\$1,024 as at September 30, 2011) comprised of VAT of \$497 (\$961 as at September 30, 2011) due from the Spanish government and HST of \$70 (\$63 as at September 30, 2011) due from the Canadian governments.

As at December 31, 2011, Almonty had submitted invoices totalling \$1,375 (\$nil as at September 30, 2011) under its supplier finance program where payment had not yet been received. As at the date hereof all amounts outstanding as at December 31, 2011 have been received.

Liquidity risk

Almonty's objective is to use cash and cash equivalents, finance leases, inter-company participating loans and equity in order to maintain liquidity. Almonty's policy is to maximize liquidity in order to enable the continued development of the mine and operations of the plant and to enable the development of its projects.

21. **Capital Management**

The primary objective of Almonty's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholder value. Almonty manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, Almonty may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. Almonty monitors capital using a gearing ratio, which is net debt, divided by equity plus net debt. Almonty's policy is to maintain the gearing ratio between 5% and 40%. Almonty includes within net debt, interest-bearing loans and borrowings, trade and other payables, less cash and short-term deposits and receivables from government tax authorities. Almonty is not exposed to any externally imposed capital requirements.

		December 31, 2011
Capital leases	Note 19	200
Accounts payable and accrued liabilities	Note 18	4,591
Long-term non-interest bearing trade payables	Note 18	502
Less cash and short-term deposits and receivables		(3,768)
Net debt		1,525
Shareholders' equity		20,730
Equity and net debt		22,255
Gearing ratio		6.9%

22. Subsequent Events

On January 31, 2012, Almonty granted 150,000 incentive stock options to certain employees of its wholly-owned indirect subsidiary, Daytal. Each option is exercisable into one common share of Almonty at a price of \$0.85 per share for a period of ten years from the date of grant. The grant will result in stock-based compensation expense, using the Black-Scholes option pricing model, of \$61,500 being recorded in the three months ending March 31, 2012. The weighted average fair value of the stock options granted was \$0.41 per option.

The following assumptions were used for the Black-Scholes valuation of incentive stock options granted:

Risk-free interest rate	2.04%
Expected life of options	10 years
Annualized volatility	35%
Dividend rate	0%
Strike price	\$0.85