
WESTERN LITHIUM BUSINESS

FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2007

(Expressed in Canadian Dollars)

Auditors' Report

To the Director of Western Lithium Business

We have audited the balance sheet of Western Lithium Business as at September 30, 2007, and the statements of loss and deficit, and cash flows for the year then ended. These financial statements are the responsibility of the business's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosure in these financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Business as at September 30, 2007, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

“MacKay LLP”

Vancouver, Canada

May 16, 2008

Chartered Accountants

WESTERN LITHIUM BUSINESS
STATEMENT OF OPERATIONS AND DEFICIT
FOR THE YEAR ENDED SEPTEMBER 30, 2007
(Expressed in Canadian Dollars)

2007

EXPENSES

Amortization	\$ 280
Audit and accounting	2,215
Consulting fees	2,475
Interest and bank charges	509
Investor relations	334
Legal fees	1,457
Office and miscellaneous	4,139
Property investigation	169
Regulatory and filing fees	708
Rent	2,436
Stock-based compensation	35,052
Telephone	332
Travel	1,436
Wages and benefits	<u>11,496</u>
NET LOSS AND COMPREHENSIVE LOSS FOR THE YEAR	<u>(63,038)</u>
DEFICIT – BEGINNING OF YEAR	<u>-</u>
DEFICIT – END OF YEAR	<u>\$ (63,038)</u>

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

WESTERN LITHIUM BUSINESS
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED SEPTEMBER 30, 2007
(Expressed in Canadian Dollars)

	2007
CASH FLOWS FROM (APPLIED TO) OPERATING ACTIVITIES	
Loss for the year ⁽¹⁾	\$ <u>(63,038)</u>
CASH FLOWS FROM (APPLIED TO) INVESTING ACTIVITIES	
Acquisition of mineral properties and deferred costs ⁽¹⁾	<u>(218,882)</u>
CASH FLOWS FROM FINANCING ACTIVITIES	
Mineral property advances payable to Western Uranium Corporation ⁽¹⁾	218,882
Funding provided by Western Uranium Corporation ⁽¹⁾	<u>63,038</u>
Net cash provided by financing activities	<u>281,920</u>
CHANGE IN CASH DURING THE YEAR	-
CASH- BEGINNING OF YEAR	<u>-</u>
CASH- END OF YEAR	<u>\$ -</u>

⁽¹⁾These are non-cash items that have been provided by Western Uranium Corporation as funding sources and uses of cash of the Western Lithium Business.

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

WESTERN LITHIUM BUSINESS
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2007
(Expressed in Canadian Dollars)

1. TRANSFER OF ASSETS AND GOING CONCERN

Western Uranium Corporation (“Western Uranium”) announced on May 2, 2007, the proposed spin-out of the lithium resources located on the Western Uranium’s Kings Valley Property, into a newly incorporated, wholly owned subsidiary of the Company (“Western Lithium Canada Corporation” or “Western Lithium”). Upon conclusion of the transactions, Western Lithium will be 30% owned by Western Uranium and 70% owned by the existing Western Uranium shareholders. The transaction is expected to close in June 2008. Application will also be made to list the shares of Western Lithium on the appropriate exchange.

The spin-out transaction will be completed pursuant to a plan of arrangement (the “Arrangement”) and will be subject to regulatory approval and approval by not less than two-thirds of the votes cast at a special meeting of the shareholders of Western Uranium that will be called to approve the transaction.

Western Lithium Business’ (the “Business”) financial statements reflect the financial position, statements of operations and deficit and cash flows of the related lithium exploration business of Western Uranium. The statement of operations and deficit for 2007 includes an allocation of Western Uranium’s general and administrative expenses incurred during the year. The allocation of general and administrative expenses were calculated on the basis of the ratio of property and deferred exploration expenditures incurred on the lithium property located on Western Uranium’s Kings Valley Property as compared to the expenditures incurred on all of Western Uranium’s properties during the year. The financial statements have been prepared under the continuity of interests basis of accounting with balance sheet amounts based on the amounts recorded by Western Uranium. Management cautions readers of these financial statements, that the allocation of expenses does not necessarily reflect future general and administrative expenses.

While these financial statements have been prepared on a going concern basis which assumes the realization of assets and liquidation of liabilities in the normal course of business, there are conditions that cast significant doubt on the validity of this assumption. The Business has negative working capital and no sources of funding other than Western Uranium. The Business’s ability to continue as a going concern is dependant on continued support from Western Uranium (notes 5 and 6), the ability of the Business to raise equity financing and the attainment of profitable operations. If the use of going concern assumption was not appropriate, the changes to these financial statements would be material.

2. NATURE OF OPERATIONS

The Business is engaged in the exploration and development of lithium in Nevada. Management considers the Business to be an exploration stage business.

The business of mining and exploring for minerals involves a high degree of risk and there can be no assurance that current exploration and development programs will result in profitable mining operations. The recoverability of amounts shown for mineral properties is dependant upon the discovery of economically recoverable reserves, receipt of necessary permits and regulatory approvals, the ability of the Business to obtain financing to complete their developments and future profitable operations or sale of the properties. The investment in and expenditures on mineral properties comprise a significant portion of the Business’ assets.

3. SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles (“Canadian GAAP”).

WESTERN LITHIUM BUSINESS
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2007
(Expressed in Canadian Dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Use of Estimates

The preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the period. Significant areas requiring the use of management estimates include the determination of environmental obligations, the recoverability of mineral properties, and the assumptions used in the determination of the fair value of stock based compensation. Actual results may differ from these estimates. By their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements of changes in such estimates in future periods could be significant.

Mineral Properties and Deferred Costs

Direct costs related to the acquisition and exploration of mineral properties held or controlled by the Business are deferred on an individual property basis until the viability of a property is determined. Administration costs and general exploration costs are expensed as incurred. When a property is placed in commercial production, deferred costs will be depleted using the units-of-production method. Management of the Business periodically reviews the recoverability of the capitalized mineral properties. Management takes into consideration various information including, but not limited to, results of exploration activities conducted to date, estimated future metal prices, and reports and opinions of outside geologists, mine engineers and consultants. When it is determined that a project or property will be abandoned then the costs are written-off, or if its carrying value has been impaired, then the mineral properties and deferred costs are written down to fair value.

Although the Business has taken steps to verify title to mineral properties in which it has an interest, these procedures do not guarantee the Business' title. Such properties may be subject to prior agreements or transfers and title may be affected by undetected defects.

From time to time, the Business acquires or disposes of properties pursuant to the terms of option agreements. Options are exercisable entirely at the discretion of the optionee and, accordingly, are recorded as mineral property costs or recoveries when the payments are made or received. After costs are recovered, the balance of the payments received are recorded as a gain on option or disposition of mineral property.

Asset Retirement Obligations

Asset retirement obligations are recognized when a legal or constructive obligation arises. This liability is recognized at the fair value of the asset retirement obligation. When the liability is initially recorded the Business capitalizes the cost by increasing the carrying amount of the related long-lived assets. Over time the liability is accreted to its estimated future value, and the capitalized cost is amortized over the useful life of the related asset. Upon settlement of the liability, the Business may incur a gain or loss. As at September 30, 2007, the Business does not have any significant asset retirement obligations.

Impairment of Long-Lived Assets

Long-lived assets are reviewed for impairment when events or circumstances suggest their carrying value has become impaired. Management considers assets to be impaired if the carrying value exceeds the estimated undiscounted future projected cash flows to result from the use of the asset and its eventual disposition. If impairment is deemed to exist, the assets will be written down to fair value. Fair value is generally determined using a discounted cash flow analysis.

WESTERN LITHIUM BUSINESS
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2007
(Expressed in Canadian Dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Income Taxes

The Business is not a legal entity and does not file an income tax return. After the incorporation of the Business and the execution of the transfer in accordance with the spin-out transaction, the final tax basis of assets and liabilities will be established.

Income taxes will be calculated using the asset and liability method of accounting for future income taxes. Under this method of tax allocation, future income tax liabilities and assets are recognized for the estimated tax consequences attributable to differences between the amounts reported in the consolidated financial statements and their respective tax bases and loss carryforwards, using substantively enacted tax rates and laws that are expected to be in effect in the periods in which the future income tax assets or liabilities are expected to be settled or realized. The effect of a change in income tax rates on future income tax liabilities and assets is recognized in income in the period that the change occurs. Potential future income tax assets are not recognized to the extent that they are not considered more likely than not to be realized.

Loss Per Share

The Business is not a legal entity and does not have any issued shares. After the incorporation of the Business, loss per share will be calculated. Loss per share is calculated based on the weighted average number of common shares issued and outstanding during the year. The Company uses the treasury stock method to calculate fully diluted per share amounts whereby any proceeds from dilutive instruments are assumed to be used to purchase common shares at the average market price during the period. The effect of potential issuances of shares under options and warrants would be anti-dilutive and therefore basic and diluted losses per share are the same.

Stock Based Compensation

Western Uranium applies the fair value method of accounting for all stock options granted. Under this method, stock-based compensation on options granted to employees, directors and consultants is recorded as an expense or a charge to mineral properties in the period the options are vested, ranging from terms of up to 18 months, based on the estimated fair value at the measurement date using the Black-Sholes Option Pricing Model.

Since the Business was not incorporated, there has been no stock options issued directly related to the Business. Stock-based compensation amounts included in these financial statements represent allocations of Western Uranium's related stock-based compensation amounts, as outlined in note 1.

Currency Risk

The Business' expenditures are predominantly in US dollars and contributions have been and will be received from Western Uranium, which raises its equity in Canadian dollars. The Business conducts the majority of its business in Nevada, which uses the US dollar as its economic currency. As such, the Business is subject to risk due to the fluctuations in the exchange rates for the US and Canadian dollar. The Business does not enter onto derivative financial instruments to mitigate its exposure to foreign currency risk. All of the Business' assets are denominated in US dollars and have been translated at a value of \$0.9948 Canadian dollars to \$1.00 US.

Foreign Currency Translation

The Business uses the temporal method of foreign currency translation. Monetary items are translated at the exchange rate in effect at the balance sheet date; non-monetary items are translated at historical exchange rates; revenue and expense items are translated at the average rate of exchange for the year, except for depreciation, which is translated at the same rate as the assets to which they relate. Translation gains and losses are reflected in the Business' reported loss for the year.

WESTERN LITHIUM BUSINESS
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2007
(Expressed in Canadian Dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

New Accounting Policies

Effective October 1, 2006, the Business adopted CICA Handbook Section 1530, *Comprehensive Income*, CICA Handbook Section 3855, *Financial Instruments – Recognition and Measurement*, CICA Handbook Section 3861, *Financial Instruments – Presentation and Disclosure* and CICA Handbook Section 3865, *Hedges*. These new Handbook Sections provide comprehensive requirements for the recognition and measurement of financial instruments, as well as standards on when and how hedge accounting may be applied. Handbook Section 1530 also introduces a new component of equity referred to as comprehensive income.

Under these new standards, all financial assets must be classified as held-to-maturity, available for sale, loans and receivables or held-for-trading and all financial liabilities must be classified as held for trading or other. All financial instruments are recorded on the balance sheet at fair value and changes in fair value are included in earnings, except for available for sale and derivative financial instruments designated as hedges, for which changes in fair value will be included in comprehensive income.

The Business has designated its financial instruments, which includes mineral property advances payable to Western Uranium as “*Other Financial Liabilities*”. The Business is unable to determine the fair value of the mineral property advances payable to Western Uranium due to related party nature of the balance and the absence of a secondary market for such instruments. The Business does not have any derivative financial instruments.

In accordance with the provisions of these new standards, there were no adjustments to the Business’ financial statements as of October 1, 2006.

4. MINERAL PROPERTIES AND DEFERRED COSTS

For the year ended September 30, 2007	Kings Valley Property - Lithium
Acquisition costs	
Balance, beginning of year	\$ -
Additions	<u>14,799</u>
Balance, end of year	<u>14,799</u>
Deferred exploration costs incurred during the year:	
Drilling	89,369
Geological and consulting	74,520
Mapping, supplies and other	38,885
Transportation and travel	<u>1,309</u>
Total deferred exploration costs	204,083
Balance, beginning of year	<u>-</u>
Balance, end of year	<u>204,083</u>
Total mineral property costs	\$ 218,882

WESTERN LITHIUM BUSINESS
NOTES TO FINANCIAL STATEMENTS
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4. MINERAL PROPERTIES AND DEFERRED COSTS (continued)

Kings Valley Property, Nevada, USA

The lithium property is located on the Kings Valley Property and the title to the lithium property is held by Western Uranium Corporation and is as follows:

On January 21, 2005, Western Uranium entered into a Mining Option Agreement with Uravada Inc. ("Uravada") to acquire all of Uravada's interest in certain mining claims located in Nevada. Western Uranium paid \$30,633 (US\$25,000) and can acquire Uravada's interest by making additional payments as follows:

- US\$30,000 on or before January 21, 2006 (paid),
- US\$50,000 on or before January 21, 2007 (paid),
- US\$75,000 on or before January 21, 2008 (paid),
- US\$100,000 on or before January 21, 2009, and
- US\$125,000 on or before January 21, 2010.

This agreement is subject to a 3% net smelter return royalty. Commencing on January 21, 2011, and each year thereafter, Western Uranium shall pay to Uravada US\$50,000 in advance net smelter return royalty payments.

On November 15, 2005, Western Uranium entered into a Mining Option Agreement to acquire a 50% interest in four mining claims forming part of the Kings Valley Claims. Western Uranium paid \$1,788 (US\$1,500) and can acquire the 50% interest by making additional payments as follows:

- US\$2,000 on or before November 15, 2006 (paid),
- US\$3,500 on or before November 15, 2007 (paid),
- US\$5,500 on or before November 15, 2008,
- US\$7,500 on or before November 15, 2009, and
- US\$9,000 on or before November 15, 2010.

Western Uranium's interest in the claim is subject to a 1.5% net smelter return royalty. Western Uranium shall pay an annual advance net smelter return royalty payment of US\$1,785, commencing November 15, 2011.

On November 15, 2005, Western Uranium entered into a 20 year renewable mining lease on two claims forming part of the King Valley Claims. The terms of the lease require Western Uranium to make advanced scheduled minimum royalty payments, to be credited against any production royalties that may accrue and against the purchase price as follows:

- US\$10,000 on or before November 15, 2005 (paid),
- US\$5,000 on or before November 15, 2006 (paid),
- US\$5,000 on or before November 15, 2007 (paid),
- US\$5,000 on or before November 15, 2008, and
- US\$10,000 on or before November 15, 2009 and each anniversary date thereafter.

The advance minimum royalty payments shall be paid in two installments each year, half on the anniversary date and half six months later.

WESTERN LITHIUM BUSINESS
NOTES TO FINANCIAL STATEMENTS
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(Expressed in Canadian Dollars)

4. MINERAL PROPERTIES AND DEFERRED COSTS (continued)

After commencement of production of minerals from the claims, Western Uranium shall pay an annual 2% net smelter return royalty or US\$10,000 a year, whichever is greater. Western Uranium has an option to purchase the claims for US\$100,000, less any amounts previously paid as advance royalty payments, in which case no further royalties are payable. During the years ended September 30, 2007, 2006 and 2005, Western Uranium staked and filed a number of federal lode mining claims, with the Bureau of Land Management, on this property.

In February 2007 Western Uranium added an additional 1,982 lode claims encompassing over 39,000 acres to the existing land position. The new claims, staked within the McDermitt Caldera, are contiguous with existing Western Uranium's claims.

Western Uranium now controls over 3,900 federal lode claims encompassing over 78,000 acres within and bordering McDermitt Caldera on the Nevada side of the caldera.

5. CONTRIBUTION FROM WESTERN URANIUM CORPORATION

Contribution from Western Uranium Corporation consists of an allocation of Western Uranium Corporation's general and administrative expenses to the Business.

6. MINERAL PROPERTY ADVANCES PAYABLE TO WESTERN URANIUM CORPORATION

The amounts due to Western Uranium Corporation are non-interest bearing and have no specific terms of repayment, accordingly, their fair value can not be readily determined.

7. SEGMENTED INFORMATION

The Business operates in one business segment, being the acquisition and exploration of mineral properties. The Business is in the exploration stage and, accordingly, has no reportable segment revenues or operating results for fiscal 2007. Substantially all assets of the Business are located in the United States, as set out in note 4.

8. SUBSEQUENT EVENTS

Subsequent to September 30, 2007, the Business:

- a) was incorporated under the Business Corporations Act of the Province of British Columbia and one common share was issued to Western Uranium.
- b) entered into a loan agreement (the "Loan") with Western Uranium and received US\$2,000,000. The Loan bears interest of 5% per annum. As security for the Loan, the Business issued a promissory note to Western Uranium.
- c) entered into a mining lease and option to purchase agreement (the "Lease Agreement") with Western Uranium, through their subsidiaries, Western Lithium USA (100% owned by the Business) and Western Energy Development Corporation (100% owned by Western Uranium), pursuant to which Western Uranium granted to the Business the exclusive right to explore for lithium bearing minerals and clay on the Kings Valley Property (the "Exploration Right").

WESTERN LITHIUM BUSINESS
NOTES TO FINANCIAL STATEMENTS
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(Expressed in Canadian Dollars)

8. SUBSEQUENT EVENTS (continued)

The Lease Agreement has a term of 30 years. In consideration for the Exploration Right, the Business has paid US\$25,000 to Western Uranium and will pay US\$50,000 on the first anniversary of the effective date of the Lease Agreement, US\$75,000 on each of the second through fourth anniversaries of the effective date of the Lease Agreement, US\$100,000 on each of the fifth through tenth anniversaries of the effective date of the Lease Agreement, US\$150,000 on each of the eleventh through twentieth anniversaries of the effective date of the Lease Agreement and US\$200,000 on each of the twenty-first through thirtieth anniversaries of the effective date of the Lease Agreement, for total payments of US\$4,400,000. These payments are applied against any royalty payments. The Business has agreed to pay to Western Uranium a Net Smelter Returns Royalty of 1.5% and a Net Profits Royalty equal to 3.5%.

- d) applied to the TSX – Venture (the “Exchange”) to have the Business shares listed on the Exchange. The spin-out transaction (the “Arrangement”) is subject to approval by the shareholders of Western Uranium, applicable regulatory authorities and the Supreme Court of British Columbia. According to the Arrangement, the Business will subdivide its share capital on a 35,000,000 for one basis such that Western Uranium will hold 35,000,000 common shares in the capital of the Business. Western Uranium will distribute to its Shareholders all but approximately 15,265,639 Shares of the Business it holds by way of “reduction of capital” of Western Uranium. Upon completion of the Arrangement, each holder at the Share Distribution Record Date of Western Uranium Shares will be entitled to receive one Share of the Business for every three Shares of Western Uranium held.
- e) Concurrently with the completion of the Arrangement, the Business intends to complete a brokered and/or non-brokered private placement of up to 12,000,000 Shares at an estimated price of \$0.50 per one Share; provided that the Board of Directors of the Business, in its sole discretion, may revise the terms of the financing, including price and such other terms as it determines appropriate. All issuances of securities pursuant to the Business financing will be subject to, among other things, applicable regulatory approvals.