

WESTERN LITHIUM USA CORPORATION
(Formerly Western Lithium Canada Corporation)
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE NINE MONTHS ENDED JUNE 30, 2010

Background

The following discussion and analysis of financial position and results of operations, prepared as of August 26, 2010, should be read in conjunction with the Company's interim unaudited consolidated financial statements for the nine months ended June 30, 2010, and audited consolidated financial statements for the years ended September 30, 2009 and 2008, and related notes attached thereto. The financial statements are prepared in accordance with Canadian generally accepted accounting principles. All amounts are stated in Canadian dollars unless otherwise indicated.

Forward Looking Statements

Certain of the statements made and information contained herein is "forward-looking information" within the meaning of the British Columbia Securities Act. These statements relate to future events or the Company's future performance. All statements, other than statements of historical fact, may be forward-looking statements. Forward-looking statements are often, but not always, identified by the use of words such as "seek", "anticipate", "plan", "continue", "estimate", "expect", "may", "will", "project", "predict", "propose", "potential", "targeting", "intend", "could", "might", "should", "believe" and similar expressions. These statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements. The Company believes that the expectations reflected in those forward-looking statements are reasonable but no assurance can be given that these expectations will prove to be correct and such forward-looking statements included in this MD&A should not be unduly relied upon by investors as actual results may vary. These statements speak only as of the date of this MD&A and are expressly qualified, in their entirety, by this cautionary statement. In particular, this MD&A contains forward-looking statements, pertaining to the following: capital expenditure programs, development of resources, treatment under governmental and taxation regimes, expectations regarding the Company's ability to raise capital, expenditures to be made by the Company on its properties and work plans to be conducted by the Company. With respect to forward-looking statements listed above and contained in the MD&A, the Company has made assumptions regarding, among other things:

- uncertainties relating to receiving mining and exploration permits in Nevada;
- the impact of increasing competition in the lithium business;
- unpredictable changes to the market prices for lithium and potassium;
- exploration and development costs for its Kings Valley Property;
- ability to negotiate satisfactory arrangements for the sale of product or with joint-venture partners;
- anticipated results of exploration and development activities;
- the Company's ability to obtain additional financing on satisfactory terms.

The Company's actual results could differ materially from those anticipated in these forward-looking statements as a result of the risk factors set forth below and elsewhere in this MD&A, volatility in the market price for minerals; uncertainties associated with estimating resources; the potential for unexpected geological, technical, drilling or processing problems; liabilities and risks, including environmental liabilities and risks, inherent in mineral extraction operations; fluctuations in currencies and interest rates; incorrect assessments of the value of acquisitions; unanticipated results of exploration activities; competition for, amongst other things, capital, undeveloped lands and skilled personnel; lack of availability of additional financing, product sales agreements and/or joint venture partners and unpredictable weather conditions.

Investors should not place undue reliance on forward-looking statements as the plans, intentions or expectations upon which they are based might not occur. Readers are cautioned that the foregoing lists of factors are not exhaustive. The forward-looking statements contained in this MD&A are expressly qualified by this cautionary statement. The Company does not undertake any obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, unless required by law.

Company Overview

Western Lithium USA Corporation (“Western Lithium” or “WLC”) is a Canadian-based resource company focused on the development of a large lithium resource located in northwestern Nevada. The Company was incorporated on November 27, 2007, as a subsidiary of Western Uranium Corporation (“Western Uranium” or “WUC”).

Following the completion of the Plan of Arrangement between the two companies on July 16, 2008, Western Lithium ceased to be wholly-owned by WUC and became an independent publicly traded company. On May 31, 2010, the Company changed its name to Western Lithium USA Corporation. The Company trades on the Toronto Venture Exchange under the symbol WLC. The company operates in the United States through its wholly owned subsidiary, Western Lithium Corporation (“Western Lithium USA”). Western Lithium USA has leased a portion of claims on the Kings Valley Project in Nevada from Western Energy Development Corp., a wholly owned US subsidiary of WUC. The lease grants Western Lithium the exclusive rights to explore for, develop, and mine, or otherwise produce any and all lithium mineralization known or discovered on the claims. Additional information relating to the Company is available on SEDAR at www.sedar.com.

Significant Events

- In October 2009, the Company completed a private placement of an aggregate of 17,476,000 units (the “Units”) at a price of \$0.95 per Unit for aggregate gross proceeds to the Company of \$16,602,200 (net \$15,508,866). Each Unit is comprised of one common share and one-half of a common share purchase warrant. Each whole warrant will entitle the holder thereof to purchase an additional common share for a period of eighteen months at a price of \$1.25 per warrant, subject to adjustment in certain events. Western Uranium Corporation purchased 1,476,000 Units in the private placement. In connection with the private placement, the Company paid to agents a cash commission of \$897,294 and granted 944,520 compensation options. Each compensation option is exercisable to purchase one common share of the Company for a price of \$0.95 for a period of eighteen months, subject to adjustment in certain events. In addition, a finder’s fee totaling \$28,500 was paid in respect to the issue and sale of 750,000 Units for which the agents were not paid in cash commission.
- In December 2009, the Company appointed Silvio Bertolli as Sr. Vice President, Project Development, to direct the Company through the next planned stage of engineering and development. Mr. Bertolli is a chemical engineer with over 37 years of experience in project management, process design and technology development in the chemicals, petrochemicals, mining and oil and gas industries.
- In January 2010, the Company announced the results of a National Instrument 43-101 (“NI 43-101”) compliant Preliminary Assessment and Economic Evaluation (PAEE) on its Kings Valley Lithium Project in Nevada, USA.
- In February 2010, the Company announced the appointment of Tracy Hansen as Corporate Secretary. Mrs. Hansen is a securities paralegal with over 14 years of experience in providing regulatory and management services to public and private companies, primarily in mining and resource development.
- In February 2010, the Company has received approval for its plan of operation for its Kings Valley Lithium Project in Nevada, USA, by both the U.S. Bureau of Land Management (BLM) and the Nevada Department of Environmental Protection. The work program includes an extensive drilling and trenching exploration program to further delineate the resources of the Company’s Stage I Lens, test suitable mining methods for the project and obtain bulk samples for use in pilot plant studies. The plan also included an environmental assessment.
- In February 2010 the TSX Venture Exchange announced that the Company has been named as a member of the TSX Venture 50, a ranking of strong performers listed on TSX Venture Exchange. TSX Venture 50 is comprised of 10 emerging companies in each of five industry sectors that have been identified as leaders in Canada’s public venture market.
- In March 2010, the Company announced that it would form an Advisory Committee (the “Committee”) to consult with the Board of Directors on the development of the Company’s Kings Valley Lithium Project. The Committee will be comprised of leading experts in the technical, commercial and financial fields, who can contribute to the advancement of the project. The Company appointed Dr. Graham R. Thompson to the Committee. Dr. Thompson, Professor Emeritus of Geology at The University of Montana, specializes in Clay Mineralogy and Petrology. He is a leading expert on clays and the occurrence of clays in volcanic caldera environments, which form the basis of the Company’s Kings Valley, Nevada lithium deposit. Pamela Klessig resigned from the board of directors and became a member of the Advisory Committee.

- In May 2010, the Company announced that a new National Instrument 43-101 (“NI 43-101”) resource estimate was completed for a potential Stage II (South) lens development at the Kings Valley Lithium Project in Nevada. The deposit covered by this resource estimate is located on a portion of the Stage II (South) lens of the Kings Valley property. The resource estimate consists of Indicated Resources of 95 million tonnes grading 0.27% lithium, or the lithium carbonate equivalent (“LCE”) of 1,365,000 tonnes LCE and Inferred Resources of 47 million tonnes grading 0.26% lithium, for 650,000 tonnes of LCE, both at a cut-off grade of 0.20% lithium. The Stage II (South) lens independent estimate was prepared by GeoSystems International, Inc. (“GSI”). This resource is in addition to the previously announced NI 43-101 compliant resource estimate for the Stage I (PCD) lens of the property that is envisioned to support Stage I (PCD) production of 27,700 tonnes per year of LCE with an 18 year operating life.
- In June 2010, the Company commenced continuous pilot scale testing at an independent research facility. The program will take several months to complete, with planned production of approximately 1 kg of battery grade lithium carbonate. The program is intended to confirm recent findings that retention time can be significantly reduced, lowering energy consumption. In addition, larger scale testing to produce up to approximately 10 kg of battery grade lithium carbonate commenced in July at European facilities. The resulting lithium carbonate from the pilot tests will be run through a series of diagnostic tests in the USA to determine battery performance specifications. Samples will also be sent for analysis to select strategic groups interested in a partnership to develop the project.
- In June 2010, the Company commenced infill drilling on the Stage I clay lens. The purpose of this drilling is to further refine the geologic model and to help bring the resource to the measured and indicated categories so that future feasibility studies can potentially support a reserve estimate. Current Company’s plans are to drill 80 to 100 holes during the summer and fall of 2010 on the Stage I lens.

Industry

The Company is engaged in the acquisition, exploration, and development of resource properties, an inherently risky business, and there is no assurance that an economic mineral deposit will ever be discovered and subsequently put into production. Most exploration projects do not result in the discovery of economically mineable deposits.

Current Market Status

The Company is developing a large lithium deposit in Nevada and intends to produce lithium carbonate. One of the primary uses of lithium today is in lithium-ion batteries for cell phones, laptop computers, and other electronic devices that offer maximum storage capacity with minimum weight. The overall lithium carbonate market is expected to grow significantly over the next decade due to continued growth from the electronics industry and new growth from the hybrid/electric automotive industry.

Company Outlook

Following the positive results of the PAEE (as defined below), Western Lithium has commenced further engineering and pilot plant studies to advance the project to prefeasibility. These studies are expected to be funded from the existing treasury. Western Lithium has approximately \$16.5million in cash and no debt. The Company is in discussions with various major lithium buyers to define product quality specifications and long-term supply requirements and expects to work with these groups through a planned piloting program.

The Company is positioning itself to become a reliable and scalable, United States-based strategic supplier of battery grade lithium carbonate to support the hybrid/electric cars and mobile electronics.

Resource Property

All costs related to the acquisition, exploration, and development of resource properties are capitalized by property. If economically recoverable reserves are developed, capitalized costs of the related property are reclassified as mining assets and amortized using the unit of production method. When a property is abandoned, all related costs are written off to operations. If, after management review, it is determined that the carrying amount of a resource property is impaired, that property is written down to its estimated net realizable value. A resource property is reviewed for impairment whenever events or changes in circumstances indicate that its carrying amount may not be recoverable.

The Company's property, the Kings Valley Lithium Project, is located in north-western Nevada. The Kings Valley property has one of the largest known lithium deposits in the world, based on a historical resource estimate done by Chevron Resources of 11 million tonnes of LCE (See "Historical Resource Estimate" below).

The Company has announced the results of a National Instrument 43-101 (NI 43-101) compliant Preliminary Assessment and Economic Evaluation (PAEE) on its Kings Valley Lithium Project in Nevada. The NI 43-101 compliant PAEE results for Stage I (PCD) lens consider only 8% of the historical near-surface lithium deposit. Successful development of Stage I will allow the company to consider further expansion of production to meet anticipated growth of the lithium-ion battery industry. In December 2009, drilling was completed on a portion of the Stage II (South) lens historical lithium resources and a NI 43-101 compliant resource estimate was completed in May 2010.

The company believes that its Nevada property has the potential to become a major USA-based global supplier of high quality lithium carbonate that can economically compete with other global producers of LCE.

Historical Resource Estimate

The Company's 43-101 compliant resources estimates cover part of the mineralization that constitutes a historical estimate of 11 million tonnes of lithium carbonate equivalent (LCE) prepared by Chevron Resources. It represents one of the largest known lithium deposits in the world, ranking in size behind deposits in Bolivia (47 million tonnes LCE), Chile (37 million tonnes LCE), North Carolina (14 million tonnes LCE) and the DRC (12 million tonnes LCE) (Source: R. Keith Evans, 2010; Roskill Information Services Ltd., 2009; and company disclosures). The Chevron estimate is at average grades of 0.31% to 0.37% Li and is dated March 1985, but there is insufficient information regarding the data used in the estimate to make a useful comparison to current resource categories under CIM Definition Standards of Mineral Resources and Mineral Reserves. A qualified person has not done sufficient work to classify the historical estimate as current mineral resources under National Instrument 43-101, the Company is not treating the historical estimate as current mineral resources and the historical estimate should not be relied upon.

NI 43-101 Resource on Stage I (PCD) Lens

Western Lithium has completed a National Instrument 43-101 resource estimate for the envisioned Stage I (PCD) lens of development. The Stage I (PCD) lens contain Indicated Resources of 48.1 million tonnes grading 0.27% lithium, or the lithium carbonate equivalent (LCE) of 688,000 tonnes LCE and Inferred Resources of 42.3 million tonnes grading 0.27% lithium, for an equivalent of 606,000 tonnes of LCE, both at a cut-off grade of 0.20% Lithium.

Summary of Preliminary Assessment and Economic Evaluation Study

The PAEE, or Scoping Study, is based on the NI 43-101 compliant Stage I (PCD) lens lithium resource and supports a nominal production rate of 27,700 tonnes per year of lithium carbonate equivalent (LCE) for approximately 18 years. The proposed production rate compares favourably with the top two global LCE producers, both located in South America that reported production of 32,600 tonnes and 22,500 tonnes of LCE in 2008, respectively.

In addition, the study indicates the potential to produce a nominal 115,000 tonnes per year of by-product potassium sulfate (SOP), primarily used as agricultural fertilizer. The proposed project is expected to compete as a low-cost LCE producer with an estimated cash operating cost of US\$1,967 per tonne (US\$0.89/pound) LCE net of SOP by-product credit, under base case economics (cash operating costs estimated to be US\$4,463 per tonne LCE with cash credit of (US\$2,496) per tonne LCE derived from the sale of by-product potassium sulfate). The Company notes, however, that no reliance should be placed on its current ability to sell the potassium sulfate by-product, as a result of imprecision in the United States Bureau of Land Management's (BLM) regulatory process for allowing the company's sale of the by-product. The Company is proposing to pursue a negotiated contractual or regulatory resolution of this issue with the BLM.

For the Stage I (PCD) lens development, the base case economic analysis, using a price of US\$6,614 per tonne of LCE, and a price of US\$600 per tonne of SOP, indicates a pre-tax net present value (NPV) discounted at 8% of US\$714 million. The projected pre-tax internal rate of return (IRR) is 28%. Average revenue for Stage I (PCD) lens is estimated at US\$263 million with pre-tax nominal cash flow (EBITDA) of approximately US\$130 million. Capital costs, estimated to be US\$427 million, have a payback period of 4 years.

The preliminary assessment is preliminary in nature, and includes inferred mineral resources that are considered too speculative geologically to have the economic considerations applied to them that would enable them to be categorized as mineral reserves, and there is no certainty that the preliminary assessment will be realized. Mineral resources that are not mineral reserves do not have demonstrated economic viability.

Lease and Option Agreement

The Company and Western Uranium entered into a mining lease and option to purchase agreement (the "Lease Agreement"), through their wholly owned subsidiaries, Western Lithium USA (100% owned by Western Lithium USA Corporation) and Western Energy Development Corporation (100% owned by Western Uranium), pursuant to which Western Uranium granted to the Company the exclusive right to explore for lithium bearing minerals and clay on the Kings Valley Property (the "Exploration Right"). The Lease Agreement has a term of 30 years that is renewable subject to the Company fulfilling terms required under the lease agreement. In consideration for the Exploration Right, the Company must pay to Western Uranium US\$25,000 (paid), US\$50,000 (paid) 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 (second anniversary US\$75,000 paid), 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 Company has agreed to pay to Western Uranium a Net Smelter Returns Royalty of 1.5% and a Net Profits Royalty equal to 3.5%.

Location

The Kings Valley property is located approximately 100 kilometres north-northwest of Winnemucca, Nevada, along U.S. Highway 95 and 40 km west-northwest of Orovada, Nevada, on paved state highway 293 with railroad access located in Winnemucca.

The project has the advantage of leveraging off an active mining industry in the Winnemucca area, with developed infrastructure and an experienced work force. Adequate electrical power is available and currently there is a 115 kVA power line that passes through the property. Water is available in the region and can be sourced from one of the nearby valleys. A major natural gas pipeline is located approximately 32 km to 60 km from the project site.

Mineral Resource Estimate

The Kings Valley lithium deposits occur in five areas of lithium mineralization (lenses) which are found in hectorite, a lithium-bearing clay mineral that occurs in thick, apparently continuous accumulations.

The Stage I (PCD) lens mineralization on which the PAEE is based is the southernmost lens in the area of interest. The Stage I mineralized area is about 3 km by 2 km.

AMEC carried out lithium and potassium mineral resource estimates for the Stage I (PCD) lens, which forms the basis for this PAEE. The estimate conforms to Canadian National Instrument 43-101, *Standards of Disclosure for Mineral Projects* of the Canadian Securities Administrators. The initial lithium estimate was completed in December 2008 and has an effective date of December 15, 2008. That estimate was reported in an NI 43-101 technical report filed on SEDAR (AMEC, 2008) and is restated here. The potassium estimate was completed in November 2009 and has an effective date of November 15, 2009. The potassium estimate is based on data generated by reanalyzing the Western Lithium core samples for major elements (including K₂O which is converted to potassium sulfate for the estimate).

The resource for Stage I (PCD) lens has been classified as both an indicated and inferred mineral resource as defined by CIM Definition Standards. The following table presents the summary of lithium and potassium mineral resources at various cut-off grades. The potassium grade is presented at the lithium cut-off, as the potassium resource is considered a by-product of the lithium resource. The lithium and potassium resources are both within the same block model.

Kings Valley Indicated and Inferred Mineral Resources – Stage I (PCD) Lens

Kings Valley Stage I (PCD) Lens Indicated Mineral Resources, 0.20% Lithium Cutoff*				
Cutoff Li %	MTonnes	Li %	K %	Contained LCE, in thousand tonnes
0.175	59.58	0.25	3.28	803
0.200	48.10	0.27	3.31	688
0.225	35.68	0.29	3.41	548
0.250	25.77	0.31	3.57	423
0.275	18.24	0.33	3.69	318
0.300	12.42	0.35	3.76	229
Kings Valley Inferred Mineral Resources				
0.175	53.95	0.25	3.24	723
0.200	42.32	0.27	3.26	606
0.225	30.36	0.29	3.38	471
0.250	20.93	0.32	3.53	353
0.275	15.88	0.33	3.60	282
0.300	10.35	0.36	3.69	197

* Inferred tonnes within 213 meters of nearest drill hole; indicated tonnes two drill holes within 201 meters, one within 143 meters.

Contained metal does not allow for mine and metallurgical recovery.

1.8 tonnes/m³ tonnage factor used.

Economic assumptions for cut-off grade: \$3.50 lithium carbonate /lb, 60% metallurgical recovery,

\$50/tonne processing, \$2.20 USD/tonne mining.

Rounding errors may exist.

Mining Operations

The operation is planned as an open-pit operation using conventional truck/shovel mining methods. The strip ratio is 2.42:1. The life-of-mine (LOM) plan shows a total of 32 million tonnes of mill feed and 78 million tonnes of waste over an 18-year mine operating life at a cut-off grade of 0.270% lithium.

In-pit Mineral Resources Estimate

Item	Total/Average
In-pit indicated resources	17,612,000 tonnes (dry basis)
In-pit inferred resources	14,547,000 tonnes (dry basis)
Lithium (Li), ppm	3,292
Potassium (K), ppm	35,963
Waste	77,910,000 tonnes (dry basis)
Strip Ratio	2.42
Li ₂ CO ₃ equivalent at 88.5% recovery	499,000 tonnes
K ₂ SO ₄ equivalent at 80.5% recovery	2,074,000 tonnes

Metallurgical Testing

Metallurgical test work was performed at Kappes, Cassiday & Associates on samples from the King's Valley lithium deposit by various researchers. The design concept of Western Lithium's proposed facility is based in principle on the U.S. Bureau of Mines (USBM) report, *Lithium and Its Recovery from Low-grade Nevada Clays* (USBM Bulletin 691, 1988). USBM performed laboratory tests on the clays obtained from the McDermitt Caldera, the same ore body discussed in this MD&A. The KCA test work confirmed that the USBM process for recovery of lithium from this deposit is technically viable. The preferred processing concept was performed on composite of both the oxidized and unoxidized ore types of the deposit. This includes calcining of the ore with a mixture of limestone and gypsum, followed by water leaching to recover soluble lithium and other alkali sulfates. The following weighted average recoveries on the combined ore types were based on laboratory data and mass balance calculations:

- Lithium: 88.5%
- Potassium: 80.5%

Mineral Processing

The process steps in the selected flow sheet; drying, calcining, leaching, and lithium carbonate recovery; employ conventional, proven technologies and equipment. The crystallization process is based on industry published solubility data.

The key process step in this operation is a conversion of lithium (and other alkali metals) contained in the deposit from silicates to water-soluble sulfates employing a high temperature calciner by the addition of calcium sulfate. The advantage of this process is that the impurities in the ore remain insoluble, thus simplifying downstream recovery and refining process. The hot calcine is cooled by ambient air in a fluidized bed cooler. To further maximize the energy efficiency of the process, the remaining calciner off-gas is used in the waste heat boiler to produce steam.

The discharge solution from the lithium recovery process contains potassium and sodium sulfates and a significant amount of dissolved lithium. The primary objective of this crystallization process is to recover potassium sulfate as a marketable product.

The PAEE considers the preparation of an intermediate product, glaserite ($3 \text{K}_2\text{SO}_4 \cdot \text{Na}_2\text{SO}_4$), followed by a direct crystallization and drying of potassium sulfate. This process has not been demonstrated commercially on this type of feed stock, but published solubility data indicate that the process is technically viable (Seidell, 1965).

Process Plant and Infrastructure Capital Cost

The capital cost estimate prepared for the metallurgical process facilities addresses a greenfield plant capable of processing 5,000 tonnes/day of ore (dry basis). The total cost to design, procure, construct, and commission the plant facilities is US\$388 million with an accuracy of +/-35 percent AACE Class 5 estimate. The following table summarizes the process plant capital costs by major area. These costs were determined using the consultants' in-house database and from soliciting budget price proposals for new equipment.

Capital Cost Estimate Process Plant

Description	Costs, (US\$ thousands)
Direct Costs	
Area 100 – Ore Crushing and Storage	\$7,807
Area 200 – Calcining and Leaching	\$89,115
Area 300 – Evaporation / Crystallization	\$81,413
Area 400 – Product Precipitation, Drying, Packaging and Storage	\$7,289
Area 500 – Reagents and Utilities	\$12,694
Liquid Tailings Impoundment	\$2,572
Natural Gas Pipeline	\$6,600
Clay Production Facility	\$6,930
Total Direct Cost	\$214,420
Indirect Costs	
Field Staff, Local Hires, Overhead, and Expenses	\$40,369
Craft Indirect Costs	\$32,295
Temporary Facilities	\$8,074
Construction Equipment, Tools, Supplies, Scaffold	\$15,617
Total Indirect Cost	\$96,355
Engineering (Home Office)	\$22,764
Freight, Duties and Taxes	\$11,350
Contingency	\$42,884
TOTAL	\$387,773

Open-pit Mine

Mine capital equipment costs are from both the consultants' in-house database and from soliciting budget price proposals for new equipment and are in fourth quarter 2009 US\$. The open pit equipment capital costs required to achieve the target processing rate is estimated to be US\$39 million.

Mine Equipment Capital Spending Summary (US\$ thousands)

Major Mining Equipment Capital	Total
Liebherr 984 Excavator	\$5,060
Cat 992 FEL	\$2,026
Cat 775 Truck	\$7,762
Cat 637 Scraper	\$2,484
Cat D8N Track Dozer	\$5,527
Cat14G Grader	\$1,035
Cat 988 FEL	\$805
Cat773 Water Truck	\$2,588
Cat773 Lube Truck	\$1,955
Light Plants	\$167
Subtotal Capital on Fleets	\$29,409
Mine Infrastructure and Ancillary Support Capital	\$9,628
TOTAL CAPITAL SPENDING	\$39,037

Operating Cost Estimate

The operating costs have been prepared for a plant processing 5,000 tonnes/day of ore. The total combined operating cost for the mine and process facilities are presented below.

Project Cost Summary

Description	Unit Cost* (US\$/LCE tonnes)
Mining–Open Pit	\$566.57
Processing	\$3,767.17
Other	
Owner’s Costs	\$129.17
Royalties	\$370.66
Capital Depreciation	\$846.18
TOTAL	\$5,679.75

The operating cash cost per tonne of LCE is estimated to be US\$1,967 net of by-products and is calculated as follows:

Operating Cash Cost Calculation

Description	US\$/LCE tonnes
Mining–Open Pit	\$566.57
Processing	\$3,767.17
Owner’s Costs	\$129.17
SOP Credit*	\$(2,496.00)
Lithium Carbonate Cash Cost Equivalent	\$1,966.91

Cash Flow Analysis

Project Net Present Value—Pre-tax (8% Discount Rate)

Note: NPV values are in millions, US\$714 million is the base case.

Lithium Carbonate (\$/tonne)	\$10,000	\$876	\$971	\$1,065	\$1,159	\$1,254	\$1,348	\$1,443	\$1,537	\$1,631	\$1,726
	\$9,000	\$662	\$756	\$850	\$945	\$1,039	\$1,134	\$1,228	\$1,322	\$1,417	\$1,511
	\$8,000	\$447	\$541	\$636	\$730	\$824	\$919	\$1,031	\$1,108	\$1,202	\$1,296
	\$7,000	\$231	\$326	\$420	\$515	\$606	\$703	\$798	\$892	\$986	\$1,081
	\$6,614	\$147	\$242	\$337	\$431	\$525	\$620	\$714	\$808	\$903	\$997
	\$6,000	\$12	\$108	\$203	\$298	\$392	\$486	\$581	\$675	\$769	\$864
	\$5,000	(\$210)	(\$113)	(\$17)	\$79	\$174	\$268	\$363	\$457	\$551	\$646
	\$4,000	(\$437)	(\$339)	(\$243)	(\$146)	(\$50)	\$46	\$141	\$236	\$330	\$424
	\$3,000	(\$671)	(\$572)	(\$473)	(\$374)	(\$277)	(\$181)	(\$84)	\$12	\$107	\$201
		\$0	\$100	\$200	\$300	\$400	\$500	\$600	\$700	\$800	\$900
	Potassium Sulfate – (\$/tonne)										

Estimated nominal annual revenues for the Stage I (PCD) lens project using base case prices of US\$6,614 per tonne for LCE and US\$600 per tonne for SOP are summarized as follows:

- Lithium carbonate (LCE): \$183.2 million (70%)
- Potassium sulfate (SOP): \$69.1 million (26%)
- Clay: \$11.2 million (4%)

The project has a pre-tax net present value (NPV) of US\$714 million and an after-tax NPV of US\$435 million at 8% discount rate. Simple payback occurs in year 4 in both cases. The Internal Rate of Return (IRR) is 28.1% for the pre-tax case and 22.8% for the after-tax case. The following table presents calculated pre-tax NPV for various prices of lithium carbonate and potassium sulfate at 8% discount rate.

Stage II (South) Lens Development and Recent Activities

In May 2010 the Company announced that a new NI 43-101 resource estimate has been completed for a potential Stage II (South) lens development at the Kings Valley Lithium Project in Nevada. The deposit covered by this resource estimate is located on a portion of the Stage II (South) lens of the Kings Valley property. The resource estimate consists of Indicated Resources of 95 million tonnes grading 0.27% lithium, or the lithium carbonate equivalent (“LCE”) of 1,365,000 tonnes LCE and Inferred Resources of 47 million tonnes grading 0.26% lithium, for an equivalent of 650,000 tonnes of LCE, both at a cut-off grade of 0.20% lithium. The Stage II (South) lens independent estimate was prepared by GeoSystems International, Inc. (“GSI”). Mineral resources that are not mineral reserves do not have demonstrated economic viability.

This resource estimate is restricted to a portion of the Stage II (South) lens which has had sufficient drilling to produce a 43-101 compliant resource estimate. The Stage II (South) lens is located approximately 10 kilometers North-Northwest of the Stage I (PCD) lens. The modeled area, which encompasses the northern portion of the Stage II (South) lens, is about 2 kilometers long on an east-west axis and 1.5 kilometers along the north-south axis. The mineralization is continuous over significant areas and is near surface with an estimated three to seven meters of alluvium covering much of the Stage II (South) lens. The resource estimate is effective as of May 15, 2010.

In addition to the Stage II (South) lens resource estimate, the company has recently completed Stage I (PCD) lens drilling consisting of 22 drillholes with the target to upgrade the Stage I (PCD) lens resource to the Indicated category. The company plans to drill another 80 to 100 additional holes during the summer of 2010 on the Stage I (PCD) lens to further bring a portion of that resource to the Indicated and Measured category for future feasibility studies. Product testing and pilot scale testing is on-going throughout the summer months at several laboratories located in the USA and internationally. The project schedule anticipates the independent pre-feasibility study to commence in September 2010 with production targeted for 2014 to coincide with the expected increase in demand from the automobile sector.

Kings Valley Indicated and Inferred Mineral Resources – Stage II (South) Lens

Kings Valley Stage II (South) Lens Indicated Mineral Resources, 0.20% Lithium Cutoff*				
Cutoff Li %	MTonnes	Li %	K %	Contained LCE, thousand tonnes
0.15	127	0.25	3.88	1,690
0.20	95	0.27	3.66	1,365
0.25	50	0.31	3.15	825
0.30	27	0.34	2.88	489
Kings Valley Stage II (South) Lens Inferred Mineral Resources				
0.15	74	0.23	3.97	906
0.20	47	0.26	3.83	650
0.25	20	0.30	3.31	319
0.30	9	0.34	3.02	163

* Inferred tonnes within 213 meters of nearest drill hole with at least 3 composites used in the estimation; indicated tonnes two drill holes within 143 meters with at least 6 composites used in the estimation.

Contained metal does not allow for mine and metallurgical recovery.

1.96 tonnes/m³ tonnage factor used.

Economic assumptions for cut-off grade: \$3.50 lithium carbonate /lb, 60% metallurgical recovery,

\$50/tonne processing, \$2.20 USD/tonne mining. Economic assumptions do not include any

potassium credits.

Rounding errors may exist.

GSI also calculated resources for potassium, fluorine and sodium that are incidental to the lithium resource estimate contained within the relevant lithium cut-off grades.

Conversion Factors Used for Lithium Compounds

To convert from Lithium (Li):	To Lithium Carbonate (Li ₂ CO ₃) multiply by 5.323	To Lithium Oxide (Li ₂ O) multiply by 2.153	To Lithium Hydroxide Monohydrate (LiOH.H ₂ O) multiply by 6.04
-------------------------------	--	---	--

Environmental Considerations and Community Involvement

Western Lithium is working with federal, state and local agencies that regulate mining activities in Nevada. These agencies include, but are not necessarily limited to, the following federal agencies: U.S. Bureau of Land Management (BLM), U.S. Environmental Protection Agency (EPA), U.S. Army Corps of Engineers, and the state's Bureau of Mining Regulation and Reclamation (BMRR), Nevada Division of Environmental Protection (NDEP) and Humboldt County.

No environmental liabilities are known to exist at the Kings Valley project site. During the permitting process, including agency review and public notice, the nearby communities are involved as project information is developed and potential environmental impacts are identified.

Summary of Selected Quaterly Results

The following is a summary of the Company's selected consolidated financial information for the eight most recently completed quarters. The information has been prepared in accordance with Canadian GAAP.

	Year end September 30, 2010			Year ended September 30, 2009				Year ended September 30, 2008
	Q3 \$	Q2 \$	Q1 \$	Q4 \$	Q3 \$	Q2 \$	Q1 \$	Q4 \$
Total assets	26,511,042	26,808,540	27,503,115	12,092,913	12,282,931	7,714,901	8,129,451	7,591,935
Mineral properties and deferred costs	8,683,161	7,655,071	6,453,924	5,381,890	4,791,267	3,647,461	3,149,375	2,457,692
Working capital	17,371,174	18,668,378	20,560,716	5,921,024	7,181,112	3,845,694	4,623,689	4,998,617
Total revenues	-	-	-	-	-	-	-	-
General and administrative expenses	(1,156,640)	(1,445,504)	(1,318,200)	(1,141,383)	(786,810)	(860,358)	(859,664)	(1,491,987)
Net loss	(842,052)	(1,674,205)	(1,315,363)	(1,341,126)	(1,022,303)	(738,184)	(320,866)	(1,364,564)
Loss per common share – basic and diluted	(0.01)	(0.02)	(0.02)	(0.02)	(0.02)	(0.01)	(0.01)	(0.16)

Significant fluctuations for the quarterly periods are due to the following:

Total assets

- Decrease in Q3 2010 total assets compared to Q2 2010 is primarily due to general and administrative expenditures of \$742,732 excluding non-cash stock-based compensation incurred during the period offset by \$159,030 proceeds received from the exercise of agents' and finders' warrants and \$298,600 foreign exchange gain due to an increase in the value of the US\$ denominated cash and term deposits.
- Decrease in Q2 2010 total assets compared to Q1 2010 is primarily due to general and administrative expenditures of \$853,726 excluding non-cash stock-based compensation incurred during the period and \$244,420 foreign exchange loss due to a decrease in the value of the US\$ denominated cash and term deposits offset by \$391,237 net proceeds received from the exercise of stock options and warrants.
- Increase of \$15,410,202 in Q1 2010 total assets compared to Q4 2009 is primarily due to \$15,534,591 received from the private placement completed in October 2009 and \$717,720 received from the exercise of stock options and warrants offset by general and administrative expenditures.
- Increase in Q4 2009 total assets compared to Q3 2009 is primarily due to the net proceeds of \$512,175 received from the exercise of stock options and share purchase warrants, \$453,722 increase in accounts payable offset by general and administrative expenditures and decrease in the value of the US\$ denominated cash and term deposits due to foreign exchange fluctuation of US\$ in relation to CDN\$.
- Increase in Q3 2009 total assets compared to Q2 2009 is primarily due to the net proceeds of \$5,183,773 received from the private placement completed in May 2009 offset by general and administrative expenditures.
- Decrease in Q2 2009 total assets compared to Q1 2009 is primarily due to general and administrative expenditures of \$402,083 incurred during the period and \$134,641 decrease in accounts payables offset by the increase in the value of the US\$ denominated cash and term deposits due to foreign exchange fluctuation of US\$ in relation to CDN\$.
- Increase in Q1 2009 total assets compared to Q4 2008 is primarily caused by the increase in the value of the US\$ denominated cash due to appreciation of the US\$ offset by general and administrative expenditures.

Mineral properties and deferred costs

Increases during the periods are mostly due to the exploration expenditures and acquisition costs for the Company's Kings Valley Lithium Project.

Working capital

- Decrease in Q3 2010 working capital is primarily due to the expenditures on the Company's Kings Valley Lithium Project, general and administrative expenditures incurred during the period offset by the gain recognized due to increase in the value of US\$ denominated cash and term deposits and by the proceeds received from the exercise of finders' and agents' warrants.
- Decrease in Q2 2010 working capital is primarily due to the expenditures on the Company's Kings Valley Lithium Project, general and administrative expenditures incurred during the period, decrease in the value of the US\$ denominated cash and term deposits offset by the proceeds received from the exercise of stock options and share purchase warrants.
- Increase in Q1 2010 working capital is primarily due to the proceeds from the private placement completed in October 2009 and proceeds from the exercise of stock options and warrants offset by general and administrative expenses and exploration expenditures.

- Decrease in Q4 2009 working capital is due to the expenditures on the Company's Kings Valley Lithium Project, decrease in the value of the US\$ denominated cash and term deposits offset by the net proceeds received from the exercise of stock options and share purchase warrants.
- Increase in Q3 2009 working capital is due to the net proceeds of \$5,183,773 received from the private placement completed in May 2009 offset by an increase in exploration expenditures on the Company's Kings Valley Lithium Project, US\$375,000 payment to the laboratory for testing equipment and an increase in general and administrative expenditures.
- Decrease in working capital in Q1 and Q2 2009 is primarily due to the expenditures on the Company's Kings Valley Lithium Project and an increase in general and administrative expenses offset by the change in the value of US\$ denominated cash and term deposits.

General and administrative expenditures

- Q3 2010 decrease in general and administrative expenditures compared to Q2 2010 is primarily due to a decrease in non-cash stock-based compensation expenses of \$413,908 compared to Q2 2010 stock-based compensation of \$591,778, decrease in conferences expenditures of \$10,537 compared to Q2 2010 conferences expenditures of \$100,646. Increase of \$55,300 in legal expenses in Q3 2010 compared to Q2 2010 is due to an increase in the Company's activities.
- Q2 2010 increase in individual categories of general and administrative expenditures compared to Q1 2010 is primarily due to the increase in the Company's activities, moving to new offices and hiring of additional staff offset by the decrease in non-cash stock-based compensation expense. Stock-based compensation expense varies from period to period based on the vesting provisions and amortization schedule of previously granted stock options.
- Q1 2010 increase in general and administrative expenditures compared to Q4 2009, excluding a laboratory contract expense in Q4 2009, is primarily due to increase in stock based compensation expenses of \$774,78 compared to Q4 2009 stock-based compensation of \$188,488.
- Q4 2009 increase in general and administrative expenditures compared to Q3 2009 is primarily due to the laboratory contract payment expensed during the period offset by decrease in non-cash stock-based compensation expense of \$188,148 compared to Q3 2009 stock-based compensation of \$314,817.
- Q3 2009 decrease in general and administrative expenditures compared to Q2 2009 is primarily due to decrease in non-cash stock-based compensation expenses of \$314,817 compared to Q2 2009 stock-based compensation of \$458,275. Increase in individual expense categories is due to an increase in the Company's activities.
- Q2 2009 total general and administrative expenditures of \$860,358 are comparable to Q1 2009 expenditures of \$859,664. Increase in individual expense categories, as a result of an increase in the Company's activities and becoming an independent publicly traded company in July 2008, was offset by a decrease of \$179,346 in non-cash stock-based compensation expenses in Q2 2009. Stock-based compensation figures will vary from period to period depending on the fair value and the amortization schedule of previous stock option grants.
- Q1 2009 decrease in general and administrative expenditures compared to Q4 2009 is primarily due to a decrease in non-cash stock-based compensation expenses of \$637,621 compared to Q4 2008 stock-based compensation of \$1,433,769.
- During Q3 2008 the Company's general and administrative expenses were calculated on the basis of the ratio of 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 period. The increase in the general and administrative expenses is due to the increase in the expenditures on the Company's King Valley Lithium project compared to the total expenditures by Western Uranium Corporation.

Net loss

Significant fluctuations in net loss from period to period, excluding laboratory contract expense in Q4, 2009, are primarily due to stock-based compensation expense, increase in the Company's activities since becoming a public company in July 2008, and the foreign exchange gain/(loss). The foreign exchange gain/(loss) during the periods primarily is a result of Canadian/US dollar exchange fluctuations and its effect on the Company's US\$ denominated funds and conversion of US\$ denominated property expenditures of its US subsidiary upon consolidation.

Results of Operations

For the nine months ended June 30, 2010 ("2010"), the Company reported a net loss of \$3,831,621 compared to a loss of \$2,081,353 for the nine months ended June 30, 2009 ("2009"), of which a loss of \$3,920,347 (2009 - \$2,506,832) can be attributed to general and administrative expenses, a gain of \$47,788 (2009 - gain of \$404,071) to foreign exchange and an income of \$40,938 (2009 - \$21,408) to interest earned on the Company's cash and cash equivalents.

Overall 2010 general and administrative expenditures increased compared to the prior year due to the Company significantly expanding its operations, adding technical and corporate staff, expanding offices in Vancouver, Tokyo, and Reno, and increasing its marketing, public relations, and investor relations activities in Canada, USA, Europe and Asia. Significant items included in the net loss for 2010 compared to 2009 were as follows:

- Conferences expense of \$163,093 (2009 - \$62,675) incurred in connection with Lithium Supply Conference sponsorship, various trade shows, and investor conferences attended by the Company in North America and Europe;
- Consulting fees in 2010 of \$168,386 were higher (2009 - \$85,566) primarily due to the increase in corporate activities and general, administrative, and information technology support for the Company's corporate office.
- Legal fees of \$160,169 were higher in 2010 (2009 - \$31,427) due to the legal work related to the AGM and the Company's corporate activities.
- Public relations expense of \$143,528 (2009 - Nil) incurred for a public relations consulting contract in Washington and Nevada.
- Rent expense of \$222,694 was higher in 2010 (2009 - \$75,155) mainly due to the corporate office move to a larger space to accommodate an increase in staff and opening of the Company's Tokyo office.
- Stock-based compensation of \$1,780,464 (2009 - \$1,410,713) is a non-cash expense and represents the estimated fair value of stock options vested during the period. The stock-based compensation increased due to additional stock options granted during the period. Stock-based compensation expense is accounted for at fair value as determined by the Black-Scholes Option Pricing Model using estimates that are believed to approximate the volatility of the trading price of the Company's stock, the expected lives of awards of stock-based compensation, the fair value of the Company's stock and risk-free rate.
- Travel expense of \$302,892 was higher (2009 - \$146,047) due to the increase in international travel to Europe and Asia.
- Wages and benefits expense of \$556,902 was higher (2009 - \$323,821) due to the additional staff hired in 2010.
- Foreign exchange gain of \$47,788 was recorded during the period ended June 30, 2010, (2009 - \$404,071 gain) primarily as a result of Canadian/US dollar exchange fluctuations and its effect on the Company's US\$ denominated funds and conversion of US\$ denominated property expenditures of its US subsidiary upon consolidation.

The Company capitalized \$3,301,271 during the period ended June 30, 2010 (2009 - \$2,333,575) on its Kings Valley Lithium Project. There were no properties written off during the periods ended June 30, 2010 and 2009.

Liquidity and Capital Resources

As at the date of this report, the Company's working capital is approximately \$16.5 million. The Company considers that it has sufficient cash to finance its current plans for at least 12 months from the date of approval of the financial statements.

The Company's property will not generate any revenue in the near future and the Company will have to continue to rely on additional financings to further the development of its property. The Company's capital resources are largely determined by the strength of the junior resource markets and by the status of the Company's project in relation to these markets, and its ability to compete for investor support of its project. There can be no assurance that the Company will be successful in obtaining the required financing to develop the project.

Except as disclosed, the Company does not know of any trends, demand, commitments, events or uncertainties that will result in, or that are reasonably likely to result in, its liquidity either materially increasing or decreasing at present or in the foreseeable future. Material increases or decreases in liquidity are substantially determined by the success or failure of the exploration and development programs.

Operating Cash Flow

Cash used in operating activities during the nine months ended June 30, 2010, was \$2,121,485 compared to net cash of \$760,927 used during the nine months ended June 30, 2009. Increase in the amount of cash used in operating activities during the period ended June 30, 2010, was primarily due to an increase in the Company's operating activities and lower reported foreign exchange gain of \$47,788 in 2010 compared to a gain of \$404,071 in 2009.

Financing Activities

Net cash provided by financing activities for the nine months ended June 30, 2010, was \$16,802,578 compared to \$5,186,710 net cash provided in 2009. For the period ended June 30, 2010, the Company's financing activities include net proceeds of \$15,534,591 received from the private placement completed in October 2009 (2009 - \$5,186,710 received from the private placement completed in May 2009), \$460,500 received from the exercise of stock options, and \$807,487 received from the exercise of warrants.

Investing Activities

Investing activities required cash of \$3,600,556 during the period ended June 30, 2010, compared to cash of \$2,172,828 used during the period ended June 30, 2009. The cash used in investing activities during the periods ended June 30, 2010 and 2009, was for the exploration and development expenditures on the Company's Kings Valley Lithium Project.

Related Party Transactions

During 2007, the Company entered into a Mining Lease and Option Agreement with Western Uranium Corporation, with which it has one common director.

Included in consulting fees are \$5,363 paid in connection with public relations work in the USA to a firm where a Director of the Company is a Partner. In addition, \$52,998 was paid to a Director of the Company for providing corporate consulting services.

The related party transactions incurred during the period were in the normal course of operations and were measured at the exchange value, which represented the amount of consideration established and agreed by the related parties.

Off-balance Sheet Arrangements

The Company has no off-balance sheet arrangements other than those disclosed under mineral properties.

Commitments

Mineral properties commitments are disclosed in Note 3 of the Company's interim consolidated financial statements for the nine months ended June 30, 2010.

The Company's corporate office lease payments are \$22,699 per month. The lease agreement can be cancelled by either party at any time subject to a three-month notice. The aggregate future lease payments are due as follows:

2010	\$68,097
2011	\$272,388
2012	\$272,388
2013	<u>\$68,097</u>
Total	\$680,970

Current Share Data

As at the date of this MD&A, the Company has 82,828,420 common shares issued and outstanding and has the following stock options and warrants outstanding:

	Number of Shares	Exercise Price	Expiry Date
Options	4,918,750	\$ 0.50	June 6, 2013
	100,000	0.72	August 11, 2013
	1,500,000	0.45	October 16, 2013
	457,500	0.54	March 17, 2014
	1,300,000	1.28	November 2, 2014
	200,000	1.43	December 14, 2014
	285,000	2.03	February 4, 2015
	100,000	1.09	May 12, 2015
	<u>725,000</u>	<u>0.88</u>	July 14, 2015
Total options	9,586,250		
Warrants	940,850	0.95	April 15, 2011
	9,340,000	0.60	May 6, 2011
	<u>8,738,000</u>	<u>1.25</u>	April 14, 2011
Total warrants	19,018,850		

As at date of this MD&A, 4,562,818 shares are held in escrow pursuant to the Escrow Agreement dated June 19, 2008, (the "Agreement") between the Company, Computershare, and Western Uranium Corporation. In accordance with the Agreement, 2,281,409 of these shares are released every 6 months. The next scheduled release is on January 16, 2011, and the final release is on July 16, 2011.

Financial Instruments

The Company has adopted the CICA amended Section 3862, "Financial Instruments – Disclosures", to include additional disclosure requirements about fair value measurement for financial instruments and liquidity risk disclosures. Upon adoption of this new standard, the Company designated its financial instruments as follows:

- Cash and cash equivalents are classified as "*Held-for-trading*". The fair value of the Company's cash and cash equivalents are classified as Level 1 within the fair value hierarchy established by CICA section 3862.
- Accounts receivable are classified as "*Loans and Receivables*". The recorded values of receivables approximate their current fair value because of their nature and respective maturity dates or durations.

c) Accounts payable and accrued liabilities are classified as “*Other Financial Liabilities*”. The Company believes that the recorded values of accounts payable and accrued liabilities approximate their current fair value because of their nature and respective maturity dates or durations.

Risks and Uncertainties

The Company’s operations and results are subject to a number of different risks at any given time. These factors, include but are not limited to disclosure regarding exploration, additional financing, project delay, titles to properties, price fluctuations and share price volatility, operating hazards, insurable risks and limitations of insurance, management, foreign country and regulatory requirements, currency fluctuations and environmental regulations risks. Exploration for mineral resources involves a high degree of risk. The cost of conducting programs may be substantial and the likelihood of success is difficult to assess. The Company seeks to counter this risk as much as possible by selecting exploration areas on the basis of their recognized geological potential to host economic deposits.

Financial Instruments Risk Exposure

The Company may be exposed to risks of varying degrees of significance which could affect its ability to achieve its strategic objectives. The Company manages risks to minimize potential losses. The main objective of the Company’s risk management process is to ensure that the risks are properly identified and that the capital base is adequate in relation to those risks. The principal risks to which the Company is exposed are described below.

Credit risk

Credit risk is the risk of loss associated with counterparty’s inability to fulfill its payment obligations. Financial instruments that potentially subject the Company to a concentration of credit risk consist primarily of cash, cash equivalents and accounts receivable. The Company’s maximum exposure to credit risk for cash and cash equivalents is the amount disclosed in the balance sheet. The Company limits its exposure to credit loss by placing its cash with major financial institutions and invests only in short-term obligations that are guaranteed by the Canadian government or by Canadian chartered banks.

The Company’s accounts receivable consists of goods and services tax (GST) and Harmonized Sales Tax (HST) due from the Federal Government of Canada.

The Company’s prepaids and deposits consist of the \$100,000 cash collateral deposit required by the Company’s bank for the opening of secured credit cards accounts and other miscellaneous prepaids and deposits that are subject to normal industry credit risk.

Management believes that the credit risk concentration with respect to financial instruments included in cash, cash equivalents, and receivables is minimal.

As at June 30, 2010, the Company had cash and cash equivalents balance of \$17,639,234 (September 30, 2009 - \$6,558,697) to settle current liabilities of \$456,707 (September 30, 2009 - \$764,274). All of the Company’s financial liabilities are classified as current and are anticipated to mature within this fiscal period. The Company intends to settle these with funds from its positive working capital position.

Market risk

Market risk incorporates a range of risks. Movement in risk factors, such as market price risk and currency risk, affect the fair values of financial assets and liabilities. The Company is exposed to these risks as the ability of the Company to develop or market its properties and the future profitability of the Company is related to the market price of certain minerals.

i) Foreign currency risk

All current assets and liabilities of the Company, except cash and cash equivalents of \$11,050,221, receivables of \$12,962, prepaid expenses and deposits of \$165,838, and accounts payable and accrued liabilities of \$105,630, are denominated in US dollars and have been translated at a value of 1.0646 Canadian dollars to \$1.00 US dollar. If the US dollar appreciated by 1% in relation to Canadian dollar, the Company’s net income would have increased by approximately \$58,859.

ii) Price risk

The Company is exposed to price risk with respect to commodity and equity prices. Equity price risk is defined as the potential adverse impact on the Company's earnings due to movements in individual equity prices or general movements in the level of the stock market. Commodity price risk is defined as the potential adverse impact on earnings and economic value due to commodity price movements and volatilities. The Company closely monitors commodity prices, individual equity movements, and the stock market to determine the appropriate course of action to be taken by the Company. Price risk is not significant since the company is not a producing entity.

iii) Interest rate risk

The Company is exposed to interest rate risk to the extent that the cash maintained at the financial institutions is subject to a floating rate of interest. If the interest rate on the Company's cash maintained in the financial institutions decreased by 1%, the Company's loss would have increased by approximately \$177,392. The interest rate risk on cash and cash equivalents is not considered significant.

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to evaluate current and expected liquidity requirements under both normal and stressed conditions to ensure that it maintain sufficient reserves of cash and cash equivalents or have an available credit facility to meet its liquidity requirements in the short and long term. As the industry in which the Company operates is very capital intensive, the majority of the Company's spending is related to its capital programs. The Company prepares annual budgets, which are regularly monitored and updated as considered necessary.

The following are additional risk factors which the Company's management believes are most important in the context of the Company's business. It should be noted that this list is not exhaustive and that other risk factors may apply.

Exploration and Mining Risks: Exploration for mineral resources involves a high degree of risk. Few properties that are explored are ultimately developed into producing mines. The cost of conducting programs may be substantial and the likelihood of success is difficult to assess. The Company has limited financial resources and, as pointed out above, has no current source of recurring income with which to cushion financial setbacks. In future, there is no assurance that the Company will produce revenue, operate profitably, or provide a return on investment. The Company seeks to counter this risk as much as possible by selecting exploration areas on the basis of their recognized geological potential to host economic deposits.

Metal Price Risk: Metal prices have historically fluctuated widely and are affected by numerous factors beyond the Company's control, including international, economic and political trends, expectations for inflation, currency exchange fluctuations, interest rates, global or regional consumption patterns, speculative activities and worldwide production levels.

The price of lithium is affected by numerous factors beyond the control of the Company and can be extremely volatile. The price of this metal greatly affects the value of the Company and the potential value of its properties.

The Company's results of operations also could be affected by the prices of other commodities such as fuel and other consumable items or the by-products, although to a lesser extent than by the price of lithium. The prices of these commodities are affected also by numerous factors beyond the Company's control.

Financial Markets: The Company is dependent on the equity markets as its sole source of operating working capital and the Company's capital resources are largely determined by the strength of the junior resource markets and by the status of the Company's projects in relation to these markets, and its ability to compete for the investor support of its projects.

Title Risk: Although the Company has taken steps to verify title to mineral property in which it has an interest in, these procedures do not guarantee the Company's title. Such property may be subject to prior agreements or transfers and title may be affected by undetected defects. Moreover, the Company's interest in the King's Valley Property is held through a lease with Western Uranium Corp. Any default in compliance with the terms of the lease or a dispute with Western Uranium over the terms of the lease could have a material adverse effect on the Company's interest in the property.

Mineral Tenure Risk: The unpatented mining claims which are subject to the Lease authorize the Company to develop and mine minerals which are subject to location under the Mining Law of 1872, as amended. The Mining Law does not explicitly authorize the owner of an unpatented mining claim to sell minerals that are leasable under the Mineral Lands Leasing Act of 1920, as amended, which includes potassium. The BLM is vested with a great deal of discretion in the management of the right to sell minerals governed by the *Mineral Lands Leasing Act*, particularly where they represent a potential by-product to an economically viable mineral deposit governed by the Mining Law. The Company has initiated discussions with BLM to determine what, if any, contractual or regulatory approvals will be required to sell upgraded potassium sulfate as a byproduct to lithium production and to confirm the Company's priority to such approvals, but the matter has not been determined. Accordingly, at this time it is not possible to confirm the entitlement of the Company to sell potassium sulfate as a by-product to lithium production on the property.

Permits and licenses: The Company's operations may require licenses and permits from various governmental authorities. There can be no assurance that the Company will be able to obtain all necessary licenses and permits that may be required to carry out exploration, development, and mining operations at its projects. Furthermore, while it is common practice that permits and licenses may be renewed, extended or transferred into other forms of licenses appropriate for ongoing operations, no guarantee can be given that a renewal, extension, or a transfer will be granted to the Company, or if they are granted, that the Company will be in a position to comply with all conditions that are imposed.

Industry: The Company is engaged in the acquisition and exploration of resource properties, an inherently risky business, and there is no assurance that an economic mineral deposit will ever be discovered and subsequently put into production. Most exploration projects do not result in the discovery of commercially mineable deposits.

Capital Needs: The exploration of the Company's current and future properties will require additional financing. The only current source of future funds available to the Company is the sale of additional equity capital. While the Company was successful in completing the most recent private placement funding, there is no assurance that such funding will be available to the Company, or that it will be obtained on terms favorable to the Company, or will provide the Company with sufficient funds to meet its objectives, which may adversely affect the Company's business and financial position. Failure to obtain sufficient financing may result in delaying or indefinite postponement of exploration activities on the Company's property or even a loss or property interest.

Environmental Compliance

The Company's operations are subject to local laws and regulations regarding environmental matters. Environmental laws and regulations change frequently, and the implementation of new or the modification of existing laws or regulations could harm the Company. Any changes in these laws could affect the Company's operations and economics.

The Company may be required to make significant expenditures to comply with governmental laws and regulations. While the Company believes it does not currently have any material environmental obligations, exploration and development activities may give rise in the future to significant liabilities of the Company's part to the government and third parties and may require the Company to incur substantial costs of remediation. Failure to comply with applicable laws, regulations, and permitting requirements may result in enforcement actions causing operations to cease or be curtailed, and may include corrective measures requiring capital expenditures, installation of additional equipment, or remedial actions.

Critical Accounting Estimates

Reference should be made to the Company's significant accounting policies contained in Note 2 of the Company's audited consolidated financial statements for September 30, 2009. These accounting policies can have a significant impact of the financial performance and financial position of the Company.

New Accounting Policies and Standards

In May 2009, the CICA amended Section 3862, "Financial Instruments – Disclosures", to include additional disclosure requirements about fair value measurement for financial instruments and liquidity risk disclosures. CICA Section 3862 "Financial Instruments – Disclosure" requires an entity to classify fair value measurements using a fair value hierarchy that reflects the significance of inputs used in making the measurements.

The accounting standard establishes a fair value hierarchy based on the level of independent, objective evidence surrounding the inputs used to measure fair value. A financial instrument's categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. Section 3862 prioritizes the inputs into three levels that may be used to measure fair value:

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., derived from prices).

Level 3 inputs for the asset or liability that are not based on observable market data (unobservable inputs). Level 3 instruments include longer-term transactions, transactions in less active markets or transactions at locations for which pricing information is not available. In these instances, internally developed methodologies are used to determine fair value.

The Company adopted this amended standard in the current fiscal year.

Issued but not Adopted Primary Sources of GAAP

International Financial Reporting Standards ("IFRS")

In 2006, the Canadian Accounting Standards Board ("AcSB") published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with IFRS over an expected five year transitional period. In February 2008 the AcSB announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canada's own GAAP.

The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of October 1, 2011, will require the restatement for comparative purposes of amounts reported by the Company for the year ended September 30, 2011. The Company is currently engaged in the scoping phase of its conversion which involves a high level review of major differences between Canadian GAAP and IFRS, setting a timeline for resources and developing a project plan. This scoping phase is intended to provide direction to the Company's management for the second phase of conversion project and will be disclosed in the Company's 2010 annual financial statements and management's discussion and analysis. The company continues to monitor and assess the impact of convergence of Canadian GAAP and IFRS.

Business Combinations, Consolidated Financial Statements and Non-Controlling Interests

The CICA issued three new accounting standards in January 2009: Section 1582, *Business Combinations*, Section 1601, *Consolidated Financial Statements*, and Section 1602, *Non-Controlling Interests*. Section 1582 replaces Section 1581 "Business Combinations" and establishes standards for the accounting for business combinations. It provides the Canadian equivalent to *International Financial Reporting Standards IFRS 3* "Business Combinations".

The section applies prospectively to the business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011. Sections 1601 and 1602 together replace Section 1600 "Consolidated Financial Statements". Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1601 applies to interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. Section 1602 provides guidance on accounting for any non-controlling interests subsequent to a business

combination. Section 1602 is to be implemented concurrently with section 1582, *Business Combinations*. It is equivalent to the corresponding provisions of *International Financial Reporting Standard IAS 27* "Consolidated and Separate Financial Statements" and applies to interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The Company will consider the impact of adopting these pronouncements on its financial statements if future acquisitions are completed.

Changes in Directors and Management

During the nine-months period ended June 30, 2010, the Company announced the following changes in Directors and Management:

- Appointment of Silvio Bertolli as Sr. Vice President, Project Development, to direct the Company through the next planned stage of engineering and development;
- Appointment of Tracy Hansen as Corporate Secretary;
- Resignation of Pamela Klessig from the Board of Directors of Western Lithium and her subsequent appointment as the first member of the Company's newly created Advisory Committee.

Investor Relations

Jay Chmelauskas, President, and Cindy Burnett, Vice President Investor Relations, coordinate investor relations' activities for the Company.

Qualified Person

Mr. Dennis Bryan, a qualified person for the purposes of NI 43-101, has supervised the preparation of the scientific and technical information in this MD&A regarding the Kings Valley Lithium Property.

WESTERN LITHIUM USA CORPORATION

(Formerly Western Lithium Canada Corporation)

INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE NINE MONTHS ENDED
JUNE 30, 2010

(Expressed in Canadian Dollars)

(Unaudited – Prepared by Management)

UNAUDITED INTERIM FINANCIAL STATEMENTS

The accompanying unaudited interim financial statements of Western Lithium USA Corporation for the nine months ended June 30, 2010, have been prepared by management and are the responsibility of the Company's management. These statements have not been reviewed by the Company's external auditors.

WESTERN LITHIUM USA CORPORATION
(Formerly Western Lithium Canada Corporation)
INTERIM CONSOLIDATED BALANCE SHEETS
(Unaudited – Prepared by Management)
(Expressed in Canadian Dollars)

	June 30, 2010	September 30, 2009
A S S E T S		
CURRENT ASSETS		
Cash and cash equivalents	\$ 17,639,234	\$ 6,558,697
Receivables	12,962	6,877
Prepaid expenses and deposits	<u>175,685</u>	<u>119,724</u>
	17,827,881	6,685,298
DEFERRED SHARE ISSUE COSTS	-	25,725
MINERAL PROPERTIES AND DEFERRED COSTS (Note 3)	<u>8,683,161</u>	<u>5,381,890</u>
	<u>\$ 26,511,042</u>	<u>\$ 12,092,913</u>

LIABILITIES

CURRENT LIABILITIES

Accounts payable and accrued liabilities	\$ <u>456,707</u>	\$ <u>764,274</u>
--	-------------------	-------------------

SHAREHOLDERS' EQUITY

SHARE CAPITAL (Note 4)	29,910,640	13,353,408
CONTRIBUTED SURPLUS (Note 4)	5,610,444	3,610,359
DEFICIT	<u>(9,466,749)</u>	<u>(5,635,128)</u>
	<u>26,054,335</u>	<u>11,328,639</u>
	<u>\$ 26,511,042</u>	<u>\$ 12,092,913</u>

Nature of operations (Note 1)

Commitments (Notes 3 and 7)

Subsequent event (Note 11)

On behalf of the Board:

"Ed Flood" Director _____
"William Sheriff" Director

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

WESTERN LITHIUM USA CORPORATION
(Formerly Western Lithium Canada Corporation)
INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS,
COMPREHENSIVE LOSS AND DEFICIT
(Unaudited – Prepared by Management)
(Expressed in Canadian Dollars)

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2010 \$	2009 \$	2010 \$	2009 \$
EXPENSES				
Advertising	35,396	75,147	97,287	110,910
Audit and accounting	26,432	26,490	81,994	93,025
Conferences	10,537	18,550	163,093	62,675
Consulting fees	53,762	45,356	168,386	85,566
Interest and bank charges	3,218	1,238	10,449	1,684
Investor relations	22,073	40,045	65,569	74,905
Legal fees	83,873	9,252	160,169	31,427
Office and miscellaneous	34,720	20,054	89,613	53,542
Public relations	44,811	-	143,528	-
Regulatory and filing fees	15,122	10,399	47,176	23,672
Rent	86,081	24,739	222,694	75,155
Stock-based compensation (Note 4)	413,908	314,817	1,780,464	1,410,713
Telephone	12,740	7,541	30,131	13,690
Travel	92,014	63,098	302,892	146,047
Wages and benefits	221,953	130,084	556,902	323,821
	<u>1,156,640</u>	<u>786,810</u>	<u>3,920,347</u>	<u>2,506,832</u>
LOSS BEFORE OTHER ITEMS	<u>(1,156,640)</u>	<u>(786,810)</u>	<u>(3,920,347)</u>	<u>(2,506,832)</u>
OTHER ITEMS				
Foreign exchange gain/(loss)	298,600	(239,857)	47,788	404,071
Interest income	15,988	4,364	40,938	21,408
	<u>314,588</u>	<u>235,497</u>	<u>88,726</u>	<u>425,479</u>
NET LOSS AND COMPREHENSIVE LOSS	<u>(842,052)</u>	<u>(1,022,303)</u>	<u>(3,831,621)</u>	<u>(2,081,353)</u>
DEFICIT - BEGINNING OF PERIOD	<u>(8,624,697)</u>	<u>(3,271,699)</u>	<u>(5,635,128)</u>	<u>(2,212,649)</u>
DEFICIT - END OF PERIOD	<u>(9,466,749)</u>	<u>(4,294,002)</u>	<u>(9,466,749)</u>	<u>(4,294,002)</u>
LOSS PER SHARE - BASIC AND DILUTED				
	(0.01)	(0.02)	(0.05)	(0.04)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING - BASIC AND DILUTED				
	82,798,350	57,989,231	81,273,008	51,220,000

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

WESTERN LITHIUM USA CORPORATION
(Formerly Western Lithium Canada Corporation)
INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited – Prepared by Management)
(Expressed in Canadian Dollars)

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2010 \$	2009 \$	2010 \$	2009 \$
OPERATING ACTIVITIES				
Loss for the period	(842,052)	(1,022,303)	(3,831,621)	(2,081,353)
Items not affecting cash:				
Stock-based compensation	413,908	314,817	1,780,464	1,410,713
Changes in non-cash working capital items:				
Decrease/(increase) in receivables	3,505	(2,379)	(6,085)	(5,048)
Increase in prepaid expenses and deposits	(66,527)	(92,028)	(55,961)	(98,788)
Increase/(decrease) in accounts payable and accrued liabilities	72,224	103,313	(8,282)	14,179
Net cash used in operating activities	<u>(418,942)</u>	<u>(698,580)</u>	<u>(2,121,485)</u>	<u>(760,927)</u>
INVESTING ACTIVITIES				
Acquisition of mineral properties and deferred costs	<u>(1,128,698)</u>	<u>(1,158,313)</u>	<u>(3,600,556)</u>	<u>(2,172,828)</u>
Net cash used in investing activities	<u>(1,128,698)</u>	<u>(1,158,313)</u>	<u>(3,600,556)</u>	<u>(2,172,828)</u>
FINANCING ACTIVITIES				
Issuance of common shares	159,030	5,500,000	17,870,187	5,500,000
Share issue costs	-	(313,290)	(1,067,609)	(313,290)
Net cash provided by financing activities	<u>159,030</u>	<u>5,186,710</u>	<u>16,802,578</u>	<u>5,186,710</u>
CHANGE IN CASH AND CASH EQUIVALENTS	(1,388,610)	3,329,817	11,080,537	2,253,585
CASH AND CASH EQUIVALENTS - BEGINNING OF PERIOD	<u>19,027,844</u>	<u>4,035,288</u>	<u>6,558,697</u>	<u>5,111,520</u>
CASH AND CASH EQUIVALENTS - END OF PERIOD	<u>17,639,234</u>	<u>7,365,105</u>	<u>17,639,234</u>	<u>7,365,105</u>

CASH AND CASH EQUIVALENTS IS COMPRISED OF:

Cash	1,354,480	598,807	1,354,480	598,807
Term deposits	16,284,754	6,766,298	16,284,754	6,766,298
	<u>17,639,234</u>	<u>7,365,105</u>	<u>17,639,234</u>	<u>7,365,105</u>

Supplemental disclosure with respect to cash flows (Note 8)

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

WESTERN LITHIUM USA CORPORATION
(Formerly Western Lithium Canada Corporation)
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE NINE MONTHS ENDED JUNE 30, 2010
(Unaudited – Prepared by Management)
(Expressed in Canadian Dollars)

1. NATURE OF OPERATIONS

Western Lithium USA Corporation (“Western Lithium” or the “Company”) is a Canadian based resource company focused on the exploration and development of a lithium resource property located in north-western Nevada. The Company was incorporated on November 27, 2007, under Business Corporations Act of the Province of British Columbia under the name Western Lithium Canada Corporation as a subsidiary of Western Uranium Corporation (“Western Uranium”). Following the completion of the Plan of Arrangement between the two companies, Western Lithium ceased to be wholly-owned by Western Uranium and became an independent publicly traded company on July 16, 2008. On May 31, 2010, the Company changed its name to Western Lithium USA Corporation. The Company trades on the Toronto Venture Exchange under the symbol WLC.

To date, the Company has not generated significant revenues from operations and is considered to be in the exploration stage. The amounts shown as mineral properties and deferred costs represent expenditures incurred to date and do not necessarily represent present or future values. The underlying value of mineral properties and deferred costs are entirely dependent on the existence of economically recoverable reserves, securing and maintaining title and beneficial interest in the properties, the ability of the Company to obtain the necessary financing to complete development, and future profitable production. The Company considers that it has adequate resources to maintain its core operations for the next year.

2. BASIS OF PRESENTATION AND CHANGES IN ACCOUNTING POLICIES

Basis of Presentation

The interim period consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles for the preparation of interim financial statements. The most significant of these accounting principles have been set out in September 30, 2009, audited financial statements. These interim consolidated financial statements follow the same accounting policies and methods of application as the most recent audited consolidated financial statements of the Company. Accordingly, these interim financial statements do not contain all the information required for annual financial statements and should be read in conjunction with the Company’s most recent audited consolidated financial statements as at September 30, 2009.

These financial statements have been prepared on the basis of accounting principles applicable to a “going concern”, which assumes that the Company will continue its operations for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations. Based on its current plans, budgeted expenditures, and cash requirements, the Company has sufficient cash to finance its current plans for at least 12 months from the date of approval of the financial statements. This interim period consolidated financial statements do not include any adjustments to the amounts and classification of assets and liabilities that might be necessary should the Company be unable to continue its business.

Comparative figures

Certain of the prior period comparatives have been reclassified to conform to the current period’s presentation.

WESTERN LITHIUM USA CORPORATION
(Formerly Western Lithium Canada Corporation)
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE NINE MONTHS ENDED JUNE 30, 2010
(Unaudited – Prepared by Management)
(Expressed in Canadian Dollars)

2. BASIS OF PRESENTATION AND CHANGES IN ACCOUNTING POLICIES (continued)

Use of Estimates and assumptions

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 reported period. Significant areas requiring the use of management estimates include the determination of environments obligations, the recoverability of deferred mineral property costs, provision for income taxes, assessment of fair value of issued options and warrants. By their nature, these estimates are subject to measurement uncertainty and any changes in such estimates in future periods could materially impact the financial statements.

3. MINERAL PROPERTIES AND DEFERRED COSTS

Kings Valley Property	Nine months ended June 30, 2010	Year ended September 30, 2009
Acquisition costs		
Balance, beginning of period	\$ 230,191	\$ 88,569
Additions	<u>342,286</u>	<u>141,622</u>
Balance, end of period	<u>572,477</u>	<u>230,191</u>
Deferred exploration costs		
Drilling	611,265	456,624
Engineering	461,019	148,665
Environmental	33,098	74,962
Geological and consulting	988,250	643,301
Mapping, supplies and other	44,281	100,027
Geochemistry, assays and sampling	271,206	56,503
Metallurgy and lab costs	<u>549,866</u>	<u>1,302,494</u>
Total deferred exploration costs	2,958,985	2,782,576
Balance, beginning of period	<u>5,151,699</u>	<u>2,369,123</u>
Balance, end of period	<u>8,110,684</u>	<u>5,151,699</u>
Total mineral property costs	\$ 8,683,161	\$ 5,381,890

Kings Valley Property, Nevada, USA

The Company and Western Uranium entered into a mining lease and option to purchase agreement (the “Lease Agreement”), through their subsidiaries, Western Lithium USA (100% owned by Western Lithium USA Corporation) and Western Energy Development Corporation (100% owned by Western Uranium), pursuant to which Western Uranium granted to the Company the exclusive right to explore for lithium bearing minerals and clay on the Kings Valley Property (the “Exploration Right”). The Lease Agreement has a term of 30 years that is renewable subject to Western Lithium fulfilling terms required under the lease agreement.

WESTERN LITHIUM USA CORPORATION
(Formerly Western Lithium Canada Corporation)
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE NINE MONTHS ENDED JUNE 30, 2010
(Unaudited – Prepared by Management)
(Expressed in Canadian Dollars)

3. MINERAL PROPERTIES AND DEFERRED COSTS (continued)

In consideration for the Exploration Right, the Company must pay to Western Uranium US\$25,000 (paid), US\$50,000 (paid) on the first anniversary of the effective date of the Lease Agreement, US\$75,000 (paid on the second anniversary of the effective date of the Lease Agreement) 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 Company has agreed to pay to Western Uranium a Net Smelter Returns Royalty of 1.5% and a Net Profits Royalty equal to 3.5%.

4. SHARE CAPITAL AND CONTRIBUTED SURPLUS

	Number	Amount, \$	Contributed Surplus, \$
Authorized			
Unlimited common shares without par value			
As at September 30, 2008	51,220,000	7,753,393	1,915,565
Private placement	11,000,000	5,500,000	-
Share issuance costs	-	(316,227)	-
Exercise of stock options	63,750	32,175	-
Fair value of stock options exercised	-	24,675	(24,675)
Exercise of share purchase warrants	800,000	480,000	-
Fair value of finders' and agents' warrants	-	(120,608)	120,608
Stock-based compensation	-	-	1,598,861
As at September 30, 2009	63,083,750	13,353,408	3,610,359
Private placement	17,476,000	16,602,200	-
Share issuance costs	-	(1,093,334)	-
Fair value of compensation options	-	(698,945)	698,945
Exercise of stock options	925,000	460,500	-
Fair value of stock options exercised	-	356,000	(356,000)
Exercise of share purchase warrants	860,000	516,000	-
Exercise of finders' and agents' warrants	483,670	291,487	-
Fair value of warrants exercised	-	123,324	(123,324)
Stock-based compensation	-	-	1,780,464
As at June 30, 2010	82,828,420	29,910,640	5,610,444

WESTERN LITHIUM USA CORPORATION
(Formerly Western Lithium Canada Corporation)
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE NINE MONTHS ENDED JUNE 30, 2010
(Unaudited – Prepared by Management)
(Expressed in Canadian Dollars)

4. SHARE CAPITAL AND CONTRIBUTED SURPLUS (continued)

During the nine months ended June 30, 2010, the Company:

- a) completed a private placement of an aggregate of 17,476,000 units at a price of \$0.95 per unit for aggregate gross proceeds to the Company of \$16,602,200 (net \$15,508,866). Each unit is comprised of one common share and one-half of a common share purchase warrant. Each whole warrant will entitle the holder thereof to purchase an additional common share for a period of eighteen months at a price of \$1.25 per warrant.

In connection with the private placement, the Company paid to Agents cash commission of \$897,294 and granted 944,520 compensation options. Each compensation option is exercisable to purchase one common share of the Company for a price of \$0.95 for a period of eighteen months. The fair value of the compensation options granted was estimated at \$0.74 per option for a total of \$698,945 and was recorded as share issue costs with a corresponding increase to contributed surplus. The fair value of options were estimated using Black-Scholes Option Pricing Model with the following assumptions: risk-free rate of 1.55%, estimated volatility 128%, expected life of 18 months and expected dividend yield of 0%. In addition, a finder's fee totaling \$28,500 was paid in respect of the issue and sale of 750,000 units for which the Agents were not paid a cash commission;

- b) issued 925,000 common shares pursuant to the exercise of an equivalent number of stock options for gross proceeds of \$460,500;
- c) issued 860,000 common shares pursuant to the exercise of an equivalent number of share purchase warrants for gross proceed of \$516,000;
- d) issued 483,670 commons shares pursuant to the exercise of agent's and finders' warrants for gross proceed of \$291,487.

As at June 30, 2010, 6,844,227 shares are held in escrow pursuant to the Escrow Agreement dated June 19, 2008, (the "Agreement") between the Company, Computershare and Western Uranium Corporation. According to the Agreement, 2,281,409 of these shares are released every 6 months. The next scheduled release is on July 16, 2010, and the last release is on July 16, 2011.

Warrants

A summary of the changes in the number of common shares reserved pursuant to the Company's share purchase warrants and agents' and finders' warrants during the nine months ended June 30, 2010, is as follows:

	Number of Warrants	Weighted Average Exercise Price, \$
Balance, September 30, 2009	10,680,000	0.60
Exercised	(1,340,000)	0.60
Issued	8,738,000	1.25
Issued	944,520	0.95
Exercised	(3,670)	0.95
Balance, June 30, 2010	19,018,850	0.92

WESTERN LITHIUM USA CORPORATION
(Formerly Western Lithium Canada Corporation)
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE NINE MONTHS ENDED JUNE 30, 2010
(Unaudited – Prepared by Management)
(Expressed in Canadian Dollars)

4. SHARE CAPITAL AND CONTRIBUTED SURPLUS (continued)

At June 30, 2010, the following warrants were outstanding:

Expiry date	Number of Warrants	Weighted Average Exercise Price, \$
May 6, 2011	9,340,000	0.60
April 14, 2011	8,738,000	1.25
April 14, 2011	940,850	0.95
Balance, June 30, 2010	19,018,850	0.92

Stock options

The Company has a stock option plan in accordance with the policies on the TSX Venture Exchange whereby, from time to time at the discretion of the board of directors, stock options are granted to directors, officers and certain consultants. Under the plan up to 16,565,684 common shares are reserved for the issuance of stock options. The exercise price of each option is based on the market price of the Company's common stock at the date of the grant. The options can be granted for a maximum term of 5 years.

A summary of the status of the Company's stock options as of June 30, 2010, and changes during the period are presented below:

	Number of Options	Weighted Average Exercise Price, \$
Balance, outstanding – September 30, 2009	7,916,250	0.50
Granted	1,885,000	1.39
Exercised	(925,000)	0.50
Expired	(15,000)	0.54
Balance, outstanding – June 30, 2010	8,861,250	0.68

On November 2, 2009, the Company granted incentive stock options for the purchase of up to 1,300,000 common shares of the Company at a price of \$1.28 per share for a five year period to certain directors, employees, and consultants of the Company.

On December 14, 2009, the Company granted incentive stock options for the purchase of up to 200,000 common shares of the Company at a price of \$1.43 per share for a five year period to an officer of the Company.

On February 4, 2010, the Company granted incentive stock options for the purchase of up to 285,000 common shares of the Company at a price of \$2.03 per share for a five year period to an officer and consultants of the Company.

On May 12, 2010, the Company granted incentive stock options for the purchase of up to 100,000 common shares of the Company at a price of \$1.09 per share for a five year period to an employee of the Company.

WESTERN LITHIUM USA CORPORATION
(Formerly Western Lithium Canada Corporation)
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE NINE MONTHS ENDED JUNE 30, 2010
(Unaudited – Prepared by Management)
(Expressed in Canadian Dollars)

4. SHARE CAPITAL AND CONTRIBUTED SURPLUS (continued)

The fair values of stock options granted are estimated on the dates of grants using the Black-Scholes Option Pricing Model with the following assumptions used for the grants made during the period:

	November 2, 2009	December 14, 2009	February 4, 2010	May 12, 2010
Number of options granted	1,300,000	200,000	285,000	100,000
Risk-free interest rate	2.4%	2.31%	2.15%	2.69%
Expected life	5 years	5 years	5 years	5 years
Annualized volatility	128%	122%	125%	118%
Dividend rate	0.00%	0.00%	0.00%	0.00%
Fair value per stock option granted	\$1.10	\$1.20	\$1.39	\$0.90
Total fair value of stock options granted	\$1,430,000	\$240,000	\$396,150	\$90,000

Stock options outstanding and exercisable as at June 30, 2010, are as follows:

Number of Options Outstanding	Number of Options Exercisable	Exercise Price, \$	Expiry Date
4,918,750	4,918,750	0.50	June 6, 2013
100,000	100,000	0.72	August 11, 2013
1,500,000	1,500,000	0.45	October 16, 2013
457,500	318,750	0.54	March 17, 2014
1,300,000	650,000	1.28	November 2, 2014
200,000	100,000	1.43	December 14, 2014
285,000	71,250	2.03	February 4, 2015
100,000	25,000	1.09	May 12, 2015
8,861,250	7,683,750		

Stock-based compensation expense of \$1,780,464 was charged to operations and credited to contributed surplus to reflect the fair value of stock options vested during the nine months ended June 30, 2010. At June 30, 2010, \$273,659 of the fair value of stock options previously granted but not yet vested remains to be expensed in fiscal 2010, \$366,019 in 2011, and \$3,194 in 2012.

5. RELATED PARTY TRANSACTIONS

Included in consulting fees are \$5,363 paid to a firm where a Director of the Company is a Partner and \$52,998 paid to a Director of the Company for providing corporate consulting services.

The related party transactions incurred during the period were in the normal course of operations and were measured at the exchange value, which represented the amount of consideration established and agreed by the related parties.

WESTERN LITHIUM USA CORPORATION
(Formerly Western Lithium Canada Corporation)
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE NINE MONTHS ENDED JUNE 30, 2010
(Unaudited – Prepared by Management)
(Expressed in Canadian Dollars)

6. SEGMENTED INFORMATION

The Company operates in one business segment, being the acquisition and exploration of mineral properties. The Company is in the exploration stage and, accordingly, has no reportable segment revenues or operating results for nine months ended June 30, 2010.

The Company's total assets are segmented geographically as follows:

	June 30, 2010		
	Canada \$	United States \$	Total \$
Current assets	17,285,481	542,400	17,827,881
Mineral properties and deferred costs	-	8,683,161	8,683,161
	17,285,481	9,225,561	26,511,042

	September 30, 2009		
	Canada \$	United States \$	Total \$
Current assets	5,932,203	753,095	6,685,298
Deferred share issue costs	25,725	-	25,725
Mineral properties and deferred costs	-	5,381,890	5,381,890
	5,957,928	6,134,985	12,092,913

7. COMMITMENTS

- a) Mineral properties (Note 3).
- b) The Company has committed to rent office space in the amount of \$22,699/month for two years commencing December 14, 2009, with an option to renew for an additional year on or before September 15, 2011. The rental agreement can be cancelled by either party at any time provided a three-month notice.

8. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

During the period ended June 30, 2010, the company had the following significant non-cash transactions:

- a) included \$321,109 (September 30, 2009 - \$620,394) of accounts payable related to the mineral property expenditures in investing activities;
- b) recorded \$698,945 (September 30, 2009 - \$120,608) as share issue costs and increase to contributed surplus which represents the fair value assigned to compensation warrants granted to agents for financing incurred during the period;
- c) allocated \$356,000 (September 30, 2009 - \$24,675) to capital stock from contributed surplus for the fair value of stock options exercised;
- d) allocated \$123,324 (September 30, 2009 - \$Nil) to capital stock from contributed surplus for the fair value of agents' and finders' warrants exercised.

WESTERN LITHIUM USA CORPORATION
(Formerly Western Lithium Canada Corporation)
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE NINE MONTHS ENDED JUNE 30, 2010
(Unaudited – Prepared by Management)
(Expressed in Canadian Dollars)

9. FINANCIAL INSTRUMENTS

The Company adopted the CICA amended Section 3862, “Financial Instruments – Disclosures”, to include additional disclosure requirements about fair value measurement for financial instruments and liquidity risk disclosures. Upon adoption of this new standard, the Company designated its financial instruments as follows:

- a) Cash and cash equivalents are classified as “*Held-for-trading*”. The fair value of the Company’s cash and cash equivalents are classified as Level 1 within the fair value hierarchy established by CICA section 3862.
- b) Accounts receivable are classified as “*Loans and Receivables*”. The recorded values of receivables approximate their current fair value because of their nature and respective maturity dates or durations.
- c) Accounts payable and accrued liabilities are classified as “*Other Financial Liabilities*”. The Company believes that the recorded values of accounts payable and accrued liabilities approximate their current fair value because of their nature and respective maturity dates or durations.

Financial Instruments Risk Exposure

The Company may be exposed to risks of varying degrees of significance which could affect its ability to achieve its strategic objectives. The Company manages risks to minimize potential losses. The main objective of the Company’s risk management process is to ensure that the risks are properly identified and that the capital base is adequate in relation to those risks. The principal risks to which the Company is exposed are described below.

Credit risk

Credit risk is the risk of loss associated with counterparty’s inability to fulfill its payment obligations. Financial instruments that potentially subject the Company to a concentration of credit risk consist primarily of cash, cash equivalents and accounts receivable. The Company’s maximum exposure to credit risk for cash and cash equivalents is the amount disclosed in the balance sheet. The Company limits its exposure to credit loss by placing its cash with major financial institutions and invests only in short-term obligations that are guaranteed by the Canadian government or by Canadian chartered banks.

The Company’s accounts receivable consists of goods and services tax (GST) and Harmonized Sales Tax (HST) due from the Federal Government of Canada.

The Company’s prepaids and deposits consist of the \$100,000 bank deposit for the Company’s secured credit cards and other miscellaneous prepaids and deposits that are subject to normal industry credit risk.

Management believes that the credit risk concentration with respect to financial instruments included in cash, cash equivalents, and receivables is minimal.

As at June 30, 2010, the Company had cash and cash equivalents balance of \$17,639,234 (September 30, 2009 - \$6,558,697) to settle current liabilities of \$456,707 (September 30, 2009 - \$764,274). All of the Company’s financial liabilities are classified as current and are anticipated to mature within this fiscal period. The Company intends to settle these with funds from its positive working capital position.

WESTERN LITHIUM USA CORPORATION
(Formerly Western Lithium Canada Corporation)
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE NINE MONTHS ENDED JUNE 30, 2010
(Unaudited – Prepared by Management)
(Expressed in Canadian Dollars)

9. FINANCIAL INSTRUMENTS (continued)

Market risk

Market risk incorporates a range of risks. Movement in risk factors, such as market price risk and currency risk, affect the fair values of financial assets and liabilities. The Company is exposed to these risks as the ability of the Company to develop or market its properties and the future profitability of the Company is related to the market price of certain minerals.

i) Foreign currency risk

All current assets and liabilities of the Company, except cash and cash equivalents of \$11,050,221, receivables of \$12,962, prepaid expenses and deposits of \$165,838, and accounts payable and accrued liabilities of \$105,630, are denominated in US dollars and have been translated at a value of 1.0646 Canadian dollars to \$1.00 US dollar. If the US dollar appreciated by 1% in relation to Canadian dollar, the Company's net income would have increased by approximately \$58,859.

ii) Price risk

The Company is exposed to price risk with respect to commodity and equity prices. Equity price risk is defined as the potential adverse impact on the Company's earnings due to movements in individual equity prices or general movements in the level of the stock market. Commodity price risk is defined as the potential adverse impact on earnings and economic value due to commodity price movements and volatilities. The Company closely monitors commodity prices, individual equity movements, and the stock market to determine the appropriate course of action to be taken by the Company. Price risk is not significant since the company is not a producing entity.

iii) Interest rate risk

The Company is exposed to interest rate risk to the extent that the cash maintained at the financial institutions is subject to a floating rate of interest. If the interest rate on the Company's cash maintained in the financial institutions decreased by 1%, the Company's loss would have increased by approximately \$177,392. The interest rate risk on cash and cash equivalents is not considered significant.

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to evaluate current and expected liquidity requirements under both normal and stressed conditions to ensure that it maintain sufficient reserves of cash and cash equivalents or have an available credit facility to meet its liquidity requirements in the short and long term. As the industry in which the Company operates is very capital intensive, the majority of the Company's spending is related to its capital programs. The Company prepares annual budgets, which are regularly monitored and updated as considered necessary.

WESTERN LITHIUM USA CORPORATION
(Formerly Western Lithium Canada Corporation)
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE NINE MONTHS ENDED JUNE 30, 2010
(Unaudited – Prepared by Management)
(Expressed in Canadian Dollars)

10. CAPITAL DISCLOSURE

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to pursue the exploration and development of its mineral properties and to maintain a flexible capital structure. The capital structure of the Company consists of equity attributable to common shareholders, comprised of issued capital, contributed surplus, and deficit. The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets.

The property in which the Company currently has an interest is in the exploration stage. In order to carry out the planned exploration and pay for administrative costs, the Company will spend its existing working capital and raise additional amounts as needed and if available.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. There were no changes in the Company's approach to capital management during the period.

11. SUBSEQUENT EVENT

Subsequent to June 30, 2010, the Company granted 725,000 incentive stock options to certain employees and consultants of the Company. Each option entitles the holder to purchase one common share of the Company at a price of \$0.88 per share until July 14, 2015. These options will vest over a period of 18 months in accordance with the minimum vesting requirements of the Company's stock option plan. The fair value of stock options granted is estimated at \$0.72 per option for a total of \$522,000 and will be amortized and expensed as stock-based compensation over the vesting term. The fair value of these options were estimated using Black-Scholes pricing model with the following assumptions: risk-free interest rate of 2.41%, estimated volatility of 115%, expected life of 5 years, and expected dividend yield of 0%.