

# **WESTERN LITHIUM USA CORPORATION MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE SIX MONTHS ENDED MARCH 31, 2011**

## **Background**

The following discussion and analysis of financial position and results of operations, prepared as of May 11, 2011, should be read in conjunction with the Company's interim consolidated financial statements for the six months ended March 31, 2011, and audited consolidated financial statements for the years ended September 30, 2010 and 2009, and related notes attached thereto. The financial statements are prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"). All amounts are stated in Canadian dollars unless otherwise indicated.

## **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 Concordia Resource Corp. ("Concordia", formerly Western Uranium Corporation).

Following the completion of the Plan of Arrangement between the two companies on July 16, 2008, Western Lithium ceased to be wholly-owned by Concordia 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 Stock Exchange under the symbol WLC and in the US on OTSQU under symbol WLCDF. The Company operates in the United States through its wholly owned subsidiary, Western Lithium Corporation ("Western Lithium USA").

Additional information relating to the Company is available on SEDAR at [www.sedar.com](http://www.sedar.com).

## **Significant Events**

- In March 2011, the Company and Concordia Resource Corp. completed the transaction for the sale, by Concordia to WLC, of the royalties and titles constituting substantially all of the Kings Valley mineral property for \$6,850,350, paid through the issue to Concordia of 5,855,000 WLC common shares. As a result of this transaction, the existing lease and royalty arrangements between the two companies on the Kings Valley property, including a Net Smelter Return of 1.5% and Net Profits Royalty of 3.5% on any lithium project that the Company developed, were eliminated. The Company gained full control of the Kings Valley property claims, excluding the Albus gold exploration target and a 20% royalty granted by Western Energy Development Corporation ("WEDC", 100% owned subsidiary of Concordia) to Cameco Global Exploration II Ltd. ("Cameco") solely in respect of uranium. The agreement also eliminated the need for continuing future lease payments by the Company of approximately US\$4 million.
- In March 2011, the Company's shareholders approved the resolution to elect Terry Krepiakovich as a member of the Board of Directors. The Company also appointed Tracy Hansen as Vice President and Brian Bergot as Vice President, Investor Relations.
- On February 2, 2011, the Company's common shares commenced trading on the Toronto Stock Exchange. The Company's trading symbol WLC remained unchanged. On February 3, 2011, the Company's common shares commenced trading on the OTCQX, the premium tier of the U.S. Over-the-Counter (OTC) marketplace, under the ticker symbol WLCDF.

- In January 2011, the Company engaged Tetra Tech, Inc. to complete a pre-feasibility study on its Kings Valley project. The completion of the pre-feasibility study is targeted for mid-year 2011. The pre-feasibility study will incorporate an additional 150 drill holes that have been drilled in 2010 and early 2011 and build on the significant prior process development, optimization and design work that has been developed and tested throughout 2010 at facilities in the United States, Germany and Chile.
- In December 2010, the Company and Concordia have reached an agreement in principle for the purchase, by WLC, of WEDC, a wholly-owned subsidiary of Concordia that holds royalties and titles for substantially all of the Kings Valley mineral property holdings in Nevada. The parties have agreed that WLC will pay to Concordia \$6,850,350 in WLC shares as consideration for the transfer of WEDC.
- In December 2010, the Company announced that a series of analytical assay results by two independent laboratories indicate that high quality lithium carbonate was produced during lithium carbonate pilot studies performed in Denver, Colorado. Two independent laboratories in the U.S. and Canada reported results of lithium carbonate analyses of up to 99.5% lithium carbonate purity, and in some cases high purity of 99.9% based on the precision of the analytical methods employed. Western Lithium's processing method achieves 99.5% purity, but still shows elevated parts per million levels of sodium and potassium sulfate. However, following the standard processing, the pilot tests included a simple carbon dioxide treatment, which resulted in the lithium carbonate product upgrading to high purity product that is expected to meet industry battery requirements. Western Lithium has now produced approximately 2 kg of lithium carbonate product.
- In November 2010, the Company announced an interim update to its Stage I drilling campaign, indicating strong geological continuity for the lithium resources at higher cut-off lithium grades. As a higher grade of feedstock is anticipated to improve the overall cost structure of the project, the company is now considering sizing the project for an initial start up phase of nominally 13,500 tonnes per year of lithium carbonate equivalent (LCE). Drilling is continuing into 2011 with the aim to potentially upgrade resources further to the Measured and Indicated categories for reserve definition. The Company provided an interim update to its NI 43-101 Resource Estimate on Stage I (PCD) Lens. At a 0.40% lithium metal (Li) cut-off, the updated Stage I resource contains 10 million tonnes of Indicated resource at an average grade of 0.43% Li metal, or the lithium carbonate equivalent (LCE) of 230,500 tonnes, and 10 million tonnes of Inferred resource at an average grade of 0.42%, for an additional 231,000 tonnes of Inferred LCE. This estimate represents an update from the resources used in the Company's Preliminary Assessment and Economic Analysis (PAEE) that was completed in February 2010. The original PAEE considered a nominal feedstock grade of approximately 0.33% lithium metal. Since the PAEE was completed, an additional 48 drill holes have been added to the mineral inventory bringing the total number of holes defining the Stage I resource to 87. The additional drilling has upgraded some of the mineral inventory from the Inferred to the Indicated categories that will form the basis for the next phase of pre-feasibility engineering.

## **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, Western Lithium has commenced further engineering and pilot plant studies to advance the project to prefeasibility. 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 hybrid/electric cars and mobile electronics markets.

### *Purchase of Lease and Royalties from WEDC*

In March 2011, Western Lithium and Concordia completed the purchase and sale transaction of the royalties and titles constituting substantially all of the Kings Valley mineral property for \$6,850,350, paid through the issue to Concordia of 5,855,000 common shares with a fair value of \$1.17 per share. As a result of the transaction, all of the lithium properties were transferred out of WEDC to Western Lithium and the previous lease and royalty arrangements were eliminated between the two companies, including a Net Smelter Return of 1.5% and Net Profits Royalty of 3.5% on any lithium and related byproducts. Western Lithium assumed a 20% royalty to Cameco Global Exploration II Ltd. solely in respect of uranium on Kings Valley Property and other commitments in respect to some claims as follows:

- Mining Option Agreement with Uravada Inc. (“Uravada”) on certain mining claims for US\$50,000 annual payment due on January 21<sup>st</sup> in advance net smelter return royalty payments. The Company’s interest in these claims is subject to 3% net smelter return royalty. There is a two mile area of influence around the Uravada claims lease which extends into a portion of the South Pod (Stage II) and the South Central Pod (Stage III) of the Company’s Kings Valley project;
- Mining Option Agreement to acquire four mining claims for US\$1,785 per year in advance net smelter return royalty payments due on November 15th. The Company’s interest in these claims is subject to 1.5% net smelter return royalty;
- 20-year renewable mining lease on two claims for US\$10,000 per year in advance net smelter return royalty payments due on November 15th. The Company’s interest in these claims is subject to 2% net smelter return royalty or US\$10,000 a year, whichever is greater. The advance minimum royalty payments shall be paid in two installments each year, half on the November 15<sup>th</sup> anniversary date and half six months later. The Company has an option to purchase the claims for US\$100,000, less any amounts previously paid (US\$45,000 paid to date) as advance royalty payments, in which case no further royalties are payable.

As part of the transaction, Concordia has agreed to dispose, in due course, of its common shares in the capital of the Company following completion of the transaction in one or more block trades or off-market transactions until it is no longer an insider (i.e. holds less than 10% of outstanding shares), and until it completes such disposition to refrain from voting against management nominees to the Company’s board of directors and to vote in favor of any arm’s length third party change of control transaction proposed by the Company’s management.

## **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.

### **Location**

The Kings Valley property is located approximately 86 kilometres north-northwest of Winnemucca, Nevada, along paved state highway 293 which is approximately 28 kilometres west-northwest of Orovada, Nevada. There is 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 rights have been acquired and will be sourced from the adjacent Quinn River Valley which is in the same watershed basin as the project site. A major natural gas pipeline is located approximately 32 km south of the project site.

### **Historical Resource Estimate**

The Company's NI 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 a 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 (February 2010)**

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. An interim update to this estimate was released in November 2010 and a full update to the resource estimate is pending.

**Updated Mineral Resource Estimate (November 2010)**

In November 2010, the Company provided an interim update to its NI 43-101 Resource Estimate on Stage I (PCD) Lens based on additional 48 drill holes that have been added to the mineral inventory bringing the total number of holes defining the Stage I resource to 87. At a 0.40% lithium metal (Li) cut-off, the updated Stage I resource contains 10 million tonnes of Indicated resource at an average grade of 0.43% Li metal, or the lithium carbonate equivalent (LCE) of 230,500 tonnes, and 10 million tonnes of Inferred resource at an average grade of 0.42%, for an additional 231,000 tonnes of Inferred LCE.

**Indicated Resources, Stage I Lens**

Cutoff Li (%)	Million Metric Tonnes	Li (%)	Contained LCE Metric Tonnes
0.20	179	0.29	2,765,400
0.25	120	0.32	2,044,400
0.30	70	0.35	1,307,200
0.35	30	0.39	628,300
0.40	10	0.43	230,500
0.45	2	0.47	62,400

**Inferred Resources, Stage I Lens**

Cutoff Li (%)	Million Metric Tonnes	Li (%)	Contained LCE Metric Tonnes
0.20	172	0.29	2,687,700
0.25	118	0.32	2,036,700
0.30	77	0.35	1,436,700
0.35	33	0.39	686,400
0.40	10	0.42	231,000
0.45	0.3	0.47	7,700

\* Inferred tonnes one drill hole within 225x300m with at least 3 composites used in the estimation; Indicated tonnes minimum 2 drill holes within 150x200m with at least 4 composites used in the estimation. Contained metal does not allow for mine and metallurgical recovery. 1.8 tonnes/m3 tonnage factor used. Reasonable prospects of economic extraction by open pit mining established using: \$3.00 lithium carbonate/lb, 92% metallurgical recovery, \$69/tonne processing, \$2.35 USD/tonne mining. To convert Lithium (Li) to Lithium Carbonate (Li<sub>2</sub>CO<sub>3</sub>) multiply Li by 5.323. Rounding errors may exist.

**Stage II (South) Lens Development**

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 NI 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.

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

<b>Kings Valley Stage II (South) Lens Indicated Mineral Resources, 0.20% Lithium Cut-off*</b>				
<b>Cutoff Li %</b>	<b>MTonnes</b>	<b>Li %</b>	<b>K %</b>	<b>Contained LCE, thousand tonnes</b>
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
<b>Kings Valley Stage II (South) Lens Inferred Mineral Resources</b>				
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 fluorine and sodium that are incidental to the lithium resource estimate contained within the relevant lithium cut-off grades.

### **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.

The PAEE was based on a prior resource estimate. In January 2011, the Company commenced preparation of a pre-feasibility study based on updated resources.

### **Conversion Factors Used for Lithium Compounds**

To convert from Lithium (Li):	To Lithium Carbonate (Li <sub>2</sub> CO <sub>3</sub> ) multiply by 5.323	To Lithium Oxide (Li <sub>2</sub> O) multiply by 2.153	To Lithium Hydroxide Monohydrate (LiOH.H <sub>2</sub> O) multiply by 6.04
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### **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 Quarterly Results and Second Quarter

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.

	2011		2010				2009	
	Q2 \$	Q1 \$	Q4 \$	Q3 \$	Q2 \$	Q1 \$	Q4 \$	Q3 \$
Total assets	32,799,230	25,077,629	25,728,498	26,511,042	26,808,540	27,503,115	12,092,913	12,282,931
Mineral properties and deferred costs	22,278,511	13,349,007	10,790,535	8,683,161	7,655,071	6,453,924	5,381,890	4,791,267
Working capital	10,210,139	11,054,858	14,351,290	17,371,174	18,668,378	20,560,716	5,921,024	7,181,112
Total revenues	-	-	-	-	-	-	-	-
Expenses	(1,901,653)	(1,235,612)	(1,248,802)	(1,156,640)	(1,445,504)	(1,318,200)	(1,141,383)	(786,810)
Net loss	(1,895,076)	(1,292,468)	(1,416,358)	(842,052)	(1,674,205)	(1,315,363)	(1,341,126)	(1,022,303)
Loss per common share – basic and diluted	(0.02)	(0.02)	(0.02)	(0.01)	(0.02)	(0.02)	(0.02)	(0.02)

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

### Total assets

- Increase in Q2 2011 total assets compared to Q1 2011 is primarily due to \$6,850,350 consideration paid to Concordia in shares for the acquisition of Kings Valley property royalties and property claims, \$2,284,929 cash received from the exercise of warrants, stock options and subscription receipts offset by general and administrative expenditures of \$1,057,073(excluding non-cash stock-based compensation recorded during the period) and decrease in accounts payable and accrued liabilities of \$363,184.
- Decrease in Q1 2011 total assets compared to Q4 2010 is primarily due to general and administrative expenditures of \$912,804 (excluding non-cash stock-based compensation recorded during the period), foreign exchange loss of \$91,505 due to a decrease in the value of the US\$ denominated cash and term deposits, offset by \$231,700 proceeds received from the exercise of stock options and share purchase warrants and increase in accounts payable and accrued liabilities of \$87,091.
- Decrease in Q4 2010 total assets compared to Q3 2010 is primarily due to general and administrative expenditures of \$744,952 excluding non-cash stock-based compensation incurred during the period and foreign exchange loss of \$187,948 recorded in the period due to a decrease in the value of the US\$ denominated cash and term deposits offset by increase in accounts payable and accrued liabilities of \$129,966.
- 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.
- Decrease 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\$.

### **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. In Q2 2011, the Company issued 5,855,000 shares at a fair value of \$1.17 per share for the acquisition of the Kings Valley property royalties and titles for total purchase price of \$6,850,350.

### **Working capital**

- Decrease in Q2 2011 working capital is primarily due to the expenditures on the Company's Kings Valley Lithium Project and general and administrative expenditures incurred during the period offset by the proceeds received from the exercise of warrants, stock options and share subscription deposits.
- Decrease in Q1 2011 working capital is primarily due to the expenditures on the Company's Kings Valley Lithium Project and operating expenditures incurred during the offset by the proceeds received from the exercise of stock options and share purchase warrants.
- Decrease in Q4 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 and decrease in the value of the US\$ denominated cash and term deposits.
- 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.

## General and administrative expenditures

- Q2 2011 increase in general and administrative expenditures compared to Q1 2011 is primarily due to increase in non-cash stock-based compensation expense of \$521,772. Stock-based compensation expense varies from period to period based on the vesting provisions and amortization schedule of previously granted stock options. Fluctuations in other expense categories are explained in the summary of financial results.
- There were no significant changes during Q1 2011 total general and administrative expenditures compare to Q4 2010. Increase in wages and benefits of \$231,360 compared to Q4 2010 wages and benefits was due to hiring of additional staff during the calendar year 2010 and payment of year-end bonuses to employees. Q1 2011 stock-based compensation expenses decreased by \$181,039 compared to Q4 2010. Stock-based compensation expense varies from period to period based on the vesting provisions and amortization schedule of previously granted stock options. Fluctuations in other expense categories are explained in the summary of financial results.
- Q4 2010 increase in general and administrative expenditures compared to Q3 2010 is primarily due to increase in non-cash stock-based compensation expenses of \$89,939. Increase in individual expense categories is due to an increase in the Company's activities.
- 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 \$774,778 compared to Q4 2009 stock-based compensation of \$188,148.
- 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.

## 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, the graduation from TSX-V to the Toronto Stock Exchange in February 2011 and the foreign exchange gain/(loss). The foreign exchange gain/(loss) during the periods 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.

## Summary of Financial Results

For the six months ended March 31, 2011 (“current period”), the Company reported a net loss of \$3,187,542 compared to a loss of \$2,989,568 for the six months ended March 31, 2010, of which a loss of \$3,137,263 (2010 - \$2,763,705) can be attributed to general and administrative expenses, a loss of \$130,094 (2010 - \$250,813) to Canadian/US dollar exchange fluctuations and an income of \$79,815 (2010 - \$24,950) to interest earned on the Company’s cash and cash equivalents.

Significant expenditures and fluctuations incurred in the following categories:

- Stock-based compensation of \$1,167,388 (2010 - \$1,366,556) is a non-cash expense and represents the estimated fair value of stock options vested 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 the risk-free rate. Stock-based compensation expense varies from period to period based on the vesting provisions and amortization schedule of previously granted stock options.
- Conferences expense of \$93,900 (2010 - \$152,557) incurred in connection with the various trade shows, and investor conferences attended by the Company in North America, Asia and Europe.
- Consulting fees of \$110,651 (2010 - \$114,624) include \$30,000 payment to an investor banker for the work done on the acquisition of the Kings Valley property from WEDC, and administrative consulting fees;
- Legal fees of \$127,079 (2010 - \$76,296) were higher in 2011 mostly due to the legal work related to the purchase by the Company of Kings Valley property royalties and claims from Concordia and the Company’s listing on Toronto Stock Exchange (TSX);
- Regulatory and filing fees of \$214,271 (2010 - \$32,053) were higher due to the graduation fees paid to TSX in the current period;
- Rent expense of \$134,931 (2010 - \$136,613) incurred for the rent of the Company’s Vancouver, Reno and Tokyo offices. 2011 rent expense includes one-time office lease obligation payment of \$13,000 due to an early termination of the Company’s previous office rental agreement;
- Public relations expense of \$60,003 (2010 - \$98,717) was lower due to the reduced scope of a public relation consulting contract;
- Travel expense of \$112,630 (2010 - \$210,878) was lower due to a lesser number of international travels to Europe and Asia in the current period;
- Wages and benefits expense of \$826,404 (2010 - \$334,949) was higher due to the hiring of additional employees during the current period and payment of the employee bonuses at the end of 2010;
- Foreign exchange loss of \$130,094 was recorded during the period ended March 31, 2011 (2010 - \$250,813) due to the 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 \$11,487,976 during the period ended March 31, 2011 (2010 - \$2,273,181) on the Kings Valley Lithium project. Included in 2011 period capitalized expenditures is \$6,850,350 paid in shares for the acquisition of Kings Valley property royalties and property claims.

There were no properties written off during the periods ended March 31, 2011 and 2010.

## **Liquidity and Capital Resources**

At March 31, 2011, the Company's cash and cash equivalents totalled \$10,321,417, a decrease of \$4,405,483 from September 30, 2010. The decrease is mainly due to operating and exploration expenditures on the Company's Kings Valley Lithium project, general and administrative expenses, and decrease in accounts payable and accrued liabilities offset by the net proceeds of \$2,172,879 received from exercise of warrants, stock options and \$343,750 share subscription deposits.

As at the date of this report, the Company's working capital is approximately \$14.5 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.

The Company does not now and does not expect to be engaged in currency hedging to offset any risk of currency fluctuations.

## **Operating Cash Flow**

Cash used in operating activities during the six months ended March 31, 2011, was \$1,930,614 compared to net cash of \$1,401,425 used during the six months ended March 31, 2010. The increase was primarily due to the increases in regulatory and filing fees, legal fees, and wages and benefits expenses explained above.

## **Financing Activities**

Net cash provided by financing activities for the six months ended March 31, 2011, was \$2,516,629 compared to \$16,643,547 net cash provided during the period ended March 31, 2010. The Company's financing activities during the period ended March 31, 2011, include net proceeds of \$191,075 received from the exercise of stock options, net proceeds of \$1,981,804 received from the exercise of warrants and \$343,750 share subscription deposits. Financing activities for the period ended March 31, 2010, include net proceed of \$15,534,591 received from the private placement completed in October 2009, \$187,500 received from the exercise of stock options, \$530,220 received from the exercise of warrants.

## **Investing Activities**

Investing activities required cash of \$4,861,404 during the period ended March 31, 2011, compared to cash of \$2,522,162 used during the period ended March 31, 2010. The cash used in investing activities during the periods ended March 31, 2011 and 2010 was for the exploration and development expenditures on the Company's Kings Valley Lithium project.

## Related Party Transactions

Included in consulting fees are \$4,565 paid to a Director of the Company for providing corporate consulting services.

During the period ended March 31, 2011, the Company paid \$25,000 (2010 - \$Nil) in Directors' fees.

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

The Company's current corporate office lease payments are \$22,908 per month. The lease agreement can be cancelled by either party at any time subject to a three-month notice. This office lease is shared with Concordia. The aggregate annual lease payments are due as follows:

Fiscal year 2011	\$137,448
Fiscal year 2012	\$274,896
Fiscal year 2013	<u>\$68,724</u>
Total	\$481,068

## Current Share Data

As at the date of this MD&A, the Company has 100,671,520 common shares issued and outstanding and has the following stock options outstanding:

	Number of Shares	Exercise Price	Expiry Date
<b>Options</b>	4,900,000	\$ 0.50	June 6, 2013
	100,000	0.72	August 11, 2013
	1,450,000	0.45	October 16, 2013
	132,500	0.54	March 17, 2014
	1,225,000	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
	660,000	0.88	July 14, 2015
	100,000	1.11	December 16, 2015
	1,000,000	1.33	January 26, 2016
	695,000	1.12	March 17, 2016
	200,000	1.22	March 31, 2016
<b>Total options</b>	<b>11,047,500</b>		

As at the date of this MD&A, the Company has no warrants outstanding.

2,281,409 shares are held in escrow pursuant to the Escrow Agreement dated June 19, 2008, (the “Agreement”) between the Company, Computershare, and Concordia Resource Corp. According to the Agreement, 2,281,409 of these shares are released every 6 months. The last release is scheduled 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:

- 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) Receivables 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 disclosure is contained in Note 9 of the Company’s interim consolidated financial statements for the six months ended March 31, 2011.

## **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.

A summary of the Company’s financial instruments risk exposure is provided in Note 9 of the Company’s interim consolidated financial statements for the period ended March 31, 2011.

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. 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.

*Technology Risk:* To the company's knowledge, lithium carbonate has never been commercially produced from a hectorite clay resource. While extensive laboratory and pilot testing has been completed with high quality lithium carbonate produced successfully using known industry processes and equipment, the process contemplated by Western Lithium for the production of lithium carbonate has not yet been demonstrated at commercial scale.

*Market Risk:* The development of the Kings Valley Lithium Project is almost entirely dependent on the adoption of lithium-ion batteries for electric vehicles and other large format batteries that are only just being introduced to the market and whose projected adoption rates are not assured.

*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 of 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, 2010. These accounting policies can have a significant impact of the financial performance and financial position of the Company.

#### *New Accounting Policies and Standards*

##### *Issued but not Adopted Primary Sources of GAAP*

##### *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.

#### *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 effective changeover date for the Company is October 1, 2011. Following the timeline the Company will issue its first interim financial statements under IFRS for the three months ended December 31, 2011 including comparative IFRS financial results and an opening balance sheet as at October 1, 2010. The first consolidated financial statements will be prepared for the year ended September 30, 2012 with restated comparatives for the year ended September 30, 2011.

The Company has completed its analysis of significant differences between Canadian GAAP and IFRS of its existing financial statement line items and has identified a number of differences.

IFRS 1 “First Time Adoption of IFRS”, provides a number of optional exemptions and mandatory exceptions to the general requirement for full retrospective application of IFRS. Below are significant areas where changes in accounting policies may have the highest potential impact on the Company’s financial statements:

#### *Foreign Currency*

Under IFRS the functional currency of each subsidiary must be determined separately in accordance with IAS 21. Under IFRS, the Company will assess the appropriate functional currency based on existing circumstances which may have a significant impact on the Company’s financial statements.

#### *Impairment of Mineral Properties*

Canadian GAAP generally uses a two-step approach to impairment testing. First, the asset’s carrying value is compared with undiscounted future cash flows to determine whether impairment exists. Second, the asset’s impairment measured by comparing the carrying value with discounted cash flows. IAS 36 “Impairment of Assets” uses a one-step approach for both testing and measurement of impairment, with asset carrying value compared directly with the higher of fair value less costs to sell and value in use using discounted future cash flows.

#### *Share Based Payments*

IFRS and Canadian GAAP largely converge on the accounting for share-based payments with a few differences. Canadian GAAP allows either accelerated or straight line method of amortization for the fair value of vesting stock options. The Company currently is using the grading accelerated method. IFRS allows grading accelerated method and therefore it is not expected to have impact on the Company’s financial statements.

### *Exploration and Evaluation of Assets*

Under Canadian GAAP, acquisition costs of mineral properties and deferred exploration expenses incurred are capitalized. Upon adoption of IFRS the Company can choose to continue with the existing policy or to expense exploration expenditures until the completion of a feasibility study.

### *Future Income Taxes*

Deferred income taxes under IFRS and Canadian GAAP are determined using the liability method for temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for accounting and by applying tax rates applicable to the Company to such temporary differences. Under IFRS, the temporary differences related to equity are recognized in equity and subsequent changes are traced to equity. IFRS prohibits recognition where deferred income taxes arise from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither accounting nor taxable net earnings.

The IFRS continue to issue new standards and as a result the final impact of IFRS on the Company's financial statements are currently not known. The Company will disclose the impact of IFRS adoption in due course as policies are issued, elected and approved. The disclosure and presentation required under IFRS will contain a significantly more information and will result in extensive note disclosures. The Company is continuing to evaluate the required disclosure. The Company's information system will require minimum changes to report under IFRS.

### **Investor Relations**

Jay Chmelauskas, President, and Brian Bergot, VP Investor Relations, coordinates investor relations' activities for the Company.

### **Change in Directors and Management**

Effective March 31, 2011, Terry Krepiakevich was appointed to the Company's board of directors.

Effective March 17, 2011, Tracy Hansen was appointed as Vice President. Ms. Hansen was appointed Corporate Secretary of the Company in January 2010.

Effective April 18, 2011, Brian Bergot was appointed as Vice President, Investor Relations.

### **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, except for PAEE disclosures, regarding the Kings Valley Lithium Property. For further description of scientific and technical information about the Kings Valley Property, please refer to the technical report filed on SEDAR website ([www.sedar.com](http://www.sedar.com)) and dated December 31, 2009 for Stage 1 and the technical report dated May 15, 2010 for Stage 2.

## 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;
- imprecision in the United States Bureau of Land Management’s (BLM) regulatory process for allowing the Company’s sale of the potassium by-product;
- exploration, development and operating 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.

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# **WESTERN LITHIUM USA CORPORATION**

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED  
MARCH 31, 2011

*(Expressed in Canadian Dollars)*

*(Unaudited – Prepared by Management)*

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**WESTERN LITHIUM USA CORPORATION**  
**INTERIM CONSOLIDATED BALANCE SHEETS**

(Unaudited – Prepared by Management)  
(Expressed in Canadian Dollars)

	<b>March 31, 2011</b>	<b>September 30, 2010</b>
	<b>\$</b>	<b>\$</b>
<b>A S S E T S</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	10,321,417	14,726,900
Receivables	46,622	35,134
Prepaid expenses and deposits	<u>152,680</u>	<u>175,929</u>
	10,520,719	14,937,963
<b>MINERAL PROPERTIES AND DEFERRED COSTS (Note 3)</b>	<u>22,278,511</u>	<u>10,790,535</u>
	<u>32,799,230</u>	<u>25,728,498</u>
<b>L I A B I L I T I E S</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued liabilities	<u>310,580</u>	<u>586,673</u>
<b>S H A R E H O L D E R S ' E Q U I T Y</b>		
<b>SHARE CAPITAL (Note 4)</b>	39,505,810	29,910,640
<b>SHARE SUBSCRIPTION DEPOSITS (Note 4)</b>	343,750	-
<b>CONTRIBUTED SURPLUS (Note 4)</b>	6,709,738	6,114,291
<b>DEFICIT</b>	<u>(14,070,648)</u>	<u>(10,883,106)</u>
	<u>32,488,650</u>	<u>25,141,825</u>
	<u>32,799,230</u>	<u>25,728,498</u>

**Nature of operations** (Note 1)

**Commitments** (Notes 3 and 6)

**Subsequent event** (Note 11)

**On behalf of the Board:**

\_\_\_\_\_  
*"Terry Krepiakovich"*

Director

\_\_\_\_\_  
*"John Macken"*

Director

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

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

	Three Months Ended March 31,		Six Months Ended March 31,	
	2011 \$	2010 \$	2011 \$	2010 \$
<b>EXPENSES</b>				
Advertising	53,072	37,648	71,478	61,892
Audit and accounting	16,405	28,786	42,091	55,562
Conferences	64,652	100,646	93,900	152,557
Consulting fees (Note 5)	27,316	78,350	110,651	114,624
Directors fees (Note 5)	25,000	-	25,000	-
Investor relations	20,190	20,375	40,877	43,495
Legal fees	99,434	28,573	127,079	76,296
Office and miscellaneous	41,791	33,822	91,185	62,123
Public relations	29,580	67,029	60,003	98,717
Regulatory and filing fees	211,309	25,418	214,271	32,053
Rent	46,825	91,317	134,931	136,613
Stock-based compensation (Note 4)	844,580	591,778	1,167,388	1,366,556
Telephone	8,991	12,315	19,375	17,390
Travel	55,525	129,352	112,630	210,878
Wages and benefits	356,983	200,095	826,404	334,949
	<u>1,901,653</u>	<u>1,445,504</u>	<u>3,137,263</u>	<u>2,763,705</u>
<b>LOSS BEFORE OTHER ITEMS</b>	<u>(1,901,653)</u>	<u>(1,445,504)</u>	<u>(3,137,263)</u>	<u>(2,763,705)</u>
<b>OTHER ITEMS</b>				
Foreign exchange loss	(38,589)	(244,420)	(130,094)	(250,813)
Interest income	45,166	15,719	79,815	24,950
	<u>6,577</u>	<u>(228,701)</u>	<u>(50,279)</u>	<u>(225,863)</u>
<b>NET LOSS AND COMPREHENSIVE LOSS</b>	<u>(1,895,076)</u>	<u>(1,674,205)</u>	<u>(3,187,542)</u>	<u>(2,989,568)</u>
<b>DEFICIT - BEGINNING OF PERIOD</b>	<u>(12,175,572)</u>	<u>(6,950,491)</u>	<u>(10,883,106)</u>	<u>(5,635,128)</u>
<b>DEFICIT - END OF PERIOD</b>	<u>(14,070,648)</u>	<u>(8,624,696)</u>	<u>(14,070,648)</u>	<u>(8,624,696)</u>
<b>LOSS PER SHARE - BASIC AND DILUTED</b>				
	(0.02)	(0.02)	(0.04)	(0.04)
<b>WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING - BASIC AND DILUTED</b>				
	85,746,030	82,285,564	84,422,678	80,627,827

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

**WESTERN LITHIUM USA CORPORATION**  
**INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(Unaudited – Prepared by Management)  
(Expressed in Canadian Dollars)

	Three Months Ended March 31,		Six Months Ended March 31,	
	2011 \$	2010 \$	2011 \$	2010 \$
<b>OPERATING ACTIVITIES</b>				
Loss for the period	(1,895,076)	(1,674,205)	(3,187,542)	(2,989,568)
Items not affecting cash:				
Stock-based compensation	844,580	591,778	1,167,388	1,366,556
Unrealized foreign exchange	38,589	244,420	130,094	250,813
Changes in non-cash working capital items:				
Decrease/(increase) in receivables	60,290	(404)	(11,488)	(9,590)
Decrease/(increase) in prepaid expenses and deposits	5,568	(2,260)	23,249	10,566
Decrease in accounts payable and accrued liabilities	(20,022)	(67,369)	(52,315)	(30,202)
Net cash used in operating activities	(966,071)	(908,040)	(1,930,614)	(1,401,425)
<b>INVESTING ACTIVITIES</b>				
Acquisition of mineral properties and deferred costs	(2,422,316)	(1,137,163)	(4,861,404)	(2,522,162)
Net cash used in investing activities	(2,422,316)	(1,137,163)	(4,861,404)	(2,522,162)
<b>FINANCING ACTIVITIES</b>				
Issuance of common shares	1,941,179	391,237	2,172,879	17,711,156
Share issue costs	-	-	-	(1,067,609)
Share subscription deposits	343,750	-	343,750	-
Net cash provided by financing activities	2,284,929	391,237	2,516,629	16,643,547
<b>FOREIGN EXCHANGE ON CASH AND CASH EQUIVALENTS</b>				
	(38,589)	(244,420)	(130,094)	(250,813)
<b>CHANGE IN CASH AND CASH EQUIVALENTS</b>	(1,142,047)	(1,898,386)	(4,405,483)	12,469,147
<b>CASH AND CASH EQUIVALENTS - BEGINNING OF PERIOD</b>	11,463,464	20,926,230	14,726,900	6,558,697
<b>CASH AND CASH EQUIVALENTS - END OF PERIOD</b>	10,321,417	19,027,844	10,321,417	19,027,844
<b>CASH AND CASH EQUIVALENTS IS COMPRISED OF:</b>				
Cash	2,361,104	2,019,800	2,361,104	2,019,800
Term deposits	7,960,313	17,008,044	7,960,313	17,008,044
	10,321,417	19,027,844	10,321,417	19,027,844

**Supplemental disclosure with respect to cash flows** (Note 8)

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

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**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 Concordia Resource Corp. (“Concordia”, formerly Western Uranium Corporation). Following the completion of the Plan of Arrangement between the two companies, Western Lithium ceased to be wholly-owned by Concordia 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 TSX 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 permitting, development, and future profitable production. The Company considers that it has adequate resources to maintain its core operations for the next year.

**2. SIGNIFICANT ACCOUNTING POLICIES**

***Basis of Presentation***

The interim period consolidated financial statements of the Company have been prepared by management in accordance with Canadian generally accepted accounting principles (“Canadian GAAP”) for the preparation of interim financial statements. The most significant of these accounting principles have been set out in September 30, 2010, audited financial statements. Only changes in accounting information have been disclosed in these unaudited interim 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, 2010.

These interim consolidated 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. These interim 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.

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**2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

*Comparative Figures*

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

*Use of Estimates*

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

*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 effective changeover date for the Company is October 1, 2011. Following the timeline the Company will issue its first interim financial statements under IFRS for the three months ended December 31, 2011, including comparative IFRS financial results and an opening balance sheet as at October 1, 2010. The first consolidated financial statements will be prepared for the year ended September 30, 2012 with restated comparatives for the year ended September 30, 2011.

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**3. MINERAL PROPERTIES AND DEFERRED COSTS**

<b>Kings Valley Property, Nevada, USA</b>	<b>Six months ended March 31, 2011</b>	<b>Year ended September 30, 2010</b>
	<b>\$</b>	<b>\$</b>
<b>Acquisition costs</b>		
Balance, beginning of period	794,151	230,191
Additions	<u>7,752,075</u>	<u>563,960</u>
Balance, end of period	<u>8,546,226</u>	<u>794,151</u>
<b>Deferred exploration costs</b>		
Drilling	1,278,781	1,187,386
Engineering	263,316	566,333
Environmental	65,117	60,120
Geological and consulting	993,926	1,452,223
Mapping, supplies and other	78,492	133,400
Geochemistry, assays and sampling	814,235	398,305
Metallurgy and lab costs	356,162	932,790
Deposits	<u>(114,128)</u>	<u>114,128</u>
Total deferred exploration costs	3,735,901	4,844,685
Balance, beginning of period	<u>9,996,384</u>	<u>5,151,699</u>
Balance, end of period	<u>13,732,285</u>	<u>9,996,384</u>
<b>Total mineral property costs</b>	<u>22,278,511</u>	<u>10,790,535</u>

*Lease Agreement with WEDC prior to the Purchase of Lease and Royalties from WEDC*

The Company and Concordia entered into a mining lease and option to purchase agreement (the “Lease Agreement”), through their subsidiaries, Western Lithium Corporation (100% owned by Western Lithium USA Corporation) and Western Energy Development Corporation (“WEDC”, 100% owned by Concordia), pursuant to which Concordia 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 had a term of 30 years that was renewable subject to Western Lithium fulfilling terms required under the lease agreement.

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**3. MINERAL PROPERTIES AND DEFERRED COSTS (continued)**

In consideration for the Exploration Right, the Company had to pay to Concordia 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 (US\$150,000 paid). These payments are applied against any royalty payments. The Company had agreed to pay to Concordia a Net Smelter Returns Royalty of 1.5% and a Net Profits Royalty equal to 3.5%.

*Purchase of Lease and Royalties from WEDC*

In March 2011, Western Lithium and Concordia completed the purchase and sale transaction of the royalties and titles constituting substantially all of the Kings Valley mineral property for \$6,850,350, paid through the issue to Concordia of 5,855,000 common shares with a fair value of \$1.17 per share. As a result of the transaction, all of the lithium properties were transferred out of WEDC to Western Lithium and the previous lease and royalty arrangements were eliminated between the two companies, including a Net Smelter Return of 1.5% and Net Profits Royalty of 3.5% on any lithium and related byproducts. Western Lithium assumed a 20% royalty to Cameco Global Exploration II Ltd. solely in respect of uranium on Kings Valley Property and other commitments in respect to some claims as follows:

- Mining Option Agreement with Uravada Inc. (“Uravada”) on certain mining claims for US\$50,000 annual payment due on January 21<sup>st</sup> in advance net smelter return royalty payments. The Company’s interest in these claims is subject to 3% net smelter return royalty. There is a two mile area of influence around the Uravada claims lease;
- Mining Option Agreement to acquire four mining claims for US\$1,785 per year in advance net smelter return royalty payments due on November 15<sup>th</sup>. The Company’s interest in these claims is subject to 1.5% net smelter return royalty;
- 20-year renewable mining lease on two claims for US\$10,000 per year in advance net smelter return royalty payments due on November 15<sup>th</sup>. The Company’s interest in these claims is subject to 2% net smelter return royalty or US\$10,000 a year, whichever is greater. The advance minimum royalty payments shall be paid in two installments each year, half on the November 15<sup>th</sup> anniversary date and half six months later. The Company has an option to purchase the claims for US\$100,000, less any amounts previously paid (US\$45,000 paid to date) as advance royalty payments, in which case no further royalties are payable.

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**4. SHARE CAPITAL AND CONTRIBUTED SURPLUS**

	Number	Amount, \$	Contributed Surplus, \$
Authorized			
Unlimited common shares without par value			
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	-	-	2,284,311
As at September 30, 2010	82,828,420	29,910,640	6,114,291
Exercise of stock options	346,250	191,075	-
Fair value of stock options exercised	-	155,925	(155,925)
Exercise of share purchase warrants	1,652,183	1,447,729	-
Exercise of finders' and agents' warrants	562,184	534,075	-
Fair value of warrants exercised	-	416,016	(416,016)
Shares issued for Kings Valley royalties and property claims	5,855,000	6,850,350	-
Stock-based compensation	-	-	1,167,388
As at March 31, 2011	91,244,037	39,505,810	6,709,738

During the six months ended March 31, 2011, the Company:

- a) issued 346,250 common shares pursuant to the exercise of an equivalent number of stock options for gross proceeds of \$191,075;
- b) issued 1,652,183 common shares pursuant to the exercise of an equivalent number of share purchase warrants for gross proceeds of \$1,447,729;

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**4. SHARE CAPITAL AND CONTRIBUTED SURPLUS (continued)**

- a) issued 562,184 common shares pursuant to the exercise of an equivalent number of agent's and finder's warrants for gross proceeds of \$534,075;
- b) issued 5,855,000 shares at a price of \$1.17 for acquisition of the royalties and titles of the Kings Valley mineral property holdings in Nevada from Concordia for total purchase price of \$6,850,350;
- c) received shares subscription deposit of \$343,750 for the exercise of 275,000 share purchase warrants (see Note 11).

As at March 31, 2011, 2,281,409 shares are held in escrow pursuant to the Escrow Agreement dated June 19, 2008, (the "Agreement") between the Company, Computershare, and Concordia Resource Corp. According to the Agreement, 2,281,409 of these shares are released every 6 months. The last release is scheduled 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 period ended March 31, 2011, is as follows:

	Number of Warrants	Weighted Average Exercise Price, \$
Balance, September 30, 2010	19,018,850	0.92
Exercised	(2,214,367)	(0.89)
Balance, March 31, 2011	16,804,483	0.92

At March 31, 2011, the following warrants were outstanding:

Expiry date	Number of Warrants	Weighted Average Exercise Price, \$
May 6, 2011	8,390,000	0.60
April 14, 2011	8,035,817	1.25
April 14, 2011	378,666	0.95
Balance, March 31, 2011	16,804,483	0.92

Subsequent to March 31, 2011, 8,390,000 warrants at \$0.60 were exercised, 571,317 warrants at \$1.25 were exercised, 378,666 warrants at \$0.95 were exercised and 7,464,500 warrants at \$1.25 have expired unexercised (note 11).

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**4. SHARE CAPITAL AND CONTRIBUTED SURPLUS (continued)**

**Stock options**

The Company has a stock option plan in accordance with the policies of 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. On March 31, 2011, the shareholders of the Company approved the TSX plan. 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 time 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 March 31, 2011, and changes during the period are presented below:

	Number of Options	Weighted Average Exercise Price, \$
Balance, outstanding September 30, 2010	9,586,250	0.70
Granted	1,995,000	1.23
Exercised	(346,250)	(0.55)
Cancelled	(37,500)	(1.01)
Expired	(62,500)	(1.28)
<b>Balance, outstanding – March 31, 2011</b>	<b>11,135,000</b>	<b>0.80</b>

During the period ended March 31, 2011, the Company granted a total of 1,995,000 stock options to its directors, employees and consultants. The fair value 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:

	December 16, 2010	January 26, 2011	March 17, 2011	March 31, 2011
Number of options granted	100,000	1,000,000	695,000	200,000
Exercise price per share	\$1.11	\$1.33	\$1.12	\$1.22
Risk-free interest rate	2.25%	2.31%	2.20%	2.44%
Expected life	5 years	5 years	5 years	5 years
Annualized volatility	108%	107%	104%	103%
Dividend rate	0.00%	0.00%	0.00%	0.00%
Fair value per stock option granted	\$0.87	\$1.04	\$0.86	\$0.93
Total fair value of stock options granted	\$87,255	\$1,040,000	\$597,700	\$186,000

Stock-based compensation expense of \$1,167,388 was charged to operations and credited to contributed surplus to reflect the fair value of stock options vested during the period ended March 31, 2011. At March 31, 2011, \$915,950 of the fair value of stock options previously granted but not yet vested remains to be expensed in fiscal 2011 and \$488,071 in 2012.

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**4. SHARE CAPITAL AND CONTRIBUTED SURPLUS** (continued)

Stock options outstanding and exercisable as at March 31, 2011, are as follows:

Number of Options Outstanding	Number of Options Exercisable	Exercise Price, \$	Expiry Date
4,900,000	4,900,000	0.50	June 6, 2013
100,000	100,000	0.72	August 11, 2013
1,450,000	1,200,000	0.45	October 16, 2013
207,500	207,500	0.54	March 17, 2014
1,225,000	906,250	1.28	November 2, 2014
200,000	150,000	1.43	December 14, 2014
285,000	213,750	2.03	February 4, 2015
100,000	50,000	1.09	May 12, 2015
672,500	323,750	0.88	July 14, 2015
100,000	25,000	1.11	December 16, 2015
1,000,000	250,000	1.33	January 26, 2016
695,000	173,750	1.12	March 17, 2016
200,000	50,000	1.22	March 31, 2016
<b>11,135,000</b>	<b>8,550,000</b>		

**5. RELATED PARTY TRANSACTIONS**

Included in consulting fees is \$4,565 paid to a Director of the Company for providing corporate consulting services.

Effective January 1, 2011, the Company pays its non-executive directors a fee of \$25,000 per year payable quarterly.

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.

**6. COMMITMENTS**

The Company has committed to rent office space in the amount of \$22,908/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. Effective December 1, 2010, this rent is shared with Concordia.

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**7. 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 six months ended March 31, 2011.

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

	March 31, 2011		
	Canada \$	United States \$	Total \$
Current assets	9,723,301	797,418	10,520,719
Mineral properties and deferred costs	-	22,278,511	22,278,511
	9,723,301	23,075,929	32,799,230

	September 30, 2010		
	Canada \$	United States \$	Total \$
Current assets	14,875,083	62,880	14,937,963
Mineral properties and deferred costs	-	10,790,535	10,790,535
	14,875,083	10,853,415	25,728,498

**8. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS**

Supplementary disclosure of the Company's significant non-cash transactions is provided in the table below:

	For the six months ended March 31, 2011 \$	For the six months ended March 31, 2010 \$
Accounts payable and accrued liabilities relating to mineral property expenditures	223,778	371,413
Fair value of stock options exercised	155,925	356,000
Fair value of compensation warrants granted to agents	-	698,945
Fair value of agents' and finder's warrants exercised	416,016	56,726
Shares issued for the acquisition of Kings Valley property royalties and titles from WEDC	6,850,350	-

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**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) Receivables 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.

***Fair value***

The Company estimates the fair value of its financial instruments based on current interest rates, market value and pricing of financial instruments with comparable terms. Unless otherwise indicated, the carrying value of these financial instruments approximates their fair market value because of the near maturity of those instruments.

Financial instruments measured at fair value on the balance sheet are summarized in levels of fair value hierarchy as follows:

March 31, 2011	Level 1	Level 2	Level 3
Assets			
Cash and cash equivalents	\$ 10,321,417	\$ -	\$ -

September 30, 2010	Level 1	Level 2	Level 3
Assets			
Cash and cash equivalents	\$ 14,726,900	\$ -	\$ -

***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.

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**9. FINANCIAL INSTRUMENTS (continued)**

*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 prepaid expenses and deposits consist of the \$100,000 bank deposit for the Company's secured credit cards and other miscellaneous prepaid expenses 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.

*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 maintains sufficient reserves of cash and cash equivalents or has 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.

As at March 31, 2011, the Company had cash and cash equivalents balance of \$10,321,417 (September 30, 2010 - \$14,726,900) to settle current liabilities of \$310,580 (September 30, 2010 - \$586,673). 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.

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**9. FINANCIAL INSTRUMENTS** (continued)

i) Foreign currency risk

All current assets and liabilities of the Company, except cash and cash equivalents of \$9,107,093, receivables of \$46,622, prepaid expenses and deposits of \$146,474, and accounts payable and accrued liabilities of \$94,351, are denominated in US dollars and have been translated at a value of \$0.97 Canadian dollars to \$1.00 US dollar. If the US dollar appreciated by 1% in relation to Canadian dollar, the Company's loss would have decreased by approximately \$10,371.

ii) Price risk

The Company is exposed to price risk with respect to commodity prices. 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 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 0.1%, the Company's loss would have increased by approximately \$10,321. The interest rate risk on cash and cash equivalents is not considered significant.

**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 ended March 31, 2011. The Company is not subject to external covenants.

**11. SUBSEQUENT EVENT**

Subsequent to March 31, 2011, the Company issued 9,339,983 common shares pursuant to the exercise of an equivalent number of share purchase warrants and agent's compensation options for proceed of \$6,107,879 and 87,500 common shares pursuant to the exercise of an equivalent number of stock options for proceeds of \$51,500.