WESTERN LITHIUM USA CORPORATION

(Formerly Western Lithium Canada Corporation)

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED SEPTEMBER 30, 2010

Background

The following discussion and analysis of financial position and results of operations, prepared as of January 21, 2011, should be read in conjunction with the Company's 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.

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.

Company Overview

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

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

Significant Events

- In October 2009, the Company completed a private placement of an aggregate of 17,476,000 units (the "Units') at a price of $0.95 per Unit for aggregate gross proceeds to the Company of $16,602,200 (net $15,508,866).

- In January 2010, the Company announced the results of a National Instrument 43-101 ("NI 43-101") compliant Preliminary Assessment and Economic Evaluation (PAEE) on its Kings Valley Lithium Project in Nevada, USA. The highlights of the PAEE were as follows:

    - Planned Stage I nominal production of 27,700 tonnes per year of lithium carbonate equivalent (LCE) and 115,000 tonnes per year of potassium sulphate (SOP).
    - Stage I average revenue estimated at US$263 million per year.
    - Stage I pre-tax net present value (NPV) discounted at 8% of US$714 million.
    - Pre-tax internal rate of return (IRR) is 28%.
    - Cash operating costs estimated to be US$1,967 per tonne (US$0.89/pound) of lithium carbonate, after potassium sulphate by-product credit.
    - Initial 18 year operating life with potential scalability to expand to multiple stages.
    - Total capital costs estimated to be US$427 million.
    - Chemistry and process selection indicative of high quality, low impurity product.
    - Located near major transportation hubs in western United States.

- In February 2010, TSX Venture Exchange announced that Western Lithium has been named as a member of the TSX Venture 50, a ranking of strong performers listed on TSX Venture Exchange. TSX Venture 50 is comprised of 10 emerging companies in each of five industry sectors that have been identified as leaders in Canada's public venture market.

- In February 2010, the Company received approval for its plan of operation for its Kings Valley Lithium Project, by both the U.S. Bureau of Land Management (BLM) and the Nevada Department of Environmental Protection. The work program included an extensive drilling and trenching exploration program to further delineate the resources of the Company's Stage I Lens, test suitable mining methods for the project and obtain bulk samples for use in pilot plant studies. The plan also included an environmental assessment.

- In May 2010, the Company announced that a new National Instrument 43-101 ("NI 43-101") resource estimate was completed for a potential Stage II (South) lens development at the Kings Valley Lithium Project in Nevada. The deposit covered by this resource estimate is located on a portion of the Stage II (South) lens of the Kings Valley property. The resource estimate consists of Indicated Resources of 95 million tonnes grading 0.27% lithium, or the lithium carbonate equivalent ("LCE") of 1,365,000 tonnes LCE and Inferred Resources of 47 million tonnes grading 0.26% lithium, for 650,000 tonnes of LCE, both at a cut-off grade of 0.20% lithium. This resource is in addition to the previously announced NI 43-101 compliant resource estimate for the Stage I (PCD) lens of the property that is envisioned to support Stage I (PCD) production of 27,700 tonnes per year of LCE with an 18 year operating life.

- In June 2010, the Company commenced continuous pilot scale testing at an independent research facility. The program produced approximately 1 kg of high quality lithium carbonate. In addition, larger scale testing to produce up to approximately 10 kg of battery grade lithium carbonate commenced in November at European facilities in order to support the prefeasibility studies.

- In June 2010, the Company commenced infill drilling on the Stage I clay lens. The purpose of this drilling is to further refine the geologic model and to help bring the resource to the measured and indicated categories so that future feasibility studies can potentially support a reserve estimate.

- 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. The Stage I lithium resource supports the company's NI 43-101 Preliminary Assessment and Economic Evaluation (PAEE) that was filed 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 to date. 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.

- In December 2010, the Company reached an agreement in principle for the purchase of a 100% interest in the Kings Valley mineral property claims, royalties and all related assets and data held by Western Energy Development Corporation ("WEDC"), a wholly-owned subsidiary of Western Uranium. The parties have agreed that the Company will pay to Western Uranium $6.85 million in shares as consideration for the transfer of the assets. As a result of this transaction, the existing lease and royalty arrangements between the two companies on the King's 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, will be eliminated. The Company will gain full control of the Kings Valley property claims, excluding the Albisu gold exploration target and a proposed royalty to be granted to Cameco Global Exploration II Ltd. ("Cameco") solely in respect of uranium. The agreement also eliminates the need for continuing future lease payments by the Company of US$4 million. The transaction remains subject to completion of definitive agreements, regulatory approval and other conditions.

- 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 sulphate. 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.

Industry

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

Current Market Status

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

Company Outlook

Following the positive results of the PAEE (as defined below), Western Lithium has commenced further engineering and pilot plant studies to advance the project to prefeasibility. These studies are expected to be funded from the existing treasury. Western Lithium has approximately $12 million in cash and no debt. The Company is in discussions with various major lithium buyers to define product quality specifications and long-term supply requirements and expects to work with these groups through a planned piloting program.

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

The Company also plans to review and consider from time to time other potential corporate acquisitions as and when they are identified by 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.

Historical Resource Estimate

The Company's 43-101 compliant resources estimates cover part of the mineralization that constitutes a historical estimate of 11 million tonnes of lithium carbonate equivalent (LCE) prepared by Chevron Resources. It represents one of the largest known lithium deposits in the world, ranking in size behind deposits in Bolivia (47 million tonnes LCE), Chile (37 million tonnes LCE), North Carolina (14 million tonnes LCE) and the DRC (12 million tonnes LCE) (Source: R. Keith Evans, 2010; Roskill Information Services Ltd., 2009; and company disclosures).

The Chevron estimate is at average grades of 0.31% to 0.37% Li and is dated March 1985, but there is insufficient information regarding the data used in the estimate to make a useful comparison to current resource categories under CIM Definition Standards of Mineral Resources and Mineral Reserves. A qualified person has not done sufficient work to classify the historical estimate as current mineral resources under National Instrument 43-101, the Company is not treating the historical estimate as current mineral resources and the historical estimate should not be relied upon.

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

Western Lithium has completed a National Instrument 43-101 resource estimate for the envisioned Stage I (PCD) lens of development. The Stage I (PCD) lens contain Indicated Resources of 48.1 million tonnes grading 0.27% lithium, or the lithium carbonate equivalent (LCE) of 688,000 tonnes LCE and Inferred Resources of 42.3 million tonnes grading 0.27% lithium, for an equivalent of 606,000 tonnes of LCE, both at a cut-off grade of 0.20% Lithium. An interim update to this estimate was released in November 2010 and a full update to the resource estimate is pending.

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 prefeasibility study based on updated resources.

Lease and Option Agreement

The Company and Western Uranium entered into a mining lease and option to purchase agreement (the "Lease Agreement"), through their wholly owned subsidiaries, Western Lithium Corporation (100% owned by Western Lithium USA Corporation) and Western Energy Development Corporation (100% owned by Western Uranium), pursuant to which Western Uranium granted to the Company the exclusive right to explore for lithium bearing minerals and clay on the Kings Valley Property (the "Exploration Right").

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

In December 2010, the Company reached an agreement in principle for the purchase of a 100% interest in the Kings Valley mineral property claims, royalties and all related assets and data held by Western Energy Development Corporation ("WEDC"), a wholly-owned subsidiary of Western Uranium. The parties have agreed that the Company will pay to Western Uranium $6.85 million in shares as consideration for the transfer of the assets.

As a result of this transaction, the existing lease and royalty arrangements between the two companies on the King's 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, will be eliminated. The Company will gain full control of the Kings Valley property claims, excluding the Albisu gold exploration target and a proposed royalty to be granted to Cameco Global Exploration II Ltd. ("Cameco") solely in respect of uranium. The agreement also eliminates the need for continuing future lease payments by the Company of US$4 million.

Details of the Transaction:

- the Company will purchase a 100% interest in the Kings Valley property claims, royalties and all related assets and data held by WEDC, except the Albisu gold property, located at the northern end of the Kings Valley property..

- the purchase price will be $6.85 million, to be paid through the issue by the Company of 5,855,000 common shares at a deemed price of $1.17.

- Western Uranium's Strategic Alliance with Cameco, related to the exploration and development of uranium properties, will be concluded as a related part of the transaction, for consideration of $2.5 million to be paid by Western Uranium to Cameco and the grant to Cameco of a 20% gross overriding royalty over the Kings Valley mineral property solely in respect of uranium.

- As part of the transaction, Western Uranium 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.

The transaction is subject to negotiation and settlement of definitive agreements, the termination of the Strategic Alliance Agreement, completion of due diligence by the Company and all requisite third party approvals, including stock exchange and securities approvals.

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.

Mineral Resource Estimate

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

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

AMEC carried out lithium and potassium mineral resource estimates for the Stage I (PCD) lens, which forms the basis for this PAEE. The estimate conforms to Canadian National Instrument 43-101, *Standards of Disclosure for Mineral Projects* of the Canadian Securities Administrators. The initial lithium estimate was completed in December 2008 and has an effective date of December 15, 2008. That estimate was reported in an NI 43-101 technical report filed on SEDAR (AMEC, 2008) and is restated here. The potassium estimate was completed in November 2009 and has an effective date of November 15, 2009. The potassium estimate is based on data generated by reanalyzing the Western Lithium core samples for major elements (including K_2O which is converted to potassium sulfate for the estimate).

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

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

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

* Inferred tonnes within 213 meters of nearest drill hole; indicated tonnes two drill holes within 201 meters, one within 143 meters.
Contained metal does not allow for mine and metallurgical recovery.
1.8 tonnes/m3 tonnage factor used.
Economic assumptions for cut-off grade: $3.50 lithium carbonate /lb, 60% metallurgical recovery, $50/tonne processing, $2.20 USD/tonne mining.
Rounding errors may exist.

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. .

Mining Operations from PAEE Study

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

In-pit Mineral Resources Estimate

Item	**Total/Average**
In-pit indicated resources In-pit inferred resources	17,612,000 tonnes (dry basis) 14,547,000 tonnes (dry basis)
Lithium (Li), ppm Potassium (K), ppm	3,292 35,963
Waste	77,910,000 tonnes (dry basis)
Strip Ratio	2.42
Li_2CO_3 equivalent at 88.5% recovery K_2SO_4 equivalent at 80.5% recovery	499,000 tonnes 2,074,000 tonnes

Metallurgical Testing

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

- Lithium: 88.5%
- Potassium: 80.5%

Mineral Processing

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

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

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

The PAEE considers the preparation of an intermediate product, glaserite (3 $K_2SO_4.Na_2SO_4$), followed by a direct crystallization and drying of potassium sulfate. This process has not been demonstrated commercially on this type of feed stock, but published solubility data indicate that the process is technically viable (Seidell, 1965).

Process Plant and Infrastructure Capital Cost

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

Capital Cost Estimate Process Plant

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

Open-pit Mine

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

Mine Equipment Capital Spending Summary (US$ thousands)

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

<u>Operating Cash Cost Estimate</u>

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

Operating Cash Cost Calculation

Description	US$/LCE tonnes	US$/Lb
Mining–Open Pit	$566.57	$0.25
Processing	$3,767.17	$1.71
Owner's Costs	$129.17	$0.06
SOP Credit	$(2,496.00)	$(1.13)
Lithium Carbonate Cash Cost Equivalent	**$1,966.91**	**$0.89**

<u>Cash Flow Analysis</u>

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

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

Lithium Carbonate ($/tonne)	$0	$100	$200	$300	$400	$500	$600	$700	$800	$900
$10,000	$876	$971	$1,065	$1,159	$1,254	$1,348	$1,443	$1,537	$1,631	$1,726
$9,000	$662	$756	$850	$945	$1,039	$1,134	$1,228	$1,322	$1,1417	$1,511
$8,000	$447	$541	$636	$730	$824	$919	$1,031	$1,108	$1,202	$1,296
$7,000	$231	$326	$420	$515	$606	$703	$798	$892	$986	$1,081
$6,614	$147	$242	$337	$431	$525	$620	$714	$808	$903	$997
$6,000	$12	$108	$203	$298	$392	$486	$581	$675	$769	$864
$5,000	($210)	($113)	($17)	$79	$174	$268	$363	$457	$551	$646
$4,000	($437)	($339)	($243)	($146)	($50)	$46	$141	$236	$330	$424
$3,000	($671)	($572)	($473)	($374)	($277)	($181)	($84)	$12	$107	$201

Potassium Sulfate – ($/tonne)

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

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

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

<u>Stage II (South) Lens Development</u>

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

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

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

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

* Inferred tonnes within 213 meters of nearest drill hole with at least 3 composites used in the estimation; indicated tonnes two drill holes within 143 meters with at least 6 composites used in the estimation.
Contained metal does not allow for mine and metallurgical recovery.
1.96 tonnes/m3 tonnage factor used.
Economic assumptions for cut-off grade: $3.50 lithium carbonate /lb, 60% metallurgical recovery, $50/tonne processing, $2.20 USD/tonne mining. Economic assumptions do not include any potassium credits.
Rounding errors may exist.

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

Conversion Factors Used for Lithium Compounds

To convert from Lithium (Li):	To Lithium Carbonate (Li_2CO_3) multiply by 5.323	To Lithium Oxide (Li_2O) multiply by 2.153	To Lithium Hydroxide Monohydrate ($LiOH.H_2O$) multiply by 6.04

Environmental Considerations and Community Involvement

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

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

Selected Annual Financial Information

The following table provides a brief summary of the Company's financial operations for the past three years. For more detailed information, refer to the audited financial statements.

	Year ended September 30, 2010 $	2009 $	2008 $
Total assets	25,728,498	12,092,913	7,591,935
Mineral properties and deferred costs	10,790,535	5,381,890	2,457,692
Total current liabilities	(586,673)	(764,274)	(135,626)
General and administrative expenses	(5,169,146)	(3,648,215)	(2,277,034)
Net loss and comprehensive loss for the year	(5,247,978)	(3,422,479)	(2,149,611)
Basic and diluted loss per share	(0.06)	(0.06)	(0.16)
Cash dividends	-	-	-

- Total assets increased by $13,635,585 during 2010 primarily due to the $16,802,577 net proceeds from the issuance of common shares during the year, offset by general and administrative expenses. The 2009 increase in total assets of $4,500,978 was primarily due to the $5,695,948 net proceeds from the issuance of common shares during the year and $628,648 increase in accounts payable, offset by general and administrative expenses.

- Mineral properties and deferred costs increased by $5,408,645 (2009 - $2,924,198) mostly due to exploration and development expenditures on the Company's Kings Valley Property.

- Current liabilities consist of accounts payable and accrued liabilities and fluctuate due to the timing of billing for exploration and development expenditures on the Kings Valley Property.

- General and administrative expenses increased in 2010 by $1,520,931 mainly due to the increase of $685,450 in non-cash stock-based compensation expense and an increase in other expense categories due to the increase in activities during 2010 which are described in more detail below. The increase of $1,371,181 in 2009 general and administrative expenses was mainly due to the increase of $130,040 in non-cash stock-based compensation expense, laboratory contract payment of $437,700, and an increase in other general and administrative costs. See below for additional disclosure on significant fluctuations in the company's general and administrative expenses.

- Net loss and comprehensive loss for 2010 increased by $1,825,499 mainly due to the $685,450 increase in stock-based compensation expense for the stock options granted and vested during 2010, $835,481 increase in administrative expenses due to the increase in corporate activities , $339,593 increase in foreign exchange loss due to the weakening US$ and its effect on the company's US$ denominated funds, offset by increase in interest earned on the Company's cash and cash equivalents. Net loss and comprehensive loss for 2009 increased by $1,272,868 mainly due to the $130,040 increase in stock-based compensation expense for the stock options granted and vested during 2009, $803,441 increase in administrative expenses due to the increase in corporate activities and becoming a public company in July 2008, and $437,700 laboratory contract payment, offset with $88,140 increase in foreign exchange gain.

Summary of Financial Results

For the year ended September 30, 2010, the Company reported a net loss of $5,247,978 (2009 – $3,422,479) of which a loss of $5,169,146 (2009 - $3,648,215) can be attributed to general and administrative expenses, a loss of $140,159 (2009 - $199,434 gain) to Canadian/US dollar exchange fluctuations and an income of $61,327 (2009 - $26,302) to interest earned on the Company's cash and cash equivalents.

Significant fluctuations incurred in the following categories:

- Stock-based compensation of $2,284,311 (2009 - $1,598,861) is a non-cash expense and represents the estimated fair value of stock options vested during the year. The stock-based compensation charge was greater in 2010 due to additional stock options granted during the year. 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;

- Rent expense of $312,251 was higher in 2010 (2009 - $89,733) mainly due to the corporate office move to a larger space to accommodate an increase in staff and opening of the Company's office in Tokyo, Japan;

- Conferences expense of $207,928 (2009 - $115,140) incurred in connection with the Company's Lithium Supply Conference sponsorship, various trade shows, and investor conferences attended by the Company in North America, Asia and Europe;

- Consulting fees of $254,252 were higher in 2010 (2009 - $120,983) primarily due to increase in the Company's activities and general, administrative, and information technology support for the Company's corporate office;

- Legal fees of $194,688 were higher in 2010 (2009 - $47,530) due to the legal work related to AGM and the Company's corporate activities;

- Public relations expense of $199,750 (2009 - $Nil) incurred for a public relations consulting contract in Washington, DC, and Reno, Nevada;

- Travel expense of $345,474 was higher in 2010 (2009 - $224,935) due to the increase in international travels to Europe and Asia;

- Wages and benefits expense of $794,964 was higher in 2010 (2009 - $482,648) due to the additional staff hired in 2010;

- Office and miscellaneous expense of $137,615 (2009 – $64,548) and regulatory and filing fees expense of $64,155 (2009 - $30,825) were higher in 2010 due to increase in the Company's increased corporate activities;

- Foreign exchange loss of $140,159 was recorded during the year ended September 30, 2010 (2009 - $199,434 gain) due to Canadian/US dollar exchange fluctuations and its effect on the Company's US$ denominated funds and conversion of US$ denominated property expenditures of its US subsidiary upon consolidation.

The Company capitalized $5,408,645 (2009 - $2,924,198) on the Kings Valley Lithium project. There were no properties written off during 2010 or in prior years.

Deferred share issued costs of $25,725 in 2009 relate to the private placement completed in fiscal 2010.

Summary of Selected Quaterly Results and Fourth Quarter of 2010

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

	Year end September 30, 2010				Year end September 30, 2009			
	Q4 $	Q3 $	Q2 $	Q1 $	Q4 $	Q3 $	Q2 $	Q1 $
Total assets	25,728,498	26,511,042	26,808,540	27,503,115	12,092,913	12,282,931	7,714,901	8,129,451
Mineral properties and deferred costs	10,790,535	8,683,161	7,655,071	6,453,924	5,381,890	4,791,267	3,647,461	3,149,375
Working capital	14,351,290	17,371,174	18,668,378	20,560,716	5,921,024	7,181,112	3,845,694	4,623,689
Total revenues	-	-	-	-	-	-	-	-
General and administrative expenses	(1,248,802)	(1,156,640)	(1,445,504)	(1,318,200)	(1,141,383)	(786,810)	(860,358)	(859,664)
Net loss	(1,416,358)	(842,052)	(1,674,205)	(1,315,363)	(1,341,126)	(1,022,303)	(738,184)	(320,866)
Loss per common share – basic and diluted	(0.02)	(0.01)	(0.02)	(0.02)	(0.02)	(0.02)	(0.01)	(0.01)

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

Total assets

- 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$.

- Increase in Q3 2009 total assets compared to Q2 2009 is primarily due to the net proceeds of $5,183,773 received from the private placement completed in May 2009 offset by general and administrative expenditures.

- Decrease in Q2 2009 total assets compared to Q1 2009 is primarily due to general and administrative expenditures of $402,083 incurred during the period and $134,641 decrease in accounts payables offset by the increase in the value of the US$ denominated cash and term deposits due to foreign exchange fluctuation of US$ in relation to CDN$.

Mineral properties and deferred costs

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

Working capital

- Decrease in 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.

- Increase in Q3 2009 working capital is due to the net proceeds of $5,183,773 received from the private placement completed in May 2009 offset by an increase in exploration expenditures on the Company's Kings Valley Lithium Project, US$375,000 payment to the laboratory for testing equipment and an increase in general and administrative expenditures.

- Decrease in working capital in Q2 2009 is primarily due to the expenditures on the Company's Kings Valley Lithium Project and an increase in general and administrative expenses offset by the change in the value of US$ denominated cash and term deposits.

General and administrative expenditures

- 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.

- Q3 2009 decrease in general and administrative expenditures compared to Q2 2009 is primarily due to decrease in non-cash stock-based compensaiton expenses of $314,817 compared to Q2 2009 stock-based compensation of $458,275. Increase in individual expense categories is due to an increase in the Company's activities.

- Q2 2009 total general and administrative expenditures of $860,358 are comparable to Q1 2009 expenditures of $859,664. Increase in individual expense categories, as a result of an increase in the Company's activities and becoming an independent publicly traded company in July 2008, was offset by a decrease of $179,346 in non-cash stock-based compensation expenses in Q2 2009. Stock-based compensation figures will vary from period to period depending on the fair value and the amortization schedule of previous stock option grants.

Net loss

Significant fluctuations in net loss from period to period, excluding laboratory contract expense in Q4, 2009, are primarily due to stock-based compensation expense, increase in the Company's activities since becoming a public company in July 2008, and the foreign exchange gain/(loss). The foreign exchange gain/(loss) during the periods 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.

Liquidity and Capital Resources

At September 30, 2010, the Company's cash and cash equivalents totalled $14,726,900, an increase of $8,168,203 from September 30, 2009. The increase is due to the net proceeds of $16,802,578 received from the private placement completed in October 2009, exercise of stock options and stock purchase warrants offset by operating and exploration expenditures on the Company's Kings Valley Lithium project, general and administrative expenses, and foreign exchange loss on the Company's US$ denominated funds due to weakening of US$ in 2010.

As at the date of this report, the Company's working capital is approximately $12 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 year ended September 30, 2010, was $2,891,313 compared to net cash of $2,053,479 used during the year ended September 30, 2009. Increase in the amount of cash used in operating activities during the year ended September 30, 2010, was primarily due to an increase in the Company's operating activities.

Financing Activities

Net cash provided by financing activities for the year ended September 30, 2010, was $16,802,578 compared to $5,670,223 net cash provided in 2009. For the year ended September 30, 2010, the Company's financing activities include net proceeds of $15,534,591 received from the private placement completed in October 2009 (2009 - $5,183,773 received from the private placement completed in May 2009), $460,500 (2009 - $32,175) received from the exercise of stock options, and $807,487 (2009 - $480,000) received from the exercise of warrants.

Investing Activities

Investing activities required cash of $5,602,903 during the year ended September 30, 2010, compared to cash of $2,369,001 used during the year ended September 30, 2009. The cash used in investing activities during the 2010 and 2009, was for the exploration and development expenditures on the Company's Kings Valley Lithium Project.

Related Party Transactions

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

Subsequent to September 30, 2010, the Company and Western Uranium Corporation have reached an agreement in principle for the purchase of a 100% interest in the Kings Valley mineral property claims, royalties and all related assets and data held by Western Energy Development Corporation ("WEDC"), a wholly-owned subsidiary of Western Uranium. The parties have agreed that the Company will pay to Western Uranium $6.85 million in shares as consideration for the transfer of the assets. As a result of this transaction, the existing lease and royalty arrangements between the two companies on the King's 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, will be eliminated. The Company will gain full control of the Kings Valley property claims, excluding the Albisu gold exploration target and a proposed royalty to be granted to Cameco Global Exploration II Ltd. ("Cameco") solely in respect of uranium. The agreement also eliminates the need for continuing future lease payments by the Company of US$4 million.

Included in consulting fees are $5,363 paid in connection with public relations work in the USA to a firm where a Director of the Company is a Partner. In addition, $52,998 (2009 - $Nil) was paid to a Director of the Company for providing corporate consulting services.

As at September 30, 2010, accounts payable and accrued liabilities include $Nil (September 30, 2009 - $25,756) payable to an officer of the Company for reimbursement of travel expenses.

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. The aggregate annual lease payments are due as follows:

Fiscal year 2011	$274,623
Fiscal year 2012	$274,896
Fiscal year 2013	$68,724
Total	$618,243

Subsequent to September 30, 2010, the Company has committed to pay $50,700 plus HST under Microsoft three-year Open Value Agreement for the Company to use and manage Microsoft licensed products. The total amount due under the agreement will be split into three annual payments of $16,900 plus HST.

The Company also has commitments under the Kings Valley Property Lease as described in the above.

Current Share Data

As at the date of this MD&A, the Company has 83,895,406 common shares issued and outstanding and has the following stock options and warrants outstanding:

	Number of Shares	Exercise Price	Expiry Date
Options	4,900,000	$ 0.50	June 6, 2013
	100,000	0.72	August 11, 2013
	1,450,000	0.45	October 16, 2013
	407,500	0.54	March 17, 2014
	1,300,000	1.28	November 2, 2014
	200,000	1.43	December 14, 2014
	285,000	2.03	February 4, 2015
	100,000	1.09	May 12, 2015
	722,500	0.88	July 14, 2015
	100,000	1.11	December 16, 2015
Total options	9,565,000		
Warrants	864,114	0.95	April 15, 2011
	8,540,000	0.60	May 6, 2011
	8,669,000	1.25	April 14, 2011
Total warrants	18,073,114		

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

Financial Instruments

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

a) Cash and cash equivalents are classified as *"Held-for-trading"*. The fair value of the Company's cash and cash equivalents are classified as Level 1 within the fair value hierarchy established by CICA section 3862.

b) Accounts receivable are classified as *"Loans and Receivables"*. The recorded values of receivables approximate their current fair value because of their nature and respective maturity dates or durations.

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

Financial instruments disclosure is contained in Note 10 of the Company's audited consolidated financial statements for the year ended September 30, 2010.

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 the Note 10 of the Company's audited consolidated financial statements for the year ended September 30, 2010.

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

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

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

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

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

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

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

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 or property interest.

Environmental Compliance

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

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

Critical Accounting Estimates

Reference should be made to the Company's significant accounting policies contained in Note 2 of the Company's audited consolidated financial statements for September 30, 2010. These accounting policies can have a significant impact of the financial performance and financial position of the Company.

New Accounting Policies and Standards

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

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

Level 1 quoted prices in active markets for identical assets or liabilities.

Level 2 inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).

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

The Company adopted this amended standard in the fiscal 2010.

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, 2011. 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.

Changes in Directors and Management

During the year ended September 30, 2010, the Company announced the following changes in Directors and Management:

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

Investor Relations

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

Qualified Person

Mr. Dennis Bryan, a qualified person for the purposes of NI 43-101, has supervised the preparation of the scientific and technical information in this MD&A, 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) and dated December 31, 2009 for Stage 1 and the technical report dated May 15, 2010 for Stage 2.

WESTERN LITHIUM USA CORPORATION

(Formerly Western Lithium Canada Corporation)

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2010 AND 2009

(Expressed in Canadian Dollars)

CHARTERED
ACCOUNTANTS
MacKay LLP

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Auditors' Report

To the Shareholders of
Western Lithium USA Corporation

We have audited the consolidated balance sheets of Western Lithium USA Corporation as at September 30, 2010 and 2009, and the consolidated statements of operations, comprehensive loss and deficit, and cash flows for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at September 30, 2010 and 2009, and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Vancouver, Canada *"MacKay LLP"*

January 20, 2011 **Chartered Accountants**

WESTERN LITHIUM USA CORPORATION
(Formerly Western Lithium Canada Corporation)
CONSOLIDATED BALANCE SHEETS
AS AT SEPTEMBER 30, 2010 AND 2009
(Expressed in Canadian Dollars)

	2010 **$**	**2009** **$**
A S S E T S		
CURRENT ASSETS		
Cash and cash equivalents	14,726,900	6,558,697
Receivables	35,134	6,877
Prepaid expenses and deposits	175,929	119,724
	14,937,963	6,685,298
DEFERRED SHARE ISSUE COSTS	-	25,725
MINERAL PROPERTIES AND DEFERRED COSTS (Note 3)	10,790,535	5,381,890
	25,728,498	12,092,913
L I A B I L I T I E S		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	586,673	764,274
S H A R E H O L D E R S' E Q U I T Y		
SHARE CAPITAL (Note 4)	29,910,640	13,353,408
CONTRIBUTED SURPLUS (Note 4)	6,114,291	3,610,359
DEFICIT	(10,883,106)	(5,635,128)
	25,141,825	11,328,639
	25,728,498	12,092,913

Nature of operations (Note 1)
Commitments (Notes 3 and 6)
Subsequent events (Note 12)

On behalf of the Board:

"Ed Flood" Director *"Jay Chmelauskas"* Director

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

WESTERN LITHIUM USA CORPORATION
(Formerly Western Lithium Canada Corporation)
CONSOLIDATED STATEMENTS OF OPERATIONS, COMPREHENSIVE LOSS AND DEFICIT
FOR THE YEARS ENDED SEPTEMBER 30, 2010 AND 2009
(Expressed in Canadian Dollars)

	2010 $	2009 $
EXPENSES		
Advertising	121,082	180,852
Audit and accounting	113,833	120,475
Conferences	207,928	115,140
Consulting fees (Note 5)	254,252	120,983
Interest and bank charges	13,134	3,307
Investor relations	86,628	109,606
Legal fees	194,688	47,530
Office and miscellaneous	137,615	64,548
Public relations	199,750	-
Regulatory and filing fees	64,155	30,825
Rent	312,251	89,733
Stock-based compensation (Note 4)	2,284,311	1,598,861
Telephone	39,081	21,072
Travel	345,474	224,935
Wages and benefits	794,964	482,648
Laboratory contract (Note 3)	-	437,700
LOSS BEFORE OTHER ITEMS	(5,169,146)	(3,648,215)
OTHER ITEMS		
Foreign exchange (loss)/gain	(140,159)	199,434
Interest income	61,327	26,302
	(78,832)	225,736
NET LOSS AND COMPREHENSIVE LOSS	(5,247,978)	(3,422,479)
DEFICIT – BEGINNING OF YEAR	(5,635,128)	(2,212,649)
DEFICIT – END OF YEAR	(10,883,106)	(5,635,128)
BASIC AND DILUTED LOSS PER SHARE	(0.06)	(0.06)
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING – BASIC AND DILUTED	81,724,285	55,725,832

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

WESTERN LITHIUM USA CORPORATION
(Formerly Western Lithium Canada Corporation)
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2010 AND 2009
(Expressed in Canadian Dollars)

	2010 **$**	**2009** **$**
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss for the year	(5,247,978)	(3,422,479)
Items not affecting cash:		
Stock-based compensation	2,284,311	1,598,861
Foreign exchange on cash	140,159	(199,434)
Changes in non-cash working capital items:		
Increase in receivables, prepaids and deposits	(84,462)	(103,878)
Increase in accounts payable and accrued liabilities	16,657	73,451
Net cash used in operating activities	(2,891,313)	(2,053,479)
CASH FLOWS FROM INVESTING ACTIVITY		
Acquisition of mineral properties and deferred costs	(5,602,903)	(2,369,001)
Net cash used in investing activity	(5,602,903)	(2,369,001)
CASH FLOWS FROM FINANCING ACTIVITIES		
Issuance of common shares	17,870,187	6,012,175
Share issue costs	(1,067,609)	(316,227)
Deferred share issue costs	-	(25,725)
Net cash provided by financing activities	16,802,578	5,670,223
FOREIGN EXCHANGE ON CASH AND CASH EQUIVALENTS	(140,159)	199,434
INCREASE IN CASH AND CASH EQUIVALENTS DURING THE YEAR	8,168,203	1,447,177
CASH AND CASH EQUIVALENTS – BEGINNING OF YEAR	6,558,697	5,111,520
CASH AND CASH EQUIVALENTS – END OF YEAR	14,726,900	6,558,697
CASH AND CASH EQUIVALENTS IS COMPRISED OF:		
Cash	1,087,050	987,686
Term deposits	13,639,850	5,571,011
	14,726,900	6,558,697

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Supplemental disclosure with respect to cash flows (Note 8)

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

1. NATURE OF OPERATIONS

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

To date, the Company has not generated significant revenues from operations and is considered to be in the exploration stage. The amounts shown as mineral properties and deferred costs represent expenditures incurred to date and do not necessarily represent present or future values. The underlying value of mineral properties and deferred costs are entirely dependent on the existence of economically recoverable reserves, securing and maintaining title and beneficial interest in the properties, the ability of the Company to obtain the necessary financing to complete 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 consolidated financial statements of the Company have been prepared by management in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"). These financial statements have been prepared on the basis of accounting principles applicable to a "going concern", which assumes that the Company will continue its operations for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations for the foreseeable future. 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 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.

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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Mineral Properties and Deferred Costs

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

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

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

Asset Retirement Obligations

Asset retirement obligations are recognized when a legal or constructive obligation arises. This liability is recognized at the fair value of the asset retirement obligation. When the liability is initially recorded the Company capitalizes the cost by increasing the carrying amount of the related long-lived assets. Over time the liability is accreted to its estimated future value, and the capitalized cost is amortized over the useful life of the related asset. Upon settlement of the liability, the Company may incur a gain or loss. As at September 30, 2010, the Company does not have any asset retirement obligations.

Impairment of Long-lived Assets

The Company has adopted the recommendations of CICA Handbook Section 3063 "Impairment of Long-lived Assets" and abstract EIC 174, "Mining Exploration Costs" ("EIC 174") of the Emerging Issues Committee on a prospective basis. Section 3063 requires that long-lived assets and intangibles to be held and used by the Company be reviewed for possible impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If changes in circumstance indicate that the carrying amount of an asset that an entity expects to hold and use may not be recoverable, future cash flows expected to result from the use of the asset and its disposition must be estimated.

EIC 174 provides that an enterprise that is in the development stage with initially capitalized exploration costs but has not established mineral reserves objectively and, therefore, does not have a basis for preparing a projection of the estimated future net cash flow from the property, is not obliged to conclude that the capitalized costs have been impaired. However, such an enterprise should consider whether a subsequent write-down of capitalized exploration costs related to mining properties is required.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Principles of Consolidation

The consolidated financial statements contained herein include the accounts of Western Lithium USA Corporation and its wholly-owned USA subsidiary, Western Lithium Corporation. All inter-company transactions and balances have been eliminated.

Cash and Cash Equivalents

Cash consists of cash in the bank and highly-liquid short-term investment with an original maturity of less than three months, which, in opinion of management, is subject to an insignificant risk of changes in value. As at September 30, 2010, the Company's cash equivalents are invested in term deposits with the annual interest rates in the range of 0.1% to 0.85% (September 30, 2009 – 0.1% to 0.4%).

Income Taxes

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

Foreign Currency Translation

The Company's activities and those of its subsidiaries denominated in currencies other than Canadian dollars are translated as integrated operations using the temporal method. This method translates monetary balances at the rate of exchange at the balance sheet date, non-monetary balances at historic exchange rates and revenues and expense items at exchange rates in effect when incurred. Gains or losses resulting from changes in exchange rates are included in the determination of income or loss.

Financial Instruments

All financial instruments are classified into one of five categories: held-for-trading, held-to-maturity, loans and receivables, available-for-sale financial assets or other financial liabilities. All financial instruments are measured in the balance sheet at fair value initially. Subsequent measurement and changes in fair value will depend on their initial classification. Held-for-trading financial assets and liabilities are measured at fair value and changes in fair value are recognized into net income. Available-for-sale financial instruments are measured at fair value with changes in fair value recorded in other comprehensive income. Loans and receivables, held-to-maturity investments and other financial liabilities are measured at amortized cost.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

The Company does not use derivative instruments or hedges to manage risks. Transaction costs related to all financial instruments will be expensed in the period incurred.

Cash and cash equivalents have been designated as held-for-trading, receivables have been designated as loans and receivables and accounts payable and accrued liabilities designated as other financial liabilities. The Company has elected to use settlement date accounting on any regular way contracts.

Loss per Share

Loss per share is calculated based on the weighted average number of common shares issued and outstanding during the period. The Company uses the treasury stock method to calculate the dilutive effect of options, warrants, and similar instruments. Under this method, the dilutive effect on earnings per share is calculated presuming the exercise of outstanding options, warrants, and other similar instruments. It is assumed that the proceeds of such exercise would be used to repurchase common shares at the average market price during the period. However, in periods when a loss is incurred, the effect of potential issuances of shares under options and warrants would be anti-dilutive, and, therefore, basic and diluted losses per share are the same. Information regarding securities that could potentially dilute basic earnings per share in the future is presented in Note 4.

Stock - Based Compensation

The Company accounts for stock options granted to directors, officers, employees and non-employees using the fair value method of accounting. Accordingly, the fair value of the options at the date of the grant is determined using the Black-Scholes option pricing model and stock-based compensation is accrued and charged to operations, with an offsetting credit to contributed surplus, on a straight-line basis over the vesting periods. The fair value of stock options granted to non-employees is re-measured at the earlier of each financial reporting or vesting date, and any adjustment is charged or credited to operations upon re-measurement. If and when the stock options are exercised, the applicable amounts of contributed surplus are transferred to share capital. The Company has not incorporated an estimated forfeiture rate for stock options that will not vest; rather the Company accounts for actual forfeitures as they occur.

Share Issue Costs

Commissions paid to underwriters and other related share issue costs, such as legal, auditing and printing that are directly related to the raising of share capital financing are charged directly to share capital. Costs related to shares not yet issued are recorded as deferred share issue costs. These costs will be deferred until the shares to which the costs relate have been issued, at which time the deferred share issue costs will be charged against share capital. If a financing is not completed in a reasonable period of time or is abandoned, the related deferred costs are charged to operations.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Valuation of Equity Units Issued in Private Placements

The Company has adopted a residual value method with respect to the measurement of shares and warrants issued as private placement units. The residual value method first allocates value to the more easily measurable component based on fair value and then the residual value, if any, to the less easily measurable component.

The fair value of the common shares issued in the private placements was determined to be the more easily measurable component and were valued at their fair value, as determined by the closing quoted bid price on the announcement date. The balance, if any, was allocated to the attached warrants.

New Accounting Policies and Standards

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

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

Level 1 quoted prices in active markets for identical assets or liabilities. Level 2 inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices). Level 3 inputs for the asset or liability that are not based on observable market data (unobservable inputs). Level 3 instruments include longer-term transactions, transactions in less active markets or transactions at locations for which pricing information is not available. In these instances, internally developed methodologies are used to determine fair value. The Company adopted this amended standard for the year ended September 30, 2010.

Issued but not Adopted Primary Sources of GAAP

Business Combinations, Consolidated Financial Statements and Non-Controlling Interests

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2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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")

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3. MINERAL PROPERTIES AND DEFERRED COSTS

Kings Valley Property, Nevada, USA

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

In consideration for the Exploration Right, the Company must pay to Western Uranium US$25,000 (paid), US$50,000 (paid) on the first anniversary of the effective date of the Lease Agreement, US$75,000 (paid on the second anniversary of the effective date of the Lease Agreement) on each of the second through fourth anniversaries of the effective date of the Lease Agreement, US$100,000 on each of the fifth through tenth anniversaries of the effective date of the Lease Agreement, US$150,000 on each of the eleventh through twentieth anniversaries of the effective date of the Lease Agreement and US$200,000 on each of the twenty-first through thirtieth anniversaries of the effective date of the Lease Agreement, for total payments of US$4,400,000.

(Expressed in Canadian Dollars)

3. MINERAL PROPERTIES AND DEFERRED COSTS (continued)

These payments are applied against any royalty payments. The Company has agreed to pay to Western Uranium a Net Smelter Returns Royalty of 1.5% and a Net Profits Royalty equal to 3.5%.

See note 12.

Kings Valley Property, Nevada, USA	Year ended September 30 2010	Year ended September 30 2009
Acquisition costs		
Balance, beginning of year	$ 230,191	$ 88,569
Additions	563,960	141,622
Balance, end of year	794,151	230,191
Deferred exploration costs		
Drilling	1,187,386	456,624
Engineering	566,333	148,665
Environmental	60,120	74,962
Geological and consulting	1,452,223	643,301
Mapping, supplies and other	133,400	100,027
Geochemistry, assays and sampling	398,305	56,503
Metallurgy and lab costs	932,790	1,302,494
Deposits	114,128	-
Total deferred exploration costs	4,844,685	2,782,576
Balance, beginning of year	5,151,699	2,369,123
Balance, end of year	9,996,384	5,151,699
Total mineral property costs	$ 10,790,535	$ 5,381,890

Included in the year ended September 30, 2009, metallurgy and lab costs are fees paid to a metallurgical lab for the testing and flow sheet development according to a contract entered in 2008. During 2009, the Company changed the scope of work of the lab and paid an early termination fee of $437,700 (US$375,000) to compensate the lab for the cost of initial set up and equipment. The termination fee was expensed to operations in 2009.

(Expressed in Canadian Dollars)

4. SHARE CAPITAL AND CONTRIBUTED SURPLUS

	Number	Amount, $	Contributed Surplus, $
Authorized			
Unlimited common shares without par value			
As at September 30, 2008	51,220,000	7,753,393	1,915,565
Private placement	11,000,000	5,500,000	-
Share issuance costs	-	(316,227)	-
Exercise of stock options	63,750	32,175	-
Fair value of stock options exercised	-	24,675	(24,675)
Exercise of share purchase warrants	800,000	480,000	-
Fair value of finders' and agents' warrants	-	(120,608)	120,608
Stock-based compensation	-	-	1,598,861
As at September 30, 2009	63,083,750	13,353,408	3,610,359
Private placement	17,476,000	16,602,200	-
Share issuance costs	-	(1,093,334)	-
Fair value of compensation options	-	(698,945)	698,945
Exercise of stock options	925,000	460,500	-
Fair value of stock options exercised	-	356,000	(356,000)
Exercise of share purchase warrants	860,000	516,000	-
Exercise of finders' and agents' warrants	483,670	291,487	-
Fair value of warrants exercised	-	123,324	(123,324)
Stock-based compensation	-	-	2,284,311
As at September 30, 2010	82,828,420	29,910,640	6,114,291

During the year ended September 30, 2010, the Company:

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

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

4. SHARE CAPITAL AND CONTRIBUTED SURPLUS (continued)

b) issued 925,000 common shares pursuant to the exercise of an equivalent number of stock options for gross proceeds of $460,500;

c) issued 860,000 common shares pursuant to the exercise of an equivalent number of share purchase warrants for gross proceeds of $516,000;

d) issued 483,670 common shares pursuant to the exercise of agent's and finders' warrants for gross proceeds of $291,487;

e) as at September 30, 2010, held in escrow 4,562,818 (September 30, 2009 – 9,125,636) shares pursuant to the Escrow Agreement dated June 19, 2008, (the "Agreement') between the Company, Computershare, and Western Uranium Corporation. According to the Agreement, 2,281,409 of these shares are released every 6 months. The next scheduled release is on January 16, 2011, and the last release is on July 16, 2011.

During the year ended September 30, 2009, the Company:

a) completed a brokered private placement for 11,000,000 units at a price of $0.50 per unit for gross proceeds of $5,500,000 (net $5,183,773). Each unit consists of one common share and one common share purchase warrant. Each warrant entitles the holder to purchase an additional common share for a period of 2 years at an exercise price of $0.60 per share.

   In connection with the private placement, the Company paid a cash commission and a corporate finance fee of $155,000 and issued 310,000 agents' warrants. In addition, the Company paid a finders' fee of $85,000 and issued 170,000 finders' warrants. Agents' and finders' warrants entitle the holder to purchase one common share for a price of $0.60 per share until May 6, 2010. The agents' and finders' warrants were valued using the Black-Scholes option pricing model. The warrants were valued at $0.25 per warrant for total value of $120,608 and have been recorded as share issue costs with a corresponding increase to contributed surplus. The fair value of warrants granted was estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions: risk-free interest rate of 0.84%, expected volatility of 110%, expected life 1 year, and expected dividend rate of 0%. The Company incurred an additional $76,227 of share issue costs in relation to the financing;

b) issued 800,000 common shares for proceeds of $480,000 pursuant to the exercise of common share purchase warrants;

c) issued 63,750 common shares for gross proceeds of $32,175 pursuant to the exercise of stock options;

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 year ended September 30, 2010 and 2009, is as follows:

(Expressed in Canadian Dollars)

4. SHARE CAPITAL AND CONTRIBUTED SURPLUS (continued)

	Number of Warrants	Weighted Average Exercise Price, $
Balance, September 30, 2008	-	-
Issued	11,480,000	0.60
Exercised	(800,000)	(0.60)
Balance, September 30, 2009	10,680,000	0.60
Issued	944,520	0.95
Issued	8,738,000	1.25
Exercised	(1,340,000)	(0.60)
Exercised	(3,670)	(0.95)
Balance, September 30, 2010	19,018,850	0.92

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

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

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. Under the plan, up to 16,565,684 common shares are reserved for the issuance of stock options. The exercise price of each option is based on the market price of the Company's common stock at the date of the grant. The options can be granted for a maximum term of 5 years.

A summary of the status of the Company's stock options as of September 30, 2010 and 2009 and changes during the years then ended is presented below:

	Number of Options	Weighted Average Exercise Price, $
Balance, outstanding September 30, 2008	5,825,000	0.50
Granted	2,155,000	0.47
Exercised	(63,750)	(0.51)
Balance, outstanding – September 30, 2009	7,916,250	0.50
Granted	2,610,000	1.26
Exercised	(925,000)	(0.50)
Expired	(15,000)	(0.54)
Balance, outstanding – September 30, 2010	9,586,250	0.70

(Expressed in Canadian Dollars)

4. SHARE CAPITAL AND CONTRIBUTED SURPLUS (continued)

During the year ended September 30, 2010 the Company granted a total of 2,610,000 stock options to its directors, employees and consultants. The fair values of stock options granted are estimated on the dates of grants using the Black-Scholes option pricing model with the following assumptions used for the grants made during the period:

	November 2, 2009	December 14, 2009	February 4, 2010	May 12, 2010	July 14, 2010
Number of options granted	1,300,000	200,000	285,000	100,000	725,000
Exercise price per share	$1.28	$1.43	$2.03	$1.09	$0.88
Risk-free interest rate	2.4%	2.31%	2.15%	2.69%	2.41%
Expected life	5 years	5 years	5 years	5 years	5 years
Annualized volatility	128%	122%	125%	118%	115%
Dividend rate	0.00%	0.00%	0.00%	0.00%	0.00%
Fair value per stock option granted	$1.10	$1.20	$1.39	$0.90	$0.72
Total fair value of stock options granted	$1,430,000	$240,000	$396,150	$90,000	$522,000

Stock-based compensation expense of $2,284,311 was charged to operations and credited to contributed surplus to reflect the fair value of stock options vested during the year ended September 30, 2010. At September 30, 2010, $632,457 of the fair value of stock options previously granted but not yet vested remains to be expensed in fiscal 2011 and $28,569 in 2012.

The fair value of stock options granted during the year ended September 30, 2009, was estimated using Black-Scholes option pricing model with the following assumptions:

	March 18, 2009	October 16, 2008
Number of options granted	555,000	1,600,000
Exercise price per share	$0.54	$0.45
Risk-free interest rate	1.43%	2.92%
Expected life	5 years	5 years
Annualized volatility	100%	100%
Dividend rate	0.00%	0.00%
Fair value per stock option granted	$0.44	$0.38
Total fair value of stock options granted	$244,200	$608,000

(Expressed in Canadian Dollars)

4. SHARE CAPITAL AND CONTRIBUTED SURPLUS (continued)

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

Number of Options Outstanding	Number of Options Exercisable	Exercise Price, $	Expiry Date
4,918,750	4,918,750	0.50	June 6, 2013
100,000	100,000	0.72	August 11, 2013
1,500,000	1,500,000	0.45	October 16, 2013
457,500	457,500	0.54	March 17, 2014
1,300,000	650,000	1.28	November 2, 2014
200,000	100,000	1.43	December 14, 2014
285,000	142,500	2.03	February 4, 2015
100,000	25,000	1.09	May 12, 2015
725,000	181,250	0.88	July 14, 2015
9,586,250	8,075,000		

5. RELATED PARTY TRANSACTIONS

During 2007, the Company entered into a Mining Lease and Option Agreement with Western Uranium Corporation, with which it has one common director (Note 3).

Included in consulting fees are $5,363 paid to a firm where a Director of the Company is a Partner and $52,998 (2009 - $Nil) paid to a Director of the Company for providing corporate consulting services.

As at September 30, 2010, accounts payable and accrued liabilities include $nil (September 30, 2009 - $25,756) payable to an officer of the Company for reimbursement of travel expenses.

The related party transactions incurred during the year 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

a) Mineral properties (Note 3);

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

(Expressed in Canadian Dollars)

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 each of fiscal 2010 and 2009.

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

	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

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

8. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

During the year ended September 30, 2010, the company had the following significant non-cash transactions:

a) included $426,136 (2009 - $620,394) of accounts payable related to the mineral property expenditures in investing activities;

b) recorded $698,945 (2009 - $120,608) as share issue costs and increase to contributed surplus which represents the fair value assigned to compensation warrants granted to finders and agents for financing incurred during the year;

c) allocated $356,000 (2009 - $24,675) to capital stock from contributed surplus for the fair value of stock options exercised;

d) allocated $123,324 (2009 - $Nil) to capital stock from contributed surplus for the fair value of agents' and finder's warrants exercised.

(Expressed in Canadian Dollars)

9. INCOME TAXES

A reconciliation of income taxes at Canadian statutory rates with reported taxes is as follows:

	2010 $	2009 $
Loss for the year	(5,247,978)	(3,422,479)
Expected income tax recovery	(1,515,354)	(1,031,193)
Item not deductible for income tax purposes	666,628	432,232
Change in tax rates and other	(119,921)	(11,609)
Change in valuation allowance	968,647	610,570
Future income tax (expense)/recovery	-	-

The significant components of the Company's future income tax assets are as follows:

	September 30, 2010 $	September 30, 2009 $
Future income tax assets/(liabilities)		
Mineral properties	135,188	-
Financing costs	301,761	116,736
Operating loss carryforward	1,473,786	825,352
	1,910,735	942,088
Valuation allowance for future income tax asset	(1,910,735)	(942,088)
	-	-

The Company has Canadian non-capital loss carryforwards of $4.7 million (2009 - $2 million) and US$1.1 million (2009 - $0.9 million) expiring between 2028 – 2030 which are available to reduce taxable income in Canada and the US respectively.

10. FINANCIAL INSTRUMENTS

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

a) Cash and cash equivalents are classified as *"Held-for-trading"*. The fair value of the Company's cash and cash equivalents are classified as Level 1 within the fair value hierarchy established by CICA section 3862.

b) Accounts receivable are classified as *"Loans and Receivables"*. The recorded values of receivables approximate their current fair value because of their nature and respective maturity dates or durations.

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

(Expressed in Canadian Dollars)

10. FINANCIAL INSTRUMENTS (continued)

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.

As at September 30, 2010 and 2009, the carrying amount of current financial assets and liabilities approximated the fair 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:

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

September 30, 2009	Level 1	Level 2	Level 3
Assets			
Cash and cash equivalents	$ 6,558,697	$ -	$ -

Financial Instruments Risk Exposure

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

Credit risk

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

The Company's receivables consist of Harmonized Sales Tax (HST) due from the Federal Government of Canada.

10. FINANCIAL INSTRUMENTS (continued)

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 have an available credit facility to meet its liquidity requirements in the short and long term. As the industry in which the Company operates is very capital intensive, the majority of the Company's spending is related to its capital programs. The Company prepares annual budgets, which are regularly monitored and updated as considered necessary.

As at September 30, 2010, the Company had cash and cash equivalents balance of $14,726,900 (2009 - $6,558,697) to settle current liabilities of $586,673 (2009 - $764,274). All of the Company's financial liabilities are classified as current and are anticipated to mature within this fiscal period. The Company intends to settle these with funds from its positive working capital position.

Market risk

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

i) Foreign currency risk

All current assets and liabilities of the Company, except cash and cash equivalents of $10,489,485, receivables of $35,134, prepaid expenses and deposits of $168,955, and accounts payable and accrued liabilities of $165,326, are denominated in US dollars and have been translated at a value of 1.029 Canadian dollars to $1.00 US dollar. If the US dollar appreciated by 1% in relation to Canadian dollar, the Company's net income would have increased by approximately $38,230.

10. FINANCIAL INSTRUMENTS (continued)

ii) Price risk

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

iii) Interest rate risk

The Company is exposed to interest rate risk to the extent that the cash maintained at the financial institutions is subject to a floating rate of interest. If the interest rate on the Company's cash maintained in the financial institutions decreased by 0.1%, the Company's loss would have increased by approximately $14,827. The interest rate risk on cash and cash equivalents is not considered significant.

11. 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 year ended September 30, 2010.

12. SUBSEQUENT EVENTS

Subsequent to September 30, 2010, the Company:

a) reached an agreement in principle for the purchase of a 100% interest in the Kings Valley mineral property claims, royalties and all related assets and data held by Western Energy Development Corporation ("WEDC"), a wholly-owned subsidiary of Western Uranium. The parties have agreed that the Company will pay to Western Uranium $6.85 million in shares as consideration for the transfer of the assets.

12. SUBSEQUENT EVENTS (continued)

As a result of this transaction, the existing lease and royalty arrangements between the two companies on the King's 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, will be eliminated. The Company will gain full control of the Kings Valley property claims, excluding the Albisu gold exploration target and a proposed royalty to be granted to Cameco Global Exploration II Ltd. ("Cameco") solely in respect of uranium. The agreement also eliminates the need for continuing future lease payments by the Company of US$4 million.

Details of the Transaction:

- the Company will purchase a 100% interest in the Kings Valley property claims, royalties and all related assets and data held by WEDC, except the Albisu gold property, located at the northern end of the Kings Valley property.

- the purchase price will be $6.85 million, to be paid through the issue by the Company of 5,855,000 common shares at a deemed price of $1.17.

- Western Uranium's Strategic Alliance with Cameco, related to the exploration and development of uranium properties, will be concluded as a related part of the transaction, for consideration of $2.5 million to be paid by Western Uranium to Cameco and the grant to Cameco of a 20% gross overriding royalty over the Kings Valley mineral property solely in respect of uranium.

- As part of the transaction, Western Uranium 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 favour of any arm's length third party change of control transaction proposed by the Company's management.

The transaction is subject to negotiation and settlement of definitive agreements, the termination of the Strategic Alliance Agreement, completion of due diligence by the Company and all requisite third party approvals, including stock exchange and securities approvals.

b) granted incentive stock options to an officer and employees of the company for the purchase of up to 100,000 common shares of the Company, at a price of $1.11 per share, for a five year period;

c) issued 945,736 common shares pursuant to the exercise of an equivalent number of share purchase warrants and agent's compensation options for proceed of $662,170 and 121,250 common shares pursuant to the exercise of an equivalent number of stock options for proceeds of $61,075.