# WESTERN LITHIUM CANADA CORPORATION
# MANAGEMENT'S DISCUSSION AND ANALYSIS
# FOR THE YEAR ENDED SEPTEMBER 30, 2008

## Background

The following discussion and analysis of financial position and results of operations, prepared as of January 19, 2008, should be read together with the Company's audited consolidated financial statements for the years ended September 30, 2008 and 2007 and related notes attached thereto. The financial statements are prepared in accordance with Canadian generally accepted accounting principles. All amounts are stated in Canadian dollars unless otherwise indicated.

## Forward Looking Statements

Certain of the statements made and information contained herein is "forward- looking information" within the meaning of the Ontario Securities Act. Forward-looking statements are subject to a variety of risks and uncertainties which could cause actual events or results to differ from those reflected in the forward-looking statements, including, without limitation, risks and uncertainties relating to foreign currency fluctuations; risks inherent in lithium exploration and development including environmental hazards, industrial accidents, unusual or unexpected geological formations, risks associated with the estimation of resources and reserves and the geology, the possibility that future exploration, development or exploration results will not be consistent with the Company's expectations; the potential for and effects of labour disputes or other unanticipated difficulties with or shortages of labour; the inherent uncertainty of future production and cost estimates and the potential for unexpected costs and expenses, commodity price fluctuations; uncertain political and economic environments; changes in laws or policies, delays or the inability to obtain necessary governmental permits; and other risks and uncertainties, including those described under Risk Factors in the Company's Information Circular that can be found on the SEDAR website. Forward-looking information is in addition based on various assumptions including, without limitation, the expectations and beliefs of management, the assumed long term price of lithium; that the Company can access financing, appropriate equipment and sufficient labour. Should one or more of these risks and uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those described in forward-looking statements. Accordingly, readers are advised not to place undue reliance on forward-looking statements.

## Company Overview

Western Lithium Canada 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 (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. 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, 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.

## Resource Properties

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, Kings Valley Lithium Project, is located in northwestern Nevada approximately 100 km north-northwest of Winnemucca and 40 km west-northwest of Orovada, Nevada. A non-compliant NI-43-101 historical resource produced by Chevron Resources estimated 24 billion pounds of lithium carbonate equivalent (LCE) is contained on the property. Mineralization is located in five pods with the southern most lens of mineralization, the PCD lens, located in close proximity to infrastructure which includes a paved state highway and power lines. During the past year WLC has completed 45 in-fill and confirmation drill holes on the PCD Lens, plus an additional 6 holes primarily for additional samples for metallurgical testing, undertaken bench scale metallurgical testing and has initiated additional metallurgical and process testing on both the bench and pilot scale levels.

One of the primary uses of lithium today is in lithium-ion batteries for cell phones, laptop computers and other electronic devices that require maximum storage capacity with minimum weight. The overall lithium carbonate market is projected to grow significantly over the next several years due to continued growth from the electronics industry and new growth from the hybrid/electric automotive industry.

The industry is currently characterized by a high degree of concentration of production with over two-thirds of world production coming from Chile and Australia. SQM of Chile, produced 27,800 tonnes of lithium carbonate in 2005 which was approximately 35% of world production.

**Kings Valley Lithium Project**

**Lease and option agreement**

The Company and Western Uranium entered into a mining lease and option to purchase agreement (the "Lease Agreement") , through their subsidiaries, Western Lithium USA (100% owned by Western Lithium Canada 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 on each of the second through fourth anniversaries of the effective date of the Lease Agreement, US$100,000 on each of the fifth through tenth anniversaries of the effective date of the Lease Agreement, US$150,000 on each of the eleventh through twentieth anniversaries of the effective date of the Lease Agreement and US$200,000 on each of the twenty-first through thirtieth anniversaries of the effective date of the Lease Agreement, for total payments of US$4,400,000. These payments are applied against any royalty payments. The Company has agreed to pay to Western Uranium a Net Smelter Returns Royalty of 1.5% and a Net Profits Royalty equal to 3.5%.

***Location***

The Company's lithium project is located in Humboldt County in northern Nevada, approximately 100 km north-northwest of Winnemucca and 40 km west-northwest of Orovada, Nevada. The area is sparsely populated ranching land and covers approximately 40,000 acres. Access to the project is via paved road (U.S. Highway 95) north from Winnemucca to Orovada and then west on paved state highway 293 to the project area. Local access is via numerous gravel and dirt roads.

Northern Nevada has a high desert climate with cold winters and hot summers. Elevations are 1,225 to 2,150 m (4,000 to 7,000 feet). Snow can fall from October to May, but typically melts quickly in the early fall or late spring. Nearby mining operations operate continuously through the winter. Vegetation consists of sagebrush and grasslands at all elevations.

Because of the large-scale mining in the Winnemucca area, local resources offer much of the infrastructure and support required by mining. The area is about 30 km north of the now depleted Sleeper gold mine and 100 km northwest of Twin Creeks, Turquoise Ridge, and Getchell gold mines. Several other gold and copper mines operate in the regional area providing an experienced work force and adequate support for mining operations. Electrical power is available as lines run approximately 0.5 kilometers to the south of one of the lens of mineralization. Roads are in generally good repair and are all season roads but may be closed for short periods due to extreme weather in the winter. Access to rail lines is provided in Winnemucca.

***43-101 Report***

A NI 43-101 compliant report on the project has been completed by AMEC E&C Services Limited (AMEC) in early 2009. The Stage I (PCD) lens contains Indicated Resources of 12.4 million tonnes grading 0.35% lithium, or the lithium carbonate equivalent (LCE) of 227,000 tonnes LCE and Inferred Resources of 10.3 million tonnes grading 0.36% lithium, for an equivalent of 198,000 tonnes LCE, both at a cut-off grade of 0.30% Lithium. This tonnage would potentially support Stage I production envisioned as 20,000 tonnes per year LCE at King's Valley.

In addition to this new resource estimate, the Kings Valley property hosts a non-compliance NI 43-101 resource of approximately 11 million tonnes of lithium carbonate based on exploration work by Chevron Resources during the 1970's and 1980's. The Chevron exploration identified five lithium bearing hectorite clay lenses. The Stage I (PCD) lens, was chosen by Western Lithium as the lens with the greatest first stage development potential due to its close proximity to road access and power. In 2007-2008, Western Lithium drilled 37 core and 8 RC holes at the Stage I (PCD) lens to confirm previous Chevron work and bring the resource to conformity with NI 43-101 standards, and to carry out further scoping studies. The new Stage I (PCD) resource estimate compares closely to the previous Chevron resource for the PCD lens. Further engineering work is now underway to determine scoping level economics, expected later this year, to process the lithium bearing clay and determine an optimal process flow sheet for development.

***Resource Modeling***

AMEC completed a review of lithium exploration work on the Kings Valley property in Humboldt County, Nevada and has developed a lithium mineral resource estimate for the Stage I (PCD) area that conforms to Canadian National Instrument 43-101, Standards of Disclosure for Mineral Projects of the Canadian Securities Administrators. Table 1 presents the mineral resource for the PCD area, Kings Valley property, at a base case cut-off grade of 0.20% Li. AMEC is of the opinion that exploration potential exists at the Kings Valley property to increase the resource with additional drilling. The resource estimate was made from a three-dimensional (3D) block model utilizing commercial mine planning software, (MineSight®). This is the first time an electronic mine planning software package has been used for Kings Valley lithium resource estimation.

Resources are summarized by Inferred Mineral Resource and Indicated Mineral Resource categories. Economic assumptions were used to generate an economic cone using Datamine® NPV Scheduler and all resources are within the cone.

The PCD lens is the southernmost mineralized lens on the property and appears to be the smallest of the known mineralized areas. The PCD lens comprises relatively unaltered volcaniclastic sandstone and claystones which are the dominant rock types. Lithium-rich beds are generally 1 to 10 m thick with some areas as much as 60 m thick. Colluvium as thick as 10 m covers much of the area. Recent drilling by Western Lithium shows that the average thickness of Li mineralization is much thicker than indicated by Chevron data because many of the Chevron holes stopped in mineralization.

***Environmental and Permitting Studies***

The Kings Valley property is located in Nevada which has a long history in the metals and industrial mineral mining industry. Approximately 50 major mines are currently in production in the state of Nevada, with several large scale gold mines in the surrounding region of King's Valley.

Western Lithium is working closely with the U.S. Bureau of Land Management and the Nevada Department of Environmental Protection towards the permitting of the Kings Valley property for mining and processing of the lithium bearing clays. The project supports the new energy independence policies coming from the new Washington administration and the development of new energy efficient electric/hybrid cars by domestic and international manufacturers.

**Table 1: Kings Valley Stage I (PCD Lens) Mineral Resources**

| Kings Valley PCD Area Indicated Mineral Resources, 0.20% Li Cutoff* | | | |
|---|---|---|---|
| Cutoff Li % | Tons | Li % | Contained lbs Li |
| 0.025 | 85,856,000 | 0.226 | 388,000,000 |
| 0.050 | 85,559,000 | 0.227 | 388,000,000 |
| 0.075 | 84,824,000 | 0.228 | 388,000,000 |
| 0.100 | 83,413,000 | 0.231 | 386,000,000 |
| 0.125 | 80,637,000 | 0.235 | 378,000,000 |
| 0.150 | 75,294,000 | 0.242 | 364,000,000 |
| 0.175 | 65,681,000 | 0.253 | 332,000,000 |
| 0.200 | 53,019,000 | 0.269 | 284,000,000 |
| 0.225 | 39,332,000 | 0.288 | 226,000,000 |
| 0.250 | 28,406,000 | 0.308 | 176,000,000 |
| 0.275 | 20,103,000 | 0.327 | 132,000,000 |
| 0.300 | 13,693,000 | 0.346 | 94,000,000 |
| 0.325 | 8,823,000 | 0.365 | 64,000,000 |
| 0.350 | 5,176,000 | 0.385 | 40,000,000 |
| 0.375 | 2,589,000 | 0.410 | 22,000,000 |
| Kings Valley PCD Area Inferred Mineral Resources, 0.20% Li Cutoff* | | | |
| Cutoff Li % | Tons | Li % | Contained lbs Li |
| 0.025 | 82,706,000 | 0.216 | 358,000,000 |
| 0.050 | 80,100,000 | 0.222 | 356,000,000 |
| 0.075 | 78,887,000 | 0.225 | 354,000,000 |
| 0.100 | 77,165,000 | 0.228 | 352,000,000 |
| 0.125 | 73,656,000 | 0.233 | 344,000,000 |
| 0.150 | 68,791,000 | 0.240 | 330,000,000 |
| 0.175 | 59,466,000 | 0.252 | 300,000,000 |
| 0.200 | 46,645,000 | 0.269 | 252,000,000 |
| 0.225 | 33,471,000 | 0.291 | 196,000,000 |
| 0.250 | 23,074,000 | 0.317 | 146,000,000 |
| 0.275 | 17,509,000 | 0.334 | 116,000,000 |
| 0.300 | 11,407,000 | 0.358 | 82,000,000 |
| 0.325 | 7,684,000 | 0.381 | 58,000,000 |
| 0.350 | 4,735,000 | 0.408 | 38,000,000 |
| 0.375 | 3,154,000 | 0.432 | 28,000,000 |

*Inferred tons within 700 ft. of nearest drill hole, Indicated tons 2 drill holes within 660 ft., 1 within 470 ft.;
Contained metal does not allow for mine and metallurgical recovery; 17.8 $ft^3$/ton tonnage factor used;
Economic assumptions for cutoff grade, $3.50 Lithium Carbonate USD/lb, 60% metallurgical recovery,
$45 USD/ton processing, $2 USD/ton Mining;
Rounding errors may exist

## ***Quality Assurance and Quality Control Program***

Quality assurance-quality control (QA-QC) by Western Lithium consists of standard samples, blank analyses, duplicate analyses and check assays. Duplicate analyses were performed on pulp samples at American Assay Laboratories ("AAL"). Those samples were prepared and analyzed in the same batch as the original sample. Check assays were performed two ways. A portion of the samples were sent to Hazen Research in Golden, Colorado for analysis and all samples were analyzed by both AA and ICP at AAL.

***Qualified Person***

Mark Hertel, P. Geo. and Ted Eggleston Ph.D., P.Geo. both Independent Qualified persons as defined by National Instrument 43-101 prepared this Technical Report, titled Kings Valley Lithium Project, Humboldt County, Nevada, USA NI 43-101 Technical Report, dated 15 December 2008, for the Kings Valley Lithium Property as of 15 December 2008.

***History***

Chevron Resources began exploration for uranium in Nevada in the McDermitt Caldera area in 1975. In September 1977, the U.S. Geological Survey alerted Chevron to the presence of anomalous concentrations of lithium associated with volcaniclastic moat sediments within the caldera. Based on the information from the USGS, Chevron analyzed drill cuttings from rotary percussion drill holes drilled in 1977 in the moat sediments for lithium. Hole number MJB-7-4 averaged one hundred and forty feet of 0.278% Li; MJB-7-5 averaged eighty five feet of 0.236% Li. These results confirmed the presence of significant lithium hosted by a massive, green claystone within the moat sediment section.

In 1979 as Chevron continued evaluating the uranium resource, 34 rotary percussion holes were drilled to evaluate selected tailings disposal sites for anticipated uranium production. Those holes were drilled to test the thickness of the clays, to obtain samples of the clay for engineering analysis, and to further investigate the lithium resource potential. Results were encouraging with respect to the level and consistency of the lithium contained by the clays. In 1980 and 1981, four core holes were drilled to obtain uncontaminated and undisturbed samples to more effectively determine lithium grades. After logging and analysis of the first two core holes, a portion of the core was sent to Chevron Research Company (CRC). CRC was charged with finding an economic process for extracting lithium from the clays.

During the period of 1982 through 1987, Chevron drilled an additional 223 holes composed of both core and conventional rotary on lithium targets and conducted extensive metallurgical testing of the hectorite ores to determine amenability of the ores to extraction of lithium.

In 1985, Chevron produced polygonal resource estimates of the lithium at McDermitt (Table 5). A cutoff grade of 0.25% Li, minimum thickness of 5 feet (1.52 m), and a minimum 9.0 ft Grade Thickness (GT) were used for the estimate. The tonnage factor used was 17.8 ft3/short ton (1.8 g/cm3). The lithium resource is hosted in five pods of mineralization that Chevron designated the North, North Central, South Central, and PCD lenses that contain 2.276 million short tons of lithium or an equivalent of 12.1 million tons lithium carbonate. This estimate is not current and is not considered NI 43-101 compliant and is included here for historical purposes only.

Summary of 1985 Chevron Resources at McDermitt Caldera (M st = million short tons)

| Lens | Number of Holes | Area (Acres) | Deposit Thickness (ft) | Deposit Thickness (m) | Waste Thickness (ft) | Waste Thickness (m) | Average Grade (%Li) | Deposit Tons (M st) | Li Tons (M st) |
|---|---|---|---|---|---|---|---|---|---|
| North | 21 | 1,364 | 59 | 18.0 | 64 | 19.5 | 0.31 | 196 | 0.602 |
| North Central | 10 | 372 | 66 | 20.1 | 41 | 12.5 | 0.34 | 60 | 0.207 |
| South Central | 7 | 230 | 53 | 16.2 | 23 | 7.0 | 0.37 | 37 | 0.134 |
| South | 52 | 2,432 | 59 | 18.0 | 43 | 13.1 | 0.33 | 353 | 1.171 |
| PCD | 6 | 332 | 59 | 18.0 | 56 | 17.1 | 0.34 | 48 | 0.162 |
| Total | 96 | 4,730 | | | | | 0.33 | 694 | 2.276 |

In 1991, Chevron, U.S.A., sold their interest in the claims to Cyprus Gold Exploration Corporation. In 1992, it appears that Cyprus Gold Exploration Corporation allowed the claims to lapse and provided much of the exploration data to one of the claim owners from which they had leased claims.

Western Energy Development Corp., the US subsidiary of Western Uranium Corporation, leased 33 claims in 2005 and the owner provided Western Energy access to the available Chevron data that included material on both the uranium and the lithium resources. Recognizing the potential significance of the lithium resource and the prospectivity the ground provided for hosting additional uranium resources, in 2005, Western Energy staked 1634 federal lode claims covering the prospective areas. These claims cover much the same area as the original Chevron Claims.

During the early part of 2007 Western Uranium recognized the potential market for an increased demand in lithium with the development of lithium battery powered vehicles and made the decision to spin the asset out into an independently controlled company; Western Lithium Corporation. During the later half of 2007 into 2008 Western Lithium began a number of studies and activities that included the drilling of 45 core, additional 6 holes drilled primarily for additional samples for metallurgical testing, and reverse circulation holes on the PCD lens to verify and provide infill data on a pod of mineralization that is hosted in close proximity to a paved road and power. In addition to the drilling, preliminary marketing studies were initiated during 2007 along with bench scale metallurgical testing. To assist in evaluating the potential economic viability of the project, a scoping study is in progress to assess capital and processing costs. A metallurgical program is contracted and planned, permitting is in progress for additional drilling, and preliminary engineering studies are all major activities the Company is undertaking in 2009.

## ***Geology***

The Kings Valley lithium project is located in the McDermitt Caldera, a well preserved Miocene collapse structure in north-western Nevada and southern Oregon. Because of the good exposures and preservation of the caldera complex, the area has been the focus of significant research activity over several decades by the U.S. Geological Survey (USGS). The USGS has produced a number of maps and other reports on the area. (Glanzman, et al, 1978; Rytuba and Glanzman, 1979).

Volcanic activity began approximately 27 million years ago with eruption of interlayered basaltic, andesitic, and dacitic flows and tuffs. The volcanic units were deposited on basement of Cretaceous granitic rocks with significant topographical relief. Explosive rhyolitic volcanism began approximately 18.7 million years ago and resulted in formation of a number of extensive ignimbrites (ash flow tuffs) and resultant, nested calderas. The rhyolites of the McDermitt caldera are very anomalous in Li and Hg and slightly anomalous in U when compared to average rhyolite. Li reaches 300 ppm in both ignimbrites and glassy tuffs, approximately six times greater than average rhyolite. Volcanic activity concluded by resurgence of the central part of the caldera, intrusion of rhyolite into the ring fracture zones around the caldera, and formation of a “moat” between the topographic wall of the caldera and resurgent dome in the center of the caldera. This moat then filled with volcaniclastic sedimentary rocks in a lacustrine environment. Hydrothermal alteration of the volcaniclastic sedimentary rocks or other processes produced hectorite and possibly other lithium-bearing minerals within the moat sediments.

Local Geological Setting

Western Lithium’s lithium project is divided into five general areas, the North Lens, North Central Lens, South Lens, South Central Lens, and PCD areas. The important rock type is a lithium-rich claystone that may be the product of intense hydrothermal alteration of volcaniclastic rocks or the product of clay formation in the bottom of an alkaline lake.

North Lens, North Central Lens

The North and North Central Lens cover an area approximately 10 km north-south and 5 km east-west. Lithologies within the moat sedimentary rocks consist of volcanic rocks (ash-flow tuffs or andesites) or volcanic breccia at the base of the sedimentary package and an alternating sequence of volcaniclastic sandstone and siltstone, clay and siltstone, clay and pumice, and olive gray lithium-rich claystones. Because these rocks were deposited in an active sedimentary basin, correlation of individual units over large distances may be somewhat difficult.

Lithium is enriched in all of the rock types, but is most significantly enriched in the olive-gray claystone which is dominated by hectorite. The mineralized sequence appears to be consistent from hole to hole and section to section and may crosscut the stratigraphic sequences. Significantly mineralized sections are as much as 67 m thick, but average on the order of 40-50 m thick.

All of the rocks in the moat sequence are intensely altered. Alteration is intimately associated with mineralization

## South Lens, South Central Lens

The South and South Central Lens cover an area approximately 11 km north-south and 4 km east-west. Lithologies are similar to those found in the north lens. Interbedded clay and siltstone, clay and pumice, volcaniclastic sandstone and siltstone, and the olive-gray lithium-rich claystone form much of the host stratigraphy. The mineralized horizon correlates reasonably well from hole to hole and section to section in the more strongly mineralized areas. Lithium is enriched in all rock types, but where the original volcaniclastic rocks are completely altered to clay, lithium grades are the highest.

## PCD Lens

The PCD lens is the southernmost mineralized lens in the area and appears to be the smallest of the known mineralized areas. The PCD lens comprises relatively unaltered volcaniclastic sandstone and siltstones which are the dominant rock types. Lithium-rich beds are generally 1 to 10 m thick but some areas mineralization exceeds more than 60 m. Colluvium as thick as about 10 m covers much of the area. Recent drilling by WLC shows that the average thickness of lithium mineralization is much thicker than indicated by Chevron data because many of the Chevron holes stopped in mineralization. A zone of mineralization greater than 50 m thick trends southwest-northeast across the area. Due to this zones proximity to infrastructure that includes a paved state highway and power lines that cross within a 0.4 kilometers of the southern edge of mineralization, most of the Company’s work over the past year has been focused on this lens.

## Mineralization

The primary mineral of interest is hectorite; a trioctahedral smectite clay, that contains variable amounts of lithium. The general formula is $Na_{0.3}(Mg, Li)_3Si_4O_{10}(F,OH)_2$ where Lithium substitutes for Magnesium in the lattice. Hectorite is associated with calcite ($CaCO_3$), dolomite ($CaMg(CO_3)_2$) and analcime (a zeolite group mineral ($NaAlSi_2O_6 \cdot (H_2O)$)). The clay in which the hectorite occurs is generally light- to dark-green or brown depending on the oxidation state of the iron in the clay (Glanzman et al, 1978). The clay that occurs in the tuffaceous sediments is chiefly montmorillonite. No other clays have been identified by whole rock X-ray diffraction. Hectorite and montmorillonite are both considered to be “bentonite” which expands significantly when it is exposed to water. Hectorite is used in applications where high temperatures are encountered because it is more stable at high temperatures than montmorillonite.

In the McDermitt Caldera complex, Glanzman et al (1989) state that hectorite is associated with three distinct zeolite alteration assemblages: relatively unaltered volcanic glass, clinoptilolite-feldspar, and analcime-K-feldspar. These zones correspond, in a general way, to the amount of lithium enrichment in the clays. Clay in the glassy sediments generally contains the least amount of lithium, clinoptilolite-feldspar contains an intermediate amount, and analcime-K-feldspar contains the highest concentrations. Analysis of unaltered rocks indicates an original average lithium concentration of 230 ppm (Rytuba and Glanzman, 1979). During zeolitization of the rocks, lithium was depleted in the alteration zones of erionite, clinoptilolite, and mordenite and concentrated in the alteration zones of analcime and K-feldspar.

Petrography indicates that K-feldspar pseudomorphically replaces analcime and that the rock was initially altered to analcime and then to K-feldspar. Pyrite is a ubiquitous gangue mineral and secondary quartz is common.

The age of the lithium deposits is likely about 15.7 Ma which is the date obtained for the mercury mineralization at the McDermitt Mine by Noble et al (1988).

## Summary

Five mineralized areas were identified by Chevron in the 1980’s. Mineralization in those areas consists of hectorite replacing volcaniclastic sedimentary rocks. The South Lens is the highest grade and possibly the most continuously mineralized area with the North Lens being the largest, but lowest grade deposit. North Central and South Central are small, high-grade lenses within the overall North and South Lenses respectively. PCD is one of the smallest areas and is locally covered by colluvium. PCD contains significant shallow, high-grade (>3,500 ppm Li) mineralization in zones that appear to correlate well from hole-to-hole and section-to-section. Assuming that Li can be extracted economically, the PCD area would likely be the best area to begin production because of the grade, low strip ratio, and proximity to infrastructure.

**Completion of Arrangement with Western Uranium Corporation**

On July 16, 2008 the Company closed its statutory plan of arrangement (the "Arrangement") with its parent company, Western Uranium Corporation.

As part of the Arrangement, the Company subdivided its share capital on a 35,000,000 for one basis. 19,734,361 of the Company's shares were distributed to Western Uranium shareholders of record as of June 19, 2008 receiving one Western Lithium share for every three Western Uranium shares held.

As part of the arrangement, Western Lithium also completed a brokered private placement (the "Private Placement") of 16,220,000 common shares of Western Lithium at a price of $0.50 per share for gross proceeds of $8,110,000. The Private Placement further diluted Western Uranium interest of 15,209,393 common shares in Western Lithium which represents approximately 29.8% of the issued and outstanding shares of Western Lithium as at September 30, 2008. On completion of the Arrangement, the Company is no longer controlled by Western Uranium.

As part of the Arrangement, Western Lithium entered into a loan agreement (the "Loan") with Western Uranium to fund the exploration program on its property and received $2,098,550 during the year ended September 30, 2008. The Loan bore interest of 5% per annum. The Company repaid the loan upon completion of the Private Placement and incurred interest expense of $66,448 on the loan amount.

**Basis of Presentation of Financial Information**

Western Lithium financial information reflects the consolidated financial position, statements of operations and deficit and cash flows of the related lithium exploration business of Western Uranium and Western Lithium Canada Corporation. The results of operations and deficit up to July 16, 2008, include a cumulative $703,571 allocation of Western Uranium general and administrative expenses. The allocation of general and administrative expenses was calculated on the basis of the ratio of expenditures incurred on the lithium claims located on Western Uranium's Kings Valley Property as compared to the expenditures incurred on all of Western Uranium properties during the period. The financial statements have been prepared under the continuity of interests' basis of accounting with balance sheet amounts based on the amounts recorded by Western Uranium. Management cautions readers of this financial information and the allocation of expenses may not be indicative of the actual expenses that would have been incurred had the Company been operating as a separate, stand-alone public company for the periods presented and do not reflect the Company's consolidated results of operations, financial position and cash flows had the Company been the stand-alone public company during the periods presented. The results of operations are not necessarily indicative of the operating results of future years.

**Selected Annual Financial Information**

The following selected consolidated financial information is derived from the audited consolidated financial statements and notes thereto. The information has been prepared in accordance with Canadian GAAP.

| | Year Ended September 30, 2008 $ | Year Ended September 30, 2007 $ |
|---|---|---|
| Total assets | 7,591,935 | 218,882 |
| Mineral properties and deferred costs | 2,457,692 | 218,882 |
| Working capital | 4,998,617 | - |
| Long term financial liabilities | - | - |
| Total revenues | - | - |
| General and administrative expenses | (2,277,034) | (63,038) |
| Net loss | (2,149,611) | (63,038) |
| Loss per common share – basic and diluted | (0.16) | - |

Total assets increased by $7,373,053 during 2008 primarily due to the net proceeds of $7,753,393 received from the private placement completed during 2008, offset by operating expenditures. Mineral properties and deferred costs increased by $2,238,810 due to exploration expenditures and acquisition costs on the Company's Kings Valley Property. General and adminstrative expenses increased by $2,213,996 mainly due to increase in non-cash stock-based compensation of $1,433,769, increase of $577,495 in general and administrative expenses allocated from Western Uranium under continuity of interest basis of accounting until July 16, 2008, the date of the spin-out of Western Lithium from Western Uranium and increase in other general and administrative costs. Increase in stock-based compensation expense is due to the stock options granted and vested during 2008. The Company recorded net loss of $2,149,611 compared to loss of $63,038 in 2007 mainly due to higher general and administrative expenses.

**Selected Quaterly Financial Information and Fourth Quarter**

| | Year end September 30, 2008 | | | |
|---|---|---|---|---|
| | Q4<br>$ | Q3<br>$ | Q2<br>$ | Q1<br>$ |
| Total assets | 7,591,935 | 2,293,360 | 2,239,152 | 2,822,672 |
| Mineral properties and deferred costs | 2,457,692 | 2,287,684 | 1,608,138 | 840,072 |
| Working capital | 4,998,617 | (2,285,216) | (1,571,861) | (16,799) |
| Long term financial liabilities | - | - | - | - |
| Total revenues | - | - | - | - |
| General and administrative expenses | (1,491,987) | (314,075) | (293,406) | (177,566) |
| Net loss | (1,364,564) | (314,075) | (293,406) | (177,566) |

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

- Increase in Q4 total assets and working capital is due to the net proceeds of $7,753,393 received from the private placement completed during 2008, offset by operating expenditures and repayment of loan from Western Uranium.

- Increase in Q1 total assets is due to the increase in mineral advances payable to Western Uranium Corporation for the exploration activities on the Company's Kings Valley property.

- Increases during the periods in mineral properties and deferred costs are due to the exploration program on the Company's Kings Valley property.

- Decrease in working capital during the periods is mainly due to the expenditures on the Company's Kings Valley Lithium Project.

- During Q1, Q2 and Q3, the Company's general and administrative expenses were calculated on the basis of the ratio of expenditures incurred on the lithium property located on Western Uranium's Kings Valley Property as compared to the expenditures incurred on all of Western Uranium's properties during the period. The increase in the general and administrative expenses is due to the increase in the expenditures on the Company's King Valley Lithium project compared to the total expenditures by Western Uranium Corporation. Q4 increase in general and administrative expenditures is mainly due to increase in non-cash stock-based compensation of $1,433,769.

- Net loss during Q4 includes $111,294 foreign exchange gain mainly on US$ denominated cash and cash equivalents.

**Results of Operations**

The Company generated a net loss of $2,149,611 ($0.16 per share) during the year ended September 30, 2008, compared to a loss of $63,038 during the year ended September 30, 2007. The significant components of the Company's general and administrative expenses and other income are discussed below.

The $2,086,573 increase in the net loss for the year was due to a number of factors of which $2,213,996 can be attributed to increase in general and administrative expenses, $127,423 increase in other income. Some of the significant increases are as follows: (a) audit and accounting increased by $85,383 during 2008 due to increases in audit fees mainly due to Western Lithium spin-out related work, increases in tax compliance and accounting fees, (b) consulting fees increased by $38,548 during 2008 mainly due to the fees paid to consultants in relation to the Western Lithium spin-out, (c) legal fees were $80,080 higher during 2008 due to the legal work incurred in connection with the spin-out from Western Uranium, (d) corporate development fees of $145,167 during the 2008 were paid to a recruiting firm for the executive search; (e) interest and bank charges of $67,300 consist primarily of the interest paid to Western Uranium on the loan used for exploration on Kings Valley property; (f) 2008 non-cash stock based compensation was $1,468,821 (2007 - $35,052) consisted of $256,827 stock-based compensation allocated from Western Uranium and $1,211,994 stock-based compensation for the stock options granted and vested during the year; (g) increase in other general and administrative expenses was mainly due to increase in the Company's operations and becoming an independent public company in Q4, 2008 .

Income from other items consists of the following:

- Interest income of $16,129 was recorded in 2008, due to the Company's cash balance in banking institutions from the financings completed in July 2008.

- Foreign exchange gain of $111,294 was recorded in 2008. The foreign exchange adjustment primarily is a result of Canadian/US dollar exchange fluctuations and its effect on the Company's US$ denominated funds on deposit and conversion of US$ denominated property expenditures of its US subsidiary upon consolidation.

**Liquidity and Capital Resources**

The Company's cash position at September 30, 2008 was $5,111,520, an increase of $5,111,520 from September 30, 2007. The increase is primarily due to the net proceeds of $7,753,393 received from the private placement completed during 2008, offset by operating and exploration expenditures and repayment of loan from Western Uranium.

As at the date of this MD&A, the Company's working capital is approximately $4,700,000. The Company considers that it has adequate resources to maintain its ongoing operations but currently may not have sufficient working capital to fund all of its planned exploration and development. The Company will continue to rely on successfully completing additional equity financing to further development of its properties. There can be no assurance that the Company will be successful in obtaining the required financing. The failure to obtain such financing could result in the loss of or substantial dilution of its interest in its properties.

In July 2008, Western Lithium completed a brokered private placement (the "Private Placement") of 16,220,000 common shares at a price of $0.50 per share for gross proceeds of $8,110,000. The agent for the offering and received a cash commission of $283,850 and a financial services fee of $25,000 plus GST. The Company incurred additional $47,757 in related share issue costs.

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 programs.

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

**Operating Cash Flow**

Cash used in operating activities during 2008 was $537,696, mainly as a result of operating activities and changes in non-cash working capital balances.

## Financing Activities

During 2008, the Company received $2,098,550 loan from Western Uranium Corporation, net proceeds of $7,753,393 from private placement and $383,706 funding provided by Western Uranium under continuity of interest basis of accounting. The Loan bore interest of 5% per annum. As security for the Loan, Western Lithium issued a promissory note to Western Uranium. The Company repaid the loan upon completion of the private placement and incurred an interest expense of $66,448 on the loan amount.

## Investing Activities

Investing activities required cash of $2,376,589 during 2008 mainly for exploration on the Company's Kings Valley property.

## Related Party Transactions

Included in corporate development for the year ended September 30, 2008 is US$114,000 paid to a company controlled by a Director for the executive search fees.

The Company entered into a Mining Lease and Option Agreement with Western Uranium Corporation, with which it has two common directors.

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.

## Off-balance Sheet Arrangements

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

## Commitments

The Company has engaged an outside laboratory to conduct the laboratory testing, flowsheet development and economic evaluation on the Company's Kings Valley property. If this engagement is terminated before May 8, 2010 (the "Termination Date") the Company will pay a penalty of US$25,000 per month for each month before the Termination date.

## 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, 2007. These accounting policies can have a significant impact of the financial performance and financial position of the Company.

## New accounting policies and standards

*Accounting changes*

Effective October 1, 2007, the Company implemented the new CICA Handbook Section 1506 "accounting changes". Under these new recommendations, voluntary changes in accounting policy are permitted only when they result in the financial statements providing reliable and more relevant information. This section requires changes in accounting policy to be applied retrospectively unless doing so is impractical, requires prior period errors to be corrected retrospectively and requires enhanced disclosures about the effects of change in accounting policies, estimates and error on the financial statements.

These recommendations also require the disclosure of new primary sources of generally accepted accounting principles that have been issued that the Company has not adopted because there are not yet in effect.

*Capital Disclosures and Financial Instruments – Disclosures and Presentation*

Effective October 1, 2007, the Company adopted three new presentation and disclosure standards that were issued by the Canadian Institute of Chartered Accountants: Handbook Section 1535, Capital Disclosures (“Section 1535”), Handbook Section 3862, Financial Instruments – Disclosures (“Section 3862”) and Handbook Section 3863, Financial Instruments – Presentation (“Section 3863”).

Section 1535 requires the disclosure of both quantitative and qualitative information that enables users of financial statements to evaluate (i) an entity’s objectives, policies and processes for managing capital; (ii) quantitative data about what the entity regards as capital; (iii) whether the entity has complied with any capital requirements; and (iv) if it has not complied, the consequences of such non-compliance.

Sections 3862 and 3863 replace Handbook Section 3861, Financial Instruments – Disclosure and Presentation, revising and enhancing its disclosure requirements and carrying forward unchanged its presentation requirements for financial instruments. Sections 3862 and 3863 place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks.

**Credit risk**

Financial instruments that potentially subject the Company to a significant concentration of credit risk consist primarily of cash. The Company limits its exposure to credit loss by placing its cash with major financial institutions.

**Interest rate risk**

The Company is exposed to interest rate risk to the extent that the cash maintained at the financial institutions is subject to a floating rate of interest. If the interest rate on the Company’s cash maintained in the financial institutions decreased by 1%, the Company’s net income would have decreased by approximately $51,115.

.

**Liquidity Risk**

All of the Company’s financial liabilities are classified as current and are anticipated to mature within the next fiscal period. The Company intends to settle these with funds from its positive working capital position.

**Fair Value**

The recorded value of the Company’s financial assets and liabilities approximate their fair values due to their demand nature and their short term to maturity.

**Capital Risk Management**

The Company manages its capital to ensure that it will be able to continue as a going concern while maximizing the return to stakeholders through a suitable debt and equity balance appropriate for an entity of the Company’s size and status.

The capital structure of the Company consists of equity attributable to common shareholders, comprised of issued capital, contributed surplus and deficit.

**International Financial Reporting Standards ("IFRS")**

In 2006, the Canadian Accounting Standards Board ("AcSB") published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with IFRS over an expected five year transitional period. In February 2008 the AcSB announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canada's own GAAP. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of January 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended September 30, 2011. While the Company has begun assessing the adoption of IFRS for 2011, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

**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 relate to the determination of environmental obligations and impairment of mineral properties and deferred costs. Actual results may differ from these estimates. By their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements of changes in such estimates in future periods could be significant.

**Mineral Properties and Deferred Costs**

Consistent with the Company's accounting policy disclosed in Note 2 of the annual consolidated financial statements, direct costs related to the acquisition and exploration of mineral properties held or controlled by the Company have been capitalized on an individual property basis. It is the Company's policy to expense any exploration associated costs not related to specific projects or properties. 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 or its carrying value has been impaired, a provision is made for any expected loss on the project or property. To date no impairment of long-lived assets was identified.

**Financial Instruments**

The Company's financial instruments consisting of cash and cash equivalents, mineral property advances payable to Western Uranium Corporation, accounts payable and accrued liabilities approximate their carrying values due to the short-term nature of those instruments.

**Risk Factors**

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 far as possible by selecting exploration areas on the basis of their recognized geological potential to host economic deposits.

*Metal Price Risk:* The Company's property has exposure to lithium. The price of lithium is affected by numerous factors beyond the control of the Company including producer hedging activities, the relative exchange rate of the U.S. dollar with other major currencies, demand, political and economic conditions and production levels. The price of this metal greatly affects the value of the Company and the potential value of its properties. The price of other metals and minerals that the Company may explore for all have similar price risk factors.

*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.

*Currency Risk:* Business is transacted by the Company in a number of currencies. Fluctuations in exchange rates may have a significant effect on the cash flows of the Company. Future changes in exchange rates could materially affect the Company's results in either a positive or negative direction.

*Environmental Risk:* The Company seeks to operate within environmental protection standards that meet or exceed existing requirements in the countries in which the Company operates. Present or future laws and regulations, however, may affect the Company's operations. Future environmental costs may increase due to changing requirements or costs associated with exploration and the developing, operating and closing of mines. Programs may also be delayed or prohibited in some areas. Although minimal at this time, site restoration costs are a component of exploration expenses.

*Title Risk*: 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.

*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. The focus of the Company is on areas in which the geological setting is well understood by management.

**Share Data Information**

As at the date of this MD&A, there were 51,220,000 common shares and 7,425,000 stock options outstanding.

159,375 of the Company's shares are held in escrow pursuant to the Escrow Agreement dated June 19, 2008 between the Company, Computershare and certain officers and directors of the Company. These shares scheduled for release on April 4, 2009.

11,407,045 of the Company's shares are held in escrow pursuant to the Escrow Agreement dated June 19, 2008 between the Company, Computershare and Western Uranium Corporation. 2,281,409 of these shares are released every 6 months with the next scheduled release on July 16, 2009 and the last release on July 16, 2011.

**Change in Management and Directors**

On October 20, 2008, the Company announced the appointment of Jay Chmelauskas as its new President and Dennis Bryan as Senior Vice President of Development. Concurrently, Pamela Klessig resigned as President and continues to serve as a Director and Member of the Audit Committee of Western Lithium. Ms. Klessig continues to serve as President, CEO and Director of Western Uranium Corporation, an affiliate and 29.8% shareholder of the Western Lithium.

**Investor Relations**

Jay Chmelauskas, President, coordinates investor relations' activities.

**Company Outlook**

The Company will continue with current development plan on its Kings Valley Lithium project and is positioning itself to become a reliable and scalable, United States based strategic supplier of battery grade lithium carbonate to support the electric/hybrid cars and mobile electronics of the future.

# WESTERN LITHIUM CANADA CORPORATION

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED
SEPTEMBER 30, 2008 and 2007

*(Expressed in Canadian Dollars)*

**CHARTERED**
**ACCOUNTANTS**
MacKay LLP

1100 – 1177 West Hastings Street
Vancouver, BC  V6E 4T5
Tel:  (604) 687-4511
Fax: (604) 687-5805
Toll Free: 1-800-351-0426
www.MacKayLLP.ca

**mackay.ca**

**Auditors' Report**

**To the Shareholders of**
**Western Lithium Canada Corporation**

We have audited the consolidated balance sheets of Western Lithium Canada Corporation as at September 30, 2008 and 2007, and the consolidated statements of operations 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 audit in accordance with Canadian generally accepted accounting 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, 2008 and 2007, 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 19, 2009** | **Chartered Accountants**

**WESTERN LITHIUM CANADA CORPORATION**
**CONSOLIDATED BALANCE SHEETS**
**AS AT SEPTEMBER 30, 2008 AND 2007**
(Expressed in Canadian Dollars)

| | 2008 | 2007 |
|---|---|---|
| **A S S E T S** | | |
| **CURRENT ASSETS** | | |
| Cash and cash equivalents | $ 5,111,520 | $ - |
| Receivables | 4,671 | - |
| Prepaid expenses and deposits | 18,052 | - |
| | 5,134,243 | - |
| **MINERAL PROPERTIES AND DEFERRED COSTS** (Note 4) | 2,457,692 | 218,882 |
| | $ 7,591,935 | $ 218,882 |
| **L I A B I L I T I E S** | | |
| **CURRENT LIABILITIES** | | |
| Accounts payable and accrued liabilities | $ 116,365 | $ - |
| Mineral property advances payable to Western Uranium Corporation (Note 3) | 19,261 | 218,882 |
| | 135,626 | 218,882 |
| **S H A R E H O L D E R S' E Q U I T Y** | | |
| **SHARE CAPITAL** (Note 5) | 7,753,393 | - |
| **CONTRIBUTION FROM WESTERN URANIUM CORPORATION** (Note 3) | 703,571 | 63,038 |
| **CONTRIBUTED SURPLUS** (Note 5) | 1,211,994 | - |
| **DEFICIT** | (2,212,649) | (63,038) |
| | 7,456,309 | - |
| | $ 7,591,935 | $ 218,882 |

**Nature of operations and going concern** (Note 1)
**Arrangement with Western Uranium Corporation** (Note 3)
**Commitments** (Notes 4 and 9)
**Subsequent events** (Notes 10)

**On behalf of the Board:**

*"Pamela Klessig"* Director *"Ed Flood"* Director

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

**WESTERN LITHIUM CANADA CORPORATION**
**CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT**
**FOR THE YEARS ENDED SEPTEMBER 30, 2008 AND 2007**
(Expressed in Canadian Dollars)

| | 2008 | 2007 |
|---|---|---|
| **EXPENSES** | | |
| Advertising | $ 20,522 | $ - |
| Audit and accounting | 87,598 | 2,215 |
| Consulting fees | 41,192 | 2,644 |
| Corporate development (Note 6) | 145,167 | - |
| Interest and bank charges | 67,300 | 509 |
| Investor relations | 19,940 | 334 |
| Legal fees | 81,537 | 1,457 |
| Office and miscellaneous | 64,253 | 4,419 |
| Regulatory and filing fees | 69,758 | 708 |
| Rent | 32,853 | 2,436 |
| Stock-based compensation (Note 5) | 1,468,821 | 35,052 |
| Telephone | 9,443 | 332 |
| Travel | 50,599 | 1,436 |
| Wages and benefits | 118,051 | 11,496 |
| **LOSS BEFORE OTHER ITEMS** | (2,277,034) | (63,038) |
| **OTHER ITEMS** | | |
| Foreign exchange gain on cash | 111,294 | - |
| Interest income | 16,129 | - |
| | 127,423 | - |
| **NET LOSS AND COMPREHENSIVE LOSS** | (2,149,611) | (63,038) |
| **DEFICIT – BEGINNING OF YEAR** | (63,038) | - |
| **DEFICIT – END OF YEAR** | $ (2,212,649) | $ (63,038) |
| **BASIC AND DILUTED LOSS PER SHARE** | $ (0.16) | N/A |
| **WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING – BASIC AND DILUTED** | 13,712,295 | N/A |

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

**WESTERN LITHIUM CANADA CORPORATION**
**CONSOLIDATED STATEMENTS OF CASH FLOWS**
**FOR THE YEARS ENDED SEPTEMBER 30, 2008 AND 2007**
(Expressed in Canadian Dollars)

| | 2008 | 2007 |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Loss for the year | $ (2,149,611) | $ (63,038) [1] |
| Items not affecting cash: | | |
| Stock-based compensation | 1,468,821 | 35,052 |
| Foreign exchange on cash | 111,294 | - |
| Changes in non-cash working capital items: | | |
| Increase in receivables | (4,671) | - |
| Increase in prepaid expenses and deposits | (18,052) | - |
| Increase in accounts payable and accrued liabilities | 54,523 | - |
| Net cash used in operating activities | (537,696) | (27,986) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Acquisition of mineral properties and deferred costs | (2,376,589) | (218,882) [1] |
| Net cash used in investing activities | (2,376,589) | (218,882) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| Mineral property advances payable to Western Uranium Corporation | - | 218,882 [1] |
| Funding provided by Western Uranium Corporation | 383,706 [1] | 27,986 [1] |
| Loans from Western Uranium Corporation | 2,098,550 | - |
| Repayment of loans to Western Uranium Corporation | (2,098,550) | - |
| Issuance of common shares | 8,110,000 | - |
| Share issue costs | (356,607) | - |
| Net cash provided by financing activities | 8,137,099 | 246,868 |
| **FOREIGN EXCHANGE ON CASH** | (111,294) | - |
| **CHANGE IN CASH AND CASH EQUIVALENTS DURING THE YEAR** | 5,111,520 | - |
| **CASH AND CASH EQUIVALENTS – BEGINNING OF YEAR** | - | - |
| **CASH AND CASH EQUIVALENTS – END OF YEAR** | $ 5,111,520 | $ - |
| **CASH AND CASH EQUIVALENTS IS COMPRISED OF:** | | |
| Cash | $ 1,827,223 | $ - |
| Term deposits | 3,284,297 | - |
| | $ 5,111,520 | $ - |

[1] These are non-cash items representing the allocation of general and administrative expenses under the continuity of interests basis of accounting described in note 2 and have been provided by Western Uranium Corporation as funding sources and uses of cash of Western Lithium Canada Corporation.

**Supplemental disclosure with respect to cash flows**

| | 2008 | 2007 |
|---|---|---|
| **Non-cash activities** | | |
| Expenditures on mineral properties | $ (65,197) | $ - |
| Increase in accounts payable related to mineral properties | 65,197 | - |
| | $ - | $ - |

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

## 1. NATURE OF OPERATIONS

Western Lithium Canada 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 northwestern Nevada. The Company was incorporated on November 27, 2007 under Business Corporations Act of the Province of British Columbia 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. 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 dependant on the existence of economically recoverable reserves, securing and maintaining title and beneficial interest in the properties, the ability of the Company to obtain the necessary financing to complete development, and future profitable production. The Company considers that it has adequate resources to maintain its core operations for the next year.

## 2. SIGNIFICANT ACCOUNTING POLICIES

### *Basis of Presentation*

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

Western Lithium financial statements reflect the consolidated financial position, statements of operations and deficit and cash flows of the related lithium exploration business of Western Uranium and Western Lithium Canada Corporation. The results of operations and deficit up to July 16, 2008, include a cumulative $703,571 allocation of Western Uranium general and administrative expenses. The allocation of general and administrative expenses was calculated on the basis of the ratio of expenditures incurred on the lithium claims located on Western Uranium's Kings Valley Property as compared to the expenditures incurred on all of Western Uranium properties during the period. The financial statements have been prepared under the continuity of interests basis of accounting with balance sheet amounts based on the amounts recorded by Western Uranium. Management cautions readers of these financial statements, that the allocation of expenses may not be indicative of the actual expenses that would have been incurred had the Company been operating as a separate, stand-alone public company for the periods presented and do not reflect the Company's consolidated results of operations, financial position and cash flows had the Company been the stand-alone public company during the periods presented. The results of operations are not necessarily indicative of the operating results of future years.

### *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 are recorded as a gain on option or disposition of mineral property.

***Principles of Consolidation***

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

***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, 2008 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 126, "Accounting by Mining Enterprises for Exploration Costs" ("EIC 126") 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.

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

***Impairment of Long-Lived Assets*** *(continued)*

EIC 126 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.

***Cash and Equivalents***

For purposes of reporting cash flows, the company considers cash and cash equivalents to include amounts held in banks and highly liquid investments with remaining maturities at point of purchase of 90 days or less. The Company places its cash and cash investments with institutions of high credit worthiness. As at September 30, 2008 the Company's cash equivalents are invested in term deposits with the annual interest rates in the range of 1.00% to 2.6%.

***Financial Instruments***

CICA Section 3855 requires that all financial assets initially measured at fair value, except those classified as held to maturity, and loans and receivables, must be subsequently measured at fair value. All financial liabilities must be subsequently measured at fair value when they are classified as held-for trading; otherwise, they are measured at amortized cost. Investments classified as available-for-sale are reported at fair market value (or marked to market) based on quoted market prices with unrealized gains or losses excluded from earnings and reported as other comprehensive income or loss. When a decline in the fair value of a financial asset is determined to be other-than-temporary, the cumulative loss is recognized in net income. Those instruments classified as held-for-trading, have gains or losses included in earnings in the period in which they arise.

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 mineral property advances payable to Western Uranium Corporation designated as other financial liabilities. The Company has elected to use settlement date accounting on any regular way contracts.

***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.

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

***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 fully diluted per share amounts whereby any proceeds from dilutive instruments are assumed to be used to purchase common shares at the average market price during the period. The effect of potential issuances of shares under options and warrants would be anti-dilutive and therefore basic and diluted losses per share are the same. Information regarding securities that could potentially dilute basic earnings per share in the future is presented in Note 5.

***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.

***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 remeasurement. 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.

***Currency risk***

All current assets and liabilities of the Company, except cash and cash equivalents of $1,326,681, receivables of $4,672, prepaid expenses of $18,052 and accounts payable and accrued liabilities of $37,272, are denominated in US dollars and have been translated at a value of $1.0642 Canadian dollars to $1.00 US dollar. If the US dollar appreciated by 1% in relation to Canadian dollar, the Company's loss would have decreased by approximately $27,636.

***Comparative Figures***

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

***Share Issue Costs***

Commissions paid to underwriters, and other related share issue costs, such as legal, auditing, and printing, on the issue of the Company's shares are charged directly to share capital.

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

***New accounting policies and standards***

*Accounting changes*

Effective October 1, 2007, the Company implemented the new CICA Handbook Section 1506 "accounting changes". Under these new recommendations, voluntary changes in accounting policy are permitted only when they result in the financial statements providing reliable and more relevant information. This section requires changes in accounting policy to be applied retrospectively unless doing so is impractical, requires prior period errors to be corrected retrospectively and requires enhanced disclosures about the effects of change in accounting policies, estimates and error on the financial statements.

These recommendations also require the disclosure of new primary sources of generally accepted accounting principles that have been issued that the Company has not adopted because there are not yet in effect.

*Capital Disclosures and Financial Instruments – Disclosures and Presentation*

Effective October 1, 2007, the Company adopted three new presentation and disclosure standards that were issued by the Canadian Institute of Chartered Accountants: Handbook Section 1535, Capital Disclosures ("Section 1535"), Handbook Section 3862, Financial Instruments – Disclosures ("Section 3862") and Handbook Section 3863, Financial Instruments – Presentation ("Section 3863").

Section 1535 requires the disclosure of both quantitative and qualitative information that enables users of financial statements to evaluate (i) an entity's objectives, policies and processes for managing capital; (ii) quantitative data about what the entity regards as capital; (iii) whether the entity has complied with any capital requirements; and (iv) if it has not complied, the consequences of such non-compliance.

Sections 3862 and 3863 replace Handbook Section 3861, Financial Instruments – Disclosure and Presentation, revising and enhancing its disclosure requirements and carrying forward unchanged its presentation requirements for financial instruments. Sections 3862 and 3863 place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks.

*Credit risk*

Financial instruments that potentially subject the Company to a significant concentration of credit risk consist primarily of cash. The Company limits its exposure to credit loss by placing its cash with major financial institutions.

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

*Interest rate risk*

The Company is exposed to interest rate risk to the extent that the cash maintained at the financial institutions is subject to a floating rate of interest. If the interest rate on the Company's cash maintained in the financial institutions decreased by 1%, the Company's net income would have decreased by approximately $51,115.

*Liquidity Risk*

All of the Company's financial liabilities are classified as current and are anticipated to mature within the next fiscal period. The Company intends to settle these with funds from its positive working capital position.

*Fair Value*

The recorded value of the Company's financial assets and liabilities approximate their fair values due to their demand nature and their short term to maturity.

*Capital Risk Management*

The Company manages its capital to ensure that it will be able to continue as a going concern while maximizing the return to stakeholders through a suitable debt and equity balance appropriate for an entity of the Company's size and status.

The capital structure of the Company consists of equity attributable to common shareholders, comprised of issued capital, contributed surplus, accumulated other comprehensive income and deficit.

*International Financial Reporting Standards ("IFRS")*

In 2006, the Canadian Accounting Standards Board ("AcSB") published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with IFRS over an expected five year transitional period. In February 2008 the AcSB announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canada's own GAAP. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of October 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended September 30, 2011. While the Company has begun assessing the adoption of IFRS for 2011, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

(Expressed in Canadian Dollars)

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

*Assessing going concern*

The Canadian Accounting Standards Board ("AcSB") amended CICA Handbook Section 1400, to include requirements for management to assess and disclose an entity's ability to continue as a going concern. This section applies to interim and annual financial statements relating to fiscal years beginning on or after January 1, 2008. This section relates to disclosures and will not have an impact on the Company's financial results.

## 3. COMPLETION OF ARRANGEMENT WITH WESTERN URANIUM CORPORATION

On July 16, 2008 the Company closed its statutory plan of arrangement (the "Arrangement") with its parent company, Western Uranium Corporation. All transaction costs with respect to the Arrangement were expensed during the period.

As part of the Arrangement, the Company subdivided its share capital on a 35,000,000 for one basis. 19,734,361 of the Company's shares were distributed to Western Uranium shareholders of record as of June 19, 2008 receiving one Western Lithium share for every three Western Uranium shares held.

As part of the arrangement, Western Lithium also completed a brokered private placement (the "Private Placement") of 16,220,000 common shares of Western Lithium at a price of $0.50 per share for gross proceeds of $8,110,000. The Private Placement further diluted Western Uranium interest of 15,209,393 common shares in Western Lithium which represents approximately 29.8% of the issued and outstanding shares of Western Lithium as at September 30, 2008. On completion of the Arrangement, the Company is no longer controlled by Western Uranium.

As part of the Arrangement, Western Lithium entered into a loan agreement (the "Loan") with Western Uranium to fund the exploration program on its property and received $2,098,550 during the year ended September 30, 2008. The Loan bore interest of 5% per annum. The Company repaid the loan upon completion of the Private Placement and incurred interest expense of $66,448 on the loan amount.

### *Mineral property advances payable to Western Uranium Corporation*

The amounts due to Western Uranium Corporation are for the reimbursement of exploration expenditures incurred by Western Uranium on Western Lithium property and allocation of shared office and administrative expenses. The amounts are non-interest bearing and have no specific terms of repayment, accordingly, their fair value can not be readily determined.

### *Contribution from Western Uranium Corporation*

The amounts of contribution from Western Uranium are non-cash items representing the allocation of general and administrative expenses under the continuity of interests basis of accounting described in note 2.

| | | |
|---|---|---|
| Balance as at September 30, 2007 | $ | 63,038 |
| Funding provided by Western Uranium to July 16, 2008 | | 640,533 |
| Balance as at September 30, 2008 | $ | 703,571 |

(Expressed in Canadian Dollars)

## 4. 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 USA (100% owned by Western Lithium Canada 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 on the first anniversary of the effective date of the Lease Agreement (note 10), US$75,000 on each of the second through fourth anniversaries of the effective date of the Lease Agreement, US$100,000 on each of the fifth through tenth anniversaries of the effective date of the Lease Agreement, US$150,000 on each of the eleventh through twentieth anniversaries of the effective date of the Lease Agreement and US$200,000 on each of the twenty-first through thirtieth anniversaries of the effective date of the Lease Agreement, for total payments of US$4,400,000. These payments are applied against any royalty payments. The 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%.

| **For the year ended September 30, 2008** | **Kings Valley Property** |
|---|---|
| **Acquisition costs** | |
| Balance, beginning of year | $ 14,799 |
| Additions | 73,770 |
| Balance, end of year | 88,569 |
| **Deferred exploration costs incurred during the year:** | |
| Drilling | 1,463,834 |
| Environmental | 68,659 |
| Geological and consulting | 276,261 |
| Mapping, supplies and other | 84,019 |
| Geochemistry, assays and sampling | 131,113 |
| Metallurgy and lab costs | 141,154 |
| Total deferred exploration costs | 2,165,040 |
| Balance, beginning of year | 204,083 |
| Balance, end of year | 2,369,123 |
| **Total mineral property costs** | $ 2,457,692 |

(Expressed in Canadian Dollars)

## 4. MINERAL PROPERTIES AND DEFERRED COSTS (continued)

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

## 5. SHARE CAPITAL AND CONTRIBUTED SURPLUS

| | Number | Amount, $ | Contributed Surplus, $ |
|---|---|---|---|
| Authorized | | | |
| Unlimited common shares without par value | | | |
| Issued | | | |
| As at November 27, 2007 (Incorporation) | 1 | - | - |
| Spin-off arrangement (Note 3) | 34,999,999 | - | - |
| Private placement | 16,220,000 | 8,110,000 | - |
| Share issuance costs | - | (356,607) | - |
| Stock-based compensation | - | - | 1,211,994 |
| As at September 30, 2008 | 51,220,000 | 7,753,393 | 1,211,994 |

Upon incorporation on November 27, 2007, the Company issued 1 share at nominal value to Western Uranium.

As part of the spin-out Arrangement (note 3), the Company subdivided its share capital on a 35,000,000 for one basis.

(Expressed in Canadian Dollars)

## 5. SHARE CAPITAL AND CONTRIBUTED SURPLUS (continued)

During the year ended September 30, 2008, the Company completed a brokered private placement (the "Private Placement") of 16,220,000 common shares at a price of $0.50 per share for gross proceeds of $8,110,000. The agent for the offering received a cash commission of $283,850 and a financial services fee of $25,000 plus GST. The Company incurred additional $47,757 in related share issue costs.

As at September 30, 2008, 318,750 shares are held in escrow pursuant to the Escrow Agreement dated June 19, 2008 between the Company, Computershare and certain officers and directors of the Company. 159,375 of these shares scheduled for release on October 4, 2008 and the remaining 159,375 share scheduled for release on April 4, 2009.

As at September 30, 2008, 13,688,454 shares are held in escrow pursuant to the Escrow Agreement dated June 19, 2008 between the Company, Computershare and Western Uranium Corporation. 2,281,409 of these shares are released every 6 months with the next scheduled release on January 16, 2009 and the last release on July 16, 2011.

### Stock options

The Company has a stock option plan in accordance with the policies on the TSX Venture Exchange whereby, from time to time at the discretion of the board of directors, stock options are granted to directors, officers and certain consultants. Under the plan up to 10,200,000 common shares are reserved for the issuance of stock options, being approximately 20% of the issued and outstanding share capital at the time of completion of the spin-out Arrangement with Western Uranium Corporation. 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.

During the year ended September 30, 2008 the Company granted a total of 5,825,000 incentive stock options to directors, officers and consultants to acquire 5,825,000 common shares.

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

| | 2008 |
|---|---|
| Risk-free interest rate | 3.12 - 3.22% |
| Expected life | 5 years |
| Annualized volatility | 100% |
| Dividend rate | 0.00% |

The weighted average fair value of stock options granted during the period was $0.38 per option. Option pricing models require the use of estimates and assumptions including the expected volatility. Changes in the underlying assumptions can materially affect the fair value estimates.

Stock-based compensation expense of $1,211,994 was charged to operations and credited to contributed surplus to reflect the fair value of stock options vested during the year. In addition, $256,827 (2007 - $35,052) of the stock option expense was allocated from Western Uranium during 2008. At September 30, 2008 $952,910 of the fair value of stock options previously granted but not yet vested remains to be expensed in fiscal 2009 and $63,596 in 2010.

(Expressed in Canadian Dollars)

## 5. SHARE CAPITAL AND CONTRIBUTED SURPLUS (continued)

A summary of the Company's outstanding options at September 30, 2008 and 2007, and the changes for the years ended on those dates is presented below:

| | Year Ended September 30, 2008 | | Year Ended September 30, 2007 | |
|---|---|---|---|---|
| | Number of Options | Weighted Average Exercise Price | Number of Options | Weighted Average Exercise Price |
| Balance, beginning of period | - | - | - | - |
| Granted | 5,825,000 | $ 0.50 | - | - |
| Exercised | - | - | - | - |
| Expired or cancelled | - | - | - | - |
| Balance, end of period | 5,825,000 | $ 0.50 | - | - |

As at September 30, 2008 the following incentive stock options are outstanding and exercisable:

| | Number of Options Outstanding | Number of Options Exercisable | Exercise Price | Expiry Date |
|---|---|---|---|---|
| | 5,725,000 | 1,431,250 | $ 0.50 | June 6, 2013 |
| | 100,000 | 13,250 | $ 0.72 | August 18, 2013 |
| Total | 5,825,000 | 1,444,500 | | |

**Warrants**

As part of the spin-out transaction from Western Uranium Corporation the Company issued 931,040 warrants at an exercise price $3.18 which expired unexercised on August 29, 2008.

## 6. RELATED PARTY TRANSACTIONS

Included in corporate development for the year ended September 30, 2008 is US$114,000 paid to a company controlled by a Director for the executive search fees.

The Company entered into a Mining Lease and Option Agreement with Western Uranium Corporation, with which it has two common directors (Note 4).

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.

(Expressed in Canadian Dollars)

## 7. INCOME TAXES

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

| | Year Ended September 30, 2008 **$** | Year Ended September 30, 2007 **$** |
|---|---|---|
| Loss for the year | (2,149,611) | (63,038) |
| Expected income tax recovery | (640,584) | (18,733) |
| Item not deductible for income tax purposes | 438,845 | - |
| Change in tax rates and other | (18,564) | (3,290) |
| Change in valuation allowance | 220,303 | 22,063 |
| Future income tax (expense)/recovery | - | - |

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

| | September 30, 2008 **$** | September 30, 2007 **$** |
|---|---|---|
| Future income tax assets/(liabilities) | | |
| Financing costs | 71,321 | - |
| Operating loss carryforward | 260,197 | 22,063 |
| | 331,518 | 22,063 |
| Valuation allowance for future income tax asset | (331,518) | (22,063) |
| | - | - |

The Company has Canadian non-capital loss carryforwards of $691,667 that may be available for tax purposes. These losses expire in 2028.

The Company has US non-capital loss carryforwards of US$231,381 that may be available for tax purposes. These losses expire between 2027 and 2028.

## 8. 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 for each of fiscal 2008 and 2007.

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

| | September 30, 2008 | | |
|---|---|---|---|
| | Canada $ | United States $ | Total $ |
| Current assets | 3,477,543 | 1,656,700 | 5,134,243 |
| Mineral properties and deferred costs | - | 2,457,692 | 2,457,692 |
| | 3,477,543 | 4,114,392 | 7,591,935 |

(Expressed in Canadian Dollars)

## 8. SEGMENTED INFORMATION (continued)

| | September 30, 2007 | | |
|---|---|---|---|
| | Canada<br>$ | United States<br>$ | Total<br>$ |
| Current assets | - | - | - |
| Mineral properties and deferred costs | - | 218,882 | 218,882 |
| | - | 218,882 | 218,882 |

## 9. COMMITMENTS

a) The Company has engaged an outside laboratory to conduct the laboratory testing, flowsheet development and economic evaluation on the Company's Kings Valley property. If this engagement is terminated before May 8, 2010 (the "Termination Date") the Company will pay a penalty of US$25,000 per month for each month before the Termination date;

b) Mineral properties (Note 4).

## 10. SUBSEQUENT EVENTS

Subsequent to September 30, 2008, the Company:

a) fulfilled its $50,000 option payment to Western Uranium Corporation for Kings Valley property (note 4);

b) granted 1,500,000 incentive stock options on October 16, 2008 to the newly appointed President and 100,000 incentive stock options to a consultant of the Company to acquire a combined 1,600,000 common shares at $0.45 per share. Of the 1,600,000 options, 1,100,000 will vest over a period of 18 months in accordance with the minimum vesting requirements of the Company's stock option plan. The remaining 500,000 options, which were granted to the President, will vest in two tranches, with the first tranche vesting 2 years from the date of grant and the second tranche vesting on the third year from the date of grant. The fair value of stock options granted is estimated at $0.38 per option for a total expense of $608,000 using the Black-Scholes Option Pricing Model with the following assumptions: risk-free interest rate of 2.92%, expected life of 5 years, annual volatility of 100% and dividend rate of 0.00%.