WESTERN LITHIUM USA CORPORATION

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2014

(Expressed in US Dollars)

Crowe MacKay LLP
Member Crowe Horwath International
1100 - 1177 West Hastings Street
Vancouver, BC V6E 4T5
+1.604.687.4511 Tel
+1.604.687.5805 Fax
+1.800.351.0426 Toll Free
www.crowemackay.ca

Independent Auditors' Report

To the Shareholders of
Western Lithium USA Corporation

We have audited the accompanying consolidated financial statements of Western Lithium USA Corporation and its subsidiaries, which comprise the consolidated statements of financial position as at September 30, 2014 and September 30, 2013, and the consolidated statements of comprehensive (loss)/income, changes in equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Western Lithium USA Corporation and its subsidiaries as at September 30, 2014 and September 30, 2013 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

"Crowe MacKay LLP"

Chartered Accountants
Vancouver, British Columbia
December 18, 2014

WESTERN LITHIUM USA CORPORATION
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Expressed in thousands of US Dollars)

	September 30, 2014 $	September 30, 2013 $
CURRENT ASSETS		
Cash	7,160	11,364
Receivables	158	16
Prepaid expenses and deposits (Note 7)	523	167
Inventories	124	-
	7,965	11,547
NON-CURRENT ASSETS		
Capital assets (Note 4)	15,933	3,711
Exploration and evaluation assets (Note 5)	456	-
Reclamation bond (Note 7)	-	310
	16,389	4,021
	24,354	15,568
CURRENT LIABILITIES		
Accounts payable and accrued liabilities (Note 10)	1,781	509
Current portion of long-term borrowing (Note 6)	111	105
Obligation under finance leases (Note 8)	23	-
	1,915	614
LONG-TERM LIABILITIES		
Long-term borrowing (Note 6)	1,105	1,216
Obligation under finance leases (Note 8)	81	-
Decommissioning provision (Note 7)	170	170
	1,356	1,386
SHARE CAPITAL	53,036	45,085
CONTRIBUTED SURPLUS	9,176	8,004
ACCUMULATED OTHER COMPREHENSIVE LOSS	(337)	(29)
DEFICIT	(40,792)	(39,492)
	21,083	13,568
	24,354	15,568

Approved for issuance on December 17, 2014

On behalf of the Board of Directors:

"Terry Krepiakevich" Director *"John Macken"* Director

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

WESTERN LITHIUM USA CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS)/INCOME
(Expressed in thousands of US Dollars, except per share amounts and shares in thousands)

	For the years ended September 30,	
	2014 **$**	**2013** **$**
EXPENSES		
Exploration expenditures (Notes 10 and 11)	2,179	2,515
Organoclay research and development (Note 10)	659	117
Investor relations	184	98
Marketing	283	26
Office and administration (Note 10)	546	514
Professional fees (Note 10)	308	333
Regulatory and filing fees (Note 10)	55	34
Salaries and benefits (Notes 10)	1,048	973
Stock-based compensation (Notes 9 and 10)	1,154	225
Travel and conferences	181	150
	6,597	4,985
LOSS BEFORE OTHER ITEMS	(6,597)	(4,985)
OTHER ITEMS		
Foreign exchange gain	98	226
Gain on royalty sale (Note 5)	5,088	5,177
Other income	73	26
Interest income	38	22
	5,297	5,451
NET (LOSS)/INCOME FOR THE YEAR	(1,300)	466
OTHER COMPREHENSIVE LOSS		
Unrealized loss on translation to reporting currency	(308)	(283)
TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR	(1,608)	183
(LOSS)/EARNINGS PER SHARE - BASIC	(0.01)	0.00
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING - BASIC	108,450	101,557
(LOSS)/EARNINGS PER SHARE - DILUTED	(0.01)	0.00
WEIGHTED AVERAGE NUMBER OF COMMON SHARES AND DILUTIVE SECURITIES OUTSTANDING	108,450	101,665

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

WESTERN LITHIUM USA CORPORATION
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(Expressed in thousands of US Dollars and shares in thousands)

	Number of Shares	Amount	Contributed surplus	Accumulated other comprehensive income/(loss)	Deficit	Shareholders' equity
		$	$	$	$	$
Authorized share capital:						
Unlimited common shares without par value						
Balance, September 30, 2012	**100,722**	**44,837**	**7,779**	**254**	**(39,958)**	**12,912**
Stock-based compensation	-	-	225	-	-	225
Shares issued for finder's fee	1,411	248	-	-	-	248
Net income and other comprehensive loss	-	-	-	(283)	466	183
Balance, September 30, 2013	**102,133**	**45,085**	**8,004**	**(29)**	**(39,492)**	**13,568**
Stock-based compensation	-	-	1,154	-	-	1,154
Shares issued on exercise of stock options (Note 9)	537	116	-	-	-	116
Fair value of options exercised	-	113	(113)	-	-	-
Shares issued for financing (Note 9)	15,870	8,459	-	-	-	8,459
Share issuance costs (Note 9)	-	(1,306)	324	-	-	(982)
Shares issued on exercise of warrants (Note 9)	695	376	-	-	-	376
Fair value of warrants exercised	-	193	(193)	-	-	-
Net loss and other comprehensive loss	-	-	-	(308)	(1,300)	(1,608)
Balance, September 30, 2014	**119,235**	**53,036**	**9,176**	**(337)**	**(40,792)**	**21,083**

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

WESTERN LITHIUM USA CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Expressed in thousands of US Dollars)

	For the years ended September 30,	
	2014 **$**	**2013** **$**
OPERATING ACTIVITIES		
Net (loss)/income for the year	(1,300)	466
Items not affecting cash:		
Gain on royalty sale (Note 5)	(5,088)	(5,177)
Stock-based compensation	1,154	225
Depreciation (Note 4)	22	9
Foreign exchange gain	(98)	(226)
Other income	(47)	-
Changes in non-cash working capital items:		
(Increase)/decrease in receivables	(142)	10
(Increase)/decrease in prepaid expenses and deposits	(198)	50
(Increase)/decrease in inventories	(40)	-
Increase/(decrease) in accounts payable and accrued liabilities	316	(1)
Net cash used in operating activities	(5,421)	(4,644)
INVESTING ACTIVITIES		
Additions to exploration and evaluation assets (Note 5)	(538)	(570)
Reclamation bond (Note 7)	310	-
Restricted cash	(150)	-
Additions to capital assets (Note 4)	(11,219)	(3,475)
Net cash used in investing activities	(11,597)	(4,045)
FINANCING ACTIVITIES		
Net proceeds from royalty sale (Note 5)	5,170	15,432
Net proceeds from financing	7,477	-
Proceeds from stock options exercise	116	-
Proceeds from warrants exercise	376	-
Finance lease repayments	(14)	-
Proceeds from long-term borrowing	-	1,339
Repayment of long-term borrowing	(105)	(18)
Net cash provided by financing activities	13,020	16,753
EFFECT OF FOREIGN EXCHANGE ON CASH	(206)	(57)
CHANGE IN CASH	(4,204)	8,007
CASH - BEGINNING OF YEAR	11,364	3,357
CASH - END OF YEAR	7,160	11,364

Supplemental disclosure with respect to cash flows (Note 13)

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

1. NATURE OF OPERATIONS

Western Lithium USA Corporation ("Western Lithium" or the "Company") is a Canadian based resource company focused on the development of its Kings Valley Property located in north-western Nevada. The Company was incorporated on November 27, 2007, under the Business Corporations Act of the Province of British Columbia and became a publicly traded company on the TSX Venture Exchange on July 16, 2008. Effective February 2, 2011, the Company commenced trading on the Toronto Stock Exchange ("TSX") under the symbol WLC.

The Company plans to manufacture and sell specialty organoclay products ("Hectatone™" products) to the oil and gas sector derived from its hectorite and other clays. In addition, the Company has completed a prefeasibility study to extract lithium from its clay deposit to produce lithium carbonate that is primarily intended for the lithium battery sector.

The Company's head office, principal address, and registered and records office is Suite 1100-355 Burrard Street, Vancouver, British Columbia, Canada, V6C 2G8.

To date, the Company has not generated significant revenues from operations and has relied on equity and other financings to fund operations. The Company's organoclay project is considered to be in the development stage and the Company is in the process of completing the construction of its organoclay plant. The recovery of the underlying value of the organoclay plant is dependent on the Company achieving profitable operations from the organoclay business. The underlying value of exploration and evaluation assets are entirely dependent on the existence of economically recoverable reserves, securing and maintaining title and beneficial interest in the properties, the ability of the Company to obtain the necessary financing to complete permitting, development, and future profitable operation. The Company considers that it has adequate resources to maintain its core operations for the next 12 months.

2. BASIS OF PREPARATION AND PRESENTATION

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The policies applied in the consolidated financial statements are presented in Note 3 and are based on IFRS issued and outstanding as at December 17, 2014, the date these consolidated financial statements were approved for issuance by the Board of Directors.

These consolidated financial statements are expressed in US dollars, the Company's presentation currency, and have been prepared on a historical cost basis, except for financial instruments that have been measured at fair value. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow information. The accounting policies set out in Note 3 have been applied consistently to all years presented in these consolidated financial statements as if the polices have always been in effect.

3. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies used in the preparation of these consolidated financial statements are described below.

Principles of Consolidation

The consolidated financial statements contained herein include the accounts of Western Lithium USA Corporation and its wholly-owned USA subsidiaries Western Lithium Corporation, KV Project LLC and Hectatone Inc. (formerly Kings Valley Clay Inc.). All inter-company transactions and balances have been eliminated.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Significant Accounting Estimates and Judgments

The preparation of these consolidated financial statements requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates. These consolidated financial statements include estimates which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the consolidated financial statements, and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and future periods if the revision affects both current and future periods. These estimates are based on historical experience, current and future economic conditions and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Critical Accounting Estimates

Significant assumptions about the future and other sources of estimation uncertainty that management has made at the end of the reporting period, that could result in a material adjustment to the carrying amounts of assets and liabilities, in the event that actual results differ from assumptions made, relate to, but are not limited to, the determination of environmental obligations, the recoverability of capital assets and product development, the amortized cost of the long-term borrowing calculated using the effective interest rate method, and the assumptions used in the determination of the fair value of stock-based compensation.

Critical Accounting Judgments

Critical accounting judgments are accounting policies that have been identified as being complex or involving subjective judgments or assessments, as follows:

The determination of the point in time that the technical feasibility and commercial viability of extracting a mineral resource are demonstrable. Management determined that the Kings Valley Property has not demonstrated these characteristics. All costs with respect to maintaining and permitting the hectorite mine and costs with respect to the lithium project were expensed as exploration costs.

The determination of the point in time that an intangible asset arising from development of an internal project should be recognized. Management determined that the organoclay product development project has not met the criteria for capitalization.

Determining whether a lease arrangement is classified as finance or operating requires judgment with respect to the fair value of the leased asset, the economic life of the lease, and the discount rate.

The determination of deferred tax assets and liabilities recorded in the consolidated financial statements.

In accordance with IAS 21 “The Effects of Changes in Foreign Exchange Rates”, management determined that the functional currency of Western Lithium USA Corporation is the Canadian dollar and the functional currency of Western Lithium Corporation, KV Project LLC and Hectatone Inc. is the US dollar, as these are the currencies of the primary economic environments in which the companies operate.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign Currency Translation

Functional and Presentation Currency

Items included in the financial statements of each of the group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The consolidated financial statements are presented in US dollars. Although the Company's functional currency is Canadian dollars, the functional currency of the subsidiaries is US dollars and the group presentation currency is US dollars.

Transactions and Balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the period-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

Exchange differences arising on the translation of monetary items or on settlement of monetary items are recognized in profit or loss in the statement of comprehensive (loss)/income in the period in which they arise.

Exchange differences arising on the translation of non-monetary items are recognized in other comprehensive income/(loss) in the statement of comprehensive (loss)/income to the extent that gains and losses arising on those non-monetary items are also recognized in other comprehensive income/(loss). Where the non-monetary gain or loss is recognized in profit or loss, the exchange component is also recognized in profit or loss.

Parent and Subsidiary Companies

The financial results and position of operations whose functional currency is different from the presentation currency are translated as follows:

- assets and liabilities are translated at period-end exchange rates prevailing at that reporting date; and
- income and expenses are translated at the average exchange rate during the transaction period.

Exchange differences are transferred directly to the statement of comprehensive (loss)/income and are reported as a separate component of shareholders' equity titled "Accumulated other comprehensive income/(loss)". These differences are recognized in the profit or loss in the period in which the operation is disposed of.

Provisions

Provisions are recognized when the Company has a present obligation, legal or constructive, as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and Cash Equivalents

Cash and cash equivalents consist of cash held with banks and highly liquid short-term investments in high interest saving accounts which can be withdrawn at any time, which, in the opinion of management, is subject to an insignificant risk of changes in value.

Exploration and Evaluation Assets

Exploration expenditures are expensed as incurred until an economic feasibility study has established the presence of proven and probable reserves and development of the project has commenced, at which time exploration and development expenditures incurred on the property thereafter are capitalized.

Costs incurred relating to the acquisition and claim maintenance of mineral properties, including option payments and annual fees to maintain the property in good standing, are capitalized and deferred by property until the project to which they relate is sold, abandoned, impaired or placed into production. After recognition, the Company uses the cost model for exploration and evaluation assets.

The Company assesses its capitalized mineral property costs for indications of impairment on a regular basis and when events and circumstances indicate a risk of impairment. A property is written down or written off when the Company determines that an impairment of value has occurred or when exploration results indicate that no further work is warranted.

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, or title may be affected by undetected defects.

Capital Assets

On initial recognition, capital assets are valued at cost. Cost includes the purchase price and directly attributable cost of acquisition or construction required to bring the asset to the location and condition necessary to be capable of operating in the manner intended by the Company, including appropriate borrowing costs. During the development and commissioning phase, pre-production expenditures, net of incidental revenue, are capitalized to the asset under construction and equipment.

Capital assets are subsequently measured at cost less accumulated depreciation, less any accumulated impairment losses, with the exception of land which is not depreciated.

When parts of an item of capital assets have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Capital assets that are currently in use are depreciated as following:

- Computer and telephone equipment - declining balance method at the 20% annual rate;
- Motor vehicle – declining balance method at the 20% annual rate;
- Laboratory testing equipment - declining balance method at the 20% annual rate;
- Ranch irrigation system – straight-line basis over the estimated useful life of 15 years;
- Ranch east well – straight-line basis over the estimated useful life of 10 years.

The above assets are grouped under "Other" in Note 4.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

***Capital Assets** (continued)*

The assets' residual values, useful, lives and depreciation methods are reviewed and adjusted if appropriate, at each financial year end.

The gain or loss arising on the disposal of an item of capital assets is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognized in profit and loss.

Impairment of Capital Assets

Capital assets are assessed for impairment at each reporting date. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds it recoverable amount. The recoverable amount is the higher of an asset's fair value less cost to sell and value in use. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). These are typically individual mines, plants or development projects.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but to an amount that does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

Leased Assets

Finance leases, which transfer to the Company substantially all the risks and rewards incidental to ownership of the leased item, are capitalized at the inception of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. The corresponding lease commitment is shown as a liability. Lease payments are apportioned between capital and interest. Interest charges are capitalized to asset under construction during the development and commissioning phase. The capital element reduces the balance owed to the lessor.

Inventories

Raw materials and supplies inventories are valued at the lower of cost and net realizable value. Cost includes acquisition, freight and other directly attributable costs.

Financial Instruments

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership.

All of the Company's financial instruments are classified into one of two categories: loans and receivables, or other financial liabilities. All financial instruments are measured in the balance sheet at fair value initially with the exception of certain related party transactions. Subsequent measurement and changes in fair value will depend on their initial classification. Loans and receivables and other financial liabilities are measured at amortized cost.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

***Financial Instruments** (continued)*

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

Cash and cash equivalents, restricted cash, and receivables have been designated as loans and receivables and are included in current assets due to their short term nature. Reclamation bonds are designated as loans and receivables and are included in non-current assets due to their long-term nature. The Company's other financial liabilities include accounts payable and accrued liabilities, long-term borrowing, obligations under finance leases, and decommissioning provision. Accounts payable, accrued liabilities and the current portions of long-term borrowing and obligation under finance leases that are due within twelve months from the financial statement reporting date are included in current liabilities due to their short-term nature. The remaining balances of long-term borrowing and obligation under finance leases are included in long-term liabilities due to their long-term nature.

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of assets requiring a substantial period of time to get ready for their intended use or sale are capitalized as part of the cost of that asset.

Provisions for Close Down and Restoration and for Environmental Cleanup Costs

Close down and restoration costs include dismantling and demolition of infrastructure and the removal of residual materials and remediation of disturbed areas. Estimated close down and restoration costs are provided for in the accounting period when the obligation arising from the related disturbance occurs, based on the net present value of estimated future costs. The cost estimates are updated during the life of the operation to reflect known development, such as revisions to cost estimates and to the estimated lives of the operations, and are subject to formal reviews at regular intervals.

The initial closure provision together with changes resulting from changes in estimated cash flows or discount rates are capitalized within capital assets. These costs are then depreciated over the lives of the asset to which they relate, typically using the units of production method. The amortization or unwinding of the discount applied in establishing the net present value of provisions is charged to the statement of comprehensive (loss)/income as a financing cost. Provision is made for the estimated present value of the costs of environmental cleanup obligations outstanding at the statement of financial position date. As at September 30, 2014, the Company recorded a provision of $170 (2013 – $170) for the close down and restoration and for environmental cleanup costs.

Income Taxes

Income tax expense comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity. Current tax expense is the expected tax payable on taxable income for the year, using tax rates enacted or substantively enacted at period end, adjusted for amendments to tax payable with regards to previous years.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

***Income Taxes** (continued)*

Deferred tax is recorded using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Temporary differences are not provided for the initial recognition of assets or liabilities that affect neither accounting or taxable loss, nor differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the statement of financial position date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. To the extent that the Company does not consider it probable that a deferred tax asset will be recovered, the deferred tax asset is not recorded.

Share Capital

Common shares are classified as equity. Incremental costs directly attributable to the issuance of shares are recognized as a deduction from equity.

Earnings/(Loss) per Share

Basic earnings/(loss) per share is computed by dividing net loss attributable to shareholders of the Company by the weighted average number of common shares outstanding during the reporting period.

The diluted loss per share calculation is based on the weighted average number of common shares outstanding during the period, plus the effects of dilutive common share equivalents. This method requires that the dilutive effect of outstanding options and warrants issued should be calculated using the treasury stock method. This method assumes that all common share equivalents have been exercised at the beginning of the period (or at the time of issuance, if later), and that the funds obtained thereby were used to purchase common shares of the Company at the average trading price of the common shares during the period, but only if dilutive.

Stock-Based Compensation

The Company grants stock options to buy common shares of the Company to directors, officers, employees and service providers. The fair value of stock options granted by the Company is treated as compensation costs in accordance with IFRS 2 - Share-based Payment. These costs are charged to the statement of comprehensive (loss)/income over the stock option vesting period.

Each tranche in an award is considered a separate award with its own vesting period and grant date fair value. Fair value of each tranche is measured at the date of grant using the Black-Scholes option pricing model. Compensation expense is recognized over the tranche's vesting period based on the number of awards expected to vest, by increasing contributed surplus. The number of awards expected to vest is reviewed at least annually with any impact being recognized immediately. Where equity instruments are granted to non-employees, they are recorded at the fair value of the goods or services received in the statement of comprehensive (loss)/income, unless they are related to the issuance of shares. Amounts related to the issuance of shares are recorded as a reduction of share capital. When the value of goods or services received in exchange for the share-based payment cannot be reliably estimated, the fair value is measured by use of a valuation model. The fair value of stock options granted to non-employees is re-measured at the earlier of each financial reporting or vesting date, and any adjustment is charged or credited to operations upon re-measurement.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Product Development

Expenditure on research activities related to the obtaining of new scientific or technical knowledge is expensed as incurred. Expenditure on development activities, whereby the research results or other knowledge is applied to accomplish new or improved products or processes, is recognized as an intangible asset in the statement of financial position, provided the product or process is technically and commercially feasible and the Company has sufficient resources to complete development, and is subsequently able to use or sell the intangible asset. The carrying amount includes the directly attributable expenditure, such as the cost of materials and services, costs of employee benefits, fees to register intellectual property rights and amortization of patents and licenses. In the statement of financial position, product development will be stated at cost less accumulated amortization and any impairment losses.

Valuation of Equity Units Issued in Private Placements

The Company has adopted a residual value method with respect to the measurement of shares and warrants issued as private placement units. The residual value method first allocates value to the more easily measurable component based on fair value and then the residual value, if any, to the less easily measurable component. The fair value of the common shares issued in the private placements was determined to be the more easily measurable component and were valued at their fair value, as determined by the closing quoted bid price on the announcement date. The balance, if any, was allocated to the attached warrants. The value attributed to the warrants is recorded as contributed surplus. If the warrants are exercised, the value attributable to the warrants is transferred to share capital.

New Accounting Standards Adopted

(i) IFRS 10, Consolidated Financial Statements, requires an entity to consolidate an investee when it has power over the investee, is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces SIC-12, Consolidation—Special Purpose Entities and parts of IAS 27, Separate Financial Statements. The adoption of IFRS 10 did not result in any change in the consolidation status of any of the Company's subsidiaries and investee.

(ii) IFRS 11, Joint Arrangements, requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation the venturer will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interests in joint ventures. IFRS 11 supersedes IAS 31, Interests in Joint Ventures, and SIC-13, Jointly Controlled Entities—Non-monetary Contributions by Venturers. The adoption of IFRS 11 did not have any impact on the consolidated financial statements for the current period or prior periods.

(iii) IFRS 12, Disclosure of Involvement with Other Entities, establishes disclosure requirements for interests in other entities, such as subsidiaries, joint arrangements, associates, and unconsolidated structured entities. The standard carries forward existing disclosures and also introduces significant additional disclosure that address the nature of, and risks associated with, an entity's interests in other entities. The additional disclosures are included in Note 10.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

New Accounting Standards Adopted *(continued)*

(iv) IFRS 13, Fair Value Measurement, is a comprehensive standard for fair value measurement and disclosure for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and does not always reflect a clear measurement basis or consistent disclosures. The adoption of IFRS 13 did not result in any significant changes to the Company's accounting or in the disclosure in its consolidated financial statements.

(v) IFRIC 20, Stripping Costs, sets out the accounting for overburden waste removal (stripping) costs in the production phase of a mine. Stripping activity may create two types of benefit: i) inventory produced and ii) improved access to ore. Stripping costs associated with the former should be accounted for as a current production cost in accordance with IAS 2, Inventories. The latter should be accounted for as an addition to or enhancement of an existing asset. The adoption of IFRIC 20 did not have an impact on the Company's consolidated financial statements.

(vi) There have been amendments to existing standards, including IAS 27, Separate Financial Statements, and IAS 28, Investments in Associates and Joint Ventures. The amendments to these standards did not impact the Company's consolidated financial statements.

Accounting Standards Issued but not yet Applied

(i) IFRS 9, Financial Instruments, was issued in November 2009 and addresses classification and measurement of financial assets. It replaces the multiple category and measurement models in IAS 39 for debt instruments with a new mixed measurement model having only two categories: amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments. Such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income. Where equity instruments are measured at fair value through other comprehensive income, dividends are recognized in profit or loss to the extent that they do not clearly represent a return of investment; however, other gains and losses (including impairments) associated with such instruments remain in accumulated comprehensive income indefinitely.

Requirements for financial liabilities were added to IFRS 9 in October 2010 and they largely carried forward existing requirements in IAS 39, Financial Instruments – Recognition and Measurement, except that fair value changes due to credit risk for liabilities designated at fair value through profit and loss are generally recorded in other comprehensive income. The standard is effective for annual periods beginning on or after January 1, 2018.

(ii) IAS 32, Financial Instruments: Presentation provides clarification on the application of offsetting rules. These amendments are effective for annual periods beginning on or after January 1, 2014.

(iii) IAS 36 – Impairment of Assets. On May 29, 2013, the IASB made amendments to the disclosure requirements of IAS 36, requiring disclosure, in certain instances, of the recoverable amount of an asset or cash generating unit, and the basis for the determination of fair value less costs of disposal, when an impairment loss is recognized or when an impairment loss is subsequently reversed. These amendments are effective for annual periods beginning on or after January 1, 2014.

(Expressed in thousands of US dollars and shares in thousands, unless otherwise stated)

4. CAPITAL ASSETS

	Land	Buildings	Equipment and machinery	Asset under construction	Other	Total
	$	$	$	$	$	$
Cost						
As at September 30, 2012	-	-	-	-	38	38
Additions	329	1,289	615	1,409	46	3,688
As at September 30, 2013	329	1,289	615	1,409	84	3,726
Additions	20	500	3,717	7,760	251	12,248
Foreign exchange	-	-	-	-	(4)	(4)
As at September 30, 2014	349	1,789	4,332	9,169	331	15,970

	Land	Buildings	Equipment and machinery	Asset under construction	Other	Total
	$	$	$	$	$	$
Accumulated depreciation						
As at September 30, 2012	-	-	-	-	6	6
Depreciation for the year	-	-	-	-	9	9
As at September 30, 2013	-	-	-	-	15	15
Depreciation for the year	-	-	-	-	22	22
As at September 30, 2014	-	-	-	-	37	37

	Land	Buildings	Equipment and machinery	Asset under construction	Other	Total
	$	$	$	$	$	$
Net book value						
As at September 30, 2013	329	1,289	615	1,409	69	3,711
As at September 30, 2014	349	1,789	4,332	9,169	294	15,933

In July 2013, the Company purchased an industrial complex in the City of Fernley for the production site for its organoclay plant, where the Company plans to produce its line of Hectatone™ specialty products for the oil and gas industry. The property was purchased for $1,575 ($320 was allocated to land and $1,255 to buildings) of which $1,339 is financed by the seller with a ten-year promissory note payable in monthly installments (Note 6). All of the interest incurred during the year ended September 30, 2014, and year ended September 30, 2013, was capitalized to land and buildings.

As at September 30, 2014, equipment and machinery includes $34 in deposits to vendors for the organoclay plant equipment and $61 in deposits to vendors for the lithium demonstration plant equipment ordered but not yet delivered to the locations of its intended use (Note 12).

(Expressed in thousands of US dollars and shares in thousands, unless otherwise stated)

5. EXPLORATION AND EVALUATION ASSETS

Kings Valley Property, Nevada, USA	Year ended September 30, 2014 $	Year Ended September 30, 2013 $
Acquisition costs		
Balance, beginning of year	-	9,267
Additions	538	740
Proceeds from royalty sale, net	(5,170)	(15,184)
Gain on royalty sale	5,088	5,177
Total exploration and evaluation assets	456	-

During the years ended September 30, 2014 and 2013, the Company received $22,000 in milestone payments from Orion Mine Finance (“Orion”, formerly RK Mine Finance (Master) Fund II L.P.) according to the Royalty Purchase Agreement entered into in February 2013 and amended in September 2013. The royalty is a gross royalty on all production from the Kings Valley Property. It consists of a gross revenue royalty of 8% until the $22,000 funding has been repaid. The royalty will then be reduced to 4% for the life of the project. The Company has the option at any time to reduce the royalty to 1.75% upon payment to Orion of $22,000. The net proceeds from the royalty sale were recorded as a reduction in the acquisition costs of Kings Valley Property and the balance was recorded as gain on royalty sale.

In February 2013, the Company received the first tranche of $11,000 and agreed to pay a finder’s fee in respect to the transaction equal to 6% of the proceeds raised. For the first funding tranche, the Company paid the finder’s fees of $429 in cash and issued 1,411 common shares with a fair value of $248. The gross proceeds of $11,000 were recorded as reduction in the carrying value of the Kings Valley Property. Associated transaction costs of $793 were recorded as an offsetting increase to the carrying value, resulting in a gain on royalty sale of $814.

In September 2013, the Company received $5,500 from Orion. The gross proceeds of $5,500 were recorded as reduction of the carrying value of the Kings Valley Property. Associated transaction costs of $523 were recorded as an offsetting increase to the carrying value, resulting in a gain on royalty sale of $4,363.

In February 2014, the Company received $1,500 advance from Orion under the existing royalty facility. The gross proceeds of $1,500 was recorded as reduction of the carrying value of the Kings Valley Property. Associated transaction costs of $90 were recorded as an offsetting increase to the carrying value, resulting in a gain on royalty sale of $1,328.

In April 2014, the Company received the remaining $4,000 from Orion. The gross proceeds of $4,000 was recorded as reduction of the carrying value of the Kings Valley Property. Associated transaction costs of $240 were recorded as an offsetting increase to the carrying value, resulting in gain on royalty sale of $3,760.

The Company has the following commitments in respect to certain claims on the Kings Valley Property:

- Mining Option Agreement with Uravada Inc. (“Uravada”) on certain mining claims for US$50 annual payment due on January 21 ($50 paid in each January of 2014, 2013 and 2012) in advance net smelter return royalty payments. The Company’s interest in these claims is subject to a 3% net smelter return royalty. There is a two mile area of influence around the Uravada claims lease;
- Mining Option Agreement to acquire four mining claims for $2 per year in advance net smelter return royalty payments due on November 15th ($2 paid subsequent to September 30, 2014). The Company’s interest in these claims is subject to a 1.5% net smelter return royalty;
- 20% royalty to Cameco Global Exploration II Ltd. solely in respect of uranium.

(Expressed in thousands of US dollars and shares in thousands, unless otherwise stated)

6. LONG-TERM BORROWING

In July 2013, the Company purchased an industrial complex in the City of Fernley to be the production site for its organoclay plant, where the Company plans to produce its line of Hectatone™ specialty products for the oil and gas industry. The property was purchased for $1,575, of which $236 was paid at the close of the transaction, and the remaining balance of $1,339 is financed by the seller with a ten-year promissory note payable in monthly instalments. The promissory note bears 5.25% annual interest for the first five years, and then at a reset interest rate of between 5.5% to 7.5% for the final five years, depending on the prime rate at the time of reset. The note is secured by the purchased property. The portion of long-term borrowing that is due within twelve months from the financial statement reporting date is included in current liabilities.

7. DECOMISSIONING PROVISION AND RECLAMATION BONDS

The Company estimated the fair value of the liability for decommissioning provision that arose as a result of exploration activities to be $170. The fair value of the liability was determined to be equal to the estimated remediation costs. As at September 30, 2014, the Company cannot make a reasonable estimate of the timing of the cash flows and the fair value of the future decommissioning provision cannot be reasonably determined.

In fiscal 2013, the Company reclassified previously capitalized non-interest bearing bonds with the Bureau of Land Management ("BLM") of $310 from Exploration and Evaluation Assets to Reclamation Bond. In April 2014, BLM released $310 cash held as reclamation bond to the Company in exchange for a bond guarantee provided by an insurance company. In May 2014, the reclamation bond and the bond guarantee was increased to $908 upon the issuance of Kings Valley Mine Project permit to the Company. The bond guarantee is renewed annually and secured by the Company's $150 restricted cash included in prepaid expenses and deposits.

8. FINANCE LEASES

The Company leases certain equipment for its clay plant under capital lease arrangements. The carrying amount of the leased assets on September 30, 2014, was $118.

In 2014, the Company paid $18 in capital lease payments and capitalized finance charges of $4. Future minimum lease payments relating to the Company's finance leases are as follows:

	Years ended September 30,		
	2015	2016 -2019	Total
	$	$	$
Capital lease payments	26	88	114
Less future finance charges	(3)	(7)	(10)
Present value of minimum lease payments	23	81	104

9. STOCK OPTIONS, WARRANTS, AND WEIGHTED AVERAGE NUMBER OF SHARES

The Company has a stock option plan in accordance with the policies of the TSX 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 20,427 common shares are reserved for the issuance of stock options. The exercise price of each option is based on the market price of the Company's common stock at the time of the grant. The options can be granted for a maximum term of 5 years.

(Expressed in thousands of US dollars and shares in thousands, unless otherwise stated)

9. STOCK OPTIONS, WARRANTS, AND WEIGHTED AVERAGE NUMBER OF SHARES (continued)

Stock options outstanding and exercisable as at September 30, 2014, are as follows:

Number of Options Outstanding	Number of Options Exercisable	Exercise Price, CDN$	Expiry Date
1,000	1,000	1.28	November 2, 2014[5]
200	200	1.43	December 14, 2014[5]
250	250	2.03	February 4, 2015
100	100	1.09	May 12, 2015
515	515	0.88	July 14, 2015[1]
90	90	1.11	December 16, 2015
1,000	1,000	1.33	January 26, 2016
320	320	1.12	March 17, 2016
200	200	1.22	March 31, 2016
1,080	1,080	0.54	September 16, 2016[2]
1,005	1,005	0.27	January 3, 2017[3]
2,240	2,240	0.16	August 30, 2017
4,360	2,088	0.27	October 21, 2018[4]
210	53	0.80	April 1, 2019
325	81	0.49	July 16, 2019
2,585	646	0.69	August 15, 2019
15,480	10,868		

Subsequent to September 30, 2014:
[1] 10 stock options were cancelled;
[2] 25 stock options were cancelled and 50 stock options exercised;
[3] 25 stock options were exercised;
[4] 8 stock options were exercised;
[5] expired unexercised.

A summary of changes to stock options outstanding:

	Number of Options	Weighted Average Exercise Price, CDN$
Balance, outstanding September 30, 2012	15,150	0.63
Expired	(5,017)	(0.53)
Balance, outstanding September 30, 2013	10,133	0.68
Granted	7,925	0.43
Exercised	(600)	0.29
Expired	(1,720)	(0.51)
Cancelled	(258)	(0.46)
Balance, outstanding September 30, 2014	15,480	0.59

During the year ended September 30, 2014, the Company granted a total of 7,925 stock options to its directors, employees, and consultants. The fair value of stock options granted are estimated on the dates of grants using the Black-Scholes Option Pricing Model with the following assumptions used for the grants made during the year:

(Expressed in thousands of US dollars and shares in thousands, unless otherwise stated)

9. STOCK OPTIONS, WARRANTS, AND WEIGHTED AVERAGE NUMBER OF SHARES (continued)

	October 21, 2013	April 1, 2014	July 16, 2014	August 15, 2014
Number of options granted *('000's)*	4,805	210	325	2,585
Exercise price per share, CDN$	$0.27	$0.80	$0.49	$0.69
Risk-free interest rate	1.68%	1.5%	1.4%	1.3%
Expected life	5 years	5 years	4 years	4 years
Annualized volatility	96%	87%	98%	78%
Dividend rate	0.00%	0.00%	0.00%	0.00%
Fair value per stock option granted, CDN$	$0.19	$0.55	$0.34	$0.34
Total fair value of stock options granted, CDN$	$905	$116	$111	$879

During the year ended September 30, 2014, 213 options were exercised under the cashless exercise provisions of the Company's stock option plan resulting in the issuance of 150 common shares of the Company. The cashless exercise feature allows the optionee, on exercise, to receive the number of common shares in the Company equivalent to the market value of the common shares underlying the number of options exercised less the exercise price, without payment of cash or any other consideration. In addition, the Company issued 387 common shares for the exercise of stock options during the year ended September 30, 2014. The weighted average share price on the date of the options exercise was CDN$0.29.

Stock-based compensation expense of $1,154 (2013 - $225) was charged to operations and credited to contributed surplus to reflect the fair value of stock options vested during the year ended September 30, 2014. At September 30, 2014, $612 of the fair value of stock options previously granted but not yet vested remains to be expensed in fiscal 2015 and $54 in fiscal 2016.

Weighted average number of commons shares and dilutive securities outstanding

	September 30, 2014	September 30, 2013
Weighted average number of common shares outstanding – (basic)	108,450	101,557
Effect of dilutive securities – stock options	-	108
Weighted average number of common shares outstanding - (diluted)	108,450	101,665

Warrants

In May 2014, the Company closed a bought deal offering. The offering consisted of 15,870 units of the Company (the "Units") at a price of CDN$0.58 per unit for aggregate gross proceeds of $8,459. Each unit consists of one common share of the Company and one-half of one common share purchase warrant. Each whole common share purchase warrant ("Warrant") entitles the holder thereof to acquire one share at a price of CDN$0.75 until May 16, 2016. In addition, the Company issued 1,032 brokers' warrants. Brokers' warrants entitle the holder to purchase one common share for a price of CDN$0.58 per share until May 16, 2016. The brokers' warrants were valued using the Black-Scholes option pricing model. The warrants were valued at $0.31 per warrant for total value of $324 and have been recorded as share issue costs with a corresponding increase to contributed surplus. The fair value of warrants granted was estimated on the date of grant using the Black-Scholes pricing model with the following assumptions: risk-free interest rate of 1.02%, expected volatility of 133%, expected life 1.5 years, share price on date of issuance of CDN$0.58, and expected dividend rate of 0%.

(Expressed in thousands of US dollars and shares in thousands, unless otherwise stated)

9. STOCK OPTIONS, WARRANTS, AND WEIGHTED AVERAGE NUMBER OF SHARES (continued)

A summary of the changes in the number of the Company's share purchase warrants is as follows:

	Number of Warrants *('000's)*	Weighted Average Exercise Price (*in CDN$*)	Expiry date
Balance, September 30, 2013 and 2012	-	-	
Issued	7,935	0.75	May 16, 2016
Exercised	(76)	(0.75)	May 16, 2016
Issued	1,032	0.58	May 16, 2016
Exercised	(619)	(0.58)	May 16, 2016
Balance, September 30, 2014	8,272		

10. RELATED PARTY TRANSACTIONS

The consolidated financial statements include the financial statements of Western Lithium USA Corp. and its significant subsidiaries listed in the following table:

		% Equity interest	
Name	Country of incorporation	As at September 30, 2014	As at September 30, 2013
Western Lithium Corporation	USA	100%	100%
KV Project LLC	USA	100%	100%
Hectatone Inc.[1]	USA	100%	100%

[1] Formerly Kings Valley Clay Inc. Kings Valley Clay Inc. changed name to Hectatone Inc. effective June 25, 2014.

The Company shares Vancouver, Canada, office space, equipment and office administrative services with Meryllion Resources Corp. ("Meryllion"). These services have been mainly provided through a private management company, WMM Services Corporation ("WMM"), equally owned by the Company and Meryllion, and related by virtue of a common director. Costs incurred by the management company are allocated between the Company and Meryllion based on time incurred and use of services and are charged at cost. As at September 30, 2013, WMM was equally owned by Kaizen Discovery Inc. ("Kaizen") and the Company. On December 4, 2013, Meryllion was spun-out from Kaizen and Kaizen's ownership in WMM was transferred to Meryllion.

The Company's related party transactions with WMM included in the following expense categories:

	For the years ended September 30,	
	2014	2013
	$	$
Salaries, benefits, directors fees	832	782
Salaries and benefits included in exploration expenditures	83	184
Salaries and benefits included in organoclay research and development	71	-
Office and administration	173	244
Reimbursement of capital assets purchased from third party	-	31
Regulatory and filing fees	19	-
Reimbursement of deposits paid to third party	12	14
Professional fees	-	17
Total related party transactions	1,190	1,272

(Expressed in thousands of US dollars and shares in thousands, unless otherwise stated)

10. RELATED PARTY TRANSACTIONS (continued)

The Company paid a working capital deposit of $110 to WMM in 2011.

The accounts payable and accrued liabilities of the Company include the following amounts due to WMM:

	As at September 30, 2014 $	As at September 30, 2013 $
Amounts due to WMM	60	82

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 to by the related parties. There were no contractual or other commitments from the related party transactions. The amounts due to related parties are unsecured, non-interest bearing and have no specific terms for repayment.

Compensation of Key Management

The Company pays its non-executive directors a fee of CDN$25 per year payable quarterly. Effective September 1, 2014, the Company pays an additional CDN$10 per year payable quarterly to the Company's Audit Committee Chair.

The remuneration of directors and members of key management included:

	For the years ended September 30,	
	2014 $	2013 $
Stock-based compensation	866	158
Salaries and benefits	495	646
Salaries and benefits included in exploration expenditures	246	439
Salaries and benefits included in capital assets	246	-
Directors' fees included in salaries and benefits	129	101
	1,982	1,344

	As at September 30,	
	2014 $	2013 $
Total due to directors	-	12

(Expressed in thousands of US dollars and shares in thousands, unless otherwise stated)

11. EXPLORATION EXPENDITURES

Kings Valley Property, Nevada, USA	Hectorite Mine	Lithium Project	**Total**
Exploration expenditures			
Engineering	(2)	698	**696**
Environmental	65	40	**105**
Geological and consulting (Note 10)	126	765	**891**
Supplies and other services	82	398	**480**
Geochemistry, assays and sampling	-	7	**7**
Total exploration expenditures	271	1,908	**2,179**

Kings Valley Property, Nevada, USA	Hectorite Mine	Lithium Project	Other	**Total**
Exploration expenditures				
Clay mining	64	-	-	**64**
Engineering	7	10	-	**17**
Environmental	137	43	-	**180**
Geological and consulting (Note 10)	1,152	755	15	**1,922**
Field supplies and other	175	92	-	**267**
Geochemistry, assays and sampling	-	52	-	**52**
Metallurgy and lab costs	-	13	-	**13**
Total exploration expenditures	1,535	965	15	**2,515**

12. COMMITMENTS

As at September 30, 2014, the Company had the following commitments that have not been disclosed elsewhere in these consolidated financial statements:

	As at September 30, 2014 $
Not later than one year	
Equipment purchases and construction	706
Rent of office space	195
Total	901
Later than one year, but not later than 5 years	
Rent of office space	203

(Expressed in thousands of US dollars and shares in thousands, unless otherwise stated)

13. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

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

	For the years ended September 30,	
	2014	2013
	$	$
Accounts payable and accrued liabilities related to capital assets	1,124	213
Assets acquired under finance leases	118	-
Accounts payable and accrued liabilities related to inventory	84	-
Decommissioning provision	-	170
Shares issued for finder's fee (Note 5)	-	248
Fair value of brokers' warrants issued for financing (Note 9)	324	-
Fair value of brokers' warrants exercised	193	-
Fair value of stock options exercised	113	-
Interest/finance charges paid	70	12
Income taxes paid	-	-

14. SEGMENTED INFORMATION

The Company operates in one business segment, being the acquisition and development of mineral properties. The Company's lithium project is in exploration stage and organoclay project is in the development stage, accordingly, the Company has no reportable segment revenues or operating results for the year ended September 30, 2014 and 2013.

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

	As at September 30, 2014			
	Canada	United States	Germany	Total
	$	$	$	$
Current assets	4,542	3,423	-	7,965
Exploration and evaluation assets	-	456	-	456
Capital assets	42	15,080	811	15,933
	4,584	18,959	811	24,354

	As at September 30, 2013		
	Canada	United States	Total
	$	$	$
Current assets	4,307	7,240	11,547
Capital assets	58	3,653	3,711
Reclamation bond	-	310	310
	4,365	11,203	15,568

(Expressed in thousands of US dollars and shares in thousands, unless otherwise stated)

15. INCOME TAXES

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

	2014 $	2013 $
(Loss)/Income for the year	(1,300)	466
Expected income tax (recovery)/expense	(338)	119
Items not deductible for income tax purposes	305	60
Effect of higher tax rate in foreign jurisdiction	127	217
Change in unrecognized deductible temporary differences and other	(94)	(396)
Deferred income tax (expense)/recovery	-	-

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

	September 30, 2014 $	September 30, 2013 $
Tax loss carry forwards	6,095	2,987
Exploration and evaluation assets	2,379	7,490
Financing costs	199	55
Reclamation bonds	-	(109)
Decommissioning provision	60	60
Capital assets	127	3
Unrecognized deferred tax assets	8,860	10,486

The Company has Canadian non-capital loss carryforwards of CDN$13,900 (2013 - $11,800) and in the US of approximately $8,200 (2013 - $12,500) expiring between 2028 – 2034 which are available to reduce taxable income in Canada and the US respectively.

16. FINANCIAL INSTRUMENTS

Financial instruments recorded at fair value on the consolidated statements of financial position are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

i) Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;

ii) Level 2 – Inputs other than quoted prices that are observable for assets or liabilities, either directly or indirectly; and

iii) Level 3 – Inputs for assets and liabilities that are not based on observable market data.

The fair value hierarchy requires the use of observable market inputs whenever such inputs exist. A financial instrument is classified to the lowest level of the hierarchy for which a significant input has been considered in measuring fair value. The Company did not have any financial instruments measured at fair value on the statement of financial position dates.

16. FINANCIAL INSTRUMENTS (continued)

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

Financial Instruments Risk Exposure

Credit Risk

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

Included in the receivables is value-added tax of $150 on purchases of equipment for the lithium demonstration plant in Germany. Value-added tax balances are recorded at their estimated recoverable amounts within current assets and reflect the Company's best estimate of their recoverability under existing tax rules in the respective jurisdictions. Management's assessment of recoverability involves judgments regarding classification on the consolidated statement of financial position and the probable outcomes of claimed deductions and/or disputes. The provisions and classifications made to date may be subject to change.

The Company's prepaid expenses and deposits consist of the $52 bank deposit for the Company's secured credit cards and other miscellaneous prepaid expenses and deposits that are subject to normal industry credit risk.

The Company's restricted cash of $150 is related to a security deposit for the bond amount guaranteed by a third party.

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

Liquidity Risk

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

As at September 30, 2014, the Company had a cash balance of $7,160 (September 30, 2013 - $11,364) to settle current liabilities of $1,915 (September 30, 2013 - $614). In addition, the Company has committed to pay $451 for its organoclay plant equipment purchases and construction costs and $255 for its lithium demonstration plant equipment purchases. The Company intends to settle these with funds from its positive working capital position.

(Expressed in thousands of US dollars and shares in thousands, unless otherwise stated)

16. FINANCIAL INSTRUMENTS (continued)

The following table summarizes the maturities of the Company's financial liabilities:

	Years ended September 30,			
	2015	2016	2017 and later	Total
	$	$	$	$
Accounts payable and accrued liabilities	1,781	-	-	1,781
Long-term borrowing[1]	172	172	1,178	1,522
Obligation under finance leases [1]	26	26	62	114
Decommissioning provision	-	-	170	170
Total	1,979	198	1,410	3,587

[1]Long-term borrowing and obligation under capital leases include principal and interest/finance charges payable.

Market Risk

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

i) Foreign Currency Risk

The Company incurs expenditures in Canadian dollars ("CDN$"), US dollars ("US$"), and Euros ("€") with the majority of the expenditures being incurred in US$ by the Company's subsidiaries. Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions, and from the translation of monetary assets and liabilities denominated in foreign currencies, are recognised in net income or loss.

On September 30, 2014, the Company used foreign exchange rate of CDN$1.12 to US$1.00 (2013 – CDN$1.03 to US$1.00) and foreign exchange rate €0.79 to US$1.00. If the US$ appreciated by 1% in relation to CDN$, the Company's net loss would have decreased by approximately $11. If the € appreciated by 1% to US$, the Company's net loss would decrease by approximately $13.

ii) Price Risk

The Company is exposed to price risk with respect to commodity prices. Commodity price risk is defined as the potential adverse impact on earnings and economic value due to commodity price movements and volatilities. The Company closely monitors commodity prices to determine the appropriate course of action to be taken by the Company. Price risk is not significant since the Company is not a producing entity.

ii) Interest Rate Risk

The Company is exposed to interest rate risk to the extent that the cash and cash equivalents maintained at the financial institutions is subject to a floating rate of interest. If the interest rate on the Company's cash and cash equivalents maintained in the financial institutions decreased by 0.1%, the Company's loss would have increased by approximately $7. The interest rate risk on cash is not considered significant.

The Company is also exposed to interest rate risk on its long-term borrowing. The promissory note bears interest of 5.25% for the first five years, and then at a reset rate of between 5.5% to 7.5% for the final five years, depending on the prime rate at the time of reset.

17. CAPITAL DISCLOSURE

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

In order to carry out the planned exploration and development of its project and pay for administrative costs, the Company will spend its existing working capital and raise additional amounts as needed and if available.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. There were no changes in the Company's approach to capital management during the year ended September 30, 2014. The Company is not subject to external covenants.

WESTERN LITHIUM USA CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2014

Background

This Management's Discussion and Analysis ("MD&A"), prepared as of December 17, 2014, should be read in conjunction with audited annual consolidated financial statements ("financial statements") and the notes thereto of Western Lithium USA Corporation ("Western Lithium", the "Company" or "WLC") for the year ended September 30, 2014, which have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board. Refer to Notes 2 and 3 of the audited annual consolidated financial statements for the year ended September 30, 2014, for disclosure of the Company's significant accounting policies.

Company Overview

Western Lithium is a Canadian-based resource company focused on the development of its Kings Valley Property (the "Kings Valley Property") located in northwestern Nevada. The Company has completed a prefeasibility study of the Stage 1 Lens of the Kings Valley Property examining the extraction of lithium from its clay deposit to produce lithium carbonate that is primarily intended for the lithium battery sector. In addition, the Company plans to sell to the oil and gas sector its specialty organophilic clay-based drilling additives ("Hectatone™" products), in which hectorite clay derived from the Kings Valley Property is expected to constitute a portion of the feedstock clay supplies for the business. The Company expects to deliver its first commercial product in January 2015.

The Company's head office is located at Suite 1100-355 Burrard Street, Vancouver, BC, Canada, V6C 2G8. The Company trades on the Toronto Stock Exchange under the symbol WLC and in the US on OTCQX under the symbol WLCDF. The Company operates in the United States through its wholly owned subsidiaries, Western Lithium Corporation and Hectatone Inc. Additional information relating to the Company is available on SEDAR at www.sedar.com.

Business Strategy

During the quarter ended March 31, 2014 Western Lithium made a production decision for its planned organoclay business. In early 2014, the Company received environmental approvals to extract hectorite clay from its Kings Valley Clay Property and has recently completed all safety inspections at its Fernley, Nevada, Hectatone™ organoclay plant and received its Business License on December 2, 2014, to enable the start of operations. The plant is expected to have a gradual ramp up in December and the Company expects to deliver its first commercial product in January 2015. The Company will purchase other clays including bentonite to make other competitive products. The Company estimates that a portion of sales will be hectorite-based. Western Lithium has determined that hectorite clay is an important mineral for the oil and gas sector to provide thermally stable gelling and lubricating mud when drilling in high pressure and high temperature ("HPHT") environments. Globally, the successful implementation of directional drilling technology has commercialized new ultra deep oil reserves and certain shale gas resources in HPHT environments that are emerging as major new energy sources for nations such as the USA. Western Lithium believes that its hectorite clay business will become a niche and critical business to support major new oil and gas discoveries made using HPHT drilling technology.

The Company is also advancing its lithium project to extract lithium from its clay at its Kings Valley Property. The prefeasibility study, summary of which is contained further in this report, demonstrated competitive economics. The Company is positioned with a large, USA based, strategically located lithium deposit to support the nascent adoption of hybrid and electric vehicles that utilize lithium ion battery technology. In September 2014, a lithium demonstration plant was commissioned in Germany and commencing in mid-October 2014, operations were underway to confirm equipment performance at design conditions for pilot production of lithium carbonate using hectorite clay from the Kings Valley Property. The Company has been taking steps to produce its first lithium carbonate batch in January 2015. The purpose of the lithium demonstration plant is to produce lithium carbonate and by-product samples on pilot scale equipment for strategic investors and potential off-take partners to observe, and to complete a feasibility study demonstrating the commercial viability of the project using Western Lithium's patented technology, in order to attract engineering and construction capital. The feasibility study is currently scheduled to commence in the second quarter of 2015, subject to the results of the pilot plant program and financing.

Significant Events (year to date)

- In December 2014, the Company announced that it has recently completed all safety inspections at its Fernley, Nevada, Hectatone™ organoclay plant and received its Business License on December 2, 2014, to enable the start of operations.

- The Company's lithium demonstration plant in Germany has been commissioned and start-up operations have been underway since mid-October to confirm equipment performance at design conditions. In September the calcination section of the plant successfully produced enough feed for the extraction plant to operate until mid-December. A second calcination has been scheduled for January, 2015. The lithium extraction plant has been processing the calcine produced in September and initial indications from leaching support design recoveries. The crystallizer to concentrate lithium and obtain glaserite salt is also operational. The Company is taking steps to have its first lithium carbonate batch in early 2015.

- In September 2014, the Company announced that its wholly-owned subsidiary Hectatone Inc. has signed a distribution agreement with Raw Materials Corporation ("RMC") of Houston, Texas to sell the Company's Hectatone™ products in five US states. For over 20 years until August 2014, RMC had been the exclusive US distributor of organophilic clays, including hectorite clay-based products, for the current preeminent supplier to the oilfield industry. Going forward, RMC will have the exclusive right to sell certain organophilic bentonite, hectorite and other clay-based Hectatone™ products in Texas, Oklahoma, Arkansas, Louisiana and New Mexico. Hectatone™ has reserved the right to sell directly to a number of specific other oilfield service and supply companies that it is currently in purchasing discussions with.

- In September 2014, the Company announced that it has commenced calcination of its lithium clays to demonstrate the viability of extracting lithium on a large scale from its lithium-rich clay deposit in Nevada. The calcination is the first step to turn the lithium bearing clay into water soluble lithium sulphates, so that a brine can be produced through leaching. The planned production of lithium compounds will continue through the fall and into the spring of 2015 to determine engineering parameters and equipment selection to complete a definitive feasibility study for the Company's US patented extraction process. Western Lithium plans to include a lithium hydroxide circuit, in addition to planned production of lithium carbonate, to meet potential new industry requirements.

- In July, 2014, the Company announced that Frank B. Wright, Jr., had accepted the position of President of the Company's wholly-owned subsidiary Hectatone Inc. effective August 1, 2014. Frank brings approximately 40 years of clay industry experience to the Company that includes senior executive and operational experience with recognized leaders in the drilling additives industry. Frank will direct the Company's operations, sales, safety, and other strategic initiatives.

- In May 2014, Western Lithium announced that it has received all required local, State of Nevada, and Federal permits necessary to conduct hectorite clay extraction from two open pits on the Kings Valley Property. In May 2014, in accordance with 43 CFR 3809 Surface Management Regulations, the Bureau of Land Management ("BLM") Winnemucca District Office authorized Western Lithium to proceed with clay extraction according to the Company's Final Plan of Operations and Reclamation Plan. In April 2014, the State of Nevada, Division of Environmental Protection, Bureau of Mining Regulation and Reclamation concurrently approved Western Lithium's Final Plan of Operations and issued the Final Reclamation Permit. Also in April 2014, the Mine Safety and Health Administration ("MSHA") assigned an MSHA Mine Identification Number, and the Humboldt County Regional Planning Commission unanimously approved Western Lithium's Conditional Use Permit, allowing the development of an open pit clay mine and associated mine-related operations. With all required environmental permits successfully obtained, hectorite clay can now be selectively excavated from two open pits at the Company's Kings Valley Property and used as feedstock for the Company's Hectatone™ organoclay manufacturing plant located in Fernley, Nevada.

Significant Events (year to date) (continued)

- On May 16, 2014, Western Lithium closed the bought deal offering (the "Offering") with Dundee Securities Ltd., on behalf of a syndicate including Haywood Securities Inc. (together, the "Underwriters"), with RK Equity Capital Markets LLC acting as a U.S. Placement Agent. The Offering consisted of 15,870,000 units of the Company (the "Units") at a price of CDN$0.58 per Unit for aggregate gross proceeds of CDN$9,204,600, which includes those Units issued on the exercise in full by the Underwriters of their over-allotment option. Each Unit consists of one common share ("Share") of the Company and one-half of one common share purchase warrant. Each whole common share purchase warrant ("Warrant") entitles the holder thereof to acquire one Share at a price of CDN$0.75 for a period of 24 months following the closing of the Offering. The Units were offered in all provinces of Canada (except Quebec) by way of a short form prospectus.

- In March 2014, the BLM Winnemucca District of Nevada issued a Decision Record and Finding of No Significant Impact for a Final Environmental Assessment, which allows the Company to develop and extract hectorite from a 110 acre area of the Stage I Lens, which clay could be used as feedstock for the Hectatone™ organoclay plant.

- In February and April 2014, the Company received the remaining balance of US$5.5 million pursuant to the US$22 million Royalty Purchase Agreement with Orion Mine Finance (Master) Fund I LP ("Orion").

- In January 2014, the Company announced that it had contracted Phoenix Industrial Inc. ("Phoenix"), based in Vancouver, Washington, as the general contractor for its Hectatone™ organoclay plant in Fernley, Nevada.

- In December 2013, the Company announced that it has received all major permits for the construction of its Hectatone™ organoclay plant in Fernley, Nevada.

The Hectatone™ Business

The Company has recently embarked on a commercial organoclay strategy based on the unique properties of hectorite, bentonite and other clays, in which it would use the clay to become a specialty supplier of clay based drilling additives for the oil and gas industry. Hectorite clay based drilling additives have been found to be particularly applicable for unconventional shale drilling due to their thermal and gelling properties that can improve performance when developing deep deposits that require horizontal drilling. To make specialty drilling fluid additives, referred to as organoclay, the Company's wholly-owned subsidiary Hectatone Inc. is currently commissioning its organoclay manufacturing plant in Fernley, Nevada, with a planned production capacity of 10,000 tons of organoclay per year. Multiple sources of clay, including hectorite, bentonite and other clays are planned for the manufacturing at the plant. Hectatone Inc. will manufacture and distribute the Company's organoclay products under the Hectatone™ name. Certain products of the existing Hectatone™ product line currently under development are built around two performance technology platforms, named RHEOFLAT™ and GELFAST™. With RHEOFLAT™, Hectatone Inc. offers products that provide flatter rheological curves across a wider temperature range of downhole temperature which is expected to result in improved rates of penetration (ROP). With GELFAST™ technology, Hectatone Inc. is developing products that provide fast development of rheological properties in cold weather climates. Certain hectorite-based Hectatone™ products are designed to provide much higher thermal stability under down-hole high pressure/high temperature drilling conditions.

The Company expects that the directional drilling industry will focus on efficiencies over the next several years to compete in a lower energy price environment. The Company is targeting its line of Hectatone™ products to provide solutions for the drilling industry to improve drilling performance and competitiveness through a variety of metrics including improved rate of penetration and the drilling of longer laterals. The Hectatone™ business is focused on meeting these industry challenges with cost effective Hectatone™ products to drill faster, farther and deeper.

The Hectatone™ Business (continued)

Fernley Facility

In the summer of 2013, the Company purchased an industrial complex in the City of Fernley, approximately 300 km or 186 miles from the Kings Valley Property, and approximately 50 km or 31 miles from the City of Sparks, Nevada, to serve as the site for manufacturing plant for its Hectatone™ business. The complex consists of three existing structures totaling 59,300 square feet, including a warehouse, a covered metal storage area that houses the organoclay process plant, and an office/laboratory building. The property is 5.47 acres in area, has a paved yard, is located next to an interstate highway and nearby railway, and is serviced by municipal water, sewage, natural gas and power.

Permitting

In late 2013, the Company received all major permits for a planned 10,000 ton per year Hectatone™ organoclay manufacturing plant at Fernley Facility, including the: (i) Nevada Air Quality Operating Permit, which includes the site's organoclay processing components, mill burner and thermal oxidizer burner; (ii) design review permit; and (iii) building permit. The North Lyon County Fire Protection District has approved all of the building plans for conformance with fire and safety requirements. Following receipt of its permits, the Company commenced construction of the facility in early 2014. The Company received a mining permit for its Kings Valley Property in the spring of 2014, which authorizes the extraction of clay for delivery and use as an input in the Hectatone™ manufacturing process.

Mining and Facility Development

The Company has identified certain areas within its Stage I lens for the extraction of clay to support commercial clay development operations. The work conducted to prepare the lithium resource estimate has resulted in that area having the most comprehensively understood geology and characteristics. The Company plans to extract the clay as a shallow open pit using contract miners to dig through the alluvial soil, which work to date indicates has a depth of approximately 3 metres, and then extract certain clay lenses, which range in thickness from 1 to 3 metres throughout the deposit. The Company has designed its commercial clay extraction plan in a manner that could support concurrent extraction for lithium processing, and believes that it can conduct commercial clay extraction for several years without significantly affecting future operations involving the extraction of the clay for lithium processing under the current mine plan and reserve estimate for lithium and potassium. This geological understanding for the clay development plan was supported by a bulk sampling program completed in August 2013, in which the Company removed an alluvial surface layer comprised primarily of silt, sand and gravel that was approximately 3 metres thick and excavated the clay lens directly underneath, which measured approximately 2 to 3 metres in thickness continuously across the approximate 25 by 30 m area of excavation.

Sales and Marketing

The Company hired an experienced President in August, 2014 and a sales and marketing professional as a Vice President in August, 2013. Potential customers have been identified and engaged in the USA and Canada. Certain potential customers have requested sample products to test for performance and conformance with their fluid systems. The Company is providing product samples as they become available. The Company secured a distribution agreement with Raw Materials Corporation of Houston, Texas in September 2014 and expects further sales contracts in 2015 once the plant is operational and product can be shipped.

The proposed development of the organoclay business is conceptual in nature and there can be no assurance that the hectorite clay will be of a quantity or grade that is suitable for use in an organoclay-based drilling additive. While the Company has conducted certain testing and pilot plant work and has tested the viability of hectorite and other clays on their properties, it has not conducted, and does not intent to conduct, any independent economic analysis of the financial viability of its commercial clay development. Readers are cautioned against assuming the clay business will be a viable business.

The extraction of the hectorite clay is not expected to negatively impact future lithium project development.

Kings Valley Property

Information in this section regarding the Kings Valley Property is based upon, and derived from, or extracted from, the technical report entitled "Updated NI 43-101 Technical Report. Kings Valley Property. Humboldt County, Nevada, dated May 9, 2014 (the "Amended and Restated Kings Valley Property Technical Report") prepared for the Company.

Property Location

The Kings Valley Property comprises an area of approximately 15,233 hectares within Humboldt County, Nevada, that is approximately 100 km or 62 miles north-northwest of Winnemucca and 40 km or 25 miles west-northwest of Orovada, Nevada (centered on 41°42'27.24"N Latitude, 118°3'26.81"W). Situated in a remote section of northern Nevada, the Kings Valley Property consists primarily of sparsely populated ranch land within, and surrounded by, BLM lands on the northwest, western and southern sections of the McDermitt caldera. A small number of WLC's claims are located, and registered, in Miller County, Oregon. The Stage 1 and Stage 2 Lens, being approximately 1,468 hectares, and 984 hectares, respectively, are situated:

- with respect to the Stage 1 Lens, at the southern end of the McDermitt caldera in T44N, R35E within Sections 3,4, 5, 6, 7, 8, 9, 10, 15, 16, and 17 and on the USGS Thacker Pass at 7.5 min quadrangle at an approximate elevation of 1,500 m; and

- with respect to the Stage 2 Lens, in Township 45 North, Range 34 East, Sections 2 and 13; Township 46 North, Range 34 East, Sections 11 and 27.

Accessibility, Infrastructure and Physiography

Access to the Stage 1 Lens and the Stage 2 Lens is via the paved U.S. Highway 95, travelling approximately 70 km or 43 miles north from Winnemucca to Orovada and then heading west-northwest for 33 km or 21 miles on paved state highway 293 toward Thacker Pass to the project area. On-site access is via numerous gravel and dirt roads. Roads are all season and in generally good repair, but may be closed for short periods due to extreme weather in the winter. The nearest railroad access is located in Winnemucca. Elko, 264 km or 164 miles east of Winnemucca, and Reno, 264 km or 164 miles southwest of Winnemucca (both on U.S. Highway 80), offer commercial air service.

Adequate electrical power is available to the Stage 1 Lens to support Case 1, see Mineral Resource and Mineral Reserve Estimates, and the Stage 2 Lens, but power lines may need to be added and/or upgraded to provide power to the project site. Currently, there is a 115 kilovolt power line that passes through the project area. Water is available in the region and water rights have been obtained and will be sourced from the adjacent Quinn River Valley which is in the same watershed basin as the project site. An independent groundwater study has been completed by Schlumberger Water Services. Certain water extraction rights have been transferred to the project site. There is sufficient space within the Stage 1 Lens site and the Stage 2 Lens site to accommodate the processing plant and mine support facilities, overburden placement site, anticipated dry tailings storage facility, the limited wet tailings storage facility, water diversions, and containments. Nearby mining operations operate continuously through the winter.

Geological Setting

The Stage 1 Lens and Stage 2 Lens are 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.

The Stage 1 Lens is the southernmost and smallest of the mineralized lenses in the area. The lens is composed of an approximately 3 to 5 m thick layer of alluvium underlain by lithium-enriched interbedded claystones, ash-rich clays and ash layers up to 60 to 90 m thick in the northwest and southwest ends of the site area. These claystone-ash layers thin in the middle of the proposed pit coinciding with faulting and a predominance of brown-black basalts. Interbedded basalts occur fairly shallowly in the northwest end of the pit and are found deeper in the southeast end.

Kings Valley Property (continued)

The lithium-rich beds with higher lithium concentrations (>4,000 ppm) are generally found deeper in the deposit (below 30 m). The base deposit varies across the project area averaging between 68 to 90 m and is marked by an obvious transition to an oxidized silicified claystone and ash layer.

The Stage 2 Lens mineralized beds are comprised mainly of a dark green claystone, at times intercalated with arkose beds and, in the North-East region of the modelled area, a fanglomerate body. Lithium-rich beds are generally 10 to 60 m thick in most areas. WLC's drilling shows that the average thickness of lithium mineralization is thicker than that indicated by the data obtained by Chevron Resources Company ("Chevron") because, as was the case in the Stage 1 Lens, some of the Chevron holes stopped in mineralization.

Exploration

Exploration on the Kings Valley Property has consisted of geological mapping to delineate the limits of the moat volcaniclastic sedimentary rocks and drilling to determine the grade and location of mineralization. Some, if not most, of the area has been covered by airborne gamma ray spectrometry, but those data are not pertinent to exploration for lithium.

Downhole surveys have been performed on selected holes drilled, which indicate that holes at each of Stage 1 Lens and Stage 2 Lens are drilled vertically or very nearly vertical with the exception of one hole (WLC58) which was intentionally drilled at 70 degrees from horizontal.

Mineral Resource

<u>Stage 1 Lens</u>

The Company engaged Reserva International LLC ("Reserva") to provide a block-model based mineral resource estimate for the Stage 1 Lens. The resource estimates were made from a three-dimensional block model using commercial mine planning software (Gemcom GEMS®) and were developed with the Company drill holes available as of June 28, 2011, at which time the Company had drilled and assayed 199 core holes, totaling 19,563 m.

The resources are presented using a range of lithium cut-off values. Reserva is of the opinion that, at a 3,200 ppm (0.32%) lithium cut-off, the Stage 1 Lens has reasonable prospects for economic extraction by open-pit mining. Lithium carbonate is the primary product, with potassium sulfate and sodium sulfate as by-products.

The following resource estimate for the Stage 1 Lens is effective as of June 28, 2011:

Kings Valley Lithium Mineral Resource— Stage 1 Lens (PCD Lens)

MEASURED MINERAL RESOURCES

Cutoff Li PPM	MTonnes	Li%	Ktonnes LCE	K%	Ktonnes K
2000	50.75	0.312	843	3.27	1,660
2500	38.86	0.338	699	3.42	1,329
3000	24.77	0.374	493	3.71	919
3500	13.10	0.420	293	4.00	524
4000	7.23	0.457	176	4.14	299
4500	3.48	0.494	91	4.26	148

Cutoff Li PPM	MTonnes	Li%	Ktonnes LCE	K%	Ktonnes K
5000	1.37	0.529	39	4.44	61

INDICATED MINERAL RESOURCES

Cutoff Li PPM	MTonnes	Li%	Ktonnes LCE	K%	Ktonnes K
2000	164.05	0.285	2,489	3.07	5,036
2500	107.45	0.317	1,813	3.27	3,514
3000	58.60	0.352	1,098	3.51	2,057
3500	24.18	0.395	508	3.73	902
4000	8.80	0.435	204	3.94	347
4500	2.17	0.480	55	4.06	88
5000	0.478	0.517	13	4.04	19

INFERRED MINERAL RESOURCES

Cutoff Li PPM	MTonnes	Li%	Ktonnes LCE	K%	Ktonnes K
2000	124.89	0.294	1,954	3.04	3,792
2500	89.29	0.321	1,526	3.24	2,889
3000	57.35	0.348	1,062	3.43	1,969
3500	24.23	0.386	498	3.74	907
4000	7.46	0.416	165	3.64	272
4500	0.18	0.470	5	3.22	6
5000	0.019	0.524	1	3.51	1

Stage 1 Lens

Notes:
(1) Measured tonnes minimum three drill holes within 75x100m with at least 5 composites used in the estimation; Indicated tonnes minimum 2 drill holes within 150x200m with at least 4 composites used in the estimation; Inferred tonnes one drill hole within 225x300m with at least 3 composites used in the estimation.
(2) Rounding errors may occur.
(3) Contained metal does not allow for mine and metallurgical recovery.
(4) 1.79 tonnes/m3 tonnage factor used.
(5) Conversion factor for LCE = 5.323.
(6) Conversion factor for Li2O = 2.153.
(7) Reasonable prospects of economic extraction by open pit mining established using: $3.00 lithium carbonate/lb, 92% metallurgical recovery, $69/tonne processing, US$2.35/tonne mining.
(8) Mineral resources that are not mineral reserves do not have demonstrated economic viability.

Kings Valley Property (continued)

Stage 2 Lens

The Amended and Restated Kings Valley Property Technical Report provides a review of the exploration work on the Stage 2 Lens area of the Kings Valley Property and has developed a lithium and potassium mineral resource estimate that conforms to NI 43-101.

The table below presents the in-situ lithium and potassium mineral resources for the Stage 2 Lens, at a cut-off grade of 0.20% lithium. The potassium grade is considered a by-product of the lithium resource. An average in-situ dry density of 1.96 t/m^3 for the mineralized volume was used as tonnage factor.

Kings Valley Lithium and Potassium Mineral Resource Stage 2 Lens Area

Kings Valley Lithium Mineral Resources, 0.20% Li cutoff					
Category	**MTonnes**	**Li %**	**Contained kTonnes Lithium Carbonate Equivalent**	**K%**	**Contained kTonnes Potassium**
Indicated	95	0.27	1,365.3	3.66	3,477
Inferred	47	0.26	650.5	3.83	1,800

Notes:
(1) Rounding errors may exist.
(2) Contained metal does not allow for mine or metallurgic recovery.
(3) Tonnage factor used is 1.96 t/m3.
(4) Economic assumptions do not include any potassium credits.
(5) Economic assumptions for cutoff grade determination are: US$3.50 lithium carbonate/lb; 60% metallurgic recovery; US$50/tonne processing; and US$2.20/tonne mining.
(6) M: million.
(7) This mineral resource estimate is effective May 15, 2010.
(8) Mineral resources that are not mineral reserves do not have demonstrated economic viability.

The Amended and Restated Kings Valley Property Technical Report states that exploration potential exists at the Stage 2 Lens to increase the current resource estimate. The Amended and Restated Kings Valley Property Technical Report authors also reported that there are no known environmental, permitting, legal, title, taxation, socio-economic, marketing, and political or other relevant issues that may materially affect the resource estimates.

The Amended and Restated Kings Valley Property Technical Report evaluates two production scenarios for the Stage 1 Lens: (i) a start-up scenario delivering 689,850 tonnes of dry mill feed per year for 20 years (Case 1); and (ii) a full production scenario delivering 689,850 tonnes of dry mill feed per year for three years and increasing to 1,379,700 tonnes of dry mill feed per year for a further 17 years (Case 2). Measured and Indicated resources from the resource model were converted to a proven mineral reserves and probable mineral reserves, as applicable, for both Case 1 and Case 2, by applying the pit design for each and the reserves reported here are inclusive of the mineral resources previously reported.

Mining Operations

Mining operations are contemplated through development of an open pit mine.

Kings Valley Property (continued)

Case 1

Potentially mineable pit shapes were identified using a Lerchs-Grossman analysis performed with GEMS® Whittle pit optimization software and the Kings Valley Property mineral resource model. The optimization is based on preliminary estimates of operating cost, recoveries and lithium pricing. The optimization runs used only measured and indicated material for processing. All inferred material was considered as waste.

Case 1 Life of Mine ("LOM") production summary is shown in the following table:

	Ore Mined (Dry Tonnes)	**Waste Mined (Dry Tonnes)**	**Total Mined (Dry Tonnes)**	**Strip Ratio**	**Ore % Li**	**Ore % K**	**Ore % Na**
TOTAL	13,948,530	40,122,315	54,070,845	2.88	0.404	3.82	1.46

Case 2

The same family of Whittle shells generated for Case 1 was used to identify a suitable ultimate shell for Case 2 which is an expanded production version of Case 1. For the first three years, the mill throughput is held constant at 689,850 tonnes per year ("tpy"). However, in years four and beyond, the mill throughput is doubled to 1,379,700 tpy. Waste movement holds steady at around 3.9 to 4.0 million tpy in years one through eight, then increases to around 5.2 million tpy in years eight through 14, further increases to around 7 million tpy for years 15 through 18 and then quickly drops off in years 19 and 20.

The Case 2 LOM Production Summary is shown in the following table:

	Ore Mined (Dry Tonnes)	**Waste Mined (Dry Tonnes)**	**Total Mined (Dry Tonnes)**	**Strip Ratio**	**Ore % Li**	**Ore % K**	**Ore % Na**
TOTAL	25,494,750	97,241,000	122,735,750	3.81	0.399	3.95	1.35

Processing

The ore preparation process involves calcining the ore mixed with anhydrite and dolomite to convert the silicates to sulfates for leaching. Recoverable metals include lithium, potassium and sodium. The calcine is leached in water recovering the sulfates to solution.

The wet recovery process includes evaporation and crystallization stages to recover potassium and sodium as sulfates, and lithium as a carbonate, a material suitable for battery manufacture. The products would be purified to meet specifications for marketing.

Case 1 process has an annual target production of 13,000 tpy Li_2CO_3 (nominal). For Case 2, the first three years of annual production match Case 1. In years four and beyond, the production is doubled to 26,000 tpy (nominal).

The overall recoveries are expected to be: (i) lithium: 87.2%; (ii) potassium: 77.7%; and (iii) sodium: 82.7%.

Kings Valley Property (continued)

Environmental Considerations

Development of the project would include on-site infrastructure development including the mine, process plant, tailings impoundments, and ancillary facilities. The project requires multiple permits and approvals from regulatory agencies and other entities at the federal, state and local levels. WLC has completed baseline studies for geochemistry, vegetation; wildlife (including extensive studies for the Greater Sage-grouse); surface and groundwater quality and quantity; wetlands and waters of the U.S.; seep and springs; soils; cultural resources; noise; visual analysis; weather monitoring; and other issues specific to the Kings Valley Property area. The collected baseline study data will support the overall permitting and approval process for the proposed project, and the completion of the National Environmental Policy Act environmental documentation program.

Financial Analysis

Capital cost estimates include initial capital and sustaining capital for the life of the project. Included in these estimates are: (i) equipment rebuilds and replacements; (ii) contingencies; (iii) owner's costs; engineering; (iv) procurement and construction management costs; and (v) capitalized pre-production operating costs.

<u>Case 1 Capital Costs</u>

Estimated capital expenditures for the Case 1 LOM are US$262.7 million. This includes initial start-up capital of US$237.1 million and sustaining capital of US$25.6 million. A 10% contingency is included in the sustaining capital for all costs except surface mining equipment.

<u>Case 2 Capital Costs</u>

Estimated capital expenditures for the Case 2 LOM are US$449.5 million. This includes initial start-up capital of US$247.9 million and sustaining capital of US$201.6 million. A 10% contingency is included in the sustaining capital for all costs except surface mining equipment. Case 2 sustaining capital includes capitalized prestripping for the pit expansion as well as capital required for the plant expansion in year three of the project.

Mine operating costs for each of the Case 1 and the Case 2 have been estimated for each year of the project based upon the scheduled production requirements. Mine operating costs were developed from first principles and include labour, fuel and lubricants, materials, equipment and maintenance.

Process operating costs have been estimated for each year of the project. Process operating costs are based upon material quotations and material balances which include necessary reagents, coal, grinding steel, electrical power, water, supplies, and equipment, labour and tailings facilities.

General and administrative operating costs have been estimated for each year of the project. General and administrative costs include labour costs for salaried employees for site wide management, engineering, human resources and site security.

<u>Case 1 Operating Costs</u>

Case 1 operating costs average US$3,291/t lithium carbonate, US$99/t potassium sulfate and US$43/t sodium sulfate products over the LOM. Case 1 lithium carbonate cash costs net of by-products averages US$1,397 per tonne of lithium carbonate.

Kings Valley Property (continued)

Case 2 Operating Costs

Case 2 mine operating costs average US$3,011/t lithium carbonate, US$87/t potassium sulphate and US$36/t sodium sulfate products over the LOM. Case 2 lithium carbonate cash costs net of by-products average US$968 per tonne of lithium carbonate.

Economic Evaluation

The cash flow analysis includes all mining, processing, and capital costs. For an analysis of costs, see the Amended and Restated Technical Report. Cash flow analyses were performed on both a pre-tax and post-tax basis. Applicable depletion and depreciation were calculated for determination of the Nevada Proceeds of Mineral Tax ("Nevada Mineral Tax") and post-tax cash flow calculations. A federal income tax rate of 35% was used and working capital was set to 20% of yearly operating costs.

The financial results are presented in 100% owner's equity and constant 2011 U.S. dollars for both cases. An 8% discount rate has been applied to the financial analysis. Sensitivity analyses were completed for both cases using varying lithium carbonate prices, capital cost estimates, operating cost estimates and process recoveries.

Taxes

As noted above, applicable federal and state taxes are included in the cash flow analysis. The Nevada Minerals Tax is an ad valorem property tax assessed on minerals when they are sold or removed from Nevada. The tax is applied at a rate of 5% for the project and applies to gross proceeds less allowable deductions, such as operating costs and depreciation. An approximate federal income tax rate of 35% was applied to net revenue less operating costs, depreciation, depletion, the Nevada Minerals Tax and loss carry forward. This rate was used to allow for differences in payments due to the Alternative Minimum Tax and adjustments to the corporate tax rate based on revenue.

Case 1 Cash Flow Analysis

Case 1 entails mining 13.9 million dry tonnes of ore and 40.1 million tonnes of waste over a 21-year period at an average grade of 0.404% Li.

The Case 1 cash flow analysis results in a pre-tax project net present value ("NPV") (with an 8% discount rate) of US$261.7 million and an internal rate of return ("IRR") of 21.2% at an 8% discount rate. The post-tax cash flow analysis results in a project NPV of US$175.0 million and an IRR of 17.6 % at an 8% discount rate.

Case 2 Cash Flow Analysis

Case 2 entails mining 25.5 million dry tonnes of ore and 97.2 million tonnes of waste over a 20-year period at an average grade of 0.400% Li. The Case 2 cash flow analysis results in a pre-tax project NPV (with an 8% discount rate) of US$551.8 million and an IRR of 24.4 % at an 8% discount rate. The post-tax cash flow analysis results in a project NPV of US$372.5 million and an IRR of 20.3 % at an 8% discount rate.

Kings Valley Property (continued)

Orion Royalty

The economic evaluation and cash flow analysis does not include the royalty payable pursuant to the Orion Royalty Purchase Agreement entered into in February 2013 and amended in September 2013. The royalty is a gross royalty on all production from the Kings Valley Property. It consists of a gross revenue royalty of 8% until the US$22 million paid by Orion to the Company has been repaid. The royalty will then be reduced to 4% for the life of the project. The Company has the option at any time to reduce the royalty to 1.75% upon payment to Orion of US$22 million.

Market Considerations

The project is capable of recovering and producing three distinct products as a result of the process design and the positive technical economic evaluation: (i) lithium; (ii) potassium; and (iii) sodium. WLC engaged an expert in the industrial minerals field to determine the market potential for each of these products. The projected market prices and values used in the economic evaluation are shown in the following table:

Market Prices – Case 1 and Case 2

Description	Market Price	Unit	Model Value	Unit
Lithium Carbonate	$6,000	US$/t	$6,000	US$/t
Potassium Sulfate	$660	US$/t	$600	US$/t
Sodium Sulfate	$140	US$/t	$75	US$/t

Markets and Contracts

The Company has not entered into any contractual agreements for the sale of production. It is anticipated that WLC will market its production, if any, of: (i) lithium, to manufacturers of batteries; (ii) potassium sulfate, to manufacturers of fertilizers; and (iii) sodium sulfate, to manufacturers of soap and detergents and the glass and pulp and paper industries.

Selected Annual Financial Information

The following financial information is presented in thousands of US dollars and shares in thousands, unless otherwise stated and except per share amounts.

The following table provides a brief summary of the Company's financial operations for the past three years. The information was prepared in accordance with IFRS. For more detailed information, refer to the audited consolidated financial statements for the years ended September 30, 2014, 2013, and 2012 which can be found on the SEDAR website (www.sedar.com).

	2014 US$	2013 US$	2012 US$
Expenses	6,597	4,985	8,100
Net (loss)/income	(1,300)	466	(8,087)
Comprehensive (loss)/income	(1,608)	183	(7,646)
(Loss)/earnings per share – basic and diluted	(0.01)	0.00	(0.08)
Total assets	24,354	15,568	13,209
Total long-term financial liabilities	(1,356)	(1,386)	-

The following financial information is presented in thousands of US dollars and shares in thousands, unless otherwise stated and except per share amounts.

Selected Annual Financial Information (continued)

Items that resulted in significant differences in the annual figures presented above are explained in the following narrative:

Expenses

The Company reported an increase of $1,612 in expenses in 2014 compared to 2013 mostly due to the increases of $929 in non-cash stock-based compensation expense, $257 in marketing and $542 in organoclay research and development expenses, offset with the $336 decrease in exploration expenditures, all mainly due to the Company's efforts and focus on development of the Hectatone™ business.

Higher operating expenses in 2012 were mostly due to the increases in exploration expenditures, salaries and benefits, and professional fees during that year while the Company was completing the prefeasibility study on its Kings Valley Property.

Net (Loss)/Income and Comprehensive (Loss)/Income

The Company's operating expenses in 2014 and 2013 were offset by gains on the Orion royalty sale of $5,088 in 2014 and $5,177 in 2013. The Company reported unrealized losses on translation to reporting currency of $308 and $283 in 2014 and 2013 respectively, and unrealized income on translation to reporting currency of $441 in 2012.

Total Assets

The Company's total assets increased by $8,786 in 2014 compared to 2013 mainly due to $13,020 proceeds from the financing activities and $11,639 spent on investing activities, mostly on additions to capital assets as the Company was constructing its Fernley Facility and purchasing equipment for the Fernley Facility and its lithium demonstration plant.

The Company's total assets increased by $2,359 in 2013 compared to 2012. During the year ended September 30, 2013, the Company received the net proceeds of $15,432 from the royalty sale offset by $4,644 net cash used for operating activities. The net proceeds from the royalty sale reduced the acquisition costs of Kings Valley Property of $9,267 reported in 2012 and $740 reported in 2013 to $Nil, and the balance was recorded as a gain on royalty sale.

Long-term Liabilities

Long-term liabilities reported in 2014 are comprised mainly of $1,105 (2013 - $1,216) mortgage on the Company's Fernley Facility purchased in 2013.

Results of Operations – Year Ended September 30, 2014

For the year ended September 30, 2014, the Company reported a total comprehensive loss of $1,608 compared to total comprehensive income of $183 for the year ended September 30, 2013, of which $6,597 (2013 - $4,985) is attributed to expenses, $5,297 (2013 - $5,451) to other items, and $308 (2013 - $283) to an unrealized loss on translation to reporting currency.

Stock-based compensation expense of $1,154 (2013 - $225) is a non-cash expense and represents the estimated fair value of stock options vested during the year. The increase in stock-based compensation is due to new options granted during the year and the amortization of the value related to those grants.

The following financial information is presented in thousands of US dollars and shares in thousands, unless otherwise stated and except per share amounts.

Results of Operations – Year Ended September 30, 2014 (continued)

Exploration expenditures of $2,179 (2013 – $2,515) include $271 (2013 - $1,535) for the hectorite mine and $1,908 (2013 - $965) for the lithium project. There were more activities at the hectorite mine site during 2013 mainly due to the test mining during that year. The increase in lithium project exploration during 2014 is mainly due to the advancements in engineering and consulting work on the lithium demonstration plant.

Organoclay research and development of $659 was higher in 2014 (2013 - $117) due to the increased activities towards development of new products for the Company's Hectatone™ business.

Professional fees of $308 (2013 - $333) consist of legal fees of $160 (2013 - $175), consulting fees of $79 (2013 - $109), public relations fees of $24 (2013 - $5), and accounting fees of $45 (2013 - $44).

Investor relations costs increased to $184 (2013 - $98) mainly due to the fees and expenses paid to a consulting firm engaged during the 2014 fiscal year and an increase in corporate, business development, and financing activities.

Marketing expenses of $283 (2013 - $26) include salary and expenses incurred for the marketing of Hectatone™ products. The expenses were higher in 2014 as the Company hired additional employees for marketing of its organoclay products.

Salaries and benefits were $1,048 (2013 - $973) and include management, accounting and administrative salaries of the Company's employees.

Office expenses of $546 (2013 - $514) include mainly Vancouver and Reno offices rent, insurance, IT, telephone and other office related expenses.

The Company capitalized acquisition costs of $538 (2013 - $570), mainly for claim fees paid to BLM, decommissioning provision of $Nil (2013 - $170), and reclassified from exploration and evaluation assets $Nil (2013 - $310) of reclamation bonds paid to BLM. In April 2014, BLM released $310 cash held as a reclamation bond to the Company in exchange for a bond guarantee provided by an insurance company. Net proceeds received from the Orion pursuant to the Royalty Purchase Agreement of $5,170 (2013 – $15,432) reduced the carrying value of the Company's exploration and evaluation assets to $456 (2013 - $Nil) and resulted in a $5,088 (2013 - $5,177) gain on the royalty sale.

Summary of Selected Quarterly Results

	2014				2013			
	Q4 US$	Q3 US$	Q2 US$	Q1 US$	Q4 US$	Q3 US$	Q2 US$	Q1 US$
Total assets	24,354	25,649	15,691	14,556	15,568	10,889	11,736	12,214
Exploration and evaluation assets	456	-	-	30	-	28	-	9,320
Capital assets	15,933	12,679	9,052	5,702	3,711	766	41	44
Working capital	6,050	11,316	4,713	7,706	10,933	9,410	11,159	2,323
Expenses	(2,165)	(1,604)	(1,266)	(1,562)	(1,376)	(1,014)	(1,598)	(997)
Net (loss)/income for the period	(2,173)	2,066	216	(1,409)	2,958	(925)	(559)	(984)
Basic (loss)/earnings per common share	(0.02)	0.02	0.00	(0.01)	0.03	(0.01)	(0.01)	(0.01)
Diluted (loss)/earnings per common share	(0.02)	0.02	0.00	(0.01)	0.03	(0.01)	(0.01)	(0.01)

Quarterly amounts added together may not equal to the total reported for the period due to rounding.

The following financial information is presented in thousands of US dollars.

Summary of Selected Quarterly Results (continued)

Total Assets

The Company's total assets decreased by $1,295 in Q4 2014 mainly due to expenses of $1,715 offset by proceeds of $391 received from the exercise of warrants and stock options.

The increase in the Company's total assets in Q3 2014 compared to Q2 2014 was due to $4,000 received pursuant to the Royalty Purchase Agreement with Orion and $8,459 proceeds from the Offering offset with $1,214 in associated Offering costs and expenses of $1,431.

The increase in the Company's total assets in Q2 2014 compared to Q1 2014 was due to $1,500 received pursuant to the Royalty Purchase Agreement with Orion less related transactions costs of $90 and $100 in proceeds received from the exercise of stock options offset by expenses of $1,078.

The increase in the Company's total assets in Q4 2013 compared to Q3 2013 was due to the second funding tranche under the Royalty Purchase Agreement with Orion reduced by operating expenses and purchase of an industrial complex in the City of Fernley for $1,575 of which $236 was paid at the close of the transaction in July 2013, and the remaining balance of $1,339 was financed by the seller with a ten-year promissory note.

Exploration and Evaluation Assets

In Q4 2014, the Company capitalized $456 to exploration and evaluation assets, mainly related to the annual claim fees paid to BLM for the Kings Valley Property.

In Q2 2014, the Company received a $1,500 advance from Orion's funding commitments under the Royalty Purchase Agreement and paid the associated finder's fees of $90. Net proceeds of $1,410 reduced the accumulated carrying value of the exploration and evaluation assets of $82 to $nil and resulted in a gain of $1,328.

In Q4 2013, the Company received the second $5,500 funding tranche pursuant to the Royalty Purchase Agreement which reduced the carrying value of the exploration and evaluation assets to $Nil at the end of Q4 2013 and resulted in a gain on royalty sale of $4,363.

In Q2 2013, the Company received the first funding tranche of $11,000 related to the Royalty Financing and incurred transaction costs of $793, including common shares issued for an associated finder's fee valued at $248. Net gain of $10,207 from the Royalty Financing reduced the carrying value of the Company's exploration and evaluation assets to $nil and resulted in a gain on the royalty sale of $814. The Company reclassified in Q1 2013 previously paid and capitalized non-interest bearing bonds with the BLM of $310 from exploration and evaluation assets to reclamation bond.

Capital Assets

In Q4 2014 the Company's capital assets increased by $3,254, the majority of which relates to the construction of the Company's Fernley Facility and equipment purchases for the lithium demonstration plant: $1,474 for the Fernley Facility construction work; $704 for other capitalized costs related to the Fernley Facility; $388 for the purchase of process equipment for the Fernley Facility, $529 for the purchase of equipment for the lithium demonstration plant, and $119 for the purchase of other equipment.

The increases in capital assets in each of Q1 2014, Q2 2014, Q3 2014 and Q4 2013, were mainly due to the expenditures on the purchase of Fernley Facility and related buildings improvements, engineering work and purchase of process equipment.

The following financial information is presented in thousands of US dollars.

Summary of Selected Quarterly Results (continued)

Working Capital

The decrease in working capital in Q4 2014 compared to Q3 2014 was mostly due to the acquistion of capital assets, additions to exploration and evaluation assets, and operating expenses offset by proceeds received from the exercise of stock options and warrants.

The increase in working capital in Q3 2014 compared to Q2 2014 was due to the net proceeds of $3,760 received from Orion pursuant to the Royalty Purchase Agreement, the $7,526 net proceeds related to the Offering, a reclamation bond refund of $310 received from the BLM, offset by operating expenses and addtions to capital assets.

The increase in Q2 and Q4 2013 working capital numbers was mostly due to the proceeds the Company received from the first and second funding tranches related to the Royalty Purchase Agreement between the Company and Orion.

Expenses and Net (Loss)/Income

Q4 2014 expenses increased by $561 compared to Q3 2014 mainly due to the increase of $283 in stock-based compensation for the options granted in the quarter and increase of $275 in exploration expenditures for the advancment of the lithium demonstration plant. Fluctuations in expenses from quarter to quarter were mainly due to changes in exploration activities and stock-based compensation expense.

Total comprehensive income for the period includes an unrealized loss on translation to reporting currency of $265 mainly due to the US$ and CDN$ exchange rate fluctuations.

Results of Operations – Three Months Ended September 30, 2014

For the three months ended September 30, 2014, the Company reported a loss of $2,173 compared to an income of $2,958 for the three months ended September 30, 2013, of which $2,165 (Q4 2013 - $1,376) is attributed to expenses.

Stock-based compensation of $446 (Q4 2013 - $22) is a non-cash expense and represents the estimated fair value of stock options vested during the period. It is accounted for at fair value as determined by the Black-Scholes Option Pricing Model using estimates that are believed to approximate the volatility of the trading price of the Company's stock, the expected lives of awards of stock-based compensation, the fair value of the Company's stock and the risk-free interest rate. It varies from period to period based on the number and valuation of the stock options granted during the period, vesting provisions, and an amortization schedule of previously granted stock options. The increase in stock-based compensation in Q4 2014 is due to new options granted during the period and the amortization of the value related to that grant.

Exploration expenditures of $868 (Q4 2013 – $720) includes $106 (Q4 2013 - $432) of expenditures for the hectorite mine and $762 (Q4 2013 - $278) for the lithium project. Included in the lithium project expenditures in 2014 is $674 related to the lithium demonstration plant.

Salaries and benefits increased to $337 (Q4 2013 - $190) mainly due to hiring of additional staff for the Hectatone™ business and an increase in corporate activities.

Marketing expenses of $76 (Q4 2013 - $26) include salary and expenses incurred for the marketing of Hectatone™ products.

The Company capitalized acquistion costs of $456 (Q4 2013 - $586) and capital assets costs of $3,254 (Q4 2013 - $2,947). Included in the Company's capital acquistion costs in 2013 is $170 for a decommissioning provision.

The Company recognized in Q4 2014 a foreign exchange loss of $39 (Q4 2013 – loss of $87) and a gain on the royalty sale of $Nil (Q4 2013 - $4,363).

The following financial information is presented in thousands of US dollars.

Liquidity and Capital Resources

Cash Flow Highlights	Year ended September 30,	
	2014 **$**	2013 $
Cash used in operating activities	**(5,421)**	(4,644)
Cash used in investing activities	**(11,597)**	(4,045)
Cash provided by financing activities	**13,020**	16,753
Effect of foreign exchange on cash	**(206)**	(57)
(Decrease)/increase in cash	**(4,204)**	8,007
Cash - beginning of year	**11,364**	3,357
Cash - end of year	**7,160**	11,364

Liquidity and Capital Resources

As at September 30, 2014, the Company had cash of $7,160 and working capital of $6,050 compared to $11,364 cash and working capital of $10,933 on September 30, 2013. During the year, the Company received $5,500 from Orion pursuant to the Royalty Purchase Agreement and paid the finder's fees of $240 and associated transaction costs of $90; received $8,459 related to the Offering and paid $982 in related costs, received $116 in proceeds from the exercise of stock options, and $376 in proceeds from the exercise of warrants offset by the additions to the capital assets, exploration and evaluation assets, inventory, and operating expenses. In addition, the Company received $310 from the BLM for an environmental bond previously paid by the Company. In exchange, the Company secured an environmental bond of $908 with BLM, guaranteed by a third party and secured by $150 of restricted cash. The increase in the environmental bond amount from $310 to $908 is due to the Company receiving a mining permit for its hectorite mine.

The Company's management believes that the current cash balance will be sufficient to fund its core operations for the next year. The Company expects that it will require additional working capital once commercial operations of its Hectatone™ business commence.

The Company will continue to rely on additional financings to further the development of its property. The Company's capital resources are largely determined by the strength of the junior resource markets and by the status of the Company's projects in relation to these markets, and its ability to compete for investor support of its projects. There can be no assurance that the Company will be successful in obtaining the required financing to develop its projects.

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

The Company does not now nor does it expect in the future to engage in currency hedging to offset any risk of currency fluctuations.

Financings – Use of Proceeds

The proceeds from the Offering, the Company's working capital and proceeds from the last tranche received under the Royalty Purchase Agreement as reported in the Company's short term prospectus dated May 9, 2014 (the "Prospectus") have been used as follows:

The following financial information is presented in thousands of US dollars and shares in thousands, unless otherwise stated.

Financings – Use of Proceeds (continued)

USE OF PROCEEDS	12-MONTHS BUDGET AMOUNT (as reported in the Prospectus) in CDN$, millions	12-MONTHS BUDGET AMOUNT in US$, millions[1]	SPENT from May 9th, 2014 to September 30, 2014, in US$, millions
Hectatone™ organoclay manufacturing plant:			
Phase II construction, labour and materials	3.0	2.7	3.2[(2)]
Equipment and instruments	0.8	0.7	0.9
Construction and engineering services	0.7	0.6	0.4
Lab, research and marketing	0.9	0.8	0.4
Fixed overhead	1.1	1.0	0.8
Working capital	2.0	1.8	0.1
Subtotal	**$8.5**	**$7.6**	**$5.8**
Lithium Demonstration Plant:			
Equipment	1.2	1.1	0.8
Engineering, procurement, installation and services	1.2	1.1	0.7
Operating costs	2.1	1.9	0.3
Subtotal	**$4.5**	**$4.1**	**$1.8**
Kings Valley Property annual claim fees	0.6	0.5	0.5
General and administrative	1.9	1.7	1.0
Unallocated working capital	Up to 1.1	Up to 1.0	0.3
Total	**$15.5 to $16.6**	**$13.9 to $14.9**	**$9.4**

[1]Amounts determined using April 30, 2014 exchange rate of CDN$1=US$0.905
[(2)] Increase of $0.5 in actual vs budgeted capital for the Fernley Facility is due to change orders for the improvements to the original plant design.

Operating Activities

Cash used in operating activities during the year ended September 30, 2014, was $5,421 compared to $4,644 net cash used during the year ended September 30, 2013. The increase in cash used for operating activities in the 2014 compared to 2013 was mainly due to the development of the Company's Hectatone™ business, construction of the Fernley Facility, advancements of the lithium project and construction of lithium demonstration plant, hiring additional staff and increase in the corporate and development activities. The significant components of operating activities are discussed in the Results of Operations sections above.

Investing Activities

Investing activities required cash of $11,597 during the year ended September 30, 2014, compared to $4,045 used during the year ended September 30, 2013. The cash used in investing activities during the year ended September 30, 2014, was mainly for the additions to capital assets of $11,219 (2013 - $3,475). These additions are mostly for the equipment and construction of the Company's Fernley Facility and include $421 for the buildings improvements, $5,147 for construction, $664 for engineering, and $1,949 for asset under construction costs and $2,907 for the process plant equipment. Also included in the investing activities is $811 for the lithium demonstration plant equipment. In addition, the Company paid $486 (2013- $520) for claims and $52 (2013 – $50) for lease payments related to its Kings Valley Property.

The following financial information is presented in thousands of US dollars and shares in thousands, unless otherwise stated and except per share amounts.

Financing Activities

During the year ended September 30, 2014, the Company received cash of $13,020 (2013 - $16,753) from the financing activities, including the net proceeds of $5,170 (2013 - $15,432) from Orion pursuant to the Royalty Purchase Agreement, net proceeds of $7,477 from the Offering, $116 from the exercise of stock options and $376 from the exercise of warrants.

On May 16, 2014, the Company closed the Offering with Dundee Securities Ltd., on behalf of a syndicate including Haywood Securities Inc., with RK Equity Capital Markets LLC acting as a U.S. Placement Agent. The Offering consisted of 15,870 units of the Company (the "Units") at a price of CDN$0.58 per Unit for aggregate gross proceeds of CDN$9,205, which includes those Units issued on the exercise in full by the Underwriters of their over-allotment option. Each Unit consists of one common share of the Company and one-half of one common share purchase warrant. Each whole common share purchase warrant entitles the holder thereof to acquire one share at a price of CDN$0.75. The expiry date of the warrants is May 16, 2016. In addition, the Company issued 1,032 brokers' warrants. Brokers' warrants entitle the holder to purchase one common share for a price of CDN$0.58 per share until May 16, 2016. Associated transaction costs of CDN$1,422, including CDN$352 fair value of the brokers' warrants, was recorded as share issue cost. The brokers' warrants were valued using the Black-Scholes option pricing model. The warrants were valued at CDN$0.34 per warrant for a total value of CDN$352 and have been recorded as share issue costs with a corresponding increase to contributed surplus. The fair value of warrants granted was estimated on the date of the grant using the Black-Scholes pricing model with the following assumptions: risk-free interest rate of 1.02%, expected volatility of 133%, expected life 1.5 years, share price at date of issuance of CDN$0.58, and an expected dividend rate of 0%.

During the year, the Company leased certain equipment for the Fernley Facility under finance lease arrangements and repaid $14 back to a lessor.

In 2013, the Company purchased an industrial complex in the City of Fernley to be the production site for its Fernley Facility for $1,575, of which $236 was paid at the close of the transaction and the remaining balance of $1,339 ($105 re-paid in 2014 and $18 re-paid in 2013) is financed by the seller with a ten-year promissory note payable in monthly instalments.

Current Share Data

As at the date of this report, the Company has 119,318 common shares issued and outstanding, 14,162 stock options outstanding, and 8,272 warrants.

Related Party Transactions

The Company shares office space, equipment and office administrative services with Meryllion Resources Corp. ("Meryllion"). These services have been mainly provided through a private management company, WMM Services Corporation ("WMM"), equally owned by the Company and Meryllion and related as at September 30, 2014, by virtue of a common director. Costs incurred by the management company are allocated between the Company and Meryllion based on time incurred and use of services and are charged at cost. As at September 30, 2013, WMM was equally owned by Kaizen Discovery Inc. ("Kaizen") and the Company. On December 4, 2013, Meryllion was spun-out from Kaizen and Kaizen's ownership in WMM was transferred to Meryllion.

The Company's related party transactions with WMM included in the following expense categories:

The following financial information is presented in thousands of US dollars and shares in thousands, unless otherwise stated and except per share amounts.

Related Party Transactions (continued)

	For the years ended September 30,	
	2014	2013
	$	$
Salaries, benefits, directors fees	832	782
Salaries and benefits included in exploration expenditures	83	184
Salaries and benefits included in organoclay R&D	71	-
Office and administration	173	244
Reimbursement of capital assets purchased from third party	-	31
Regulatory and filing fees	19	-
Reimbursement of deposits paid to third party	12	14
Professional fees	-	17
Total related party transactions	1,190	1,272

The Company paid a working capital deposit of $110 to WMM in 2011.

The accounts payable and accrued liabilities of the Company include the following amounts due to WMM:

	As at September 30,	
	2014	2013
	$	$
Amounts due to WMM	60	82

Compensation of Key Management

The Company pays its non-executive directors a fee of CDN$25 per year payable quarterly. Effective September 1, 2014, the Company pays an additional CDN$10 per year payable quarterly to the Company's Audit Committee Chair.

The remuneration of directors and members of key management included:

	For the years ended September 30,	
	2014	2013
	$	$
Stock-based compensation	866	158
Salaries and benefits	495	646
Salaries and benefits included in exploration expenditures	246	439
Salaries and benefits included in capital assets	246	-
Directors' fees included in salaries and benefits	129	101
	1,982	1,344

	As at September 30,	
	2014	2013
	$	$
Total due to directors	-	12

The following financial information is presented in thousands of US dollars and shares in thousands, unless otherwise stated and except per share amounts.

Related Party Transactions (continued)

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 to by the related parties. There were no contractual or other commitments from the related party transactions. The amounts due to related parties are unsecured, non-interest bearing and have no specific terms for repayment.

Commitments

As at September 30, 2014, the Company had the following commitments:

	As at September 30, 2014 $
Not later than one year	
Equipment purchases and construction	706
Rent of office space	195
Total	901
Later than one year, but not later than 5 years	
Rent of office space	203

The other obligations and commitments are disclosed in Note 5, Note 6, Note 7, and Note 8 of the Company's audited annual consolidated financial statements.

Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements other than those related to the exploration and evaluation assets and disclosed in September 30, 2014, audited consolidated financial statements.

Financial Instruments

Financial assets and liabilities are recognized when the company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the company has transferred substantially all risks and rewards of ownership.

All of the Company's financial instruments are classified into one of two categories: loans and receivables, or other financial liabilities. All financial instruments are measured in the statement of financial position at fair value initially with the exception of certain related party transactions.

Subsequent measurement and changes in fair value will depend on their initial classification. Loans and receivables and other financial liabilities are measured at amortized cost.

Cash, receivables and restricted cash, have been designated as loans and receivables and are included in current assets due to their short term nature. Reclamation bonds are designated as loans and receivables and are included in non-current assets due to their long-term nature. The Company's other financial liabilities include accounts payable and accrued liabilities, decommissioning provision, long-term borrowing, and obligations under finance leases. Accounts payable, accrued liabilities and the current portion of long-term borrowing that is due within twelve months from the financial statement reporting date are included in current liabilities due to their short-term nature. Long-term borrowing, obligations under finance leases and decommissioning provision are included in long-term liabilities due to their long-term nature.

The following financial information is presented in thousands of US dollars

Financial Instruments (continued)

	September 30, 2014 $	September 30, 2013 $
Financial assets		
Loans-and-receivables		
Cash	**7,160**	**11,364**
Receivables	**158**	**16**
Restricted cash	**150**	**-**
Reclamation bonds	**-**	**310**
Total financial assets	**7,468**	**11,690**
Financial liabilities		
Other-financial-liabilities		
Accounts payable and accrued liabilities	**1,781**	**509**
Current portion of long-term borrowing	**111**	**105**
Long-term borrowing	**1,105**	**1,216**
Obligation under finance leases	**104**	**-**
Decommissioning provision	**170**	**170**
Total financial liabilities	**3,271**	**2,000**

Additional financial instruments disclosure is contained in Note 16 of the Company's audited annual consolidated financial statements for the year ended September 30, 2014.

Risks and Uncertainties

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

A summary of the Company's financial instruments risk exposure is provided in Note 16 of the Company's audited annual consolidated financial statements for the year ended September 30, 2014.

The following are additional risk factors that the Company's management believes are most important in the context of the Company's business. It should be noted that this list is not exhaustive and that other risk factors may apply. Additional risks are disclosed in the Company's Annual Information Form, which is available on SEDAR at www.sedar.com.

Risks and Uncertainties (continued)

The Kings Valley Property may not be developed as planned and the Company may not achieve the intended economic results or commercial viability.

The Company's business strategy depends in large part on developing the Kings Valley Property into one or more commercially viable mines. Whether a mineral deposit will be commercially viable depends on a number of factors, including: (i) the particular attributes of the deposit, such as size, grade and proximity to infrastructure; (ii) commodity prices, which are highly cyclical; and (iii) government regulations, including regulations relating to prices, taxes, royalties, land tenure, land use, importing and exporting of mineral resources, environmental protection and capital and operating cost requirements. Despite the completion of the prefeasibility study, there can be no assurance that the Company will ever develop the Stage I Lens or any of the other deposits on the Kings Valley Property. If the Company is unable to develop all or any of its projects into a commercial working mine, its business and financial condition will be materially adversely affected.

The viability of the Hectatone™ Business has not been demonstrated.

The Company has not conducted a full economic analysis of its Hectatone™ Business. While the Company has conducted certain testing and pilot plant work and has tested the viability of hectorite and other clays, the Company has not conducted an independent economic analysis of the financial viability of its clay-based drilling additive business. Hectatone™ is a new product that will be subject to variable sales prices depending on internally generated processes, including custom orders, differing product mixes for those orders and other items. There are also no commodity market indicators to support long-term price assumptions for the purposes of economic analysis. There is greater risk of failure for a business operation in which there has not been an analysis of its financial viability.

Western Lithium has not yet achieved profitable operations and expects to incur further losses in the development of its business.

The Company's ability to continue as a going concern beyond the core operations for the next 12 months is dependent upon the ability to generate future profitable operations and/or to obtain the necessary financing to meet its obligations and repay its liabilities arising from normal business operations when they come due. The Company expects to report net losses and comprehensive losses for the financial year ending September 30, 2014. The Company's business does not currently operate on a self-sustaining basis and its ability to continue as a going concern beyond the core operations for the next 12 months is dependent on raising additional funds.

Western Lithium will require additional funding, potentially diluting the holdings of existing shareholders or increasing financial risk through debt issuance.

The Company has limited financial resources. There is no assurance that the Company will be able to generate funds from operations or to obtain sufficient financing in the future on terms acceptable to it. The ability of the Company to arrange additional financing in the future will depend, in part, on prevailing capital market conditions as well as the business performance of the Company. Failure to obtain additional financing on a timely basis may cause the Company to postpone, abandon, reduce or terminate its operations and could have a material adverse effect on the Company's business, results of operations and financial condition. The most likely source of future financing presently available to the Company is through the sale of additional Common Shares, which would mean that each existing shareholder would own a smaller percentage of the Common Shares then outstanding.

Alternatively, the Company may rely on debt financing and assume debt obligations that require it to make substantial interest and capital payments. Also, the Company may issue or grant warrants or options in the future pursuant to which additional Common Shares may be issued. Exercise of such warrants or options will result in dilution of equity ownership to the Company's existing shareholders.

The Company may also sell an interest in the Kings Valley Property or an additional royalty therein, or may also sell an interest in its Hectatone™ Business, any of which would mean that each existing shareholder would own a smaller percentage of the Kings Valley Property or the Hectatone™ Business, respectively.

Risks and Uncertainties (continued)

Mineral resources and mineral reserves disclosed by the Company are only estimates.

The mineral resources and reserves estimates included in this report are estimates only. No assurance can be given that any particular level of recovery of minerals will in fact be realized or that identified mineral reserves or mineral resources will ever qualify as a commercially mineable (or viable) deposit which can be legally and economically exploited. In addition, the grade of mineralization which may ultimately be mined may differ from that indicated by drilling results and such differences could be material. Production can be affected by such factors as permitting regulations and requirements, weather, environmental factors, unforeseen technical difficulties, unusual or unexpected geological formations and work interruptions. The estimated mineral resources and reserves described in this report should not be interpreted as assurances of commercial viability or potential or of the profitability of any future operations. Investors are cautioned not to place undue reliance on these estimates.

In addition, inferred mineral resources are quoted in the Amended and Restated Technical Report, but these have not been considered in any economic assessment provided in the prefeasibility study. Inferred mineral resources have a great amount of uncertainty as to their existence, and economic and legal feasibility. Accordingly, there is no assurance that inferred mineral resources will ever be upgraded to a higher category. Investors are cautioned not to assume that part or all of an inferred mineral resource exists, or is economically or legally mineable.

The price of metals and certain products greatly affects the value of the Company and the ability of the Company to develop the Kings Valley Property or the Hectatone™ Business.

The ability of the Company to develop the Kings Valley Property or the Hectatone™ Business will be significantly affected by changes in the market price of lithium and clay-based drilling additives. The price of these products is affected by numerous factors beyond Western Lithium's control. The level of interest rates, the rate of inflation, the world supply of and demand for lithium and oil and gas products and the stability of currency exchange rates can all cause fluctuations in the price of metals and clay-based drilling additives. Such external economic factors are influenced by changes in international investment patterns and monetary systems as well as various political developments. In addition, the price of lithium and clay-based additives is determined by the purity and performance of the products. A fluctuation in these product prices may affect the value of the Company and the potential value of its properties. The Company must purchase a relatively expensive quaternary amine additive to make organoclay. The Company will rely on third party suppliers for the purchase of certain clay minerals (other than hectorite). The Company has taken steps to identify alternative suppliers of raw materials to reduce these risks, but there can be no guarantee that the Company will secure such alternate supply on a timely basis or for similar costs as currently projected. Any material increase in the cost of these minerals, or the inability by the Company to source third party suppliers for the supply of these minerals, could have a material adverse effect on the Company's business, results of operations and financial condition.

The Company has limited history as an exploration company and does not have any experience in putting a mining project into production.

The Company has only been in existence since December 2007, has never completed a mining development project and does not generate any revenues from production. The future development of properties found to be economically feasible will require the construction and operation of mines, processing plants and related infrastructure and the Company does not have any experience in taking a mining project to production. As a result of these factors, it is difficult to evaluate the Company's prospects, and the Company's future success is more uncertain than if it had a longer or more proven history. In addition, the Company is and will continue to be subject to all the risks associated with establishing new mining operations, including:

- the timing and cost, which can be considerable, of the construction of mining and processing facilities;
- the availability and cost of skilled labour and mining equipment;
- the need to obtain necessary environmental and other governmental approvals and permits and the timing of the receipt of those approvals and permits;

Risks and Uncertainties (continued)

- the availability of funds to finance construction and development activities;
- potential opposition from non-governmental organizations, indigenous peoples, environmental groups or local groups which may delay or prevent development activities; and
- potential increases in construction and operating costs due to changes in the costs of fuel, power, materials and supplies.

It is common in new mining operations to experience unexpected costs, problems and delays during construction, development and mine start-up. In addition, delays in the early stages of mineral production often occur. Accordingly, the Company cannot provide assurance that its activities will result in profitable mining operations at its mineral properties.

There is title risk to the Kings Valley Property.

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

Mineral development projects are subject to operational risks.

The Company's operations are subject to all of the risks normally incidental to the exploration for and the development and operation of mineral properties. The Company has implemented comprehensive safety and environmental measures designed to comply with or exceed government regulations and ensure safe, reliable and efficient operations in all phases of its operations. Nevertheless, mineral exploration and exploitation involves a high degree of risk, which even a combination of experience, knowledge and careful evaluation may not be able to overcome. Unusual or unexpected formations, formation pressures, fires, power outages, labour disruptions, flooding, explosions, tailings impoundment failures, cave-ins, landslides and the inability to obtain adequate machinery, equipment or labour are some of the risks involved in mineral exploration and exploitation activities.

Mineral tenure risk.

The Mining Act, as amended, authorizes the Company to develop and mine the minerals on the UM Claims that form the Kings Valley Property which are locatable under the Mining Act. The Mining Act does not explicitly authorize the owner of an UM Claim to sell minerals that are disposable under the MLLA, as amended. Leasable minerals include potassium and sodium. The Interior Board of Land Appeals of the Department of the Interior has held that, under certain circumstances, the owner of an UM Claim has the authority and right to process and sell minerals governed by the MLLA, particularly when they are by-products of the processing of minerals which are locatable under the Mining Act.

There is technology risk to the development of the Kings Valley Property and the Hectatone™ Business.

To the Company's knowledge, lithium carbonate has never been commercially produced from a smectite hectorite clay resource. While the Company has conducted extensive testing that has produced high quality lithium carbonate using known industry processes and equipment and has produced high quality drilling additive, the processes contemplated by Western Lithium in both instances have not yet been demonstrated at commercial scale and there is a risk that the Company will not be able to do so. In addition, there is a risk that the Company will not be able to use hectorite from the Kings Valley Property to produce clay-based drilling additives for its Hectatone™ Business on a commercial scale or at an economically viable cost. In addition, there is ongoing research and technological developments with respect to the various processes and drilling fluid for the production of oil and gas, which have the potential to reduce costs and improve performance. It is possible that certain developments could substantially impair the Company's competitive position if other companies implement new technology and the Company does not, or cannot.

Risks and Uncertainties (continued)

Intellectual property risk.

The Company and its subsidiaries rely on the ability to protect their intellectual property rights and depend on patent, trademark and trade secret legislation to protect its proprietary know-how. There is no assurance that the Company has adequately protected or will be able to adequately protect its valuable intellectual property rights, or will at all times have access to all intellectual property rights that are required to conduct its business or pursue its strategies, or that the Company will be able to adequately protect itself against any intellectual property infringement claims. There is also no assurance that our competitors will not be able to develop similar technology, processes or know how independently, that the Company's trade secrets will not be revealed, that the claims allowed with respect to any current or future patents pending, or patents now held, will be broad enough to protect the Company's intellectual property rights, or that foreign intellectual property laws will adequately protect such rights. Failure of any intellectual property rights to provide protection to the Company could result in its competitors offering similar Hectatone™ products or utilizing its lithium extraction process. Any adverse outcome that the Company may experience whilst attempting to obtain, maintain or enforce its intellectual property rights could have a material adverse effect on the Company's business, results of operations and financial condition.

There is risk to the growth of lithium and Hectatone™ markets.

The development of lithium operations at the Kings Valley Property is almost entirely dependent on the adoption of lithium-ion batteries for electric vehicles and other large format batteries that currently have limited market share and whose projected adoption rates are not assured. The use of Hectatone™ products depends primarily on the continued growth of deep sea and directional drilling and fracturing techniques to access deposits in the oil and gas industry. To the extent that such markets do not develop in the manner contemplated by the Company, then the long-term growth of lithium and/or Hectatone™ products will be adversely affected, which in turn may have a negative effect on the business and financial condition of the Company.

Market acceptance.

The success of the Hectatone™ business will depend upon its current and proposed products meeting acceptable cost and performance criteria in the marketplace. There can be no assurances that the Company's products will meet applicable price or performance objectives or that unanticipated technical, regulatory or other problems will not occur which would result in increased costs or material delays.

The Company is dependent on the expertise of consultants.

The Company has relied on, and may continue to rely on, consultants and others for mineral exploration and exploitation expertise. The Company believes that those consultants are competent and that they have carried out their work in accordance with internationally recognized industry standards. However, if the work conducted by those consultants is ultimately found to be incorrect or inadequate in any material respect, the Company may experience delays or increased costs in developing its properties.

The Company has no history of paying dividends.

Western Lithium has not paid dividends on its Common Shares since incorporation and presently has no ability to generate earnings as its mineral properties are in the exploration stage. If the Kings Valley Property is successfully developed, the Company anticipates that it will retain future earnings and other cash resources for the future operation and development of its business. The Company does not intend to declare or pay any cash dividends in the foreseeable future. Payment of any future dividends is solely at the discretion of the Board of Directors, which will take into account many factors including the Company's operating results, financial conditions and anticipated cash needs. For these reasons, Western Lithium may never pay dividends.

Risks and Uncertainties (continued)

There is no assurance that the Company will be able to acquire additional mineral properties.

There is no assurance that the Company will be able to acquire other mineral properties of merit, whether by way of option or otherwise, should the Company wish to acquire any properties in addition to the Kings Valley Property.

Changes to environmental requirements could significantly increase the Company's costs.

Western Lithium must comply with stringent environmental regulation in carrying out work on the Kings Valley Property. Environmental regulations are evolving in a manner that is expected to require stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects and a heightened degree of responsibility for companies and their officers, directors and employees. Changes in environmental regulations and associated agency requirements could delay and/or increase the cost of exploration and development of the Kings Valley Property.

Changes in government regulations may affect the Company's development of the Kings Valley Property.

Government regulations relating to mineral rights tenure, permission to disturb areas and the right to operate can adversely affect Western Lithium. The Company may not be able to obtain all necessary licenses and permits that may be required to carry out exploration at the Kings Valley Property. Obtaining the necessary governmental permits is a complex, time-consuming and costly process. The duration and success of efforts to obtain permits are contingent upon many variables not within the Company's control. There can be no assurance that all necessary approvals and permits will be obtained and, if obtained, that the costs involved will not exceed the Company's prior estimates. It is possible that the costs and delays associated with the compliance with such standards and regulations could become such that the Company would not proceed with the development of the Kings Valley Property.

The BLM currently identifies a portion of the Kings Valley Property site as sage-grouse general habitat. Sage-grouse are currently identified as a BLM sensitive species and there has been recent discussion to consider federally listing the species as threatened or endangered. If this were to happen some portions of the Kings Valley Property lithium deposit, if found to be sage-grouse habitat, could be limited from mineral development. This is unlikely in the Stage 1 Lens area but is a possibility in portions of the remainder of the deposit. Should the species become federally listed, the Company would be required to comply with the Endangered Species Act resulting in possible restrictions and/or additional mitigation as applicable to the findings by the Federal Land Managers. Additional mitigation, should it be required, would likely result in associated costs.

The success of the Company is largely dependent on a few key individuals.

The success of the Company will be largely dependent upon the performance of its key officers, consultants and employees. Locating mineral deposits depends on a number of factors, not the least of which is the technical skill of the exploration, development and operating personnel involved. Failure to retain key individuals or to attract, and, if attracted, retain additional key individuals with necessary skills could have a materially adverse impact upon the Company's success. The Company has not purchased any "key-man" insurance with respect to any of its directors, officers or key employees and has no current plans to do so.

The Company may not be insured against all risks involved in the exploration, development and production of the Kings Valley Property.

In the course of exploration, development and production of mineral properties, certain risks, and in particular, unexpected or unusual geological operating conditions and other environmental occurrences may occur. It is not always possible to fully insure against such risks and, even where such insurance is available the Company may decide to not take out insurance against such risks. Should such liabilities arise, they could reduce or eliminate any future profitability and result in increasing costs and a decline in the value of the Company.

Risks and Uncertainties (continued)

Western Lithium operates in a highly competitive mining industry.

The mining industry is competitive in all of its phases, including financing, technical resources, personnel and property acquisition. It requires significant capital, technical resources, personnel and operational experience to effectively compete in the mining industry. Because of the high costs associated with exploration, the expertise required to analyze a project's potential and the capital required to develop a mine, larger companies with significant resources may have a competitive advantage over Western Lithium. The Company faces strong competition from other mining companies, some with greater financial resources, operational experience and technical capabilities than Western Lithium possesses. As a result of this competition, the Company may be unable to maintain or acquire financing, personnel, technical resources or attractive mining properties on terms it considers acceptable.

Continued Operation of Fernley Facility.

An interruption in or the loss of operations, or the failure to maintain the labour force at the Fernley Facility could delay or postpone production of the Hectatone™ products, which could have a material adverse effect on the Company's business, results of operations and financial condition. In addition, the Fernley Facility is dependent upon critical equipment, such as extruders, dryers, packing, conveyance systems and a quaternary amine dispenser, and this equipment may incur downtime as a result of unanticipated failures, causing plant shutdowns or periods of reduced production as a result of such equipment failures. Unexpected production delays due to injury, delay in receiving spare parts for equipment, interruption due to earthquake, flood or severe weather, delays in supply chain of raw materials, particularly quaternary amine and various clays used in the production process could have a material adverse effect on the Company's business, results of operations and financial condition. No assurance can be given that a significant shutdown will not occur in the future or that such a shutdown will not have a material adverse effect on the Company's business, results of operations or financial condition.

Competition of Hectatone™ products with other materials.

In the case of certain product applications, Hectatone™ products compete with a number of other materials such as polymers and other competitors of organoclay. Improvements in the technology, production, pricing or acceptance of these competitive materials relative to Hectatone™ or other changes in the industries for these competitive materials could have a material adverse effect on the Company's business, results of operations and financial condition.

The Company may not be insured against all risks involved in the operation of its Hectatone™ business.

The Hectatone ™ business operations are subject to risks and hazards, such as fire and explosion. These risks and hazards may be caused by, among other things, the explosive suppression systems and technologies which will be used at the Fernley Facility to remove explosive gases. The Company maintains liability insurance in accordance with industry standards, however the nature of these types of risks is such that liabilities could exceed policy limits and the Company could incur significant costs that could have a material adverse effect on its business, results of operations and financial condition.

The Company's business is affected by fluctuations in currency exchange rates.

Business is transacted by the Company primarily in Canadian and U.S. 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. The Company's Kings Valley Property and Hectatone™ business are located in Nevada and most of the property related expenditures, exploration and development costs are denominated in U.S. dollars. Appreciation of U.S. currency compared to Canadian currency could make property expenditures more expensive for the Company. While the Company does not engage in foreign exchange hedging it holds a significant portion of its cash balance in U.S. currency in order to meet its U.S. obligations.

Risks and Uncertainties (continued)

The Company may face opposition to mining projects.

The Kings Valley Property, like many mining projects, may have opponents. Opponents of other mining projects have, in some cases, been successful in bringing public and political pressure against mining projects. In the event there is opposition to the Kings Valley Property, the Company's development of such properties may be delayed or prevented even if such development is found to be economically viable and legally permissible.

Conflicts of interest may arise for certain directors and officers of the Company.

Certain directors and officers of the Company are, or may become, associated with other natural resource companies which may give rise to conflicts of interest. In accordance with the BCBCA, directors who have a material interest in any person who is a party to a material contract or a proposed material contract with the Company are required, subject to certain exceptions, to disclose that interest and generally abstain from voting on any resolution to approve the contract. In addition, directors and the officers are required to act honestly and in good faith with a view to the best interests of the Company.

No long term contracts and significant customers.

Other than the distribution agreement with Raw Materials Corporation, the Company has not entered into any long term contracts or obtained any significant customers for its Hectatone™ products, and therefore, has no assured sources of revenue.

Ability to achieve and manage growth.

The growth of the Company's manufacturing operations may place a strain on managerial, financial and human resources. The Company's ability to succeed in manufacturing Hectatone™ products will depend on a number of factors, including the availability of working capital, existing and emerging competition, the ability to maintain sufficient profit margins and to recruit and train additional qualified personnel, both with respect to manufacturing and with respect to sales and product development, as well as the ability to create and maintain sales channels to increase the Company's presence in the marketplace for its products.

The Company's share price is subject to market volatility.

The market price of a publicly traded stock, especially a resource issuer such as Western Lithium, is affected by many variables in addition to those directly related to exploration successes or failures. Such factors include the general condition of markets for resource stocks, the strength of the economy generally, the availability and attractiveness of alternative investments, and the breadth of the public markets for the stock. Therefore, investors could suffer significant losses if the Company's shares are depressed or illiquid when an investor seeks liquidity.

Future sales may cause dilution.

The Company may sell additional equity securities in subsequent offerings (including through the sale of securities convertible into Common Shares) to finance its operations or expansion. The Company cannot predict the size of future sales and issuances of equity securities or the effect, if any, that future sales and issuances of equity securities will have on the market price of the Common Shares. Sales or issuances of a substantial number of equity securities or the perception that such sales could occur, may have a material adverse effect on the prevailing market prices for the Common Shares. With any additional sale or issuance of equity securities, investors will suffer dilution of their voting power and may experience dilution in the Company's earnings per share.

Significant Accounting Policies

The preparation of the consolidated financial statements requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates. The consolidated financial statements include estimates which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the consolidated financial statements, and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and future periods if the revision affects both current and future periods. These estimates are based on historical experience, current and future economic conditions and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Critical Accounting Estimates

Significant assumptions about the future and other sources of estimation uncertainty that management has made at the end of the reporting period, that could result in a material adjustment to the carrying amounts of assets and liabilities, in the event that actual results differ from assumptions made, relate to, but are not limited to, the determination of environmental obligations, the recoverability of capital assets and product development, the amortized cost of the long-term borrowing calculated using the effective interest rate method, and the assumptions used in the determination of the fair value of stock-based compensation.

Critical Accounting Judgments

Critical accounting judgments are accounting policies that have been identified as being complex or involving subjective judgments or assessments, as follows:

The determination of the point in time that the technical feasibility and commercial viability of extracting a mineral resource are demonstrable. Management determined that the Kings Valley Property has not demonstrated these characteristics. All costs with respect to maintaining and permitting the hectorite mine and costs with respect to the lithium project were expensed as exploration costs.

The determination of the point in time that an intangible asset arising from development of an internal project should be recognized. Management determined that the organoclay product development project has not met the criteria for capitalization.

Determining whether a lease arrangement is classified as finance or operating requires judgment with respect to the fair value of the leased asset, the economic life of the lease, and the discount rate.

The determination of deferred tax assets and liabilities recorded in the consolidated financial statements.

In accordance with IAS 21 "The Effects of Changes in Foreign Exchange Rates", management determined that the functional currency of Western Lithium USA Corporation is the Canadian dollar and the functional currency of Western Lithium Corporation and Hectatone Inc. is the US dollar, as these are the currencies of the primary economic environments in which the companies operate.

Provisions for Close Down and Restoration and for Environmental Clean-up Costs

Close down and restoration costs include dismantling and demolition of infrastructure and the removal of residual materials and remediation of disturbed areas. Estimated close down and restoration costs are provided for in the accounting period when the obligation arising from the related disturbance occurs, based on the net present value of estimated future costs. The cost estimates are updated during the life of the operation to reflect known development, such as revisions to cost estimates and to the estimated lives of the operations, and are subject to formal reviews at regular intervals.

Significant Accounting Policies (continued)

The initial closure provision together with changes resulting from changes in estimated cash flows or discount rates are capitalized within capital assets. These costs are then depreciated over the lives of the asset to which they relate, typically using the units of production method. The amortization or unwinding of the discount applied in establishing the net present value of provisions is charged to the statement of comprehensive income/(loss) as a financing cost.

Provision is made for the estimated present value of the costs of environmental cleanup obligations outstanding at the statement of financial position date.

Exploration and Evaluation Assets

Exploration expenditures are expensed as incurred until an economic feasibility study has established the presence of proven and probable reserves and development of the project has commenced, at which time exploration and development expenditures incurred on the property thereafter are capitalized.

Costs incurred relating to the acquisition and claim maintenance of mineral properties, including option payments and annual fees to maintain the property in good standing, are capitalized and deferred by property until the project to which they relate is sold, abandoned, impaired or placed into production. After recognition, the Company uses the cost model for exploration and evaluation assets.

The Company assesses its capitalized exploration and evaluation assets costs for indications of impairment on a regular basis and when events and circumstances indicate a risk of impairment. A property is written down or written off when the Company determines that an impairment of value has occurred or when exploration results indicate that no further work is warranted.

Although the Company has taken steps to verify titles to exploration and evaluation assets 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, or title may be affected by undetected defects.

Capital Assets

On initial recognition, capital assets are valued at cost. Cost includes the purchase price and directly attributable cost of acquisition or construction required to bring the asset to the location and condition necessary to be capable of operating in the manner intended by the Company, including appropriate borrowing costs. During the development and commissioning phase, pre-production expenditures, net of incidental revenue, are capitalized to the asset under construction and equipment.

Capital assets are subsequently measured at cost less accumulated depreciation, less any accumulated impairment losses, with the exception of land which is not depreciated.

When parts of an item of capital assets have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

The assets' residual values, useful, lives and depreciation methods are reviewed and adjusted if appropriate, at each financial year end.

The gain or loss arising on the disposal of an item of capital assets is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognized in profit or loss.

Significant Accounting Policies (continued)

Leased Assets

Finance leases, which transfer to the Company substantially all the risks and rewards incidental to ownership of the leased item, are capitalized at the inception of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. The corresponding lease commitment is shown as a liability. Lease payments are apportioned between capital and interest. Interest charges are capitalized to asset under construction during the development and commissioning phase. The capital element reduces the balance owed to the lessor.

Inventories

Raw materials and supplies inventories are valued at the lower of cost and net realizable value. Cost includes acquisition, freight and other directly attributable costs.

Product Development

Expenditure on research activities related to the obtaining of new scientific or technical knowledge is expensed as incurred. Expenditure on development activities, whereby the research results or other knowledge is applied to accomplish new or improved products or processes, is recognized as an intangible asset in the statement of financial position, provided the product or process is technically and commercially feasible and the Company has sufficient resources to complete development, and is subsequently able to use or sell the intangible asset. The carrying amount includes the directly attributable expenditure, such as the cost of materials and services, costs of employee benefits, fees to register intellectual property rights and amortization of patents and licenses. In the statement of financial position, product development will be stated at cost less accumulated amortization and any impairment losses.

Impairment of Long-lived Assets

Capital assets are assessed for impairment at each reporting date. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds it recoverable amount. The recoverable amount is the higher of an asset's fair value less cost to sell and value in use. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units). These are typically individual mines, plants or development projects. Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but to an amount that does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

Income Taxes

Income tax expense comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity. Current tax expense is the expected tax payable on taxable income for the year, using tax rates enacted or substantively enacted at period end, adjusted for amendments to tax payable with regards to previous years.

Significant Accounting Policies (continued)

Deferred tax is recorded using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Temporary differences are not provided for the initial recognition of assets or liabilities that affect both accounting or taxable loss, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the statement of financial position date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. To the extent that the Company does not consider it probable that a deferred tax asset will be recovered, the deferred tax asset is not recorded.

Value-added tax receivables

The Company incurs value-added tax on purchases of equipment for its lithium demonstration plant. Indirect tax balances are recorded at their estimated recoverable amounts within current or long-term assets, net of provisions, and reflect the Company's best estimate of their recoverability under existing tax rules in the respective jurisdictions in which they arise. Management's assessment of recoverability involves judgments regarding balance sheet classification and the probable outcomes of claimed deductions and/or disputes. The provisions and balance sheet classifications made to date may be subject to change and such change may be material.

Stock-Based Compensation

The Company grants stock options to buy common shares of the Company to directors, officers, employees and service providers. The fair value of stock options granted by the Company is treated as compensation costs in accordance with IFRS 2 - Share-based Payment. These costs are charged to the statement of comprehensive income/(loss) over the stock option vesting period. Each tranche in an award is considered a separate award with its own vesting period and grant date fair value. Fair value of each tranche is measured at the date of grant using the Black-Scholes option pricing model. Compensation expense is recognized over the tranche's vesting period based on the number of awards expected to vest, by increasing contributed surplus. The number of awards expected to vest is reviewed at least annually with any impact being recognized immediately.

Where equity instruments are granted to non-employees, they are recorded at the fair value of the goods or services received in the statement of comprehensive income/(loss), unless they are related to the issuance of shares. Amounts related to the issuance of shares are recorded as a reduction of share capital.

When the value of goods or services received in exchange for the share-based payment cannot be reliably estimated, the fair value is measured by use of a valuation model. The fair value of stock options granted to non-employees is re-measured at the earlier of each financial reporting or vesting date, and any adjustment is charged or credited to operations upon re-measurement.

Valuation of Equity Units Issued in Private Placements

The Company has adopted a residual value method with respect to the measurement of shares and warrants issued as private placement units. The residual value method first allocates value to the more easily measurable component based on fair value and then the residual value, if any, to the less easily measurable component. The fair value of the common shares issued in the private placements was determined to be the more easily measurable component and were valued at their fair value, as determined by the closing quoted bid price on the announcement date. The balance, if any, was allocated to the attached warrants. The value attributed to the warrants is recorded as contributed surplus. If the warrants are exercised, the value attributable to the warrants is transferred to share capital.

Significant Accounting Policies (continued)

Foreign Currency Translation

Functional and Presentation Currency

Items included in the financial statements of each of the group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The Company's consolidated financial statements are presented in US dollars. Although the Company's functional currency is Canadian dollars, the functional currency of the subsidiaries is US Dollars and the group presentation currency is US Dollars.

Transactions and Balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the period-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

Exchange differences arising on the translation of monetary items or on settlement of monetary items are recognized in profit or loss in the statement of comprehensive income/(loss) in the period in which they arise.

Exchange differences arising on the translation of non-monetary items are recognized in other comprehensive income/(loss) in the statement of comprehensive income/(loss) to the extent that gains and losses arising on those non-monetary items are also recognized in other comprehensive income/(loss). Where the non-monetary gain or loss is recognized in profit or loss, the exchange component is also recognized in profit or loss.

Parent and Subsidiary Companies

The financial results and position of operations whose functional currency is different from the presentation currency are translated as follows:

- assets and liabilities are translated at period-end exchange rates prevailing at that reporting date; and
- income and expenses are translated at the average exchange rates during the transaction period.

Exchange differences are transferred directly to the statement of comprehensive income/(loss) and are reported as a separate component of shareholders' equity titled "Accumulated other comprehensive income/(loss)". These differences are recognized in the profit or loss in the period in which the operation is disposed of.

New Accounting Standards and Recent Pronouncements

The Company has not yet adopted certain new standards, amendments and interpretations to existing standards, which have been published but are not yet effective for the Company. These include:

• IFRS 9 – Financial Instruments: Classification and Measurement, effective January 1, 2018.
• IAS 32 – Financial Instrument Presentation, effective January 1, 2014.
• IAS 36 – Financial Instruments: Presentation, effective January 1, 2014.

Investor Relations

Jay Chmelauskas, President and CEO, coordinates investor relations' activities for the Company.

Changes in Directors and Management

Effective April 1, 2014, B. Matthew Hornor was appointed to the Company's board of directors.

Effective August 1, 2014, Frank B. Wright, Jr, was appointed to the position of President of the Company's wholly-owned subsidiary Hectatone Inc.

Effective August 1, 2014, Ed Flood, a director of the Company, was appointed as the Company's Co-Chairman of the Board.

Qualified Person

Mr. Dennis Bryan, a qualified person for the purposes of NI 43-101, has approved the scientific and technical information in this MD&A, regarding the Kings Valley Property. For further description of scientific and technical information about the Kings Valley Project, please refer to technical reports filed on SEDAR (www.sedar.com).

Disclosure Controls and Procedures

Disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed by the Company in its annual filings, interim filings or other reports filed under securities legislation is recorded, processed, summarized and reported within the time periods specified by securities regulators and include controls and procedures designed to ensure that information required to be disclosed by the Company in its annual filings, interim filings or other reports filed under securities legislation is accumulated and communicated to the issuer's management, including its certifying officers, as appropriate to allow timely decisions regarding required disclosure. The Company's management designed the disclosure controls and procedures to provide reasonable assurance that material information relating to the Company, including its consolidated subsidiaries, is made known to them on a timely basis. The Company's management believes that any disclosure controls and procedures, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the disclosure controls and procedures are met.

Management, including the Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in National Instrument 52-109 – Certification of Disclosure in Issuers' Annual and Interim Filings). Based on that evaluation and as at September 30, 2014, the certifying officers have each concluded that such disclosure controls and procedures are effective to achieve the purpose for which they have been designed.

Internal Controls over Financial Reporting

Internal controls over financial reporting are designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with IFRS. Management is responsible for the design of the Company's internal controls over financial reporting.

The Company's internal controls over financial reporting include policies and procedures that pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and disposition of assets, provide reasonable assurance that transactions are recorded as necessary to permit the preparation of the financial statements in accordance with IFRS and that receipts and expenditures are being made only in accordance with authorization of management and directors of the Company, and provide reasonable assurance regarding prevention or timely detection of authorized acquisition, use or disposition of assets that could have a material effect on the financial statements.

Internal Controls over Financial Reporting (continued)

Because of their inherent limitations, internal controls over financial reporting can provide only reasonable assurance and may not prevent or detect misstatements. Furthermore, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

The Company's management, under the supervision of the Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company's internal controls over financial reporting using framework and criteria established in Internal Control-Integrated Framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on that evaluation, management has concluded that internal controls over financial reporting were effective as at September 30, 2014.

There has been no change in the Company's internal controls over financial reporting that occurred during the most recently completed quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal controls over financial reporting.

Forward Looking Statements

Certain of the statements made and information contained herein is "forward-looking information" within the meaning of applicable Canadian securities legislation. These statements relate to future events or the Company's future performance. All statements, other than statements of historical fact, may be forward-looking statements. Information concerning mineral resource and mineral reserve estimates also may be deemed to be forward-looking statements in that it reflects a prediction of mineralization that would be encountered if a mineral deposit were developed and mined. Forward-looking statements are often, but not always, identified by the use of words such as "seek", "anticipate", "plan", "continue", "estimate", "expect", "may", "will", "project", "predict", "propose", "potential", "targeting", "intend", "could", "might", "should", "believe" and similar expressions.

These statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements. The Company believes that the expectations reflected in those forward-looking statements are reasonable but no assurance can be given that these expectations will prove to be correct and such forward-looking statements included in this report should not be unduly relied upon by investors as actual results may vary. These statements speak only as of the date of this report and are expressly qualified, in their entirety, by this cautionary statement. In particular, this report contain forward-looking statements, pertaining to the following: capital expenditure programs; estimates of the quality and quantity of the mineral resources and mineral reserves, at its mineral properties; development of mineral resources and mineral reserves; treatment under governmental and taxation regimes; expectations regarding the Company's ability to raise capital; expenditures to be made by the Company on its properties or in connection with the development and manufacture of drilling additives; the Company's expectations regarding timing and successful production of lithium carbonate and other by-products from the lithium demonstration plant; the Company's expectations regarding the preparation of a feasibility study for lithium carbonate production at the Kings Valley Property and work plans to be conducted by the Company, including expectations with respect to the operational status of, and timing of commercial production at its organoclay plant; the Company's plans to introduce certain products to the market, and expectations regarding the Company's ability to develop and manufacture marketable drilling additives; and the Company's ability to source sales contracts for its organoclay products. With respect to forward-looking statements listed above and contained in the Company's Annual Information Form, the Company has made assumptions regarding, among other things:

- uncertainties relating to receiving mining, exploration, environmental and other permits or approvals in Nevada;
- potential production from the lithium demonstration plant;

Forward Looking Statements (continued)

- the potential production at the Fernley Facility;
- the impact of increasing competition in the lithium business;
- unpredictable changes to the market prices for lithium, and potassium sulfate and clay-based drilling additives;
- the market price of organoclay and the Company's ability to produce a rival product at a competitive price and to source sales contracts;
- exploration and development costs for the Kings Valley Property;
- anticipated results of exploration and development activities;
- availability of additional financing or joint-venture partners;
- the Company's ability to obtain additional financing on satisfactory terms;
- the ability to achieve production at any of the Company's mineral exploration and development properties;
- preparation of a feasibility study for lithium carbonate production at the Kings Valley Property, and
- the continued growth of the shale gas and ultra-deep oil drilling and lithium industries.

The Company's actual results could differ materially from those anticipated in these forward-looking statements as a result of the risk factors set forth below and elsewhere in this report including the following: (i) volatility in the market price for minerals, oil and natural gas; (ii) uncertainties associated with estimating mineral resources and mineral reserves, including uncertainties relating to the assumptions underlying mineral resource and mineral reserve estimates; (iii) uncertainty of whether there will ever be production at the Company's mineral exploration properties; (iv) geological, technical, drilling or processing problems; (v) liabilities and risks, including environmental liabilities and risks, inherent in mineral extraction operations; (vi) fluctuations in currency exchange and interest rates; (vii) incorrect assessments of the value of acquisitions; (viii) unanticipated results of exploration activities; (ix) competition for, amongst other things, capital, undeveloped lands and skilled personnel; (x) lack of availability of additional financing and/or joint venture partners; (xi) unpredictable weather conditions; (xii) the ability to manufacture an organoclay product that meets customer requirements; (xiii) an increase in the costs of manufacturing organoclay, including the costs of any raw materials used in the process; (xiv) unanticipated delays at the lithium demonstration plant or at the Fernley Facility or in preparing the feasibility study; and (xv) a reduction in the demand for shale or ultra-deep drilling.

Readers are cautioned that the foregoing lists of factors are not exhaustive. The forward-looking statements contained in this report are expressly qualified by this cautionary statement. The Company does not undertake any obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.