
WESTERN LITHIUM USA CORPORATION

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED DECEMBER 31, 2013

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

WESTERN LITHIUM USA CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Unaudited – Prepared by Management)
(Expressed in thousands of US Dollars)

	December 31, 2013 \$	September 30, 2013 \$
CURRENT ASSETS		
Cash and cash equivalents	8,340	11,364
Receivables	16	16
Prepaid expenses and deposits	<u>158</u>	<u>167</u>
	8,514	11,547
NON-CURRENT ASSETS		
Capital assets (Note 4)	5,702	3,711
Exploration and evaluation assets (Note 5)	30	-
Reclamation bond (Notes 5 and 7)	<u>310</u>	<u>310</u>
	<u>6,042</u>	<u>4,021</u>
	14,556	15,568
CURRENT LIABILITIES		
Accounts payable and accrued liabilities (Notes 9 and 10)	701	509
Current portion of long-term borrowings (Note 6)	<u>107</u>	<u>105</u>
	808	614
LONG – TERM LIABILITIES		
Long-term borrowing (Note 6)	1,189	1,216
Decommissioning provision (Note 7)	<u>170</u>	<u>170</u>
	<u>1,359</u>	<u>1,386</u>
SHARE CAPITAL	45,085	45,085
CONTRIBUTED SURPLUS	8,365	8,004
ACCUMULATED OTHER COMPREHENSIVE LOSS	(160)	(29)
DEFICIT	<u>(40,901)</u>	<u>(39,492)</u>
	<u>12,389</u>	<u>13,568</u>
	14,556	15,568

Approved for issuance on February 11, 2014

On behalf of the Board of Directors:

“Terry Krepiakevich” Director _____
“John Macken” Director

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

WESTERN LITHIUM USA CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(Unaudited – Prepared by Management)
(Expressed in thousands of US Dollars, except per share amounts and shares in thousands)

	For the three months ended December 31,	
	2013	2012
	\$	\$
EXPENSES		
Exploration expenditures (Notes 10 and 11)	690	397
Investor relations	26	9
Marketing	63	-
Office and administration (Note 9)	107	128
Professional fees (Note 9)	94	64
Regulatory and filing fees (Note 9)	6	2
Salaries and benefits (Notes 9 and 10)	183	254
Stock-based compensation (Notes 8 and 10)	361	99
Travel and conferences	32	44
	<u>1,562</u>	<u>997</u>
LOSS BEFORE OTHER ITEMS	<u>(1,562)</u>	<u>(997)</u>
OTHER ITEMS		
Foreign exchange gain	120	8
Other income	26	-
Interest income	7	5
	<u>153</u>	<u>13</u>
NET LOSS FOR THE PERIOD	<u>(1,409)</u>	<u>(984)</u>
OTHER COMPREHENSIVE LOSS		
Unrealized loss on translation to reporting currency	<u>(131)</u>	<u>(30)</u>
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD	<u>(1,540)</u>	<u>(1,014)</u>
LOSS PER SHARE – BASIC AND DILUTED	<u>(0.01)</u>	<u>(0.01)</u>
WEIGHTED AVERAGE NUMBER OF COMMON SHARES		
OUTSTANDING - BASIC AND DILUTED	<u>102,133</u>	<u>100,722</u>

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

WESTERN LITHIUM USA CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(Unaudited – Prepared by Management)
(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	-	-	99	-	-	99
Net income and other comprehensive loss	-	-	-	(30)	(984)	(1,014)
Balance, December 31, 2012	100,722	44,837	7,878	224	(40,942)	11,997
Balance, September 30, 2013	102,133	45,085	8,004	(29)	(39,492)	13,568
Stock-based compensation	-	-	361	-	-	361
Net loss and other comprehensive loss	-	-	-	(131)	(1,409)	(1,540)
Balance, December 31, 2013	102,133	45,085	8,365	(160)	(40,901)	12,389

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

WESTERN LITHIUM USA CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited – Prepared by Management)

(Expressed in thousands of US Dollars)

	For the three months ended December 31,	
	2013	2012
	\$	\$
OPERATING ACTIVITIES		
Net loss for the period	(1,409)	(984)
Items not affecting cash:		
Stock-based compensation	361	99
Depreciation (Note 4)	4	2
Foreign exchange gain	(120)	(8)
Changes in non-cash working capital items:		
Increase in receivables	-	(8)
Decrease in prepaid expenses and deposits	9	27
Decrease in accounts payable and accrued liabilities	<u>(62)</u>	<u>(80)</u>
Net cash used in operating activities	<u>(1,217)</u>	<u>(952)</u>
INVESTING ACTIVITIES		
Additions to exploration and evaluation assets (Note 5)	(30)	(53)
Additions to capital assets (Note 4)	<u>(1,742)</u>	<u>(14)</u>
Net cash used in investing activities	<u>(1,772)</u>	<u>(67)</u>
FINANCING ACTIVITY		
Repayment of long-term borrowing	<u>(25)</u>	<u>-</u>
EFFECT OF FOREIGN EXCHANGE ON CASH	<u>(10)</u>	<u>(22)</u>
CHANGE IN CASH AND CASH EQUIVALENTS	<u>(3,024)</u>	<u>(1,041)</u>
CASH AND CASH EQUIVALENTS - BEGINNING OF PERIOD	<u>11,364</u>	<u>3,357</u>
CASH AND CASH EQUIVALENTS - END OF PERIOD	<u>8,340</u>	<u>2,316</u>
CASH AND CASH EQUIVALENTS IS COMPRISED OF:		
Cash	8,340	678
Term deposits	<u>-</u>	<u>1,638</u>
	8,340	2,316

Supplemental disclosure with respect to cash flows (Note 13)

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

WESTERN LITHIUM USA CORPORATION
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED DECEMBER 31, 2013
(Unaudited – Prepared by Management)

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

1. NATURE OF OPERATIONS

Western Lithium USA Corporation (“Western Lithium” or the “Company”) is a Canadian based resource company focused on the exploration and development of a lithium and hectorite clay resource 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 under the name Western Lithium Canada Corporation as a subsidiary of Kaizen Discovery Inc. (“Kaizen”, formerly Concordia Resource Corp.). Following the completion of the Plan of Arrangement between the two companies, Western Lithium ceased to be wholly-owned by Kaizen and became an independent publicly traded company on the TSX Venture Exchange on July 16, 2008. On May 31, 2010, the Company changed its name to Western Lithium USA Corporation. Effective February 2, 2011, the Company commenced trading on the TSX under the symbol WLC.

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

To date, the Company has not generated significant revenues from operations. The Company’s organoclay project is considered to be in the development stage. 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 condensed consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) applicable to the preparation of interim financial statements, including IAS 34, Interim Financial Reporting. The condensed consolidated financial statements should be read in conjunction with the annual consolidated financial statements for the year ended September 30, 2013, which have been prepared in accordance with IFRS as issued by the IASB.

These condensed 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 condensed consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow information. The Company has used the same accounting policies and methods of computation as in the annual consolidated financial statements for the year ended September 30, 2013.

3. SIGNIFICANT ACCOUNTING POLICIES

New Accounting Standards Adopted

The Company adopted the following new and revised accounting standards effective October 1, 2013. The adoption of these standards had no significant impact on the condensed consolidated financial statements.

(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, Consolidated and Separate Financial Statements.

WESTERN LITHIUM USA CORPORATION
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED DECEMBER 31, 2013
(Unaudited – Prepared by Management)
(Expressed in thousands of US dollars and shares in thousands, unless otherwise stated)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

New Accounting Standards Adopted (continued)

(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.

(iii) IFRS 12, Disclosure of Interests in 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.

(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.

(v) There have been amendments to existing standards, including IAS 27, Separate Financial Statements, and IAS 28, Investments in Associates and Joint Ventures. IAS 27 addresses accounting for subsidiaries, jointly controlled entities and associates in non-consolidated financial statements. IAS 28 has been amended to include joint ventures in its scope and to address the changes in IFRS 10 – 13.

(vi) IFRIC 20, Stripping Costs in the Production Phase of a Surface Mine, 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.

Accounting Standards Issued but not yet Applied

The Company has not yet assessed the impact of these standards and amendments or determined whether it will early adopt them.

(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.

WESTERN LITHIUM USA CORPORATION
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED DECEMBER 31, 2013

(Unaudited – Prepared by Management)

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Accounting Standards Issued but not yet Applied (continued)

(ii) IAS 32, Financial Instruments: Presentation, this amendment 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 – Financial Instruments: Presentation: 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.

4. CAPITAL ASSETS

	Land	Buildings	Equipment and machinery	Asset under construction	IT/Phone equipment	Lab equipment	Automotive	Total
	\$	\$	\$	\$	\$	\$	\$	\$
Cost								
As at September 30, 2012	-	-	-	-	-	-	38	38
Additions	329	1,289	615	1,409	32	14	-	3,688
As at September 30, 2013	329	1,289	615	1,409	32	14	38	3,726
Additions	4	157	793	1,020	21	-	-	1,995
As at December 31, 2013	333	1,446	1,408	2,429	53	14	38	5,721
Accumulated depreciation								
As at September 30, 2012	-	-	-	-	-	-	6	6
Depreciation for the year	-	-	-	-	-	3	6	9
As at September 30, 2013	-	-	-	-	-	3	12	15
Depreciation for the period	-	-	-	-	3	-	1	4
As at December 31, 2013	-	-	-	-	3	3	13	19
Net book value								
As at September 30, 2013	329	1,289	615	1,409	32	11	26	3,711
As at December 31, 2013	333	1,446	1,408	2,429	50	11	25	5,702

As at December 31, 2013, equipment and machinery includes \$221 in deposits to vendors for the organoclay process plant equipment ordered but not yet delivered to the location of its intended use (Note 12).

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 drilling mud products for the oil and gas industry. The property was purchased for \$1,575 (\$320 for land and \$1,255 for 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 period ended December 31, 2013 and year ended September 30, 2013, was capitalized to land and buildings.

WESTERN LITHIUM USA CORPORATION
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED DECEMBER 31, 2013
(Unaudited – Prepared by Management)
(Expressed in thousands of US dollars and shares in thousands, unless otherwise stated)

5. EXPLORATION AND EVALUATION ASSETS

Kings Valley Property, Nevada, USA	Three months ended December 31, 2013 \$	Year Ended September 30, 2013 \$
Acquisition costs		
Balance, beginning of period	-	9,267
Additions	30	740
Royalty sale, net	-	(15,184)
Gain on royalty sale	-	5,177
Total exploration and evaluation assets	30	-

On February 6, 2013, the Company signed a Royalty Purchase Agreement with Orion Mine Finance (“Orion”, formerly RK Mine Finance (Master) Fund II L.P.) pursuant to which Orion has agreed to pay to Western Lithium up to \$20,000 in two tranches, \$11,000 and \$9,000, in consideration for the sale of a royalty on its Kings Valley Property. The royalty will be a gross royalty on all production from the Kings Valley Property. It will consist of a gross revenue royalty of 8% until the first and second funding tranches have been repaid. The royalty will then be reduced to 3.5% for the life of the project. The Company will have the option at any time to reduce the royalty to 1.75% upon payment to Orion of \$20,000.

On February 6, 2013, the Company received the first tranche of \$11,000 and intends to use it to construct a 10,000 ton per year process facility to produce Hectorite-based organoclay used in the oil and gas drilling industry. A second tranche of \$9,000 will be funded upon completion of the engineering and design of the lithium demonstration plant and once certain regulatory assurances have been received from the Bureau of Land Management with respect to the sale of by-products associated with lithium production, provided it occurs within three years following the date of the Royalty Purchase Agreement. The Company has agreed to pay a finder’s fee in respect of the transaction equal to 6% of the proceeds raised in both tranches. 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 proceed of \$11,000 was 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 \$644.

On September 23, 2013, the Company received \$5,500 from Orion by amending the terms of the Royalty Purchase Agreement between Orion and the Company. Under the new terms, the Company received \$2,000 of new capital from Orion and \$3,500 advance from the remaining \$9,000 funding obligation of Orion under the existing royalty facility. As compensation for the additional funding, the general royalty will increase by 0.5% to 4% while the initial 8% “payback” royalty rate will remain in place until an additional \$2,000 in royalty payments (for an aggregate of \$22,000) have been paid. All other substantive terms of the agreement remain the same. The gross proceeds of \$5,500 was 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 \$4,533.

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 Bonds.

WESTERN LITHIUM USA CORPORATION
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED DECEMBER 31, 2013
(Unaudited – Prepared by Management)
(Expressed in thousands of US dollars and shares in thousands, unless otherwise stated)

5. EXPLORATION AND EVALUATION ASSETS (continued)

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 (\$50 paid in January 2013 and \$50 paid in January 2012) annual payment due on January 21 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. 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.

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 drilling mud products for the oil and gas industry. The property was purchased for \$1,575, of which \$236 was due at the close of the transaction in July, 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 interest equal to the current US prime rate plus 2% for the first five years (5.25%), 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. 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 due to its short-term nature.

7. DECOMMISSIONING 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 December 31, 2013, the Company cannot make a reasonable estimate of the timing of the reclamation obligation.

The Company posted non-interest bearing bonds with the BLM in the State of Nevada of \$310 as security of these obligations. Fair value cannot be reasonably determined and accordingly the bonds have been recorded at historical cost.

8. STOCK OPTIONS

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 20,144 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.

WESTERN LITHIUM USA CORPORATION
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED DECEMBER 31, 2013

(Unaudited – Prepared by Management)

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

8. STOCK OPTIONS (continued)

Stock options outstanding and exercisable as at December 31, 2013, are as follows:

Number of Options Outstanding	Number of Options Exercisable	Exercise Price, CDN\$	Expiry Date
25	25	0.27	February 5, 2014 ¹
100	100	0.88	February 12, 2014
100	100	1.12	February 12, 2014
25	25	0.27	February 12, 2014
37	37	0.16	February 12, 2014
38	38	0.27	February 12, 2014
133	133	0.54	March 17, 2014
1,050	1,050	1.28	November 2, 2014
25	25	0.54	November 14, 2014
200	200	1.43	December 14, 2014
250	250	2.03	February 4, 2015
100	100	1.09	May 12, 2015
515	515	0.88	July 14, 2015
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
1,055	1,055	0.54	September 16, 2016
1,180	1,180	0.27	January 3, 2017
2,340	1,755	0.16	August 30, 2017
4,555	1,139	0.27	October 21, 2018
13,338	9,337		

¹ Stock options 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	4,805	0.27
Expired	(1,400)	(0.45)
Cancelled	(200)	(0.26)
Balance, outstanding December 31, 2013	13,338	0.57

On October 21, 2013, the Company granted 4,805 stock options at the exercise price of \$0.27 per option to its directors, employees, and consultants. The expiry date of the stock options is October 21, 2018. The fair value of stock options was estimated at \$0.19 per option for a total of \$905. The fair value of stock options granted was estimated on the date of grant using the Black-Scholes Option Pricing model with the following assumptions: risk-free rate of 1.68%, estimated volatility 96%, expected life of 5 years, and expected dividend yield of 0%.

Stock-based compensation expense of \$361 (Q1 2013 - \$99) was charged to operations and credited to contributed surplus to reflect the fair value of stock options vested during the period ended December 31, 2013. At December 31, 2013, \$427 of the fair value of stock options previously granted but not yet vested remains to be expensed in fiscal 2014 and \$94 in fiscal 2015. Annualized volatility was determined solely based on historical volatility.

WESTERN LITHIUM USA CORPORATION
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED DECEMBER 31, 2013
(Unaudited – Prepared by Management)
(Expressed in thousands of US dollars and shares in thousands, unless otherwise stated)

9. RELATED PARTY TRANSACTIONS

The Company had related party transactions with WMM Services Corporation (“WMM”), a private company owned equally by Western Lithium USA Corporation and Meryllion Resource Corp. WMM provides administration, accounting and other office services to the Company on a cost-recovery basis.

The Company’s related party transactions are included in the following expense categories:

	For the three months ended December 31,	
	2013	2012
	\$	\$
Salaries ,benefits, directors’ fees	150	159
Salaries and benefits included in exploration expenditures	39	41
Office and administration	46	60
Regulatory and filing fees	4	-
Professional fees	-	1
Total related party transactions	239	261

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

	As at December 31,	As at
	2013	September 30,
	\$	2013
		\$
Amounts due to related party	85	82

The related party transactions incurred during the period were in the normal course of operations and were measured at the exchange value, which represented the amount of consideration established and agreed to by the related parties. The amounts due to related party are unsecured, non-interest bearing and have no specific terms for repayment.

10. COMPENSATION OF KEY MANAGEMENT

The Company pays its non-executive directors a fee of CDN\$25 per year payable quarterly.

The remuneration of directors and members of key management included:

	For the three months ended December 31,	
	2013	2012
	\$	\$
Stock-based compensation	242	69
Salaries	95	137
Salaries and benefits included in exploration expenditures	33	83
Salaries and benefits included in capital assets	90	-
Directors’ fees included in salaries and benefits	30	25
Employee benefits included in salaries and benefits	4	8
	494	322

WESTERN LITHIUM USA CORPORATION
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED DECEMBER 31, 2013
(Unaudited – Prepared by Management)
(Expressed in thousands of US dollars and shares in thousands, unless otherwise stated)

10. COMPENSATION OF KEY MANAGEMENT (continued)

	As at December 31, 2013 \$	As at September 30, 2013 \$
Total due to directors	29	12

11. EXPLORATION EXPENDITURES

Kings Valley Property, Nevada, USA	For the three months ended December 31, 2013				For the three months ended December 31, 2012
	Organoclay	Lithium	General	Total	Total
Exploration expenditures					
Engineering	(2)	305	-	303	-
Environmental	35	23	-	58	24
Geological and consulting (Note 10)	166	71	1	238	312
Field supplies and other	58	33	-	91	34
Geochemistry, assays and sampling	-	-	-	-	24
Metallurgy and lab costs	-	-	-	-	3
Total exploration expenditures	257	432	1	690	397

12. COMMITMENTS

As at December 31, 2013, the Company had the following commitments that have not been disclosed elsewhere in these condensed consolidated financial statements:

	As at December 31, 2013 \$	As at September 30, 2013 \$
<i>Not later than one year</i>		
Equipment purchases (Note 4)	2,003	1,888
Rent of office space	210	139
Total	2,213	2,027
<i>Later than one year, but not later than 5 years</i>		
Rent of office space	-	38

WESTERN LITHIUM USA CORPORATION
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED DECEMBER 31, 2013
(Unaudited – Prepared by Management)
(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 transactions is provided in the table below:

	For the three months ended December 31,	
	2013	2012
	\$	\$
Accounts payable and accrued liabilities related to capital assets	254	-
	2013	2012
	\$	\$
Interest capitalized to land and buildings	17	-
Income taxes paid	-	-

14. SEGMENTED INFORMATION

The Company operates in one business segment, being the acquisition and development of mineral properties. The Company is in development stage and, accordingly, has no reportable segment revenues or operating results for the period ended December 31, 2013.

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

	Canada	United States	Total
	\$	\$	\$
Current assets	3,957	4,557	8,514
Capital assets	52	5,650	5,702
Reclamation bond	-	310	310
Exploration and evaluation assets	-	30	30
	4,009	10,547	14,556

	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

WESTERN LITHIUM USA CORPORATION
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED DECEMBER 31, 2013
(Unaudited – Prepared by Management)
(Expressed in thousands of US dollars and shares in thousands, unless otherwise stated)

15. 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 – Input 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.

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

Credit Risk

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

The Company's prepaid expenses and deposits consist of the \$56 bank deposit for the Company's secured credit cards and other miscellaneous prepaid expenses and deposits that are subject to normal industry credit risk.

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

Financial Instruments Risk Exposure

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.

WESTERN LITHIUM USA CORPORATION
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED DECEMBER 31, 2013
(Unaudited – Prepared by Management)
(Expressed in thousands of US dollars and shares in thousands, unless otherwise stated)

15. FINANCIAL INSTRUMENTS (continued)

Financial Instruments Risk Exposure (continued)

Liquidity Risk (continued)

As at December 31, 2013, the Company had cash and cash equivalents balance of \$8,340 (September 30, 2013 - \$11,364) to settle current liabilities of \$808 (September 30, 2013 - \$614). In addition, the Company has committed to pay \$2,003 for its organoclay process plant equipment. The Company intends to settle these with funds from its positive working capital position.

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

	Years ended September 30,			Total
	2014	2015	2016 and later	
	\$	\$	\$	\$
Accounts payable and accrued liabilities	701	-	-	701
Long-term borrowing ¹	129	172	1,352	1,653
Decommissioning provision	-	-	170	170
Total	830	172	1,522	2,524

¹Long-term borrowing includes principal and interest 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

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 the statement of income/(loss). If the US dollar appreciated by 1% in relation to Canadian dollar, the Company's net loss would have decreased by approximately \$33.

ii) Price Risk

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

iii) Interest Rate Risk

The Company is exposed to interest rate risk to the extent that the cash 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 \$8. The interest rate risk on cash and cash equivalents is not considered significant.

WESTERN LITHIUM USA CORPORATION
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED DECEMBER 31, 2013
(Unaudited – Prepared by Management)
(Expressed in thousands of US dollars and shares in thousands, unless otherwise stated)

15. FINANCIAL INSTRUMENTS (continued)

Financial Instruments Risk Exposure (continued)

Market Risk (continued)

The Company is also exposed to interest rate risk on its long-term borrowing. The promissory note bears interest equal to the current US prime rate plus 2% (currently 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.

16. 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 period ended December 31, 2013. The Company is not subject to external covenants.

17. SUBSEQUENT EVENT

In February 2014, the Company received \$1,500 from Orion as an additional advance payment pursuant to the Royalty Purchase Agreement (note 5).

**WESTERN LITHIUM USA CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE THREE MONTHS ENDED DECEMBER 31, 2013**

Background

This Management's Discussion and Analysis ("MD&A"), prepared as of February 11th, 2014, should be read in conjunction with the condensed consolidated financial statements ("financial statements") and the notes thereto of Western Lithium USA Corporation (the "Company") for the three months ended December 31, 2013, and the audited annual consolidated financial statements and the notes thereto of the Company for the year ended September 30, 2013, 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 consolidated financial statements for the year ended September 30, 2013, for disclosure of the Company's significant accounting policies.

Company Overview

Western Lithium USA Corporation ("Western Lithium" or "WLC" or the "Company") is a Canadian-based resource company focused on the development of its Kings Valley lithium and hectorite clay deposit (the "Project" or "Kings Valley") located in northwestern Nevada. The Company plans to sell specialty organoclay drilling mud products ("Hectatone™" products) to the oil and gas sector derived from its hectorite clay starting in 2014. In addition, the Company has completed a pre-feasibility study to extract lithium from hectorite clay to produce lithium carbonate that is primarily intended for the lithium battery sector.

The Company's head office is located at #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 Kings Valley Clay Inc. Additional information relating to the Company is available on SEDAR at www.sedar.com.

Business Strategy

Western Lithium is targeting mid-2014 to complete construction of the processing plant for its planned organoclay business. Permitting to allow for the mining of hectorite clay from the Project has commenced and expected to be completed in the spring of 2014. The Company may consider the purchase of other clays including bentonite to make other competitive products. In 2014, the Company plans to complete procurement and construction of a 10,000 ton per year organoclay facility at the recently purchased City of Fernley industrial site. 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.

**WESTERN LITHIUM USA CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE THREE MONTHS ENDED DECEMBER 31, 2013**

Business Strategy (continued)

Western Lithium released a pre-feasibility study for its lithium project in January 2012 that demonstrated competitive economics and a pre-tax net present project value of US\$552 million at an 8% discount rate. 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. A demonstration plant is planned as the next step to further de-risk the process technology and to attract construction capital. In addition, the Company continues to seek a strategic offtake partner or technical partner to advance the project and to realize its significant potential asset value.

In February 2013, the Company completed a Royalty Purchase Agreement (“Royalty Financing”) for US\$20 million payable in two tranches, which will partially fund the Company’s plan to develop the hectorite drilling additives business and to advance its lithium project. Western Lithium is using the initial funding tranche of US\$11 million (received) towards the construction of the proposed 10,000 ton per year hectorite clay facility. Up to US\$1 million from the initial funding tranche has been allocated to complete the design and engineering for a lithium demonstration plant.

In September 2013, the Company was provided with additional funding of US\$5.5 million, without the issuance of any new shares, by amending the terms of the Royalty Financing. Under the new terms, the Company received US\$2 million of new capital and a US\$3.5 million advance from the remaining US\$9 million funding obligation under the existing royalty facility. The proceeds will be used to fund the Hectatone™ organoclay business, a lithium demonstration plant and general working capital. The Company will require additional funding to complete the construction of the processing plant for its hectorite clay business. In addition, working capital will be needed and will be assessed at the completion of the plant construction to determine requirements based on anticipated sales of products.

Significant Events

- On January 22, 2014, the Company announced that it has contracted Phoenix Industrial Inc. (“Phoenix”), based in Vancouver, Washington as the general contractor for its Hectatone™ organoclay plant that is under construction in Fernley, Nevada. Phoenix’s scope includes a two-phase approach: (i) Phase I, currently underway, will complete earthwork, concrete and building modifications; and (ii) Phase II is expected to commence in March, and will enable completion and commissioning of the Hectatone™ organoclay plant by summer. Phoenix has expertise with projects of a similar size and scope as the Company’s planned Fernley facility and has completed several successful projects in Nevada. The Company has also seconded an experienced project manager, Tom Payne, with 40 years of field experience on project construction sites. Mr. Payne has worked with Western Lithium’s management in the past on other chemical plant projects and will provide cost control, reporting and in-field construction management services.

**WESTERN LITHIUM USA CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE THREE MONTHS ENDED DECEMBER 31, 2013**

Significant Events (continued)

- During the month of December, the Company completed several Hectatone™ organoclay pilot scale tests at facilities in North Carolina and Missouri. Representative sample products are currently being sent to numerous potential customers that have expressed interest in testing Hectatone™ products. Further testing and product development will continue at our facilities in Nevada and at pilot facilities in the eastern USA.
- On December 10, 2013, the Company announced that it has received all major permits for its planned Hectatone™ organoclay manufacturing plant in Fernley, Nevada. Specifically, the Nevada Division of Environmental Protection issued the Nevada Air Quality Operating Permit that includes the site's organoclay processing components, mill burner and thermal oxidizer burner. The City of Fernley has issued both the Design Review permit and the Building permit. Finally, the North Lyon County Fire Protection District has approved all of the building plans for conformance with fire and safety requirements.

Specialty Hectorite Drilling Additives Business

The source for lithium mineralization at the Company's Kings Valley project is rare hectorite clay. In 2011, the Company recognized that processed hectorite clay is being used as a specialty drilling mud additive in the oil and gas drilling industry. The Company hired personnel with expertise in the clay processing industry and a clay laboratory was outfitted and staffed in Nevada. The Company has spent approximately three years developing products, personnel and its strategy to enter the specialty drilling mud business.

The Company has commenced its hectorite clay business strategy by beginning construction of a planned 10,000 ton per year processing facility at an industrial site in the City of Fernley, Nevada. Western Lithium expects the construction of the processing facility to be completed in mid-2014. Furthermore, the Company expects to have its mining permit at its Kings Valley hectorite deposit in the spring of 2014. The Company continues to advance its product development and expects to bring up to six Hectatone™ organoclay products to the market in 2014. Organoclay typically sells in a range of US\$2,000 to \$4,500 per short ton FOB shipping point, depending on performance. Western Lithium may price its products at a discount to premium priced products.

The Company has been producing pilot-scale samples of its products, which demonstrate thermal stability for application in high pressure high temperature drilling exploration environments. Samples are currently being prepared to undergo testing by major drilling service companies, and a sales and marketing plan that initially targets USA suppliers is being implemented.

**WESTERN LITHIUM USA CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE THREE MONTHS ENDED DECEMBER 31, 2013**

Specialty Hectorite Drilling Additives Business (continued)

To make a commercial drilling mud product, the Company's hectorite clay must be processed using an extruder and combined with several additives to produce an organoclay. Western Lithium's hectorite clay is of high purity, which enables it to use a dry process to manufacture its products, which the Company expects will give it a cost advantage in the industry. The extraction of the hectorite clay is not expected to negatively impact future lithium project development.

Unconventional drilling technology using deep directional drilling and hydraulic fracking techniques has been developed over the past twenty years. Over the past decade, commercial natural gas and oil production has been established in significant shale basins within the USA. Development efforts have increased significantly over the past several years and natural gas from unconventional drilling now accounts for over 23% of natural gas production within the USA, according to the US Energy Information Administration. In addition, countries in Asia, South America, Africa and Europe have identified significant shale basins for potential exploration and development. According to the China National Energy Administration development five-year plan released on March 16, 2012, China announced that it intends to begin exploration and development of its shale gas resources to reach commercial production by 2015.

The Company believes that continued growth of shale gas drilling in the USA combined with a global push towards developing shale gas resources and ultra deep oil reserves will provide strong growth for Western Lithium's strategy to build a specialty drilling additives business.

Lithium Project Summary

The Company filed on the SEDAR website the results of its positive Pre-feasibility Study ("PFS") that was completed by Tetra Tech, Inc. in January 2012. Two scenarios were evaluated. A startup scenario based on mining and processing ore at a design throughput rate of 2,100 tonnes per day (13,000 tonnes per annum lithium carbonate ("Li₂CO₃")), and a full production scenario to double production four years after startup (26,000 tonnes per annum lithium carbonate).

The study demonstrates that the Project could produce lithium carbonate at an estimated average cash cost, net of by-product credits, of US\$968 per tonne once full production of 26,000 tonnes per year lithium carbonate is achieved. This result is considered to place the project as one of the lowest cash cost projects in the world when compared against cost projections of competitors in the industry. Initial start-up capital, including contingency is expected to be approximately US\$248 million. Incremental development capital to double lithium carbonate production to 26,000 tonnes per year is estimated at approximately US\$161 million. Additional, sustaining capital of US\$40 million including contingency, is primarily composed of surface mine equipment, expansions of dry stack tailings and surface water management, and mine closure.

**WESTERN LITHIUM USA CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE THREE MONTHS ENDED DECEMBER 31, 2013**

Lithium Project Summary (continued)

The study was undertaken by a collaboration of independent industry specialist firms including Tetra Tech, Inc. ("Tt"), Reserva International, LLC and K-UTECH AG Salt Technologies ("K-UTECH"). The study has been prepared in accordance with Canadian securities National Instrument 43-101 and Form 43-101F1 regulatory requirements.

Project highlights for nominal production of 26,000 tonnes per year lithium carbonate:

- Pre-tax Net Present Value ("NPV") of US\$552 million with an Internal Rate of Return ("IRR") of 24% at an 8% discount rate;
- Operating cash costs, net of by-product credits, of US\$968 per tonne of lithium carbonate;
- Total cash operating costs per tonne (excluding credits) for lithium carbonate are US\$3,472 per tonne lithium carbonate;
- Average annual cash flow is projected to be US\$124 million per year (at nominal 26,000 tpa);
- Nominal production of by-product potassium sulfate and sodium sulfate of 90,000 and 100,000 tonnes per year, respectively;
- 20 year mine life, processing 25.5 million tonnes of ore at an average grade of 0.40% lithium using a 0.320% cut-off grade;
- Initial annual production of 13,000 tonnes lithium carbonate, increasing to 26,000 tonnes in year four;
- Diversified and large established mining industry in Nevada;
- Established infrastructure including road access, power supply and a local water source;
- Commodity price assumptions of US\$6,000 per tonne lithium carbonate, US\$600 per tonne potassium sulfate, and US\$75 per tonne sodium sulfate;
- Overall recoveries expected to be 87.2% for lithium, 77.7% for potassium and 82.7% for sodium.

Under the startup scenario, lithium carbonate production is expected to start at an annual rate of 13,000 tonnes per year. Full production of 26,000 tonnes per year is planned four years after initial startup, if demand for lithium increases.

Lithium ore and waste rock will be extracted via an open-pit mine operation using end-dump haul trucks, hydraulic shovels, and a surface miner. Waste rock will be mined with a shovel/truck combination, while ore will be mined with the surface miner and direct loaded into haul trucks.

Kings Valley Property Location

The Kings Valley property is located approximately 86 kilometres north-northwest of Winnemucca, Nevada, along paved state highway 293, which is approximately 28 kilometres west-northwest of Orovada, Nevada. There is railroad access located in Winnemucca. The Project has the advantage of leveraging off an active mining industry in the Winnemucca area, with developed infrastructure and an experienced work force.

**WESTERN LITHIUM USA CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE THREE MONTHS ENDED DECEMBER 31, 2013**

Kings Valley Property Location (continued)

Adequate electrical power is available and currently there is a 115 kVA power line that passes through the property. Water rights have been acquired and may be sourced from the adjacent Quinn River Valley, which is in the same watershed basin as the Project site. Water resources are also being investigated at the Project site. A major natural gas pipeline is located approximately 32 km south of the Project site.

Historical Lithium Resource Estimate

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

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

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

Summary of Selected Quarterly Results

	2014	2013				2012		
	Q1 US\$	Q4 US\$	Q3 US\$	Q2 US\$	Q1 US\$	Q4 US\$	Q3 US\$	Q2 US\$
Total assets	14,556	15,568	10,889	11,736	12,214	13,209	14,084	15,578
Exploration and evaluation assets	30	-	28	-	9,320	9,267	8,894	8,893
Capital assets	5,702	3,711	766	41	44	32	33	35
Working capital	7,706	10,933	9,410	11,159	2,323	3,303	4,637	5,958
Expenses	(1,562)	(1,376)	(1,014)	(1,598)	(997)	(1,285)	(1,380)	(2,244)
Net (loss)/ income for the period	(1,409)	2,958	(925)	(559)	(984)	(1,268)	(1,361)	(2,232)
Basic (loss)/earnings per common share	(0.01)	0.03	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.02)
Diluted (loss)/earnings per common share	(0.01)	0.03	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.02)

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

**WESTERN LITHIUM USA CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE THREE MONTHS ENDED DECEMBER 31, 2013**

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

Summary of Selected Quarterly Results (continued)

The decrease in total assets in Q1 2014 was mainly due to the decrease in cash used for operating activities.

The increase in exploration and evaluation assets during the Q1 2014 was due to the \$30 in claims payments on the Kings Valley property. In Q2 and Q4 2013, the Company received the first and second funding tranches related to the Royalty Purchase Agreement between the Company and Orion, which reduced the carrying value of the exploration and evaluation assets to \$Nil at the end of Q2 and Q4 2013.

In Q1 2014, the Company's capital assets increased by \$1,991. The increase in capital assets is mainly due to the \$157 expenditures for the buildings improvements, \$630 for engineering work and \$390 for other capitalized costs related to the Company's organoclay plant under construction, \$793 for purchase of process equipment, including \$221 of equipment deposits and \$21 for miscellaneous IT and phone system equipment.

The decrease in Q1 2014 working capital compared to Q4 2013 was due to operating expenses, additions to capital assets, and additions to exploration and evaluation assets.

Q1 2014 operating expenses of \$1,562 increased compared to Q4 2013 operating expenses mainly due to the increases in non-cash stock-based compensation expense, marketing, professional fees, and exploration expenditures, offset by decrease in travel and conferences, and office and administration expense.

The net loss in Q1 2014 includes a foreign exchange gain of \$120 (Q1 2013 -\$8), other income of \$26 (Q1 2013 - \$Nil), and interest income of \$7 (Q1 2013 - \$5). The total comprehensive income for the period includes an unrealized loss on translation to reporting currency of \$131 (Q1 2013 - \$30).

Results of Operations – Three Months Ended December 31, 2013

For the three months ended December 31, 2013, the Company reported a net loss of \$1,409 compared to a loss of \$984 for the three months ended December 31, 2012, of which \$1,562 (Q1 2013 - \$997) is attributed to expenses.

Stock-based compensation of \$361 (Q1 2013 - \$99) 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.

**WESTERN LITHIUM USA CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE THREE MONTHS ENDED DECEMBER 31, 2013**

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

Results of Operations – Three Months Ended December 31, 2013 (continued)

Exploration and evaluation expenditures of \$690 (Q1 2013 – \$397) were incurred on the Company's Kings Valley property. The exploration expenditures were higher due to the engineering work on the lithium pilot plant.

Professional fees consist of legal fees of \$59 (Q1 2013 – \$47), consulting fees of \$24 (Q1 2013 - \$16), public relations fees of \$6 (Q1 2013 – \$1) and accounting fees of \$5 (Q1 2013 - \$Nil).

The Company capitalized acquisition costs of \$30 (Q1 2013 - \$53).

The Company recognized in Q1 2014 a foreign exchange gain of \$120 (Q1 2013 - \$8) due to the appreciation of the US dollar during the period.

Liquidity and Capital Resources

Cash Flow Highlights	Three months ended December 31,	
	2013	2012
	\$	\$
Cash used in operating activities	(1,217)	(952)
Cash used in investing activities	(1,772)	(67)
Cash used in financing activities	(25)	-
Effect of foreign exchange on cash	(10)	(22)
Decrease in cash and cash equivalents	(3,024)	(1,041)
Cash and cash equivalents - beginning of period	11,364	3,357
Cash and cash equivalents - end of period	8,340	2,316

At December 31, 2013, the Company had cash and cash equivalents of \$8,340 and working capital of \$7,706 compared to \$11,364 cash and cash equivalents and working capital of \$10,933 on September 30, 2013. The decrease is due to the additions to the exploration and evaluation assets, capital assets, and operating expenses. On February 11, 2014, the Company received \$1,500 from Orion as an additional advance payment pursuant to the Royalty Purchase Agreement. The Company's management believes that the current cash balance will be sufficient to fund its core operations for the next year, excluding construction of the planned organoclay processing plant in Fernley.

The Company has plans to generate revenue in the near future from its organoclay business but it will still have to continue to rely on additional financings to further the development of its property. The Company's capital resources are largely determined by the strength of the junior resource markets and by the status of the Company's 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.

**WESTERN LITHIUM USA CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE THREE MONTHS ENDED DECEMBER 31, 2013**

Amounts are expressed in thousands of US dollars

Liquidity and Capital Resources (continued)

Except as disclosed, the Company does not know of any trends, demand, commitments, events or uncertainties that will result in, or that are reasonably likely to result in, its liquidity 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 expects in the future to be engaged in currency hedging to offset any risk of currency fluctuations.

Operating Activities

Cash used in operating activities during the period ended December 31, 2013, was \$1,217 compared to \$952 net cash used during the period ended December 31, 2012. The increase was mostly due to higher exploration expenditures, marketing, and professional fees in the current period compared to the same period of last year. The significant components of operating activities are discussed in the Results of Operations section above.

Investing Activities

Investing activities required cash of \$1,772 during the period ended December 31, 2013, compared to \$67 used during the year period ended December 31, 2012. The cash used in investing activities during the period ended December 31, 2013, was for the claims payments of \$30 (Q1 2013 - \$41), lease payments of \$Nil (Q1 2013 - \$12) and for capital assets of \$1,742 (Q1 2013 - \$14).

Capital assets costs consist of \$157 for the buildings improvements, \$630 for engineering work and \$390 for other capitalized costs included under asset under construction, \$793 for purchase of process plant equipment, including \$221 of equipment deposits and \$21 for purchase of IT and a new phone system.

Accounts payable and accrued liabilities related to capital assets were \$254.

Financing Activities

In Q4 2013, the Company purchased an industrial complex in the City of Fernley to be the production site for its organoclay plant for \$1,575, of which \$236 was paid at the close of the transaction and the remaining balance of \$1,339 (\$18 re-paid in Q4 2013 and \$25 in Q1 2014) is financed by the seller with a ten-year promissory note payable in monthly instalments.

**WESTERN LITHIUM USA CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE THREE MONTHS ENDED DECEMBER 31, 2013**

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 (continued)

The promissory note bears interest equal to the current US prime rate plus 2% for the first five years (5.25%), 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. The note is secured by the purchased property. The Company had no financing activities during the period ended December 31, 2012.

Current Share Data

As at the date of this report, the Company has 102,170 common shares issued and outstanding and has 13,313 stock options outstanding.

On October 21, 2013, the Company granted 4,805 stock options at the exercise price of \$0.27 per option to its directors, employees, and consultants. The expiry date of the stock options is October 21, 2018. The fair value of stock options was estimated at \$0.19 per option for a total of \$905. The fair value of stock options granted was estimated on the date of grant using the Black-Scholes Option Pricing model with the following assumptions: risk-free rate of 1.68%, estimated volatility 96%, expected life of 5 years, and expected dividend yield of 0%.

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

Compensation of Key Management

The Company pays its non-executive directors a fee of CDN\$25 per year payable quarterly.

The remuneration of directors, a former director, and other members of key management included:

	For the period ended December 31,	
	2013	2012
	\$	\$
Stock-based compensation	242	69
Salaries	95	137
Salaries included in exploration and evaluation expenditures	33	83
Salaries and benefits included in capital assets	90	-
Directors' fees included in salaries and benefits	30	25
Employee benefits included in salaries and benefits	4	8
	494	322

**WESTERN LITHIUM USA CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE THREE MONTHS ENDED DECEMBER 31, 2013**

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

Compensation of Key Management (continued)

The liabilities of the Company included the following amounts due to Directors of the Company:

	As at December 31,	As at September 30,
	2013	2013
	\$	\$
Total due to Directors (included in accounts payable)	29	12

Commitments

As at December 31, 2013, the Company had the following commitments:

	As at December 31,	As at September 30,
	2013	2013
	\$	\$
<i>Not later than one year</i>		
Equipment purchase	2,003	1,888
Rent of office space	210	139
Total	2,213	2,027
<i>Later than one year, but not later than 5 years</i>		
Rent of office space	-	38

Related Party Transactions

The Company had related party transactions with WMM Services Corporation ("WMM"), a private company owned equally by the Company and Meryllion Resource Corp. WMM provides administration, accounting and other office services to the Company on a cost-recovery basis.

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

	For the period ended December 31,	
	2013	2012
	\$	\$
Salaries, benefits and directors fees	150	159
Salaries and benefits included in exploration expenditures	39	41
Office and administration	46	60
Regulatory and filing fees	4	-
Professional fees	-	1
Total related party transactions	239	261

**WESTERN LITHIUM USA CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE THREE MONTHS ENDED DECEMBER 31, 2013**

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

Related Party Transactions (continued)

The accounts payable and accrued liabilities of the Company included the following amounts due to related party:

	As at December 31,	As at September 30,
	2013	2013
	\$	\$
Amounts due to related party	85	82

The related party transactions incurred during the period were in the normal course of operations and were measured at the exchange value, which represented the amount of consideration established and agreed to by the related parties. The amounts due to related party are unsecure, non-interest bearing and have no specific terms for repayment.

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 notes 5 and 12 of the December 31, 2013, condensed 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 and cash equivalents 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, decommissioning provision and long-term borrowing. 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 and decommissioning provision are included in long-term liabilities due to their long-term nature.

**WESTERN LITHIUM USA CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE THREE MONTHS ENDED DECEMBER 31, 2013**

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

Financial Instruments (continued)

	December 31, 2013 \$	September 30, 2012 \$
Financial assets		
Loans-and-receivables		
Cash and cash equivalents	8,340	11,364
Receivables	16	16
Reclamation bonds	310	310
Total financial assets	8,666	11,690
Financial liabilities		
Other-financial-liabilities		
Accounts payable and accrued liabilities	701	509
Current portion of long-term borrowing	107	105
Long-term borrowing	1,189	1,216
Decommissioning provision	170	170
Total financial liabilities	2,167	2,000

Additional financial instruments disclosure is contained in Note 15 of the Company's condensed consolidated financial statements for the period ended December 31, 2013.

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 15 of the Company's condensed consolidated financial statements for the period ended December 31, 2013.

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.

**WESTERN LITHIUM USA CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE THREE MONTHS ENDED DECEMBER 31, 2013**

Risks and Uncertainties (continued)

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

Price Risk: Metal prices and prices for organoclays drilling additives have historically fluctuated widely and are affected by numerous factors beyond the Company's control, including international, economic and political trends, expectations for inflation, currency exchange fluctuations, interest rates, global or regional consumption patterns, speculative activities and worldwide production levels. The price of lithium and organoclays is affected by numerous factors beyond the control of the Company and can be extremely volatile. The price of these products greatly affect the value of the Company and the potential value of its properties.

The Company's results of operations also could be affected by the prices of other commodities such as fuel and other consumable items or the by-products. The prices of these commodities are affected also by numerous factors beyond the Company's control.

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

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

Technology Risk: To the Company's knowledge, lithium carbonate has never been commercially produced from a hectorite clay resource. While extensive laboratory and pilot testing has been completed with high quality lithium carbonate produced successfully using known industry processes and equipment, the process contemplated by Western Lithium for the production of lithium carbonate has not yet been demonstrated at a commercial scale. The Company is planning to use a dry process to produce it Hectatone™ organoclay products. The Company expects that its dry process, which provides a potential cost advantage, will be able to compete with certain wet processed organoclays. The Company has never sold any commercial Hectatone™ products.

**WESTERN LITHIUM USA CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE THREE MONTHS ENDED DECEMBER 31, 2013**

Risks and Uncertainties (continued)

Market Risk: The development of the Kings Valley Lithium Project is almost entirely dependent on the adoption of lithium-ion batteries for electric vehicles and other large format batteries that are only just being introduced to the market and whose projected adoption rates are not assured. Hectatone™ are being marketed towards the potential growth of the oil and mineral oil based drilling mud market and in particular towards the expected increase of high pressure and high temperature applications.

Mineral Tenure Risk: The Mining Law of 1872, as amended, authorizes the Company to develop and mine the minerals on the unpatented mining claims that form the Kings Valley Property which are locatable under the Mining Law of 1872, as amended. The Mining Law of 1872 does not explicitly authorize the owner of an unpatented mining claim to sell minerals that are leasable under the Mineral Lands Leasing Act of 1920, as amended. 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 unpatented mining claim has the authority and right to process and sell minerals governed by the Mineral Lands Leasing Act of 1920, particularly when they are byproducts of the processing of minerals which are locatable under the Mining Law of 1872.

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

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

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

**WESTERN LITHIUM USA CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE THREE MONTHS ENDED DECEMBER 31, 2013**

Risks and Uncertainties (continued)

Environmental Compliance

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

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

The BLM currently identifies a portion of the Kings Valley Lithium Project 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 Lithium deposit, if found to be sage-grouse habitat, could be limited for mineral development. This is unlikely in the Stage I 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.

Significant Accounting Policies

Significant Accounting Judgments and Estimates

The preparation of the audited annual 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 financial statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates.

The financial statements include estimates, which by their nature, are uncertain. The impacts of such estimates are pervasive throughout the 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.

**WESTERN LITHIUM USA CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE THREE MONTHS ENDED DECEMBER 31, 2013**

Significant Accounting Policies (continued)

Significant Accounting Judgments and Estimates (continued)

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 an intangible asset arising from development of an internal project should be recognized. Management has determined that the Hectatone™ product line has not demonstrated that it will generate expected future economic benefits. The development of the Company's organoclay products is in the research phase and has not yet met the criteria for capitalization.

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 Kings Valley Clay Inc. is the US dollar, as these are the currencies of the primary economic environment in which the companies operate.

**WESTERN LITHIUM USA CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE THREE MONTHS ENDED DECEMBER 31, 2013**

Significant Accounting Policies (continued)

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.

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. These costs are charged to the statement of comprehensive income/(loss) as an operating cost.

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.

**WESTERN LITHIUM USA CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE THREE MONTHS ENDED DECEMBER 31, 2013**

Significant Accounting Policies (continued)

Capital Assets and Mine Under Development

Capital assets and the mine under development are measured at cost less accumulated depreciation. Cost includes the purchase price and expenses directly attributable to bringing the asset to the location and working condition for its intended use.

Capital assets are recorded at cost less accumulated depreciation calculated using the declining balance method at the 20% annual rate.

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 its 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 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.

**WESTERN LITHIUM USA CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE THREE MONTHS ENDED DECEMBER 31, 2013**

Significant Accounting Policies (continued)

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.

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 balance sheet 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, it provides a valuation allowance against that excess.

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. The Company's allocation of share-based payments is consistent with its treatment of other types of compensation for each recipient. 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.

**WESTERN LITHIUM USA CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE THREE MONTHS ENDED DECEMBER 31, 2013**

Significant Accounting Policies (continued)

Valuation of Equity Units Issued in Private Placements

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

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.

**WESTERN LITHIUM USA CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE THREE MONTHS ENDED DECEMBER 31, 2013**

Significant Accounting Policies (continued)

Foreign Currency Translation (continued)

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, 2015
- 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.

Change in Directors and Management

There were no changes in management during the period ended December 31, 2013.

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 Lithium Property. For further description of scientific and technical information about the Kings Valley Property, please refer to technical reports filed on SEDAR (www.sedar.com).

**WESTERN LITHIUM USA CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE THREE MONTHS ENDED DECEMBER 31, 2013**

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 subsidiary, 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.

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.

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.

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.

**WESTERN LITHIUM USA CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE THREE MONTHS ENDED DECEMBER 31, 2013**

Forward Looking Statements

Certain of the statements made and information contained herein constitutes forward-looking information within the meaning of applicable Canadian securities legislation. When used, the words "will", "once", "provided", "plans", "targeting", "expected", "expectation", "anticipates", "believe", "intends" or comparable terminology are intended to identify forward-looking statements and information. The forward-looking statements and information contained herein, among others the completion of the second tranche of funding under the Royalty Purchase Agreement, the Company's plans for and anticipated benefit from the construction of facilities and development of hectorite-based organoclay operations as well as the timing of commercial operations and positive cash flow, the results of design and engineering of lithium demonstration plant and the eventual construction of that plant.

Such statements and information involve the application of certain factors and assumptions by the Company that are based on the Company's current beliefs as well as assumptions made by and information currently available to the Company.

Although the Company considers these assumptions to be reasonable based on information currently available to it, they may prove to be incorrect, and the forward-looking statements contained herein are subject to numerous risks, uncertainties and other factors that may cause future results to differ materially from those expressed or implied in such forward-looking statements and information. Such risk factors include, among others, that actual results of the Company's development activities will be different than those expected by management, that the Company will be unable to obtain or will experience delays in obtaining any required government approvals, that the Company will be unable to meet all conditions required for funding of the second tranche under the Royalty Purchase Agreement, the ability to procure required infrastructure, equipment and supplies in sufficient quantities and on a timely basis and the conditions of the markets generally. Readers are cautioned not to place undue reliance on forward-looking statements and information. The Company does not intend, and expressly disclaims any intention or obligation to, update or revise any forward-looking statements and information whether as a result of new information, future events or otherwise, except as required by law.