
WESTERN URANIUM CORPORATION

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED
SEPTEMBER 30, 2010 and 2009

(Expressed in Canadian Dollars)

Auditors' Report

**To the Shareholders of
Western Uranium Corporation**

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

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

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

Vancouver, Canada

January 20, 2011

"MacKay LLP"

Chartered Accountants

WESTERN URANIUM CORPORATION
CONSOLIDATED BALANCE SHEETS
AS AT SEPTEMBER 30, 2010 AND 2009
(Expressed in Canadian Dollars)

	2010	2009
A S S E T S		
CURRENT ASSETS		
Cash and cash equivalents	\$ 40,040,206	\$ 46,358,395
Receivables	30,793	13,137
Prepaid expenses and deposits	31,663	21,058
	40,102,662	46,392,590
MINERAL PROPERTIES AND DEFERRED COSTS (Note 4)	16,954,820	22,016,788
EQUIPMENT (Note 5)	11,788	17,422
INVESTMENT IN WESTERN LITHIUM (Note 3)	5,975,325	3,270,060
	\$ 63,044,595	\$ 71,696,860
L I A B I L I T I E S		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ 128,875	\$ 132,090
FUTURE INCOME TAX LIABILITY (Note 8)	1,386,227	1,508,446
	1,515,102	1,640,536
S H A R E H O L D E R S ' E Q U I T Y		
SHARE CAPITAL (Note 6)	72,494,723	72,054,723
CONTRIBUTED SURPLUS (Note 6)	5,758,943	4,929,007
ACCUMULATED OTHER COMPREHENSIVE INCOME	(159,931)	(159,931)
DEFICIT	(16,564,242)	(6,767,475)
	61,529,493	70,056,324
	\$ 63,044,595	\$ 71,696,860

Nature of operations (Note 1)
Commitments (Notes 4 and 11)
Arrangement with Western Lithium (Note 3 and 14)
Subsequent events (Note 14)

On behalf of the Board:

“Ed Flood”

Director

“Pamela Klessig”

Director

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

WESTERN URANIUM CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS, COMPREHENSIVE LOSS AND DEFICIT
FOR THE YEARS ENDED SEPTEMBER 30, 2010 AND 2009
(Expressed in Canadian Dollars)

	2010	2009
EXPENSES		
Amortization	\$ 5,635	\$ 8,510
Audit and accounting (Note 7)	141,423	172,441
Consulting fees (Note 7)	135,821	126,000
Corporate development	30,000	40,000
Interest and bank charges	6,987	1,925
Investor relations	140,625	54,000
Legal fees	157,244	42,510
Office and miscellaneous	95,682	97,763
Property investigation	4,032	64,858
Regulatory and filing fees	34,165	44,898
Rent	67,540	85,220
Stock-based compensation (Note 6)	305,673	418,793
Telephone	13,050	19,436
Travel	82,741	47,787
Wages and benefits	527,350	675,864
Mineral property write-off (Note 4)	<u>8,337,411</u>	<u>191,908</u>
LOSS BEFORE OTHER ITEMS	<u>(10,085,379)</u>	<u>(2,091,913)</u>
OTHER ITEMS		
Gain on dilution of interest in Western Lithium (Note 3)	1,956,309	53,967
Equity loss in Western Lithium (note 3)	(1,252,396)	(1,007,128)
Foreign exchange (loss)/gain	(736,039)	379,733
Interest income	<u>123,629</u>	<u>423,307</u>
	<u>91,503</u>	<u>(150,121)</u>
LOSS BEFORE INCOME TAXES	(9,993,876)	(2,242,034)
FUTURE INCOME TAX RECOVERY (Note 8)	<u>197,109</u>	<u>279,985</u>
LOSS AND COMPREHENSIVE LOSS	<u>(9,796,767)</u>	<u>(1,962,049)</u>
DEFICIT – BEGINNING OF YEAR	(6,767,475)	(3,691,690)
FUTURE INCOME TAX ON DISTRIBUTION OF WESTERN LITHIUM (Note 3)	-	<u>(1,113,736)</u>
DEFICIT – END OF YEAR	<u>\$ (16,564,242)</u>	<u>\$ (6,767,475)</u>
BASIC AND DILUTED LOSS PER SHARE	\$ (0.16)	\$ (0.03)
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING – BASIC AND DILUTED	59,697,861	59,371,834

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

WESTERN URANIUM CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2010 AND 2009
(Expressed in Canadian Dollars)

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss for the year	\$ (9,796,767)	\$ (1,962,049)
Items not affecting cash:		
Amortization	5,635	8,510
Gain on dilution of interest in Western Lithium	(1,956,309)	(53,967)
Equity loss in Western Lithium	1,252,396	1,007,128
Mineral property write-off	8,337,411	191,908
Foreign exchange on cash and cash equivalents	684,521	(445,880)
Future income tax	(197,109)	(279,985)
Stock-based compensation	305,673	418,793
Changes in non-cash working capital items:		
(Increase)/decrease in receivables	(17,656)	43,992
Increase in prepaid expenses and deposits	(10,605)	(16)
(Decrease)/increase in accounts payable and accrued liabilities	(4,973)	5,551
Net cash from operating activities	<u>(1,397,783)</u>	<u>(1,066,015)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of mineral properties and deferred costs	(2,833,685)	(2,667,181)
Investment in Western Lithium	(1,402,200)	(1,500,000)
Net cash used in investing activities	<u>(4,235,885)</u>	<u>(4,167,181)</u>
FOREIGN EXCHANGE ON CASH AND CASH EQUIVALENTS	<u>(684,521)</u>	<u>445,880</u>
CHANGE IN CASH AND CASH EQUIVALENTS DURING THE YEAR	(6,318,189)	(4,787,316)
CASH AND CASH EQUIVALENTS – BEGINNING OF YEAR	<u>46,358,395</u>	<u>51,145,711</u>
CASH AND CASH EQUIVALENTS – END OF YEAR	<u>\$ 40,040,206</u>	<u>\$ 46,358,395</u>
CASH AND CASH EQUIVALENTS IS COMPRISED OF:		
Cash	\$ 23,705,363	\$ 18,484,815
Term deposits	<u>16,334,843</u>	<u>27,873,580</u>
	<u>\$ 40,040,206</u>	<u>\$ 46,358,395</u>

Supplemental disclosure with respect to cash flows (Note 9).

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

WESTERN URANIUM CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2010 AND 2009
(Expressed in Canadian Dollars)

1. NATURE OF OPERATIONS

Western Uranium Corporation (the “Company”) is a Canadian based resource company focused on exploration, acquisition and advancement of mineral properties (Note 4). The Company was incorporated under the provisions of the British Columbia Business Corporations Act on February 7, 2000. Western Uranium Corporation and its subsidiary companies are engaged in uranium exploration.

To date, the Company has not generated significant revenues from operations and is considered to be in the exploration stage. The amounts shown as mineral properties and deferred costs represent expenditures incurred to date and do not necessarily represent present or future values. The underlying value of mineral properties and deferred costs are entirely dependant on the existence of economically recoverable reserves, securing and maintaining title and beneficial interest in the properties, the ability of the Company to obtain the necessary financing to complete development, and future profitable production. The Company considers that it has adequate resources to maintain its core operations for the next year.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The consolidated financial statements of the Company have been prepared by management in accordance with Canadian generally accepted accounting principles (“Canadian GAAP”). These financial statements have been prepared on the basis of accounting principles applicable to a “going concern”, which assumes that the Company will continue its operations for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations for the foreseeable future. As most exploration companies, the Company raises financing for its activities using a variety of sources. Based on its current plans, budgeted expenditures, and cash requirements, the Company has sufficient cash to finance its current plans for at least 12 months from the date of approval of the financial statements. These consolidated financial statements do not include any adjustments to the amounts and classification of assets and liabilities that might be necessary should the Company be unable to continue business.

Use of Estimates

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

WESTERN URANIUM CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2010 AND 2009
(Expressed in Canadian Dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Mineral Properties and Deferred Costs

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

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

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

Principles of Consolidation

The consolidated financial statements contained herein include the accounts of Western Uranium Corporation, its wholly-owned USA subsidiary, Western Energy Development Corp. ("WEDC") and its wholly-owned Canadian subsidiary, Ruby Hill Exploration Inc. All inter-company transactions and balances have been eliminated. Accumulated comprehensive income/(loss) consists of unrealized gain/(loss) on translation of WEDC as a self-sustaining foreign subsidiary for the years ending September 30, 2005 and 2006.

Share Issue Costs

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

Equipment

Equipment is recorded at cost less accumulated amortization calculated using the declining balance method at the following annual rates:

Computer equipment	30%
Office equipment	20%

WESTERN URANIUM CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Asset Retirement Obligations

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

Cash and Cash Equivalents

For purposes of reporting cash flows, the Company considers cash and cash equivalents to include amounts held in banks and highly liquid investments with remaining maturities at point of purchase of 90 days or less and Guaranteed Investment Certificates ("GICs") or Term Deposits which are cashable after 30 days. The Company places its cash and cash investments with institutions of high credit worthiness. As at September 30, 2010 the Company's cash equivalents are invested in GICs and term deposits with the annual interest rates in the range of 0.1% to 1.1% (September 30, 2009 – 0.1% to 0.4%).

Impairment of Long-lived Assets

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

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

Investments

Long term investments, in which the Company has the ability to exercise significant influence, are accounted for using the equity method. Under this method, the Company's share of the investee's earnings and losses is included in operations and its investments therein are adjusted by a like amount. Dividends are credited to the investment accounts.

WESTERN URANIUM CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Income Taxes

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

Income/(Loss) Per Share

Income/(loss) per share is calculated based on the weighted average number of common shares issued and outstanding during the year. The Company uses the treasury stock method to calculate fully diluted per share amounts whereby any proceeds from dilutive instruments are assumed to be used to purchase common shares at the average market price during the year. In periods when a loss is incurred, the effect of potential issuance of shares under options would be anti-dilutive, and accordingly basic and diluted loss per share is the same. Information regarding securities that could potentially dilute basic earnings per share in the future is presented in Note 6.

Stock-Based Compensation

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

Foreign currency translation

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

WESTERN URANIUM CORPORATION
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(Expressed in Canadian Dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Valuation of equity units issued in private placements

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

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

Transaction Costs

Transaction costs associated with the spin-out of the lithium assets were expensed as incurred.

Comparative Figures

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

Financial Instruments

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

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

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

Amendment to financial instruments – disclosures

CICA Handbook Section 3862, Financial Instruments – Disclosures was amended to require disclosure about the inputs used in making fair value measurements, including their classification within a hierarchy that prioritizes their significance. The three levels of the fair value hierarchy are:

WESTERN URANIUM CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Amendment to financial instruments – disclosures (continued)

Level 1 -	Unadjusted quoted prices in active markets for identical assets or liabilities;
Level 2 -	Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
Level 3 -	Inputs that are not based on observable market data.

See Note 12 for relevant disclosures.

Issued but not Adopted Primary Sources of GAAP

Business Combinations, Consolidated Financial Statements and Non-Controlling Interests

The CICA issued three new accounting standards in January 2009: Section 1582, *Business Combinations*, Section 1601, *Consolidated Financial Statements*, and Section 1602, *Non-Controlling Interests*. Section 1582 replaces Section 1581 “Business Combinations” and establishes standards for the accounting for business combinations. It provides the Canadian equivalent to *International Financial Reporting Standards IFRS 3* “Business Combinations”.

The section applies prospectively to the business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011. Sections 1601 and 1602 together replace Section 1600 “Consolidated Financial Statements”. Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1601 applies to interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. Section 1602 provides guidance on accounting for any non-controlling interests subsequent to a business combination. Section 1602 is to be implemented concurrently with section 1582, *Business Combinations*. It is equivalent to the corresponding provisions of *International Financial Reporting Standard IAS 27* “Consolidated and Separate Financial Statements” and applies to interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The Company will consider the impact of adopting these pronouncements on its financial statements if future acquisitions are completed.

International financial reporting standards (“IFRS”)

In 2006, the Canadian Accounting Standards Board (“AcSB”) published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with IFRS over an expected five year transitional period. In February 2008 the AcSB announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canada’s own GAAP. The effective changeover date for the Company is October 1, 2011. Following the timeline the Company will issue its first interim financial statements under IFRS for the three months ended December 31, 2011 including comparative IFRS financial results and an opening balance sheet as at October 1, 2011. The first consolidated financial statements will be prepared for the year ended September 30, 2012 with restated comparatives for the year ended September 30, 2011.

WESTERN URANIUM CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2010 AND 2009
(Expressed in Canadian Dollars)

3. COMPLETION OF ARRANGEMENT WITH WESTERN LITHIUM

On July 16, 2008 the Company closed its statutory plan of arrangement with its wholly-owned subsidiary, Western Lithium Canada Corporation, which subsequently changed its name to Western Lithium USA Corporation or “Western Lithium”. As part of the Arrangement, the Company’s shareholders of record as of June 19, 2008 received one Western Lithium share for every three of the Company’s shares held. Accordingly, 19,734,361 shares in Western Lithium were distributed to shareholders of the Company by way of an in-kind dividend and the Company retained 15,209,393 shares of Western Lithium. During 2009 the Company recorded in deficit a future income tax of \$1,113,736 on the distribution of Western Lithium.

On completion of the Arrangement, the Company no longer controlled Western Lithium and ceased to consolidate it from that date. On May 6, 2009, the Company made an additional investment in Western Lithium by purchasing 3,000,000 units of Western Lithium, priced at \$0.50 per unit for a total investment of \$1,500,000. Each unit consists of one common share and one common share purchase warrant. Each warrant entitles the Company to purchase an additional common share of Western Lithium for a period of 2 years at an exercise price of \$0.60 per share. On October 14, 2009, the Company purchased an additional 1,476,000 units of Western Lithium at a price of \$0.95 per unit, pursuant to a private placement. Each unit consisted of one common share and one-half of a share purchase warrant, with each whole share purchase warrant being exercisable into one additional common share of Western Lithium at a price of \$1.25 per share for eighteen months.

The Company accounts for its investment using the equity method. Under the equity method, the Company recognized an equity loss of \$1,252,396 in Western Lithium for the year ended September 30, 2010 (2009 - \$1,007,128). The Company also recorded \$1,956,309 (2009 - \$53,967) gain on dilution of interest in Western Lithium and \$524,263 (2009 - \$438,586) of its proportionate share of Western Lithium’s contributed surplus for the same period.

As at September 30, 2010, the Company owned 19,685,393 or 23.8% of the issued and outstanding shares of Western Lithium and continues to account for its investment using the equity method. The Company also holds 3,000,000 warrants of Western Lithium at an exercise price of \$0.60 per share expiring on May 6, 2011 and 738,000 warrants at an exercise price of \$1.25 per share expiring on April 14, 2011. The Company’s share transactions with Western Lithium are summarized in the table below:

	Number of Shares Received	Amount, \$	Amount Paid, \$
Investment in Western Lithium on July 16, 2008	-	(144,514)	-
Plan of Arrangement	15,209,393	-	-
Dividend-in-kind	-	81,506	-
Equity loss	-	(406,640)	-
Share of Western Lithium contributed surplus	-	361,174	-
Gain on dilution	-	<u>2,330,454</u>	-
As at September 30, 2008	15,209,393	2,221,980	-
Private placement	3,000,000	1,500,000	1,500,000
Equity loss	-	(1,007,128)	-
Share of Western Lithium contributed surplus	-	501,241	-
Gain on dilution	-	<u>53,967</u>	-
As at September 30, 2009	18,209,393	3,270,060	1,500,000
Private placement	1,476,000	1,402,200	1,402,200
Equity loss	-	(1,252,396)	-
Share of Western Lithium contributed surplus	-	599,152	-
Gain on dilution	-	<u>1,956,309</u>	-
As at September 30, 2010	19,685,393	5,975,325	2,902,200

See note 14.

WESTERN URANIUM CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2010 AND 2009
(Expressed in Canadian Dollars)

4. MINERAL PROPERTIES AND DEFERRED COSTS

For the year ended September 30, 2010	Thelon Basin, Canada \$	Kings Valley, USA, \$	Treeline, USA, \$	Baza, Spain, \$	La Rioja, Argentina, \$	Total, \$
Acquisition costs						
Balance, beginning of year	1,253,203	3,802,707	365,337	-	-	5,421,247
Additions	-	394,441	24,630	117,556	581,006	1,117,633
Option payment received	-	<u>(78,073)</u>	-	-	-	<u>(78,073)</u>
Balance, end of year	<u>1,253,203</u>	<u>4,119,075</u>	<u>389,967</u>	<u>117,556</u>	<u>581,006</u>	<u>6,460,807</u>
Deferred exploration costs						
Drilling	-	547,067	-	172,250	-	719,317
Geological and consulting	-	213,064	287	423,602	50,030	686,983
Geophysics	-	55,385	-	359,720	-	415,105
Mapping, supplies and other	(809)	62,219	-	77,453	9,295	148,158
Sampling	-	63,676	-	47,677	4,859	116,212
Transportation and travel	-	6,448	-	28,763	8,881	44,092
Foreign tax	-	-	-	<u>100,760</u>	<u>5,256</u>	<u>106,016</u>
Total deferred exploration costs	(809)	947,859	287	1,210,225	78,321	2,235,883
Balance, beginning of year	<u>6,088,599</u>	<u>10,120,477</u>	<u>386,465</u>	-	-	<u>16,595,541</u>
Balance, end of year	<u>6,087,790</u>	<u>11,068,336</u>	<u>386,752</u>	<u>1,210,225</u>	<u>78,321</u>	<u>18,831,424</u>
Written-off during the year	-	(8,337,411)	-	-	-	(8,337,411)
Total mineral property costs	7,340,993	6,850,000	776,719	1,327,781	659,327	16,954,820

For the year ended September 30, 2009	Thelon Basin, Canada \$	Kings Valley, USA \$	Treeline, USA \$	Virgin Valley, USA \$	Pamlico, USA \$	Total, \$
Acquisition costs						
Balance, beginning of year	1,229,378	3,407,307	337,383	37,960	71,450	5,083,478
Additions	23,825	454,429	27,954	-	-	506,208
Option payment received	-	<u>(59,029)</u>	-	-	-	<u>(59,029)</u>
Balance, end of year	<u>1,253,203</u>	<u>3,802,707</u>	<u>365,337</u>	<u>37,960</u>	<u>71,450</u>	<u>5,530,657</u>
Deferred exploration costs						
Drilling	-	811,634	-	-	-	811,634
Geological and consulting	35,948	343,626	-	1,975	778	382,327
Geophysics	1,122	41,497	-	-	-	42,619
Mapping, supplies and other	57,547	121,453	455	-	243	179,698
Sampling	-	164,012	-	-	1,780	165,792
Transportation and travel	<u>43,065</u>	<u>31,851</u>	-	-	-	<u>74,916</u>
Total deferred exploration costs	137,682	1,514,073	455	1,975	2,801	1,656,986
Balance, beginning of year	<u>6,086,117</u>	<u>8,606,404</u>	<u>386,010</u>	<u>41,207</u>	<u>12,690</u>	<u>15,132,428</u>
Balance, end of year	<u>6,223,799</u>	<u>10,120,477</u>	<u>386,465</u>	<u>43,182</u>	<u>15,491</u>	<u>16,789,414</u>
Recovery of prior costs	(111,375)	-	-	-	-	(111,375)
Written-off during the year	(23,825)	-	-	(81,142)	(86,941)	(191,908)
Total mineral property costs	7,341,802	13,923,184	751,802	-	-	22,016,788

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4. MINERAL PROPERTIES AND DEFERRED COSTS (continued)

Kings Valley Claims, Nevada, USA

On January 21, 2005, the Company entered into a Mining Option Agreement with Uravada Inc. ("Uravada") to acquire all of Uravada's interest in certain mining claims located in Nevada. The Company paid \$30,633 (US\$25,000) and can acquire Uravada's interest by making additional payments as follows:

- US\$30,000 on or before January 21, 2006 (paid),
- US\$50,000 on or before January 21, 2007 (paid),
- US\$75,000 on or before January 21, 2008, (paid)
- US\$100,000 on or before January 21, 2009 (paid), and
- US\$125,000 on or before January 21, 2010 (paid).

This agreement is subject to a 3% net smelter return royalty. Commencing on January 21, 2011, and each year thereafter, the Company shall pay to Uravada US\$50,000 in advance net smelter return royalty payments.

On November 15, 2005, the Company entered into a Mining Option Agreement to acquire a 50% interest in four mining claims forming part of the Kings Valley Claims. The Company paid \$1,788 (US\$1,500) and can acquire the 50% interest by making additional payments as follows:

- US\$2,000 on or before November 15, 2006 (paid),
- US\$3,500 on or before November 15, 2007 (paid),
- US\$5,500 on or before November 15, 2008, (paid)
- US\$7,500 on or before November 15, 2009 (paid), and
- US\$9,000 on or before November 15, 2010 (note 14).

The Company's interest in the claim is subject to a 1.5% net smelter return royalty. The Company shall pay an annual advance net smelter return royalty payment of US\$1,785, commencing November 15, 2011.

On November 15, 2005, the Company entered into a 20 year renewable mining lease on two claims forming part of the King Valley Claims. The terms of the lease require the Company to make advanced scheduled minimum royalty payments, to be credited against any production royalties that may accrue and against the purchase price as follows:

- US\$10,000 on or before November 15, 2005 (paid),
- US\$5,000 on or before November 15, 2006 (paid),
- US\$5,000 on or before November 15, 2007 (paid),
- US\$5,000 on or before November 15, 2008 (paid), and
- US\$10,000 on or before November 15, 2009 (paid) and each anniversary date thereafter (note 14).

The advance minimum royalty payments shall be paid in two installments each year, half on the anniversary date and half six months later.

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4. MINERAL PROPERTIES AND DEFERRED COSTS (continued)

Kings Valley Claims, Nevada, USA (continued)

After commencement of production of minerals from the claims, the Company shall pay an annual 2% net smelter return royalty or US\$10,000 a year, whichever is greater. The Company has an option to purchase the claims for US\$100,000, less any amounts previously paid as advance royalty payments, in which case no further royalties are payable.

During the years ended September 30, 2007, 2006 and 2005, the Company staked and filed a number of federal lode mining claims, with the Bureau of Land Management, on this property.

During 2010 the Company wrote-off \$8,337,411 of deferred exploration expenditures on the Kings Valley claims. The Company wrote-down the Kings Valley property considering the exploration results, current price for uranium and the subsequent to September 30, 2010 transaction value for the sale of WEDC to Western Lithium (Note 14).

Option Agreement with Western Lithium

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

The Lease Agreement has a term of 30 years that is renewable subject to Western Lithium fulfilling terms required under the lease agreement.

In consideration for the Exploration Right, Western Lithium must pay to Western Uranium US\$25,000 (paid), US\$50,000 on the first anniversary of the effective date of the Lease Agreement (paid), US\$75,000 (note 14) on each of the second through fourth anniversaries of the effective date of the Lease Agreement, US\$100,000 on each of the fifth through tenth anniversaries of the effective date of the Lease Agreement, US\$150,000 on each of the eleventh through twentieth anniversaries of the effective date of the Lease Agreement and US\$200,000 on each of the twenty-first through thirtieth anniversaries of the effective date of the Lease Agreement, for total payments of US\$4,400,000. The lease payments will be credited against the Kings Valley property costs upon receipt. These payments are applied against any royalty payments. Western Lithium has agreed to pay to Western Uranium a Net Smelter Returns Royalty of 1.5% and a Net Profits Royalty equal to 3.5%. See note 14.

Treeline Claims, New Mexico, USA

On March 30, 2005, the Company purchased a leasehold interest in property located in New Mexico for \$91,785 (US\$75,000) and purchased data on the surrounding ground for \$6,119 (US\$5,000).

During the year ended September 30, 2005 and 2006, the Company staked and filed a number of federal lode mining claims, with the Bureau of Land Management, on this property.

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4. MINERAL PROPERTIES AND DEFERRED COSTS (continued)

Virgin Valley Claims, Nevada, USA

The Company has staked a number of federal lode mining claims, with the Bureau of Land Management, on this property. The Company paid \$13,570 (US\$11,560) filing fees on November 29, 2005 to perfect the claims. In September 2009, the Company did not renew its leases at Virgin Valley. This decision was made based on the exploration results and permitting issues. Accordingly, the Company wrote-off \$81,142 of deferred property costs during 2009.

Pamlico Claims, Nevada, USA

The Company has staked a number of federal lode mining claims, with the Bureau of Land Management, on this property. The Company paid \$22,533 (US\$22,950) filing fees on November 16, 2007 to perfect the claims. In addition, The Company paid a one time finder's fee of US\$25,000 to third parties for identifying the property.

In September 2009, the Company did not renew its leases at Pamlico. This decision was made based on the exploration results and permitting issues. Accordingly, the Company wrote-off \$86,941 of deferred property costs during 2009.

Thelon Basin Permits and Claims, Northwest Territories and Nunavut, Canada

The Company's holds exploration permits in Nunavut in the Thelon Basin. During 2009 the Company discounted its exploration permits held on the Northwest Territories portion of the Thelon Basin and wrote-off \$23,825 of deferred exploration expenditures on the Northwest Territories claims, due to problems associated with permitting exploration work in this area. The Company continues to hold Nunavut claims in good standing.

Baza Property, Spain

During 2010 the Company entered into an Option Agreement with AuEx Ventures, Inc. ("AuEx") to earn a 70% interest in the Baza property in south east Spain. The Company has the right to pay 100% of the expenditures on the property through bankable feasibility on any given exploration permit to earn up to 70% of the project and by paying an aggregate of US\$400,000 to AuEx of which US\$100,000 has been paid upon signing of the Option Agreement. To maintain the option US\$100,000 must be paid on the first, second, and third anniversaries of the Agreement to AuEx (Note 14) and minimum annual expenditures must be incurred at the rate of:

- EUR\$500,000 on or before the first anniversary (incurred);
- EUR\$600,000 on or before the second anniversary;
- EUR\$1,000,000 on or before the third anniversary;
- EUR\$500,000 in each subsequent year until such time as a bankable feasibility study is obtained in respect of a particular Permit;

If the Company spends at least EUR\$3,000,000 on any given Exploration Permit or Application, it is entitled to a 5% NSR which reduces to a 1% NSR after EUR\$6,000,000 in payments.

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4. MINERAL PROPERTIES AND DEFERRED COSTS (continued)

La Rioja, Argentina

On February 5, 2010, the Company entered into an agreement with the HB Syndicate to acquire 7 exploration concessions (“cateos”) covering approximately 14,000 hectares located in the La Rioja Province of Argentina. In addition, the agreement extends to any other uranium properties identified by the HB Syndicate within Argentina over the next two years that, with Company’s agreement, merit acquisition. The terms of this acquisition are: payment of US\$100,000 (paid), 500,000 units of the Company (issued; a unit consisted of one common share and one-half warrant) and a 2% NSR, which with respect to the property, the Company will have the option to purchase any or all of the NSR at a price of US\$1,000,000 per percentage interest. The Company issued 500,000 units with an estimated fair value of \$0.88 per unit for total consideration of \$440,000.

5. EQUIPMENT

	September 30, 2010			September 30, 2009		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Computer equipment	\$ 33,192	\$ 30,737	\$ 2,455	\$ 33,192	\$ 28,156	\$ 5,036
Office equipment	31,662	22,329	9,333	31,662	19,276	12,386
	<u>\$ 64,854</u>	<u>\$ 53,066</u>	<u>\$ 11,788</u>	<u>\$ 64,854</u>	<u>\$ 47,432</u>	<u>\$ 17,422</u>

6. SHARE CAPITAL AND CONTRIBUTED SURPLUS

	Number	Amount, \$	Contributed Surplus, \$
Authorized			
Unlimited common shares without par value			
100,000,000 preferred shares, par value \$1.00			
Issued			
As at September 30, 2008	59,371,834	72,054,723	4,071,628
Contributed surplus of Western Lithium	-	-	438,586
Stock-based compensation	-	-	418,793
As at September 30, 2009	59,371,834	72,054,723	4,929,007
Shares issued for acquisition of La Rioja property	500,000	440,000	-
Contributed surplus of Western Lithium	-	-	524,263
Stock-based compensation	-	-	305,673
As at September 30, 2010	59,871,834	72,494,723	5,758,943

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6. SHARE CAPITAL AND CONTRIBUTED SURPLUS (continued)

During the year ended September 30, 2010, the Company issued 500,000 units with an estimated fair value of \$0.88/unit for total consideration of \$440,000 for the acquisition of La Rioja property in Argentina. Each unit consisted of one common share and one-half warrant. Each warrant entitles the holder to acquire one additional share of the Company at a price of \$1.00 per share for a period of two years from the closing.

There were no changes in the number of shares issued and share capital during the year ended September 30, 2009.

Stock options

The Company has a stock option plan in accordance with the policies on the TSX Venture Exchange whereby, from time to time at the discretion of the board of directors, stock options are granted to directors, officers and certain consultants. Under the plan the maximum number of shares that may be issued upon exercise of stock options granted shall not exceed 10% of the issued and outstanding common shares of the Company at the time of the grant. The exercise price of each option is based on the market price of the Company's common stock at the date of the grant less allowable discounts. The options can be granted for a maximum term of five years. The vesting terms are determined at the discretion of the Company's Board of Directors.

On June 10, 2010, the Company granted incentive stock options for the purchase 585,000 common shares of the Company at a price of \$0.85 per share for a five year period to certain directors, employees and consultants. Of the options granted, 25% vested on the date of the grants and the remaining 75% of the stock options vest over a period of 18 months in accordance with the minimum vesting requirements of the Company's stock option plan.

Stock-based compensation expense of \$305,673 was charged to operations and credited to contributed surplus to reflect the fair value of stock options granted and vested during the year ended September 30, 2010.

During the year ended September 30, 2009 the Company granted a total of 600,000 incentive stock options to acquire 500,000 common shares at \$0.83 per share and 100,000 common shares at \$0.90 per share for a period of five years. Of the options granted, 25% vested on the date of the grants and the remaining 75% of the stock options vest over a period of 18 months in accordance with the minimum vesting requirements of the Company's stock option plan.

Stock-based compensation expense of \$418,793 was charged to operations and credited to contributed surplus to reflect the fair value of stock options previously granted and vested during the year ended September 30, 2009.

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

	2010	2009
Risk-free interest rate	2.76%	1.67 - 1.69%
Expected life	5 years	5 years
Annualized volatility	110%	115%
Dividend rate	0.00%	0.00%

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6. SHARE CAPITAL AND CONTRIBUTED SURPLUS (continued)

The weighted average fair value of stock options granted during the period was \$0.67 (2009 - \$0.68) per option. Option pricing models require the use of estimates and assumptions including the expected volatility. Changes in the underlying assumptions can materially affect the fair value estimates.

A summary of the Company's outstanding options at September 30, 2010 and 2009, and the changes for the years ended on those dates is presented below:

	Year Ended September 30, 2010		Year Ended September 30, 2009	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Balance, beginning of year	3,780,000	\$ 1.17	3,180,000	\$ 1.23
Granted	585,000	0.85	600,000	0.84
Exercised	-	-	-	-
Expired or cancelled	(1,730,000)	(0.98)	-	-
Balance, end of year	2,635,000	\$ 1.22	3,780,000	\$ 1.17

As at September 30, 2010, the following incentive stock options are outstanding and exercisable:

Number of Options Outstanding	Number of Options Exercisable	Exercise Price	Expiry Date
525,000	525,000	\$ 0.94	March 31, 2011
75,000	75,000	\$ 0.94	June 8, 2011
100,000	100,000	\$ 0.94	October 17, 2011
100,000	100,000	US\$ 1.58	January 29, 2012
300,000	300,000	\$ 2.85	March 30, 2012
50,000	50,000	\$ 1.91	October 11, 2012
300,000	300,000	\$ 1.49	December 6, 2012
500,000	500,000	\$ 0.83	January 21, 2014
100,000	75,000	\$ 0.90	May 6, 2014
585,000	146,250	\$ 0.85	June 10, 2015
Total	2,635,000		2,171,250

Warrants

A summary of the number of common shares reserved pursuant to the Company's outstanding warrants and agents warrants outstanding at September 30, 2010 and 2009, and the changes for the year then ended is as follows:

	Year Ended September 30, 2010		Year Ended September 30, 2009	
	Number of Warrants	Weighted Average Exercise Price	Number of Warrants	Weighted Average Exercise Price
Balance, beginning of year	-	-	-	-
Issued	250,000	\$ 1.00	-	-
Exercised	-	-	-	-
Cancelled or expired	-	-	-	-
Balance, end of year	250,000	\$ 1.00	-	-

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6. SHARE CAPITAL AND CONTRIBUTED SURPLUS (continued)

Warrants (continued)

Each warrant entitles the holder to acquire one share of the Company at a price of \$1.00 per share on or before February 6, 2012.

7. RELATED PARTY TRANSACTIONS

During the years ended September 30, 2010 and 2009, the Company entered into transactions with related parties as follows:

- a) paid \$28,000 (2009 - \$48,000) in consulting fees, \$34,140 (2009 - \$30,000) in administration fees and \$73,140 (2009 - \$56,040) in accounting fees to a company controlled by a former director of the Company. The administration fees are included in consulting expense;
- b) paid or accrued \$56,027 (2009 - \$48,000) in consulting expense and \$27,584 (2009 - \$Nil) in mineral property and deferred costs geological consulting fees to the Company's director. \$4,047 (2009 - \$4,000) of these fees remains in accounts payable and accrued liabilities;
- c) paid \$10,935 (2009 - \$2,832) for the environmental consulting which is included in mineral property and deferred costs to a former director of the Company.

These transactions 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.

8. INCOME TAXES

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

	Year Ended September 30, 2010 \$	Year Ended September 30, 2009 \$
Loss for the year before income taxes	(9,993,876)	(2,242,034)
Expected income tax recovery	2,885,732	675,412
Items not deductible for income tax purposes	(88,715)	(130,971)
Change in tax rates and other	635,591	(88,735)
Change in valuation allowance	(3,422,435)	(238,376)
Other	186,936	62,655
Future income tax recovery	197,109	279,985

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8. INCOME TAXES (continued)

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

	September 30, 2010 \$	September 30, 2009 \$
	<u> </u>	<u> </u>
Future income tax assets/(liabilities)		
Mineral Properties	(1,725,954)	(1,729,047)
Financing costs	91,829	215,408
Operating loss carryforward	4,775,578	939,040
Eligible Capital Property	38,819	47,058
Equity Investment	<u>(346,058)</u>	<u>(182,899)</u>
	2,834,214	(710,440)
Valuation allowance for future income tax asset	<u>(4,220,441)</u>	<u>(798,006)</u>
	<u><u>(1,386,227)</u></u>	<u><u>(1,508,446)</u></u>

The Company has Canadian non-capital loss carryforwards of \$2.4 million (2009 - \$0.7 million) that may be available for tax purposes. These losses expire between 2016 and 2030.

The Company has US non-capital loss carryforwards of US\$11.8 million (2009 - \$1.9 million) that may be available for tax purposes. These losses expire between 2025 and 2030.

9. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

The Company had the following significant non-cash transactions:

- a) included \$74,281 (2009 - \$72,523) of accounts payable relating to the property expenditures in investing activities;
- b) recorded in contributed surplus \$524,263 (2009 - \$438,586) of the Company's proportionate share of Western Lithium's contributed surplus;
- c) issued 500,000 units with an estimated fair value of \$440,000 to HB Syndicate for the acquisition of mineral property;
- d) paid \$Nil (2009 - \$Nil) in interest and \$Nil (2009 - \$Nil) in taxes.

10. SEGMENTED INFORMATION

The Company operates in one business segment, being the acquisition and exploration of mineral properties. The Company is in the exploration stage and, accordingly, has no reportable segment revenues or operating results for each of fiscal 2010 and 2009.

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10. SEGMENTED INFORMATION (continued)

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

	September 30, 2010				Total \$
	Canada \$	United States \$	Spain \$	Argentina \$	
Current assets	38,639,133	1,453,550	-	9,979	40,102,662
Equipment	-	11,788	-	-	11,788
Investment in Western Lithium	5,975,325	-	-	-	5,975,325
Mineral properties and deferred costs	7,340,993	7,626,719	1,327,781	659,327	16,954,820
	51,955,451	9,092,057	1,327,781	669,306	63,044,595

	September 30, 2009			Total \$
	Canada \$	United States \$		
Current assets	44,025,898	2,366,692		46,392,590
Equipment	-	17,422		17,422
Investment in Western Lithium	3,270,060	-		3,270,060
Mineral properties and deferred costs	7,341,802	14,674,986		22,016,788
	54,637,760	17,059,100		71,696,860

11. COMMITMENTS

a) The Company has committed to rent office space for the following annual amounts:

2011 \$19,089

b) Mineral properties (Note 4).

12. FINANCIAL INSTRUMENTS

Fair value

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

As at September 30, 2010 and 2009, the carrying amount of current financial assets and liabilities approximated the fair value because of the near maturity of those instruments.

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12. FINANCIAL INSTRUMENTS (continued)

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

September 30, 2010	Level 1	Level 2	Level 3
Assets			
Cash and cash equivalents	\$ 40,040,206	\$ -	\$ -

September 30, 2009	Level 1	Level 2	Level 3
Assets			
Cash and cash equivalents	\$ 46,358,395	\$ -	\$ -

Financial Instruments Risk Exposure

Credit risk

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

The Company's accounts receivable consists mainly of goods and services tax (GST) due from the Federal Government of Canada.

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

Liquidity Risk

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

As at September 30, 2010, the Company had cash and cash equivalents balance of \$40,040,206 (2009 - \$46,358,395) to settle current liabilities of \$128,875 (2009 - \$132,090). All of the Company's financial liabilities are classified as current and are anticipated to mature within this fiscal period. The Company intends to settle these with funds from its positive working capital position.

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12. FINANCIAL INSTRUMENTS (continued)

Concentration risk

The Company's cash and cash equivalents are subject to the concentration risk. The Company limits its exposure to concentration risk by placing most of its cash balance with major Canadian financial institutions. As at September 30, 2010, \$1,439,230 (September 30, 2009 - \$2,352,940) was held in US Bank, \$20,375,834 (September 30, 2009 - \$20,509,040) in Royal Bank of Canada and \$18,225,142 (September 30, 2009 - \$22,096,416) was held in HSBC Bank Canada ("HSBC").

Market risk

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

i) Foreign currency risk

The Company's current assets and liabilities are denominated in Canadian dollars, US dollars and Euros as follows:

	September 30, 2010			
	CDN\$	US\$	Euros	Total \$
Cash and cash equivalents	24,096,497	14,364,488	1,579,221	40,040,206
Receivables	22,276	8,517	-	30,793
Prepaid expenses and deposits	15,881	15,782	-	31,663
Accounts payables and accrued liabilities	(54,595)	(74,280)	-	(128,875)
	24,080,059	14,314,507	1,579,221	39,973,787

	September 30, 2009			
	CDN\$	US\$	Euros	Total \$
Cash and cash equivalents	28,227,212	18,131,183	-	46,358,395
Receivables	5,965	7,172	-	13,137
Prepaid expenses and deposits	14,478	6,580	-	21,058
Accounts payables and accrued liabilities	(48,459)	(83,631)	-	(132,090)
	28,199,196	18,061,304	-	46,260,500

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12. FINANCIAL INSTRUMENTS (continued)

US dollar amounts have been translated at a value of CDN\$1.029 for US\$1.00 (September 30, 2009 - CDN\$1.0707). Amounts in Euros have been translated at a value of CDN\$1.4006 for 1 Euro. If the US dollar appreciates by 1% in relation to Canadian dollar, the Company's net income would increase by approximately \$143,145 (2009 - \$191,323). If the Euro appreciates by 1% in relation to Canadian dollar, the Company's net income would increase by approximately \$15,792. There were no Euro denominated balances held as at September 30, 2009.

ii) Price risk

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

iii) Interest rate risk

The Company is exposed to interest rate risk to the extent that the cash and cash equivalents maintained at the financial institutions are subject to a floating rate of interest. If the interest rate on the Company's cash maintained in the financial institutions decreases by 0.1%, the Company's net income would decrease by approximately \$40,402 (2009 - \$48,521).

13. CAPITAL DISCLOSURE

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

The properties in which the Company currently has an interest are in the exploration stage. In order to carry out the planned exploration and pay for administrative costs, the Company will spend its existing working capital and raise additional amounts as needed and if available. The Company was not subject to externally imposed capital requirements during 2010 and 2009.

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.

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14. SUBSEQUENT EVENTS

Subsequent to September 30, 2010, the Company:

- a) fulfilled its November 15, 2010 obligations under the Mining Option Agreements and mining leases on Kings Valley Claims by making payments of US\$9,000 and US\$10,000 respectively (Note 4);
- b) paid US\$100,000 on the first anniversary of Baza property Option Agreement (Note 4);
- c) paid US\$600,000 severance payment to a former officer of the Company;
- d) established a new corporate entity to conduct exploration activities in South America. The new company, Meryllion Minerals Corporation (“Meryllion”), is a wholly-owned subsidiary of the Company. Meryllion has acquired an option to purchase the 14,000 hectare Cerro Amarillo-Cajon Grande copper-gold property located in the Malargüe District, in the Province of Mendoza, Argentina. Under the option agreement Meryllion has the exclusive right to engage in exploration activities on the properties for up to 52 months before exercising its option to acquire a 100% interest in the property. The option is exercisable by Meryllion at any time, however, so long as the exploration program is ongoing, Meryllion will make payments to the owners of the property, which payments will total US\$525,000 if the exploration program continues for at least 40 months. When the option is exercised, Meryllion will pay a final purchase price of US\$2,500,000. The owners of the property will also be entitled to a 1% NSR in the event the property is placed into commercial production;
- e) has reached an agreement in principle for the purchase, by Western Lithium, of a 100% interest in the Kings Valley mineral property claims, royalties and all related assets and data held by Western Energy Development Corporation (“WEDC”), a wholly-owned subsidiary of the Company. . The parties have agreed that Western Lithium will pay to the Company \$6.85 million in WLC shares as consideration for the transfer of WEDC.

As a result of this transaction, the existing lease and royalty arrangements between the two companies on the King’s Valley property, including a Net Smelter Return of 1.5% and Net Profits Royalty of 3.5% on any lithium project that WLC developed, will be eliminated. Western Lithium will gain full control of the Kings Valley property claims, excluding the Albisu gold exploration target and a proposed royalty to be granted to Cameco Global Exploration II Ltd. (“Cameco”) solely in respect of uranium. The agreement also eliminates the need for continuing future lease payments by Western Lithium of US\$4 million.

Details of the Transaction:

- Western Lithium will purchase 100% interest in the Kings Valley property claims, royalties and all related assets and data held by WEDC, except the Albisu gold property, located at the northern end of the Kings Valley property.
- The purchase price will be \$6.85 million, to be paid through the issue by Western Lithium of 5,855,000 common shares at a deemed price of \$1.17.
- The Company’s Strategic Alliance with Cameco, related to the exploration and development of uranium properties, will be concluded as a related part of the transaction with Western Lithium, for consideration of \$2.5 million to be paid by the Company to Cameco and the grant to Cameco of a 20% gross overriding royalty over the Kings Valley mineral property solely in respect of uranium.

WESTERN URANIUM CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2010 AND 2009

(Expressed in Canadian Dollars)

14. SUBSEQUENT EVENTS (continued)

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

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

- f) granted incentive stock options for the purchase of up to 1,000,000 common shares of the Company, at a price of \$0.95 per share and up to 200,000 common shares at a purchase price of \$0.85 per share, for a five year period.