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# **WESTERN URANIUM CORPORATION**

INTERIM CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE THREE MONTHS ENDED  
DECEMBER 31, 2010

*(Expressed in Canadian Dollars)*  
*(Unaudited – Prepared by Management)*

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**WESTERN URANIUM CORPORATION**  
**INTERIM CONSOLIDATED BALANCE SHEETS**

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

	<b>December 31, 2010</b>	<b>September 30, 2010</b>
<b>A S S E T S</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 38,072,071	\$ 40,040,206
Receivables	28,382	30,793
Prepaid expenses and deposits	<u>51,791</u>	<u>31,663</u>
	38,152,244	40,102,662
<b>MINERAL PROPERTIES AND DEFERRED COSTS</b> (Note 4)	17,366,769	16,954,820
<b>EQUIPMENT</b> (Note 5)	11,139	11,788
<b>INVESTMENT IN WESTERN LITHIUM</b> (Note 3)	<u>5,771,889</u>	<u>5,975,325</u>
	<u>\$ 61,302,041</u>	<u>\$ 63,044,595</u>

**L I A B I L I T I E S**

**CURRENT LIABILITIES**

Accounts payable and accrued liabilities \$ 200,197 \$ 128,875

**FUTURE INCOME TAX LIABILITY**

1,386,227 1,386,227

1,586,424 1,515,102

**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 72,494,723

**CONTRIBUTED SURPLUS** (Note 6) 6,149,607 5,758,943

**ACCUMULATED OTHER COMPREHENSIVE INCOME** (159,931) (159,931)

**DEFICIT** (18,768,782) (16,564,242)

59,715,617 61,529,493

\$ 61,302,041 \$ 63,044,595

**Nature of operations** (Note 1)

**Commitments** (Notes 4 and 10)

**Arrangement with Western Lithium** (Note 3 and 13)

**Subsequent events** (Note 13)

**On behalf of the Board:**

“Ed Flood”

Director

“Pamela Klessig”

Director

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

**WESTERN URANIUM CORPORATION**  
**INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS, COMPREHENSIVE LOSS AND DEFICIT**  
**FOR THE THREE MONTHS ENDED DECEMBER 31**  
(Unaudited – Prepared by Management)  
(Expressed in Canadian Dollars)

	2010	2009
<b>EXPENSES</b>		
Amortization	\$ 649	\$ 938
Audit and accounting	47,645	30,234
Consulting fees (Note 7)	62,920	31,500
Corporate development	30,000	-
Interest and bank charges	1,971	660
Investor relations	18,000	14,000
Legal fees	12,944	12,435
Office and miscellaneous	15,075	25,035
Property investigation	11,939	1,243
Regulatory and filing fees	625	3,750
Rent	39,775	20,546
Stock-based compensation (Note 6)	324,438	46,306
Telephone	4,785	4,181
Travel	20,681	25,909
Wages and benefits (Note 7)	871,715	142,841
<b>LOSS BEFORE OTHER ITEMS</b>	<u>(1,463,162)</u>	<u>(359,578)</u>
<b>OTHER ITEMS</b>		
Gain on dilution of interest in Western Lithium (Note 3)	36,027	1,080,303
Equity loss in Western Lithium (Note 3)	(305,689)	(316,474)
Foreign exchange loss	(534,298)	(405,930)
Interest income	<u>62,582</u>	<u>26,152</u>
	<u>(741,378)</u>	<u>384,051</u>
<b>NET (LOSS)/INCOME AND COMPREHENSIVE (LOSS)/INCOME</b>	<u>(2,204,540)</u>	<u>24,473</u>
<b>DEFICIT – BEGINNING OF PERIOD</b>	<u>(16,564,242)</u>	<u>(6,767,475)</u>
<b>DEFICIT – END OF PERIOD</b>	<u>\$ (18,768,782)</u>	<u>\$ (6,743,002)</u>
<b>BASIC AND DILUTED LOSS PER SHARE</b>	<u>\$ (0.04)</u>	<u>\$ 0.00</u>
<b>WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING – BASIC AND DILUTED</b>	59,871,834	59,371,834

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

**WESTERN URANIUM CORPORATION**  
**INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE THREE MONTHS ENDED DECEMBER 31**  
**(Unaudited – Prepared by Management)**  
(Expressed in Canadian Dollars)

	<b>2010</b>	<b>2009</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
(Loss)/income for the period	\$ (2,204,540)	\$ 24,473
Items not affecting cash:		
Amortization	649	938
Gain on dilution of interest in Western Lithium	(36,027)	(1,080,303)
Equity loss in Western Lithium	305,689	316,474
Foreign exchange on cash and cash equivalents	534,298	405,930
Stock-based compensation	324,438	46,306
Changes in non-cash working capital items:		
Decrease/(increase) in receivables	2,411	(852)
(Increase)/decrease in prepaid expenses and deposits	(20,128)	4,176
Increase in accounts payable and accrued liabilities	<u>73,129</u>	<u>72,791</u>
Net cash used in operating activities	<u>(1,020,081)</u>	<u>(210,067)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Acquisition of mineral properties and deferred costs	(413,756)	(671,632)
Investment in Western Lithium	<u>-</u>	<u>(1,402,188)</u>
Net cash used in investing activities	<u>(413,756)</u>	<u>(2,073,820)</u>
<b>FOREIGN EXCHANGE ON CASH AND CASH EQUIVALENTS</b>	<u>(534,298)</u>	<u>(405,930)</u>
<b>CHANGE IN CASH AND CASH EQUIVALENTS DURING THE PERIOD</b>	(1,968,135)	(2,689,817)
<b>CASH AND CASH EQUIVALENTS – BEGINNING OF PERIOD</b>	<u>40,040,206</u>	<u>46,358,395</u>
<b>CASH AND CASH EQUIVALENTS – END OF PERIOD</b>	\$ 38,072,071	\$ 43,668,578
<b>CASH AND CASH EQUIVALENTS IS COMPRISED OF:</b>		
Cash	\$ 24,049,160	\$ 24,007,350
Term deposits	<u>14,022,911</u>	<u>19,661,228</u>
	\$ 38,072,071	\$ 43,668,578

Supplemental disclosure with respect to cash flows (Note 8).

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

**WESTERN URANIUM CORPORATION**  
**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE THREE MONTHS ENDED DECEMBER 31, 2010**

(Unaudited – Prepared by Management)

(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 mineral 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 interim period consolidated financial statements of the Company have been prepared by management in accordance with Canadian generally accepted accounting principles (“Canadian GAAP”) for the preparation of interim financial statements. The most significant of these accounting principles have been set out in September 30, 2010, audited financial statements. Only changes in accounting information have been disclosed in these unaudited interim financial statements. These interim consolidated financial statements follow the same accounting policies and methods of application as the most recent audited consolidated financial statements of the Company. Accordingly, these interim financial statements do not contain all the information required for annual financial statements and should be read in conjunction with the Company’s most recent audited consolidated financial statements as at September 30, 2010.

These interim consolidated 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. 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 interim consolidated financial statements do not include any adjustments to the amounts and classification of assets and liabilities that might be necessary should the Company be unable to continue its business.

*Comparative figures*

Certain of the prior period comparatives have been reclassified to conform to the current period’s presentation.

**WESTERN URANIUM CORPORATION**  
**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE THREE MONTHS ENDED DECEMBER 31, 2010**

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**2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

*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.

*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, 2010. 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 INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE THREE MONTHS ENDED DECEMBER 31, 2010**

(Unaudited – Prepared by Management)

(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 \$305,689 in Western Lithium for the period ended December 31, 2010 (Q1 2010 - \$316,474). The Company also recorded \$36,027 (Q1 2010 - \$1,080,303) gain on dilution of interest in Western Lithium and \$66,226 (Q1 2010 - \$309,789) of its proportionate share of Western Lithium’s contributed surplus for the same period.

As at December 31, 2010, the Company owned 19,685,393 or 23.7% 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			
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	-	1,956,309	-
As at September 30, 2010	19,685,393	5,975,325	2,902,200
Equity loss	-	(305,689)	-
Share of Western Lithium contributed surplus	-	66,226	-
Gain on dilution	-	36,027	-
	19,685,393	5,771,889	2,902,200

See note 13.

**WESTERN URANIUM CORPORATION**  
**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE THREE MONTHS ENDED DECEMBER 31, 2010**

(Unaudited – Prepared by Management)

(Expressed in Canadian Dollars)

**4. MINERAL PROPERTIES AND DEFERRED COSTS**

<b>For the three months ended December 31, 2010</b>	Thelon Basin, Canada,	Kings Valley, USA,	Treeline, USA,	Baza, Spain,	La Rioja, Argentina,	Cerro Amarillo, Argentina,	Total,
	\$	\$	\$	\$	\$	\$	\$
<b>Acquisition costs</b>							
Balance, beginning of period	1,253,203	4,119,075	389,967	117,556	581,006	-	6,460,807
Additions	<u>8,522</u>	<u>37,721</u>	<u>18</u>	<u>101,284</u>	<u>-</u>	<u>25,583</u>	<u>173,128</u>
Balance, end of period	<u>1,261,725</u>	<u>4,156,796</u>	<u>389,985</u>	<u>218,840</u>	<u>581,006</u>	<u>25,583</u>	<u>6,633,935</u>
<b>Deferred exploration costs</b>							
Drilling	-	2,324	-	86,525	-	-	88,849
Geological and consulting	-	27,713	-	18,814	-	27,126	73,653
Mapping, supplies and other	-	8,363	-	14,873	1,374	1,349	25,959
Sampling	-	16,956	-	20,563	-	-	37,519
Transportation and travel	-	-	-	12,502	-	-	12,502
Foreign tax	<u>-</u>	<u>-</u>	<u>-</u>	<u>339</u>	<u>-</u>	<u>-</u>	<u>339</u>
Total deferred exploration costs	-	55,356	-	153,616	1,374	28,475	238,821
Balance, beginning of period	<u>6,087,790</u>	<u>2,730,925</u>	<u>386,752</u>	<u>1,210,225</u>	<u>78,321</u>	<u>-</u>	<u>10,494,013</u>
Balance, end of period	6,087,790	2,786,281	386,752	1,363,841	79,695	28,475	10,732,834
<b>Total mineral property costs</b>	<b>7,349,515</b>	<b>6,943,077</b>	<b>776,737</b>	<b>1,582,681</b>	<b>660,701</b>	<b>54,058</b>	<b>17,366,769</b>

<b>For the year ended September 30, 2010</b>	Thelon Basin, Canada,	Kings Valley, USA,	Treeline, USA,	Baza, Spain,	La Rioja, Argentina,	Total,
	\$	\$	\$	\$	\$	\$
<b>Acquisition costs</b>						
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>-</u>	<u>(78,073)</u>	<u>-</u>	<u>-</u>	<u>-</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>
<b>Deferred exploration costs</b>						
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>-</u>	<u>-</u>	<u>-</u>	<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>-</u>	<u>-</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)
<b>Total mineral property costs</b>	<b>7,340,993</b>	<b>6,850,000</b>	<b>776,719</b>	<b>1,327,781</b>	<b>659,327</b>	<b>16,954,820</b>

**WESTERN URANIUM CORPORATION**  
**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE THREE MONTHS ENDED DECEMBER 31, 2010**

(Unaudited – Prepared by Management)

(Expressed in Canadian Dollars)

**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 US\$25,000 and acquired Uravada’s interest by making additional payments of US\$380,000 from 2006 to 2010.

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 (Note 13).

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 US\$1,500 and acquired the 50% interest by making additional payments of US\$27,500 from 2006 to 2010.

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 of US\$45,000 from 2005 to 2010 (paid) and US\$10,000 on or before each anniversary thereafter, to be credited against any production royalties that may accrue and against the purchase price.

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

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 transaction value for the sale of WEDC to Western Lithium (Note 13).

***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”).

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

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 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 13.

**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.

**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 discontinued 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 the 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 (US\$100,000 paid), second, and third anniversaries of the Agreement to AuEx 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;

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

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.

**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 with an estimated fair value of \$0.88 per unit for total consideration of \$440,000; a unit consisted of one common share and one-half warrant) and a 2% NSR, which the Company can purchase at a price of US\$1,000,000 per percentage interest.

**Cerro Amarillo – Cajon Grande, Argentina**

On October 14, 2010, Meryllion Minerals Corporation (“Meryllion”), a wholly-owned subsidiary of the Company, 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 as follows:

- US\$25,000 on the earlier of: the date the Company completes its due diligence of the property or the date that is 30 days from the date of execution of this agreement (paid);
- US\$25,000 within 4 months following the execution of this agreement (see Note 13);
- US\$25,000 within 10 months following the execution of this agreement;
- US\$100,000 within 16 months following the execution of this agreement;
- US\$150,000 within 28 months following the execution of this agreement;
- US\$200,000 within 40 months following the execution of this agreement.

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.

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**5. EQUIPMENT**

	December 31, 2010			September 30, 2010		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Computer equipment	\$ 33,192	\$ 30,791	\$ 2,401	\$ 33,192	\$ 30,737	\$ 2,455
Office equipment	<u>31,662</u>	<u>22,924</u>	<u>8,738</u>	<u>31,662</u>	<u>22,329</u>	<u>9,333</u>
	<u>\$ 64,854</u>	<u>\$ 53,715</u>	<u>\$ 11,139</u>	<u>\$ 64,854</u>	<u>\$ 53,066</u>	<u>\$ 11,788</u>

**6. SHARE CAPITAL AND CONTRIBUTED SURPLUS**

	Number	Amount, \$	Contributed Surplus, \$
<b>Authorized</b>			
Unlimited common shares without par value			
100,000,000 preferred shares, par value \$1.00			
<b>Issued</b>			
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	<u>-</u>	<u>-</u>	<u>305,673</u>
As at September 30, 2010	59,871,834	72,494,723	5,758,943
Contributed surplus of Western Lithium	-	-	66,226
Stock-based compensation	<u>-</u>	<u>-</u>	<u>324,438</u>
As at December 31, 2010	59,871,834	72,494,723	6,149,607

There were no changes in the number of shares issued and share capital during the three months period ended December 31, 2010.

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.

**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.

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**6. SHARE CAPITAL AND CONTRIBUTED SURPLUS (continued)**

On November 8, 2010, the Company granted incentive stock options for the purchase of up to 200,000 common shares of the Company, at a price of \$0.85 per share for a five year period.

On December 22, 2010, the Company 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 for a five year period.

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.

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 period ended December 31, 2010:

	November 8, 2010	December 22, 2010
Number of options granted	200,000	1,000,000
Risk-free interest rate	2.10%	2.42%
Expected life	5 years	5 years
Annualized volatility	105%	109%
Dividend rate	0.00%	0.00%
Fair value per stock options granted	\$0.66	\$0.75
Total fair value of stock options granted	\$132,000	\$750,000

The weighted average fair value of stock options granted during the period was \$0.74 per option. Option pricing models require the use of estimates and assumptions including the expected volatility. Changes in the underlying assumptions can materially affect the fair value estimates.

Stock-based compensation expense of \$324,438 was charged to operations and credited to contributed surplus to reflect the fair value of stock options granted and vested during the period ended December 31, 2010. At December 31, 2010, \$585,851 of the fair value of stock options previously granted but not yet vested remains to be expensed in fiscal 2011 and \$156,275 in 2012.

A summary of the Company's outstanding options at December 31, 2010, and the changes during the period is presented below:

	Period Ended December 31, 2010	
	Number of Options	Weighted Average Exercise Price
Balance, outstanding - September 30, 2010	2,635,000	\$ 1.22
Granted	1,200,000	0.93
Balance, outstanding - December 31, 2010	3,835,000	\$ 1.13

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**6. SHARE CAPITAL AND CONTRIBUTED SURPLUS (continued)**

Stock options outstanding and exercisable as at December 31, 2010, are as follows:

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	100,000	\$ 0.90	May 6, 2014
585,000	292,500	\$ 0.85	June 10, 2015
200,000	50,000	\$ 0.85	November 8, 2015
1,000,000	250,000	\$ 0.95	December 22, 2015
<b>Total</b>	<b>3,835,000</b>		<b>2,642,500</b>

**Warrants**

At December 31, 2010, the following warrants were outstanding:

Expiry date	Number of Warrants	Weighted Average Exercise Price
February 6, 2012	250,000	\$1.00

**7. RELATED PARTY TRANSACTION**

During the three months ended December 31, 2010, the Company entered into transaction with related parties as follows:

- paid \$57,000 (Q1 2010 - \$12,000) in consulting fees to the Company's Chairman and interim President and Chief Executive Officer;
- paid \$607,680 severance payment to a director and former officer 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.

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**8. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS**

The Company had the following significant non-cash transactions:

- a) included \$72,473 (September 30, 2010 - \$74,281) of accounts payable relating to the property expenditures in investing activities;
- b) recorded in contributed surplus \$66,226 (Q1 2010 - \$309,789) of the Company's proportionate share of Western Lithium's contributed surplus.

**9. 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 the three months ended December 31, 2010.

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

	December 31, 2010				
	Canada \$	United States \$	Spain \$	Argentina \$	Total \$
Current assets	37,275,720	856,984	-	19,540	38,152,244
Equipment	-	11,139	-	-	11,139
Investment in Western Lithium	5,771,889	-	-	-	5,771,889
Mineral properties and deferred costs	7,349,515	7,719,814	1,582,681	714,759	17,366,769
	50,397,124	8,587,937	1,582,681	734,299	61,302,041

  

	September 30, 2010				
	Canada \$	United States \$	Spain \$	Argentina \$	Total \$
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

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**10. COMMITMENTS**

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

Fiscal year 2011	\$ 39,384
Fiscal year 2012	59,076
Fiscal year 2013	59,076
Fiscal year 2014	<u>4,923</u>
Total	\$162,459

Mineral properties commitments disclosed in Note 4.

**11. 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 December 31, 2010, the carrying amount of current financial assets and liabilities approximated the fair value because of the near maturity of those instruments.

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

December 31, 2010	Level 1	Level 2	Level 3
Assets			
Cash and cash equivalents	\$ 38,072,071	\$ -	\$ -
<hr/>			
September 30, 2010	Level 1	Level 2	Level 3
Assets			
Cash and cash equivalents	\$ 40,040,206	\$ -	\$ -

***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.

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**11. FINANCIAL INSTRUMENTS (continued)**

The Company's accounts receivable consists mainly of harmonized sales tax (HST) 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 December 31, 2010, the Company had cash and cash equivalents balance of \$38,072,071 (September 30, 2010 - \$40,040,206) to settle current liabilities of \$200,197 (September 30, 2010 - \$128,875). 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.

*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 December 31, 2010, \$847,912 (September 30, 2010 - \$1,439,230) was held in US Bank, \$20,240,710 (September 30, 2010 - \$20,375,834) in Royal Bank of Canada, and \$16,983,449 (September 30, 2010 - \$18,225,142) 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:

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**11. FINANCIAL INSTRUMENTS (continued)**

	December 31, 2010			
	CDN\$	US\$	Euros	Total \$
Cash and cash equivalents	23,955,654	12,702,264	1,414,153	38,072,071
Receivables	24,854	3,528	-	28,382
Prepaid expenses and deposits	36,712	15,079	-	51,791
Accounts payables and accrued liabilities	(192,367)	(7,830)	-	(200,197)
	23,824,853	12,713,041	1,414,153	37,952,047

  

	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

US dollar amounts have been translated at a value of CDN\$0.9946 for US\$1.00 (September 30, 2010 - CDN\$1.029 for US\$1.00). Amounts in Euros have been translated at a value of CDN\$1.3319 for 1 Euro (September 30, 2010 - 1.4006). If the US dollar appreciates by 1% in relation to Canadian dollar, the Company's net income would increase by approximately \$127,712. If the Euro appreciates by 1% in relation to Canadian dollar, the Company's net income would increase by approximately \$10,618.

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 \$38,072.

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**12. 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 the three months period ended December 31, 2010.

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.

**13. SUBSEQUENT EVENTS**

Subsequent to December 31, 2010, the Company:

- a) paid US\$50,000 in advance net smelter return royalty payments in accordance with the Mining Option Agreement with Uravada Inc. (Note 4);
- b) paid US\$25,000 under the option agreement for Cerro Amarillo-Cajon Grande property (Note 4);
- c) granted incentive stock options for the purchase of up to 100,000 common shares of the Company, at a price of \$1.00 per share to the Company's Director and up to 200,000 common shares at a price of \$1.17 per share to a newly appointed investor relations representative, for a five year period;
- d) has entered into a definitive agreement with Cameco Global Exploration II Ltd. ("Cameco Global") to conclude and terminate the Strategic Alliance Agreement (the "Agreement") made August 29, 2007, between the Company and Cameco Global. Under the terms of the Termination Agreement the Company and Cameco Global agreed to terminate the Agreement in consideration of a \$2.5 million payment from the Company to Cameco Global (paid). In addition, Western Energy Development Corp. ("WEDC") and KV Project LLC, each a direct or indirect wholly-owned subsidiary of the Company, have agreed to grant Cameco Global a production royalty equal to twenty percent (20%) of the gross revenues derived from the sale of uranium products taken from certain unpatented mining claims and other property interests owned or leased by WEDC and KV Project LLC. These properties were previously covered by the terms of the Agreement;
- e) has entered into a definitive agreement in principle for the purchase by Western Lithium of the royalties and titles constituting substantially all of the Kings Valley mineral property holdings in Nevada held by Western Energy Development Corporation ("WEDC"), a wholly-owned subsidiary of the Company.

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**13. SUBSEQUENT EVENTS** (continued)

The transaction transfers all of the lithium properties out of the Company's portfolio and eliminates the existing lease and royalty arrangements between the two companies on the Kings Valley property, including a Net Smelter Return of 1.5% and Net Profits Royalty of 3.5% on any lithium and related byproducts. Western Lithium gains full control of the Kings Valley property claims, excluding the Albusu gold exploration target and a proposed royalty to be granted to Cameco Global Exploration II Ltd. ("Cameco") solely in respect of uranium.

Details of the Transaction:

- the definitive agreement structures the transaction as an asset purchase. Western Lithium will purchase 100% interest in the Kings Valley property claims, royalties and all related assets and data held by WEDC, except the Albusu gold property, located at the northern end of the Kings Valley property. However, Western Lithium retains lithium development rights on these claims and a right of first refusal on any future disposition by the Company of these claims;
- 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, was concluded as a related part of the transaction with Western Lithium, for consideration of \$2.5 million (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;
- 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 stock exchange approvals and other conditions.