
WESTERN LITHIUM USA CORPORATION

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED MARCH 31, 2015

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

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

	March 31, 2015 \$	September 30, 2014 \$
CURRENT ASSETS		
Cash	613	7,160
Receivables	249	158
Prepaid expenses and deposits (Note 8)	409	523
Inventories (Note 4)	<u>401</u>	<u>124</u>
	<u>1,672</u>	<u>7,965</u>
NON-CURRENT ASSETS		
Capital assets (Note 5)	17,892	15,933
Exploration and evaluation assets (Note 6)	<u>508</u>	<u>456</u>
	<u>18,400</u>	<u>16,389</u>
	20,072	24,354
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	1,091	1,781
Current portion of long-term borrowing (Note 7)	114	111
Obligation under finance leases (Note 9)	<u>40</u>	<u>23</u>
	<u>1,245</u>	<u>1,915</u>
LONG-TERM LIABILITIES		
Long-term borrowing (Note 7)	1,047	1,105
Obligation under finance leases (Note 9)	144	81
Decommissioning provision (Note 8)	<u>170</u>	<u>170</u>
	<u>1,361</u>	<u>1,356</u>
SHARE CAPITAL	53,124	53,036
CONTRIBUTED SURPLUS	9,561	9,176
ACCUMULATED OTHER COMPREHENSIVE LOSS	(493)	(337)
DEFICIT	<u>(44,726)</u>	<u>(40,792)</u>
	<u>17,466</u>	<u>21,083</u>
	20,072	24,354

Subsequent event (note 18)

Approved for issuance on May 11, 2015

On behalf of the Board of Directors:

“Terry Krepiakovich” Director “John Macken” Director

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

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

	Three Months Ended March 31,		Six Months Ended March 31,	
	2015	2014	2015	2014
	\$	\$	\$	\$
EXPENSES				
Exploration expenditures (Notes 11 and 12)	447	213	1,240	716
Organoclay research and development	89	172	218	359
Investor relations	59	64	111	90
Marketing	102	82	231	145
Office and administration	166	139	345	246
Professional fees	39	83	156	177
Regulatory and filing fees	26	32	46	38
Salaries and benefits (Notes 11)	288	253	858	436
Stock-based compensation (Notes 10 and 11)	168	184	420	545
Travel and conferences	77	44	169	76
	<u>1,461</u>	<u>1,266</u>	<u>3,794</u>	<u>2,828</u>
LOSS BEFORE OTHER ITEMS	<u>(1,461)</u>	<u>(1,266)</u>	<u>(3,794)</u>	<u>(2,828)</u>
OTHER ITEMS				
Foreign exchange (loss)/gain	(123)	136	(177)	256
Gain on royalty sale (Note 6)	-	1,329	-	1,329
Other income	13	13	26	39
Interest income	<u>2</u>	<u>4</u>	<u>11</u>	<u>11</u>
	<u>(108)</u>	<u>1,482</u>	<u>(140)</u>	<u>1,635</u>
NET (LOSS)/INCOME FOR THE PERIOD	<u>(1,569)</u>	<u>216</u>	<u>(3,934)</u>	<u>(1,193)</u>
OTHER COMPREHENSIVE (LOSS)/INCOME				
Unrealized loss on translation to reporting currency	<u>(69)</u>	<u>(145)</u>	<u>(156)</u>	<u>(276)</u>
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD	<u>(1,638)</u>	<u>71</u>	<u>(4,090)</u>	<u>(1,469)</u>
(LOSS)/EARNINGS PER SHARE - BASIC	<u>(0.01)</u>	<u>0.00</u>	<u>(0.03)</u>	<u>(0.01)</u>
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING - BASIC	<u>119,361</u>	<u>102,266</u>	<u>119,323</u>	<u>102,199</u>
(LOSS)/EARNINGS PER SHARE - DILUTED	<u>(0.01)</u>	<u>0.00</u>	<u>(0.03)</u>	<u>(0.01)</u>
WEIGHTED AVERAGE NUMBER OF COMMON SHARES AND DILUTIVE SECURITIES OUTSTANDING	<u>119,361</u>	<u>106,767</u>	<u>119,323</u>	<u>102,199</u>

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

WESTERN LITHIUM USA CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(Unaudited – Prepared by Management)
(Expressed in thousands of US Dollars and shares in thousands)

	Number of Shares	Amount	Contributed surplus	Accumulated other comprehensive loss	Deficit	Shareholders' equity
		\$	\$	\$	\$	\$
Authorized share capital:						
Unlimited common shares without par value						
Balance, September 30, 2013	102,133	45,085	8,004	(29)	(39,492)	13,568
Stock-based compensation	-	-	545	-	-	545
Shares issued on exercise of stock options	474	100	-	-	-	100
Fair value of options exercised	-	102	(102)	-	-	-
Net loss and other comprehensive loss	-	-	-	(276)	(1,193)	(1,469)
Balance, March 31, 2014	102,607	45,287	8,447	(305)	(40,685)	12,744
Balance, September 30, 2014	119,235	53,036	9,176	(337)	(40,792)	21,083
Stock-based compensation	-	-	420	-	-	420
Shares issued on exercise of stock options (Note 10)	223	53	-	-	-	53
Fair value of options exercised	-	35	(35)	-	-	-
Net loss and other comprehensive loss	-	-	-	(156)	(3,934)	(4,090)
Balance, March 31, 2015	119,458	53,124	9,561	(493)	(44,726)	17,466

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

WESTERN LITHIUM USA CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited – Prepared by Management)

(Expressed in thousands of US Dollars)

	For the six months ended March 31,	
	2015	2014
	\$	\$
OPERATING ACTIVITIES		
Net loss for the period	(3,934)	(1,193)
Items not affecting cash:		
Gain on royalty sale	-	(1,329)
Stock-based compensation	420	545
Depreciation (Note 5)	19	8
Foreign exchange loss/(gain)	177	(256)
Other income	(26)	(13)
Changes in non-cash working capital items:		
Increase in receivables	(91)	(4)
Decrease/(increase) in prepaid expenses and deposits	106	(78)
Increase in inventories	(346)	-
Increase/(decrease) in accounts payable and accrued liabilities	139	(112)
Net cash used in operating activities	<u>(3,536)</u>	<u>(2,432)</u>
INVESTING ACTIVITIES		
Additions to exploration and evaluation assets (Note 6)	(52)	(81)
Additions to capital assets (Note 5)	<u>(2,651)</u>	<u>(4,242)</u>
Net cash used in investing activities	<u>(2,703)</u>	<u>(4,323)</u>
FINANCING ACTIVITIES		
Proceeds from stock options exercise	53	100
Net proceed from royalty sale	-	1,410
Finance lease repayments	(16)	-
Repayment of long-term borrowing	<u>(55)</u>	<u>(52)</u>
Net cash (used in)/provided by financing activities	<u>(18)</u>	<u>1,458</u>
EFFECT OF FOREIGN EXCHANGE ON CASH	<u>(290)</u>	<u>(3)</u>
CHANGE IN CASH	<u>(6,547)</u>	<u>(5,300)</u>
CASH - BEGINNING OF PERIOD	<u>7,160</u>	<u>11,364</u>
CASH - END OF PERIOD	<u>613</u>	<u>6,064</u>

Supplemental disclosure with respect to cash flows (Note 14)

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

WESTERN LITHIUM USA CORPORATION
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED MARCH 31, 2015

(Unaudited – Prepared by Management)

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

1. NATURE OF OPERATIONS

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

The Company is currently starting up production at its organoclay plant located in Fernley, Nevada. The plant has been recently constructed to manufacture specialty organoclay products (“Hectatone™” products), derived from hectorite and other clays, for sale to the oil and gas sector. In addition, the Company has completed a prefeasibility study to extract lithium from its hectorite deposit to produce lithium carbonate that is primarily intended for the lithium battery sector.

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

To date, the Company has not generated significant revenues from operations and has relied on equity and other financings to fund operations. The Company’s organoclay project is considered to be in the development stage. The recovery of the underlying value of the organoclay plant is dependent on the Company achieving profitable operations from the organoclay business. The underlying value of exploration and evaluation assets are entirely dependent on the existence of economically recoverable reserves, securing and maintaining title and beneficial interest in the properties, the ability of the Company to obtain the necessary financing to complete permitting, development, and future profitable operation. As of the period end, the Company did not have sufficient cash to fund its core operations for the next twelve months. Management of the Company intends to obtain further financing to maintain its core operations. While management has been successful in the past, the ultimate outcome of the future financing cannot presently be determined because they are contingent on future events. These material uncertainties may cast significant doubt about the Company’s ability to continue as a going concern.

2. BASIS OF PREPARATION AND PRESENTATION

These condensed consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) applicable to the preparation of interim financial statements, including IAS 34, Interim Financial Reporting. The condensed consolidated financial statements should be read in conjunction with the annual consolidated financial statements for the year ended September 30, 2014, which have been prepared in accordance with IFRS as issued by the IASB.

These condensed consolidated financial statements are expressed in US dollars, the Company’s presentation currency, and have been prepared on a historical cost basis, except for financial instruments that have been measured at fair value. In addition, these condensed consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow information. The Company has used the same accounting policies and methods of computation as in the annual consolidated financial statements for the year ended September 30, 2014.

WESTERN LITHIUM USA CORPORATION
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3. SIGNIFICANT ACCOUNTING POLICIES

Accounting Standard Issued but not yet Applied

IFRS 9, Financial Instruments, was issued in November 2009 and addresses classification and measurement of financial assets. It replaces the multiple category and measurement models in IAS 39 for debt instruments with a new mixed measurement model having only two categories: amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments. Such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income. Where equity instruments are measured at fair value through other comprehensive income, dividends are recognized in profit or loss to the extent that they do not clearly represent a return of investment; however, other gains and losses (including impairments) associated with such instruments remain in accumulated comprehensive income indefinitely. Requirements for financial liabilities were added to IFRS 9 in October 2010 and they largely carried forward existing requirements in IAS 39, Financial Instruments – Recognition and Measurement, except that fair value changes due to credit risk for liabilities designated at fair value through profit and loss are generally recorded in other comprehensive income. The standard is effective for annual periods beginning on or after January 1, 2018.

IFRS 15 Revenue from Contracts with Customers. The IASB issued IFRS 15, Revenue from Contracts with customers, which provides a single principle based framework to be applied to all contracts with customers. IFRS 15 replaces the previous revenue standard IAS 18, Revenue, and the related Interpretations on revenue recognition. The standard copes out contracts that are considered to be lease contracts, insurance contracts and financial instruments. The new standard is a control-based model as compared to the existing revenue standard which is primarily focused on risks and rewards. Under the new standard, revenue is recognized when a customer obtains control of a good or service. Transfer of control occurs when the customer has the ability to direct the use of and obtain the benefits of the good or service. This standard is effective for reporting periods beginning on or after January 1, 2017. The Company has yet to assess the impact of adoption.

Amendments to IAS 24 - The amendments to IAS 24 clarify that a management entity, or any member of a group of which it is a part, that provides key management services to a reporting entity, or its parent, is a related party of the reporting entity. The amendments also require an entity to disclose amounts incurred for key management personnel services provided by a separate management entity. This replaces the more detailed disclosure by category required for other key management personnel compensation. The amendments will only affect disclosure and are effective for annual periods beginning on or after July 1, 2014. The Company is currently evaluating the impact the final standard is expected to have on its consolidated financial statements.

Amendments to IFRS 2 – Share-based payment. The amendment clarifies vesting conditions by separately defining a performance condition and a service condition, both of which were previously incorporated within the definition of a vesting condition. The amendment is effective for share-based payment transactions for which the grant date is on or after July 1, 2014. The Company is in the process of determining the impact of the amendment of IFRS 2 on its consolidated financial statements.

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4. INVENTORIES

	As at March 31, 2015 \$	As at September 30, 2014 \$
Hectatone™ products:		
Raw materials and consumables	113	124
Work in progress	58	-
Finished goods	230	-
Inventories	401	124

5. CAPITAL ASSETS

	Land	Buildings	Equipment and machinery	Organoclay plant	Other	Total
	\$	\$	\$	\$	\$	\$
Cost						
As at September 30, 2013	329	1,289	615	1,409	84	3,726
Additions	20	500	3,717	7,760	251	12,248
Foreign exchange	-	-	-	-	(4)	(4)
As at September 30, 2014	349	1,789	4,332	9,169	331	15,970
Additions	13	133	558	1,278	3	1,985
Foreign exchange	-	-	-	-	(7)	(7)
As at March 31, 2015	362	1,922	4,890	10,447	327	17,948
	Land	Buildings	Equipment and machinery	Organoclay plant	Other	Total
	\$	\$	\$	\$	\$	\$
Accumulated depreciation						
As at September 30, 2013	-	-	-	-	15	15
Depreciation for the year	-	-	-	-	22	22
As at September 30, 2014	-	-	-	-	37	37
Depreciation for the period	-	-	-	-	19	19
As at March 31, 2015	-	-	-	-	56	56
	Land	Buildings	Equipment and machinery	Organoclay plant	Other	Total
	\$	\$	\$	\$	\$	\$
Net book value						
As at September 30, 2014	349	1,789	4,332	9,169	294	15,933
As at March 31, 2015	362	1,922	4,890	10,447	271	17,892

As at March 31, 2015, equipment and machinery includes \$15 in deposits to vendors for the lithium demonstration plant equipment ordered but not yet delivered to the locations of its intended use.

WESTERN LITHIUM USA CORPORATION
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6. EXPLORATION AND EVALUATION ASSETS

Kings Valley Property, Nevada, USA	Six months ended March 31, 2015 \$	Year Ended September 30, 2014 \$
Acquisition costs		
Balance, beginning of period	456	-
Additions	52	538
Proceeds from royalty sale, net	-	(5,170)
Gain on royalty sale	-	5,088
Total exploration and evaluation assets	508	456

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

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

- Mining Option Agreement with Uravada Inc. (“Uravada”) on certain mining claims for US\$50 annual payment due on January 21 (\$50 paid in each January of 2015, 2014, 2013 and 2012) in advance net smelter return royalty payments. The Company’s interest in these claims is subject to a 3% net smelter return royalty. There is a two mile area of influence around the Uravada claims lease;
- Mining Option Agreement to acquire four mining claims for \$2 per year in advance net smelter return royalty payments due on November 15th. The Company’s interest in these claims is subject to a 1.5% net smelter return royalty;
- 20% royalty to Cameco Global Exploration II Ltd. solely in respect of uranium.

7. LONG-TERM BORROWING

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

8. DECOMMISSIONING PROVISION AND RECLAMATION BONDS

The Company estimated the fair value of the liability for decommissioning provision that arose as a result of exploration activities to be \$170. The fair value of the liability was determined to be equal to the estimated remediation costs. As at March 31, 2015, the Company cannot make a reasonable estimate of the timing of the cash flows and the fair value of the future decommissioning provision cannot be reasonably determined. In fiscal 2013, the Company reclassified previously capitalized non-interest bearing bonds with the Bureau of Land Management (“BLM”) of \$310 from Exploration and Evaluation Assets to Reclamation Bond. In April 2014, BLM released \$310 cash held as reclamation bond to the Company in exchange for a bond guarantee provided by an insurance company. In May 2014, the reclamation bond and the bond guarantee was increased to \$908 upon the issuance of Kings Valley Mine Project permit to the Company. The bond guarantee is renewed annually and secured by the Company’s \$150 restricted cash included in prepaid expenses and deposits.

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9. FINANCE LEASES

The Company leases certain equipment for its organoclay plant under capital lease arrangements. The carrying amount of the leased assets on March 31, 2015 was \$215.

In the first two quarters of 2015, the Company paid \$16 in capital lease payments and capitalized finance charges of \$4. Future minimum lease payments relating to the Company's finance leases are as follows:

	Years ended September 30,		
	2015	2016 -2019	Total
	\$	\$	\$
Capital lease payments	24	180	204
Less future finance charges	(4)	(16)	(20)
Present value of minimum lease payments	20	164	184

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

The Company has a stock option plan in accordance with the policies of the TSX whereby, from time to time, at the discretion of the board of directors, stock options are granted to directors, officers and certain consultants. Under the plan, up to 23,864 common shares are reserved for the issuance of stock options. The exercise price of each option is based on the market price of the Company's common stock at the time of the grant. The options can be granted for a maximum term of 5 years.

Stock options outstanding and exercisable as at March 31, 2015, are as follows:

Number of Options Outstanding	Number of Options Exercisable	Exercise Price, CDN\$	Expiry Date
100	100	1.09	May 12, 2015
505	505	0.88	July 14, 2015
90	90	1.11	December 16, 2015
1,000	1,000	1.33	January 26, 2016
320	320	1.12	March 17, 2016
200	200	1.22	March 31, 2016
1,005	1,005	0.54	September 16, 2016
980	980	0.27	January 3, 2017
2,140	2,140	0.16	August 30, 2017
4,313	3,176	0.27	October 21, 2018
210	105	0.80	April 1, 2019
325	163	0.49	July 16, 2019
2,585	1,293	0.69	August 15, 2019
13,773	11,077		

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

A summary of changes to stock options outstanding:

	Number of Options	Weighted Average Exercise Price, CDN\$
Balance, outstanding September 30, 2013	10,133	0.68
Granted	7,925	0.43
Exercised	(600)	0.29
Expired	(1,720)	(0.51)
Cancelled	(258)	(0.46)
Balance, outstanding September 30, 2014	15,480	0.59
Cancelled	(10)	(0.88)
Expired	(1,474)	(1.42)
Exercised	(223)	(0.28)
Balance, outstanding March 31, 2015	13,773	0.51

Stock-based compensation expense of \$420 (Q2 2014 - \$545) was charged to operations and credited to contributed surplus to reflect the fair value of stock options vested during the period ended March 31, 2015. At March 31, 2015, \$151 of the fair value of stock options previously granted but not yet vested remains to be expensed in fiscal 2015 and \$48 in fiscal 2016.

The weighted-average share price on the dates of the stock option exercised was CDN\$0.73 (year ended September 30, 2014 – CDN\$0.68).

Warrants

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

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

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

	Number of Warrants (<i>'000's</i>)	Weighted Average Exercise Price (<i>in CDN\$</i>)	Expiry date
Balance, September 30, 2013	-	-	
Issued	7,935	0.75	May 16, 2016
Exercised	(76)	(0.75)	May 16, 2016
Issued	1,032	0.58	May 16, 2016
Exercised	(619)	(0.58)	May 16, 2016
Balance, September 30, 2014 and March 31, 2015	8,272	0.74	

11. RELATED PARTY TRANSACTIONS

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

Name	Country of incorporation	% Equity interest	
		As at March 31, 2015	As at September 30, 2014
Western Lithium Corporation	USA	100%	100%
WMM Services Corporation	CDN	100%	50%
KV Project LLC	USA	100%	100%
Hectatone Inc.	USA	100%	100%

In Q1 2015 and up to February 28, 2015, the Company shared Vancouver, Canada, office space, equipment and office administrative services with Meryllion Resources Corp. ("Meryllion"). These services have been allocated based on costs incurred by each entity through a private management company, WMM Services Corporation ("WMM"), equally owned by the Company and Meryllion. In November 2014, Meryllion transferred its shareholdings in WMM to the Company.

Compensation of Key Management

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

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11. RELATED PARTY TRANSACTIONS (continued)

The remuneration of directors and members of key management included:

	For the six months ended March 31,	
	2015	2014
	\$	\$
Stock-based compensation	315	380
Salaries and benefits	446	206
Salaries and benefits included in marketing	78	-
Salaries and benefits included in exploration expenditures	255	52
Salaries and benefits included in capital assets	137	194
Directors' fees included in salaries and benefits	69	59
Employee benefits included in salaries and benefits	12	8
	1,312	899

	As at March 31,	As at September 30,
	2015	2014
	\$	\$
Total due to directors	32	-

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

12. EXPLORATION EXPENDITURES

Kings Valley Property, Nevada, USA	For the six months ended March 31, 2015		
	Hectorite Mine	Lithium Project	Total
Engineering	-	78	78
Environmental	2	3	5
Supplies and other services	7	128	135
Geological and consulting (Note 10)	89	933	1,022
Total exploration expenditures	98	1,142	1,240

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(Unaudited – Prepared by Management)

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

12. EXPLORATION EXPENDITURES (continued)

Kings Valley Property, Nevada, USA		For the six months ended March 31, 2014	
	Hectorite Mine	Lithium Project	Total
Engineering	(2)	339	337
Environmental	53	25	78
Geological and consulting (Note 10)	41	184	225
Field supplies and other	30	46	76
Total exploration expenditures	122	594	716

13. COMMITMENTS

As at March 31, 2015, the Company had the following commitments that have not been disclosed elsewhere in these condensed consolidated financial statements:

	As at March 31, 2015 \$
<i>Not later than one year</i>	
Rent of office space	162
<i>Later than one year, but not later than 5 years</i>	
Rent of office space	96

14. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

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

	For the six months ended March 31,	
	2015 \$	2014 \$
Accounts payable and accrued liabilities related to capital assets	296	1,111
Assets acquired under finance leases	97	-
Accounts payable and accrued liabilities related to inventory	15	-
Fair value of stock options exercised	35	102
Interest/finance charges paid	35	34
Income taxes paid	-	-

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15. SEGMENTED INFORMATION

The Company operates in one business segment, being the acquisition and development of mineral properties. The Company's lithium project is in exploration stage and organoclay project is in the development stage, accordingly, the Company has no reportable segment revenues or operating results for the period ended March 31, 2015.

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

	As at March 31, 2015			
	Canada \$	United States \$	Germany \$	Total \$
Current assets	416	1,256	-	1,672
Capital assets	30	16,781	1,081	17,892
Exploration and evaluation assets	-	508	-	508
	446	18,545	1,081	20,072

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

16. FINANCIAL INSTRUMENTS

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

- i) Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;
- ii) Level 2 – Inputs other than quoted prices that are observable for assets or liabilities, either directly or indirectly; and
- iii) Level 3 – Inputs for assets and liabilities that are not based on observable market data.

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

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16. FINANCIAL INSTRUMENTS (continued)

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

Financial Instruments Risk Exposure

Credit Risk

Credit risk is the risk of loss associated with a counterparty's inability to fulfill its payment obligations. Financial instruments that potentially subject the Company to a concentration of credit risk consist primarily of cash and receivables. The Company's maximum exposure to credit risk for cash is the amount disclosed in the condensed consolidated statements of financial position. 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 and US chartered banks.

Included in the receivables is value-added tax of \$170 on purchases of equipment for the lithium demonstration plant in Germany. Value-added tax balances are recorded at their estimated recoverable amounts within current assets and reflect the Company's best estimate of their recoverability under existing tax rules in the respective jurisdictions. Management's assessment of recoverability involves judgments regarding classification on the condensed consolidated statement of financial position and the probable outcomes of claimed deductions and/or disputes. The provisions and classifications made to date may be subject to change.

The Company's prepaid expenses and deposits includes a \$46 bank deposit for the Company's secured credit cards, \$150 security deposit for the reclamation bond guaranteed by a third party, and other miscellaneous prepaid expenses and deposits that are subject to normal industry credit risk.

Management believes that the credit risk concentration with respect to financial instruments included in cash, 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 maintains sufficient reserves of cash and cash equivalents to meet its liquidity requirements in the short and long term. As the industry in which the Company operates is very capital intensive, the majority of the Company's spending is related to its capital programs. The Company prepares annual budgets, which are regularly monitored and updated as considered necessary.

As at March 31, 2015, the Company had a cash balance of \$613 (September 30, 2014 - \$7,160) to settle current liabilities of \$1,245 (September 30, 2014 - \$1,915).

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16. FINANCIAL INSTRUMENTS (continued)

Financial Instruments Risk Exposure (continued)

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

	Years ended September 30,			
	2015	2016	2017 and later	Total
	\$	\$	\$	\$
Accounts payable and accrued liabilities	1,091	-	-	1,091
Long-term borrowing ¹	86	172	1,178	1,436
Obligation under finance leases ¹	24	48	132	204
Decommissioning provision	-	-	170	170
Total	1,201	220	1,480	2,901

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

Market Risk

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

i) Foreign Currency Risk

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

On March 31, 2015, the Company used foreign exchange rate of CDN\$1.27 to US\$1.00 (September 30, 2014 – CDN\$1.12 to US\$1.00) and foreign exchange rate €0.93 to US\$1.00 (September 30, 2014 - €0.79 to US\$1.00). If the US\$ appreciated by 1% in relation to CDN\$, the Company's net loss would have decreased by approximately \$0.3. If the € appreciated by 1% to US\$, the Company's net loss would decrease by approximately \$4.

ii) Price Risk

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

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16. FINANCIAL INSTRUMENTS (continued)

Financial Instruments Risk Exposure (continued)

Market Risk (continued)

iii) Interest Rate Risk

The Company is exposed to interest rate risk to the extent that the cash maintained at the financial institutions is subject to a floating rate of interest. If the interest rate on the Company's cash in the financial institutions decreased by 0.1%, the Company's loss would have increased by approximately \$0.6. The interest rate risk on cash is not considered significant.

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

17. CAPITAL DISCLOSURE

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

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

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. There were no changes in the Company's approach to capital management during the period ended March 31, 2015. The Company is not subject to external covenants.

18. SUBSEQUENT EVENT

On May 1, 2015, the Company announced that it has entered into a convertible security funding agreement with an entity managed by The Lind Partners, a New York based asset management firm (together, "Lind"). An initial \$2.8 million (the "First Tranche") will be funded pursuant to the issuance of an initial convertible security ("Convertible Security"), of which \$2.4 million has been funded. Lind can increase the funding under that Convertible Security by an additional \$600 during its two year term. The agreement also provides for the issuance of a second Convertible Security on mutual agreement of the Company and Lind, in which Lind would fund another \$2.8 million (the "Second Tranche"), that can also be increased by \$600.

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18. SUBSEQUENT EVENT (continued)

Each Convertible Security has a two year term from the date of issue and will incur a simple interest rate obligation of 10% on the amount funded that is prepaid and attributed to its face value upon the issuance of each Convertible Security. The Company has also agreed to pay a fee of \$140 for each of the First Tranche and Second Tranche (if any) that is also attributed to the face value of the Convertible Security upon issue. Lind will be entitled to convert the Convertible Securities in monthly instalments over the term. Conversion will be at the higher of (a) 85% of the five day trailing VWAP of the common shares (the “Shares”) prior to the date of conversion and (b) the five day trailing VWAP of the Shares prior to the date of conversion, less the maximum discount allowable in accordance with TSX rules; however, any Shares acquired upon conversion will not be tradable through the TSX until completion of a four-month hold period. Lind will also be entitled to accelerate its conversion right to the full amount of the face value or demand repayment of the face value in cash upon a default and other designated events. To the extent that the full face value has not been converted at maturity the balance of the face value is to be paid in cash at the end of the two year term.

In addition, in respect of the First Tranche, the Company has agreed to issue 3.125 million warrants, exercisable into Shares for a period of three years at an exercise price of CDN\$0.8464 per Share. In respect of the Second Tranche (if any), the Company has agreed to issue warrants under a formula based on the amount funded and the prevailing five day VWAP prior to the date of issue ($(\$2.8 \text{ million/VWAP per Share during the five trading days immediately prior to the Second Tranche closing}) \times 0.50$), exercisable into Shares for a period of three years, at an exercise price of 120% of the VWAP per Share for the five trading days before the Second Tranche closing.

The Company has agreed to grant security over the Company’s Nevada Hectatone™ plant and equipment. In addition, finder’s fees of \$70 will be paid in connection with this transaction.