

# **WESTERN LITHIUM USA CORPORATION MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE SIX MONTHS ENDED MARCH 31, 2015**

## **Background**

This Management's Discussion and Analysis ("MD&A"), prepared as of May 11, 2015, should be read in conjunction with the condensed consolidated financial statements ("financial statements") and the notes thereto of Western Lithium USA Corporation ("Western Lithium", the "Company" or "WLC") for the six months ended March 31, 2015, and the audited annual consolidated financial statements and the notes thereto of the Company for the year ended September 30, 2014, which have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board. Refer to Notes 2 and 3 of the audited annual consolidated financial statements for the year ended September 30, 2014, for disclosure of the Company's significant accounting policies.

## **Company Overview**

Western Lithium is a Canadian-based resource company focused on the development of its lithium and hectorite clay deposit at its Kings Valley Property (the "Kings Valley Project") located in northwestern Nevada. The Company has completed a prefeasibility study of the Kings Valley Project examining the extraction of lithium from its deposit to produce lithium carbonate that is primarily intended for the lithium battery sector. The Company is also studying the production of lithium hydroxide. Western Lithium intends to make its lithium business a significant contributor to the global lithium supply chain. Nevada is emerging as a global center for lithium battery manufacturing with companies such as Tesla Motors building a large scale lithium ion battery manufacturing facility. In addition, the Company's wholly-owned subsidiary Hectatone Inc. ("Hectatone™") has recently commissioned its organoclay manufacturing plant located in Fernley, Nevada. Hectatone™ manufactures specialty organoclay products, derived from the Company's hectorite clay and other clays. Hectatone™ products are used by the oil and gas industry as specialty viscosifier additives for drilling fluids. The first shipment of Hectatone™ products commenced in January 2015. The Hectatone™ clay mine is referred to as Kings Valley Clay Project ("KVC Project"). The KVC Project is located on a portion of the property comprising the Kings Valley Project.

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

## **Business Strategy**

### **Lithium**

The Company is advancing its lithium project to extract lithium from its clay at its Kings Valley Project. The prefeasibility study, summarized in this report, demonstrated competitive economics with some of the largest incumbent lithium producers. The Company is positioned with a large, USA based, strategically located lithium deposit to support the nascent adoption of hybrid and electric vehicles that utilize lithium ion battery technology. A lithium demonstration plant has been constructed in Germany and is planned as the next step to further de-risk the process technology and to attract construction capital. In addition, the Company continues to seek a strategic offtake partner or technical partner to advance the project and to realize its significant potential asset value.

### **Hectatone™**

During the quarter ended March 31, 2014 Western Lithium made a production decision for its planned organoclay business. The Company has received an environmental approval to extract hectorite clay from its KVC Project and has completed all safety inspections at its Fernley, Nevada, Hectatone™ organoclay plant and received its Business License on December 2, 2014. The start-up of the Hectatone™ plant was successful during December 2014 and the ramp-up is continuing to make various Hectatone™ products to meet industry specifications for qualification and sale. Additional plant modifications and operational procedural improvements are still expected over the coming months to meet nameplate capacity.

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## **Business Strategy (continued)**

The plant is currently operating with a crew for one shift. The Company has shipped its first order of Hectatone™ product on January 2, 2015. The Company has started manufacturing of production samples of its Hectatone™ bentonite- and hectorite-based products. Western Lithium is a new supplier of hectorite-based products and has determined that hectorite clay is an important mineral for the oil and gas sector to provide thermally stable gelling and lubricating mud when drilling in high pressure and high temperature (“HPHT”) environments. There is only one other supplier of hectorite-based products to the drilling market for HPHT applications. Globally, the successful implementation of directional drilling technology has commercialized new ultra deep oil reserves and certain shale gas resources in HPHT environments that are emerging as major new energy sources for nations such as the USA. Western Lithium believes that its hectorite clay business will become a niche and critical business to support major new oil and gas discoveries made using HPHT drilling technology. The Company is also focusing on some of its competitively priced Hectatone™ products to provide certain rheology characteristics such as RHEOFLAT™ and GELFAST™ and thermal stability, that the Company believes could improve performance in the drilling industry and bolster the Company’s sales.

The Company is developing industry standard Hectabind organoclay products that are used as a mycotoxin binder in animal feed. The Hectabind products will be manufactured at the Company’s new Hectatone™ organoclay facility in Fernley, Nevada. In addition, Hectatone™ is collaborating with industry participants on a specialty organophilic clay product for environmental applications. The product will service the existing market to remove organic compounds from industrial wastewater effluent. The Company’s hectorite-based Hectagel product is being tested by a major European chemical supplier to be used for industrial applications.

During the fiscal Q2 of 2015 the Company’s Fernley Hectatone™ plant successfully completed manufacturing campaigns for its organophilic bentonite products B-91 and B-92 and its organophilic sepiolite products RM-99 and RM-100. The Company’s B-91 product has now been approved by five drilling service companies with one company expected to begin field trials. The Company plans to continue qualification of its product line and to manufacture and qualify its other products in the coming months.

Due to the recent downturn in the oilfield drilling market, current inventories held by energy service companies are being drawn down at a slower pace. Based on the Company’s discussions with industry participants in the oilfield sector, it is anticipated that purchases will again commence over the next two quarters. Once the market begins restocking, the Company believes that its one week turnaround, logistical cost savings, state-of-the-art manufacturing facility and product consistency will have a tremendous advantage over imported products from China, Africa and Europe that require a six to eight week lead-time.

## **Significant Events (fiscal year to date)**

- In May 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 US\$2.8 million (the “First Tranche”) will be funded pursuant to the issuance of an initial convertible security (“Convertible Security”), of which US\$2.4 million has been funded. Lind can increase the funding under that Convertible Security by an additional US\$600,000 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 US\$2.8 million (the “Second Tranche”), that can also be increased by US\$600,000.
- In February 2015, the Company announced that it has produced 99.8% high quality lithium carbonate in its first trial run while commissioning its demonstration plant in Germany. In addition, lithium hydroxide studies have been advanced for the design of Western Lithium’s lithium hydroxide circuit. The Company plans to test its lithium hydroxide circuit in pilot tests in 2015.

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### **Significant Events (fiscal year to date) (continued)**

- In January 2015, the Company announced that it has shipped its first order of Hectatone™ drilling additive product from its plant in Fernley, Nevada. The product was made to specifications requested by Hectatone Inc.'s Houston-based distributor Raw Materials Corporation. Production based samples have now been sent to other potential customers that have expressed an interest in the purchase of this product.
- In December 2014, the Company announced that it has recently completed all safety inspections at its Fernley, Nevada, Hectatone™ organoclay plant and received its Business License on December 2, 2014, to enable the start of operations.
- The Company's lithium demonstration plant in Germany has been commissioned and start-up operations have been underway since mid-October 2014 to confirm equipment performance at design conditions. In September the calcination section of the plant successfully produced enough feed for the extraction plant to operate until mid-December. Initial indications from leaching confirm design recoveries. The crystallizer to concentrate lithium and obtain glaserite salt was also operational. The Company produced its first lithium carbonate batch in January 2015.

### **Commercial Organoclay Development – Hectatone™**

WLC has recently embarked on a commercial organoclay strategy based on the unique properties of the hectorite clay at its KVC Project in which it would use its clay and other clays to become a specialty supplier of clay based drilling additives for the oil and gas industry. Hectorite clay based drilling additives have been found to be particularly applicable for unconventional shale drilling due to their thermal and gelling properties that can improve performance when developing deep deposits that require horizontal drilling. WLC also uses other clays such as bentonite for certain organoclay products. To make a specialty drilling fluid referred to as organoclay, the Company's wholly-owned subsidiary Hectatone Inc. is currently operating at its organoclay manufacturing plant in Fernley, Nevada, with a planned capacity of 10,000 tons of organoclay per year. Hectatone Inc. manufactures and distributes the Company's organoclay products under the Hectatone™ name.

The existing Hectatone™ organophilic hectorite product line currently under development is built around two performance technology platforms, named RHEOFLAT™ and GELFAST™. With RHEOFLAT™, Hectatone Inc. offers products that provide flatter rheological curves across a wider temperature range of downhole temperature which is expected to result in improved rates of penetration (ROP). With GELFAST™ technology, Hectatone Inc. is developing products that provide fast development of rheological properties in cold weather climates. The Hectatone Inc. products under development are designed to provide much higher thermal stability under down-hole high pressure/high temperature drilling conditions.

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

Development is planned from clay on the Stage I Lens at Thacker Pass. Permit for clay extraction encompasses approximately 110 acres (44 hectares), just under a mile (1 km) northeast of Thacker Pass and State Route 293.

The KVC Project is located on a portion of the property comprising the Kings Valley Project. The data with respect to the clay was generated in-house by WLC personnel and does not address nor identify any mineral resource disclosure classification for the clay as described in National Instrument 43-101 – Standards for Disclosure for Mineral Projects ("NI-43-101"). Hectorite clay from the KVC Project will be one of perhaps several raw materials (clays) that will be utilized as feed in the plant to make organoclay.

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## **Commercial Organoclay Development – Hectatone™ (continued)**

We caution that WLC has not demonstrated the economic viability of the organoclay business or the Fernley plant through at least a preliminary economic assessment. Notwithstanding this, WLC has made a development decision in respect of the organoclay business and the Fernley Facility that is informed by its understanding of the hectorite and other clays characteristics, analysis of testing and pilot plant work, and the engineering and development analysis that has been completed to date and is still in progress. Readers should note that there are increased risks in respect of a development decision that is not supported by planning to the point of completion of a feasibility study. This includes greater uncertainty about the relevant inputs that form the basis of a development plan, such as the size and scope of infrastructure required to efficiently operate the organoclay business, the assumptions regarding performance of the organoclay business such as the most efficient extraction methods and characteristics attributable to clay, estimates of capital and operating costs and sales and marketing processes. There is an increased risk associated with any business that has not completed feasibility study work, including with respect to the reliability of estimates and assumptions underlying the development of that business.

### *Permitting*

In late 2013, the Company received all major permits for the 10,000 ton per year Hectatone™ organoclay manufacturing plant at an industrial site in the City of Fernley, Nevada, including the: (i) Nevada Air Quality Operating Permit, which includes the site's organoclay processing components, mill burner and thermal oxidizer burner; (ii) City of Fernley Design Review Permit; and (iii) City of Fernley Building Permit. The North Lyon County Fire Protection District has approved all of the building plans for conformance with fire and safety requirements. Following receipt of its permits, the Company commenced construction of the facility in early 2014 and completed the construction of the plant in the fall of 2014. The Company received a mining permit for its KVC Project in the spring of 2014, which authorizes the extraction of clay for delivery and use as an input in the Hectatone™ manufacturing process. The Company anticipates that the primary source for hectorite clay to be used in the Hectatone™ process will be sourced from the KVC Project, although the Company purchases other clays including bentonite to make other competitive products.

### *Mining and Facility Development*

The Company has identified certain areas within its Stage I lens for the extraction of clay to support commercial clay development operations. The work conducted to prepare the lithium resource estimate has resulted in that area having the most comprehensively understood geology and characteristics. The Company plans to extract the clay as a shallow open pit using contract miners to dig through the alluvial soil, which work to date indicates has a depth of approximately 3 metres, and then extract certain clay lenses, which range in thickness from 1 to 3 metres throughout the deposit. The Company has designed its commercial clay extraction plan in a manner that could support concurrent extraction for lithium processing, and believes that it can conduct commercial clay extraction for several years without significantly affecting future operations involving the extraction of the clay for lithium processing under the current mine plan and reserve estimate for lithium and potassium.

This geological understanding for the clay development plan was supported by a bulk sampling program completed in August 2013, in which the Company removed an alluvial surface layer comprised primarily of silt, sand and gravel that was approximately 3 metres thick and excavated the clay lens directly underneath, which measured approximately 2 to 3 metres in thickness continuously across the approximate 25 by 30 m area of excavation.

In the summer of 2013, the Company purchased an industrial complex in the City of Fernley, approximately 300 kilometers from the KVC Project, to serve as the site of its organoclay plant. The complex consisted of three existing structures totaling 59,300 square feet (5,509 square meters), including a warehouse, a covered metal storage area that will house the organoclay process plant, and an office/laboratory building. The property is 5.47 acres (2.21 hectares) in area, has a paved yard, is located next to an interstate highway and nearby railway, and is serviced by municipal water, sewage, natural gas and power. The Company made a number of significant structural improvements to the buildings, installation of processing equipment, alterations and additions to the site during the construction of its organoclay plant in 2014.

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## **Commercial Organoclay Development – Hectatone™ (continued)**

### *Sales and Marketing*

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

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

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

### **Lithium Project Summary**

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

### **Property Location**

The Kings Valley Project comprises an area of approximately 15,233 ha within Humboldt County, Nevada, that is approximately 100 km north-northwest of Winnemucca and 40 km west-northwest of Orovada, Nevada (centered on 41°42'27.24"N Latitude, 118°3'26.81"W). Situated in a remote section of northern Nevada, the King Valley Project consists primarily of sparsely populated open range land within, and surrounded by, BLM lands on the northwest, western and southern sections of the McDermitt caldera. A small number of WLC's claims are located, and registered, in Miller County, Oregon. The Stage 1 and Stage 2 Lens, being approximately 1,468 hectares, and 2,431 acres, respectively, are situated:

- with respect to the Stage 1 Lens, at the southern end of the McDermitt caldera in T44N, R35E within Sections 3,4, 5, 6, 7, 8, 9, 10, 15, 16, and 17 and on the USGS Thacker Pass at 7.5 min quadrangle at an approximate elevation of 1,500 m; and
- with respect to the Stage 2 Lens, in Township 45 North, Range 34 East, Sections 2 and 13; Township 46 North, Range 34 East, Sections 11 and 27.

### ***Accessibility, Infrastructure and Physiography***

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

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## **Lithium Project Summary** (continued)

### *Accessibility, Infrastructure and Physiography* (continued)

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

### *Geological Setting*

The Stage 1 Lens and Stage 2 Lens are located in the McDermitt Caldera, a well preserved Miocene collapse structure in north-western Nevada and southern Oregon. Because of the good exposures and preservation of the caldera complex, the area has been the focus of significant research activity over several decades by the U.S. Geological Survey.

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

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

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

### *Exploration*

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

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

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**Lithium Project Summary** (continued)

*Mineral Resource*

Stage 1 Lens

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

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

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

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

**MEASURED MINERAL RESOURCES**

<b>Cutoff Li PPM</b>	<b>MTonnes</b>	<b>Li%</b>	<b>Ktonnes LCE</b>	<b>K%</b>	<b>Ktonnes K</b>
2000	50.75	0.312	843	3.27	1,660
2500	38.86	0.338	699	3.42	1,329
3000	24.77	0.374	493	3.71	919
3500	13.10	0.420	293	4.00	524
4000	7.23	0.457	176	4.14	299
4500	3.48	0.494	91	4.26	148
5000	1.37	0.529	39	4.44	61

**INDICATED MINERAL RESOURCES**

<b>Cutoff Li PPM</b>	<b>MTonnes</b>	<b>Li%</b>	<b>Ktonnes LCE</b>	<b>K%</b>	<b>Ktonnes K</b>
2000	164.05	0.285	2,489	3.07	5,036
2500	107.45	0.317	1,813	3.27	3,514
3000	58.60	0.352	1,098	3.51	2,057
3500	24.18	0.395	508	3.73	902
4000	8.80	0.435	204	3.94	347

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Cutoff Li PPM	MTonnes	Li%	Ktonnes LCE	K%	Ktonnes K
4500	2.17	0.480	55	4.06	88
5000	0.478	0.517	13	4.04	19

**INFERRED MINERAL RESOURCES**

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

Stage 1 Lens

Notes:

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

Stage 2 Lens

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

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

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**Kings Valley Lithium and Potassium Mineral Resource Stage 2 Lens Area**

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

Notes:

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

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

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

***Mining Operations***

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

***Case 1***

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

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

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

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**Lithium Project Summary** (continued)

*Case 2*

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

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

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

*Processing*

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

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

Case 1 process has an annual target production of 13,000 tpa Li<sub>2</sub>CO<sub>3</sub> (nominal). For Case 2, the first three years of annual production match Case 1. In years four and beyond, the production is doubled to 26,000 tpa (nominal).

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

*Environmental Considerations*

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

*Financial Analysis*

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

# **WESTERN LITHIUM USA CORPORATION MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE SIX MONTHS ENDED MARCH 31, 2015**

## **Lithium Project Summary (continued)**

### Case 1 Capital Costs

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

### Case 2 Capital Costs

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

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

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

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

### Case 1 Operating Costs

Case 1 operating costs average U.S.\$3,291/t lithium carbonate, U.S.\$99/t potassium sulfate and U.S.\$43/t sodium sulfate products over the LOM. Case 1 lithium carbonate cash costs net of by-products averages U.S.\$1,397 per tonne of lithium carbonate. The "Operating and Cost Summary" table below details the operating costs for Case 1 and the Case 2.

### Case 2 Operating Costs

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

### Economic Evaluation

The cash flow analysis includes all mining, processing, and capital costs. For an analysis of costs, see the Updated Kings Valley Property Technical Report filed under the Company's profile at [www.sedar.com](http://www.sedar.com). Cash flow analyses were performed on both a pre-tax and post-tax basis. Applicable depletion and depreciation were calculated for determination of the Nevada Proceeds of Mineral Tax ("Nevada Mineral Tax") and post-tax cash flow calculations. A federal income tax rate of 35% was used and working capital was set to 20% of yearly operating costs.

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

# WESTERN LITHIUM USA CORPORATION MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE SIX MONTHS ENDED MARCH 31, 2015

## Lithium Project Summary (continued)

### Taxes

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

### Case 1 Cash Flow Analysis

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

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

### Case 2 Cash Flow Analysis

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

### Orion Royalty

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

### *Market Considerations*

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

**WESTERN LITHIUM USA CORPORATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE SIX MONTHS ENDED MARCH 31, 2015**

**Lithium Project Summary** (continued)

**Market Prices – Case 1 and Case 2**

<b>Description</b>	<b>Market Price</b>	<b>Unit</b>	<b>Model Value</b>	<b>Unit</b>
Lithium Carbonate	\$6,000	U.S.\$/t	\$6,000	U.S.\$/t
Potassium Sulfate	\$660	U.S.\$/t	\$600	U.S.\$/t
Sodium Sulfate	\$140	U.S.\$/t	\$75	U.S.\$/t

*Markets and Contracts*

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

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

**Summary of Selected Quarterly Results**

	2015		2014				2013	
	Q2 US\$	Q1 US\$	Q4 US\$	Q3 US\$	Q2 US\$	Q1 US\$	Q4 US\$	Q3 US\$
Total assets	20,072	21,476	24,354	25,649	15,691	14,556	15,568	10,889
Exploration and evaluation assets	508	458	456	-	-	30	-	28
Capital assets	17,892	17,248	15,933	12,679	9,052	5,702	3,711	766
Working capital	427	2,571	6,050	11,316	4,713	7,706	10,933	9,410
Expenses	(1,461)	(2,333)	(2,165)	(1,604)	(1,266)	(1,562)	(1,376)	(1,014)
Net (loss)/income for the period	(1,569)	(2,365)	(2,173)	2,066	216	(1,409)	2,934	(925)
Basic (loss)/earnings per common share	(0.01)	(0.02)	(0.02)	0.02	0.00	(0.01)	0.03	(0.01)
Diluted (loss)/earnings per common share	(0.01)	(0.02)	(0.02)	0.02	0.00	(0.01)	0.03	(0.01)

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

**Total Assets**

The Company's total assets decreased by \$1,404 in Q2 2015 mainly due to cash expenses of \$1,284 and a decrease in accounts payable. The Company's total assets decreased by \$2,878 in Q1 2015 mainly due to cash expenses of \$2,071 and a decrease in accounts payable.

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

# **WESTERN LITHIUM USA CORPORATION MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE SIX MONTHS ENDED MARCH 31, 2015**

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

## **Summary of Selected Quarterly Results (continued)**

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

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

## **Exploration and Evaluation Assets**

In Q2 2015, the Company capitalized \$50 to exploration and evaluation assets related to lease payments on the Kings Valley property.

In Q1 2015, the Company capitalized \$2 to exploration and evaluation assets related to lease payments on the Kings Valley property.

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

In Q2 2014, the Company received a \$1,500 advance from Orion's funding commitments under the Royalty Purchase Agreement and paid the associated finder's fees of \$90. Net proceeds of \$1,410 reduced the accumulated carrying value of the exploration and evaluation assets of \$81 to \$nil and resulted in a gain of \$1,329.

In Q4 2013, the Company received the second \$5,500 funding tranche pursuant to the Royalty Purchase Agreement which reduced the carrying value of the exploration and evaluation assets to \$Nil at the end of Q4 2013 and resulted in a gain on royalty sale of \$4,363. The Company received the first funding tranche of \$11,000 related to the Royalty Financing in Q2 2013.

## **Capital Assets**

In Q2 2015, the Company's capital assets increased by \$644, mainly due to \$424 of expenditures for the construction of the organoclay plant, \$162 for the additions to process equipment for the organoclay plant and \$39 for the additions to equipment for the lithium demonstration plant. In Q2 2015, the Company reclassified clay plant structural work expenditures of \$153 from equipment and machinery category to organoclay plant category.

In Q1 2015, the Company's capital assets increased by \$1,315, mainly due to \$701 expenditures for the construction of the organoclay plant, \$278 for the purchase of process equipment for the organoclay plant and \$232 for the purchase of equipment for the lithium demonstration plant.

The increases in capital assets in each of Q1, Q2, Q3 2014 and Q4 2013, were mainly due to the expenditures for capitalized costs related to the Company's organoclay plant and for the lithium demonstration plant.

# **WESTERN LITHIUM USA CORPORATION MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE SIX MONTHS ENDED MARCH 31, 2015**

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

## **Summary of Selected Quarterly Results (continued)**

### **Working Capital**

The decreases in working capital in Q2 2015 compared to Q1 2015 and in Q1 2015 compared to Q4 2014 were mostly due to the acquisition of capital assets and operating expenses offset by the proceeds of \$21 and \$32 received from the exercise of stock options in Q2 and Q1 2015.

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

The first and second funding tranches related to the Royalty Purchase Agreement between the Company and Orion was received in Q2 and Q4 2013.

### **Expenses and Net (Loss)/Income**

In Q2 2015 expenses decreased by \$872 compared to Q1 2015 mainly due to the decrease in exploration expenditures of \$346, professional fees of \$78, stock based compensation expense of \$84, and salaries and benefits of \$282. Q1 2015 expenses increased by \$168 compared to Q4 2014 mainly due to the increase of \$232 in wages and benefits, offset by a \$192 decrease in stock-based compensation and a decrease of \$98 in exploration expenditures. Increases in all expense categories in Q1 2015 compared to Q4 2014 was due to an increase in corporate activities.

Fluctuations in expenses from quarter to quarter were mainly due to changes in exploration activities and stock-based compensation expense.

Included in other items is a \$123 foreign exchange loss due to the appreciation of the US dollar during the period.

Total comprehensive loss in Q2 2015 includes an unrealized loss on the translation to reporting currency of \$69 mainly due to the US\$ and Euro exchange rate fluctuations.

### **Results of Operations – Three Months Ended March 31, 2015**

For the three months ended March 31, 2015, the Company reported a loss of \$1,569 compared to a gain of \$216 for the three months ended March 31, 2014, of which \$1,461 (Q2 2014 - \$1,266) is attributed to expenses.

Exploration expenditures of \$447 (Q2 2014 – \$213) include \$32 (Q2 2014 - \$51) of expenditures for the hectorite mine and \$415 (Q2 2014 - \$162) for the lithium project. Included in the lithium project expenditures is \$285 (Q2 2014 - \$88) related to the lithium demonstration plant.

Marketing expenses of \$102 (Q2 2014 - \$82) include salaries, bonuses, and expenses incurred for the marketing of Hectatone™ products.

Office expenses of \$166 (Q2 2014 – \$139) includes Vancouver and Reno office rent, insurance, IT, telephone and other related expenses and general office expenses at the organoclay plant office.

Professional fees consist of legal fees of \$10 (Q2 2014 - \$32), consulting fees of \$14 (Q2 2014 - \$18), public relations fees of \$6 (Q2 2014 - \$6), financing fees of \$Nil (Q2 2014 - \$15), and accounting fees of \$9 (Q2 2014 - \$12).

**WESTERN LITHIUM USA CORPORATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE SIX MONTHS ENDED MARCH 31, 2015**

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

**Results of Operations – Three Months Ended March 31, 2015** (continued)

Stock-based compensation of \$168 (Q2 2014 - \$184) is a non-cash expense and represents the estimated fair value of stock options vested during the period. It is accounted for at fair value as determined by the Black-Scholes Option Pricing Model using estimates that are believed to approximate the volatility of the trading price of the Company's stock, the expected lives of awards of stock-based compensation, the fair value of the Company's stock and the risk-free interest rate. It varies from period to period based on the number and valuation of the stock options granted during the period, vesting provisions, and an amortization schedule of previously granted stock options.

The Company capitalized acquisition costs of \$50 (Q2 2014 - \$51) and capital assets costs, net of depreciation and foreign exchange, of \$644 (Q2 2014 - \$3,350).

The Company recognized in Q2 2015 a foreign exchange loss of \$123 (Q2 2014 – gain of \$136) due to the appreciation of the US dollar during the period.

**Results of Operations – Six Months Ended March 31, 2015**

For the six months ended March 31, 2015, the Company reported total comprehensive loss of \$4,090 compared to a total comprehensive loss of \$1,469 for the six months ended March 31, 2014, of which \$3,794 (2014 - \$2,828) is attributed to expenses, \$140 (2014 – other income \$1,635) to other loss, and \$156 (2014 - \$276) to an unrealized loss on translation to reporting currency.

Exploration expenditures of \$1,240 (2014 – \$716) include \$98 (2014 - \$122) for the hectorite mine and \$1,142 (2014 - \$594) for the lithium project. Included in the lithium project expenditures is \$901 (2014 - \$393) related to the lithium demonstration plant.

Marketing expenses of \$231 (2014 - \$145) include salaries, bonuses, and expenses incurred for the marketing of Hectatone™ products.

Office expense of \$345 (2014 - \$246) includes Vancouver and Reno office rent, insurance, IT, telephone and other related expenses and general office expenses at the organoclay plant office.

Professional fees consist of legal fees of \$64 (2014 – \$91), consulting fees of \$54 (2014 - \$42), public relations fees of \$12 (2014 – \$12), financing fees of \$Nil (2014 - \$15), and accounting fees of \$26 (2014 - \$17).

Salaries and benefits expense of \$858 (2014-\$436) was higher mainly due to payment of employees bonuses at the end of 2014.

Stock-based compensation of \$420 (2014 - \$545) is a non-cash expense and represents the estimated fair value of stock options vested during the period.

The Company capitalized acquisition costs of \$52 (2014 - \$81). In Q2 2014, the Company received \$1,410 proceeds from the Orion Financing that reduced the carrying value of the Company's exploration and evaluation assets to \$Nil and resulted in a \$1,329 gain on the royalty sale.

**WESTERN LITHIUM USA CORPORATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE SIX MONTHS ENDED MARCH 31, 2015**

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

**Liquidity and Capital Resources**

<b>Cash Flow Highlights</b>	<b>Six months ended March 31,</b>	
	<b>2015</b>	<b>2014</b>
	<b>\$</b>	<b>\$</b>
Cash used in operating activities	<b>(3,536)</b>	(2,432)
Cash used in investing activities	<b>(2,703)</b>	(4,323)
Cash (used)/provided by financing activities	<b>(18)</b>	1,458
Effect of foreign exchange on cash	<b>(290)</b>	(3)
Decrease in cash	<b>(6,547)</b>	(5,300)
Cash - beginning of period	<b>7,160</b>	11,364
Cash - end of period	<b>613</b>	6,064

As at March 31, 2015, the Company had cash of \$613 and working capital of \$427 compared to \$7,160 cash and working capital of \$6,050 on September 30, 2014. The decrease is due to the additions to capital assets, operating expenses, and a decrease in payables.

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

As at the date of this report, the Company does 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.

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

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

**Financings – Use of Proceeds**

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.

**WESTERN LITHIUM USA CORPORATION  
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**The following financial information is presented in thousands of US dollars.**

**Financings – Use of Proceeds (continued)**

***May 2015 Financing***

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. The proceeds from the First Tranche will be used for the Company’s working capital.

***May 2014 Financing***

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

<b>USE OF PROCEEDS</b>	<b>12-MONTHS BUDGET AMOUNT (as reported in the May 2014 Prospectus) in CDN\$, millions</b>	<b>12-MONTHS BUDGET AMOUNT (as reported in the May 2014 Prospectus) in US\$, millions<sup>1</sup></b>	<b>SPENT from May 9<sup>th</sup>, 2014 to March 31, 2015, in US\$, millions</b>
<i>Hectatone™ organoclay manufacturing plant:</i>			
Phase II construction, labour and materials	3.0	2.7	3.4 <sup>(2)</sup>
Equipment and instruments	0.8	0.7	1.4 <sup>(2)</sup>
Construction and engineering services	0.7	0.6	0.5
Lab, research, and marketing	0.9	0.8	1.0
Fixed overhead	1.1	1.0	1.2
Working capital	2.0	1.8	1.3
<b>Subtotal</b>	<b>\$8.5</b>	<b>\$7.6</b>	<b>\$8.8</b>
<i>Lithium Demonstration Plant:</i>			
Equipment	1.2	1.1	1.3
Engineering, procurement, installation and services	1.2	1.1	0.9
Operating costs	2.1	1.9	1.0
<b>Subtotal</b>	<b>\$4.5</b>	<b>\$4.1</b>	<b>\$3.2</b>
Kings Valley Project annual claim fees	0.6	0.5	0.5
General and administrative	1.9	1.7	2.5 <sup>(3)</sup>
Unallocated working capital	Up to 1.1	Up to 1.0	0.5
<b>Total</b>	<b>\$15.5 to \$16.6</b>	<b>\$13.9 to \$14.9</b>	<b>\$15.5</b>

<sup>(1)</sup> Amounts determined using April 30, 2014 exchange rate of CDN\$1=US\$0.905

<sup>(2)</sup> Increase in actual vs budgeted capital for the Hectatone™ plant is due to change orders for the improvements to the original design and start-up phase of the plant.

<sup>(3)</sup> Increase in actual vs budgeted G&A is mainly due to calendar 2014 employee bonuses and increase in corporate activities

# **WESTERN LITHIUM USA CORPORATION MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE SIX MONTHS ENDED MARCH 31, 2015**

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

## **Operating Activities**

Cash used in operating activities during the period ended March 31, 2015, was \$3,536 compared to \$2,432 net cash used during the period ended March 31, 2014. The increase in cash used for operating activities was mostly due to higher exploration expenditures due to advancements of the lithium project and an increase in the corporate and development activities. The significant components of operating activities are discussed in the Results of Operations sections above.

## **Investing Activities**

Investing activities required cash of \$2,703 during the period ended March 31, 2015, compared to \$4,323 used during the period ended March 31, 2014. The cash used in investing activities during the period ended March 31, 2015, was mainly for the additions to capital assets of \$2,651 (2014 - \$4,242). These additions are mostly for the equipment and construction of the Company's organoclay plant and include \$133 (2014 - \$336) for the buildings improvements, \$1,278 (2014 - \$3,140) for the asset under construction costs, and \$287 (2014 - \$793) for the process plant equipment. Also included in the investing activities is \$271 (2014 - \$Nil) for the lithium demonstration plant equipment, \$3 (2014 - \$30) for purchase of IT equipment. In Q2 2014 the Company acquired an irrigation system for \$100. In addition, during the period ended March 31, 2015, the Company paid \$52 (2014 - \$51) for the mining leases and \$Nil (2014 - \$30) for the claims payments.

## **Financing Activities**

During the period ended March 31, 2015, the Company received cash of \$53 (2014 - \$100) from the exercise of stock options, leased additional equipment for its clay plant under finance lease arrangements, and repaid \$16 to a lessor. During the period ended March 31, 2014, the Company received net proceed of \$1,410 from the Orion Royalty Financing.

In 2013, the Company purchased an industrial complex in the City of Fernley to be the production site for its organoclay plant for \$1,575, of which \$236 was paid at the close of the transaction and the remaining balance of \$1,339 (\$55 repaid in fiscal 2015, \$105 re-paid in 2014 and \$18 re-paid in 2013) is financed by the seller with a ten-year promissory note payable in monthly instalments.

## **Current Share Data**

As at the date of this report, the Company has 119,458 common shares issued and outstanding, 13,773 stock options outstanding, and 8,272 warrants.

In addition, in respect of the First Tranche of the convertible security funding (see Subsequent event note disclosure in the March 31, 2015 financial statements), 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 ( $(\$2.8 \text{ million}/\text{VWAP per Share during the five trading days immediately prior to the Second Tranche closing}) \times 0.50$ ), 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.

**WESTERN LITHIUM USA CORPORATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE SIX MONTHS ENDED MARCH 31, 2015**

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

**Commitments**

As at March 31, 2015, the Company had the following commitments:

	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

The other obligations and commitments are disclosed in Note 5, Note 6, Note 7, and Note 8 of the Company's condensed consolidated financial statements for the period ended March 31, 2015.

**Related Party Transactions**

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 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.

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

**WESTERN LITHIUM USA CORPORATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE SIX MONTHS ENDED MARCH 31, 2015**

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

*Compensation of Key Management (continued)*

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

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

**Off-Balance Sheet Arrangements**

The Company has no off-balance sheet arrangements other than those related to the exploration and evaluation assets and disclosed in notes 5 and 7 of the March 31, 2015, condensed consolidated financial statements.

**Financial Instruments**

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

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

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

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

**WESTERN LITHIUM USA CORPORATION  
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FOR THE SIX MONTHS ENDED MARCH 31, 2015**

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

**Financial Instruments (continued)**

	<b>March 31, 2015</b>	<b>September 30, 2014</b>
	<b>\$</b>	<b>\$</b>
<b>Financial assets</b>		
Loans-and-receivables		
Cash	<b>613</b>	<b>7,160</b>
Receivables	<b>249</b>	<b>158</b>
Restricted cash, included in prepaid expenses and deposits	<b>150</b>	<b>150</b>
<b>Total financial assets</b>	<b>1,012</b>	<b>7,468</b>
<b>Financial liabilities</b>		
Other-financial-liabilities		
Accounts payable and accrued liabilities	<b>1,091</b>	<b>1,781</b>
Current portion of long-term borrowing	<b>114</b>	<b>111</b>
Long-term borrowing	<b>1,047</b>	<b>1,105</b>
Obligation under finance leases	<b>184</b>	<b>104</b>
<b>Total financial liabilities</b>	<b>2,436</b>	<b>3,101</b>

Additional financial instruments disclosure is contained in Note 15 of the Company's condensed consolidated financial statements for the period ended March 31, 2015.

**Risks and Uncertainties**

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

A summary of the Company's financial instruments risk exposure is provided in Note 15 of the Company's condensed consolidated financial statements for the period ended March 31, 2015.

# WESTERN LITHIUM USA CORPORATION MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE SIX MONTHS ENDED MARCH 31, 2015

## **Risks and Uncertainties** (continued)

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

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

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

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

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

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

The Company's ability to continue as a going concern is dependent upon the ability to generate future profitable operations and/or to obtain the necessary financing to meet its obligations and repay its liabilities arising from normal business operations when they come due. The Company expects to report net losses and comprehensive losses for the financial year ending September 30, 2015. The Company's business does not currently operate on a self-sustaining basis and its ability to continue as a going concern is dependent on raising additional funds.

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

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

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

**WESTERN LITHIUM USA CORPORATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE SIX MONTHS ENDED MARCH 31, 2015**

**Risks and Uncertainties** (continued)

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

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

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

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

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

The ability of the Company to develop the Kings Valley Property or the Hectatone™ Business will be significantly affected by changes in the market price of lithium and clay-based drilling additives. The price of these products is affected by numerous factors beyond Western Lithium's control. The level of interest rates, the rate of inflation, the world supply of and demand for lithium and oil and gas products and the stability of currency exchange rates can all cause fluctuations in the price of lithium products and clay-based drilling additives. Such external economic factors are influenced by changes in international investment patterns and monetary systems as well as various political developments. In addition, the price of lithium and clay-based additives is determined by the purity and performance of the products. A fluctuation in these product prices may affect the value of the Company and the potential value of its properties.

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

The Company must purchase a relatively expensive quaternary amine dispenser to make organoclay. The Company will rely on third party suppliers for the purchase of certain clay minerals (other than hectorite). The Company has taken steps to identify alternative suppliers of raw materials to reduce these risks, but there can be no guarantee that the Company could secure such alternate supply on a timely basis or for similar costs as currently projected. Any material increase in the cost of these minerals, or the inability by the Company to source third party suppliers for the supply of these minerals, could have a material adverse effect on the Company's business, results of operations and financial condition.

**WESTERN LITHIUM USA CORPORATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE SIX MONTHS ENDED MARCH 31, 2015**

**Risks and Uncertainties** (continued)

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

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

- the timing and cost, which can be considerable, of the construction of mining and processing facilities;
- the availability and cost of skilled labour and mining equipment;
- the need to obtain necessary environmental and other governmental approvals and permits and the timing of the receipt of those approvals and permits;
- the availability of funds to finance construction and development activities;
- potential opposition from non-governmental organizations, indigenous peoples, environmental groups or local groups which may delay or prevent development activities; and
- potential increases in construction and operating costs due to changes in the costs of fuel, power, materials and supplies.

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

*There is title risk to the Kings Valley Property.*

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

*Mineral development projects are subject to operational risks.*

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

**WESTERN LITHIUM USA CORPORATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE SIX MONTHS ENDED MARCH 31, 2015**

**Risks and Uncertainties** (continued)

***Mineral tenure risk.***

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

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

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

***Intellectual property risk.***

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

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

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

**WESTERN LITHIUM USA CORPORATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE SIX MONTHS ENDED MARCH 31, 2015**

**Risks and Uncertainties** (continued)

***Market acceptance.***

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

***The Company is dependent on the expertise of consultants.***

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

***The Company has no history of paying dividends.***

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

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

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

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

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

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

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

**WESTERN LITHIUM USA CORPORATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE SIX MONTHS ENDED MARCH 31, 2015**

**Risks and Uncertainties** (continued)

*Changes in government regulations may affect the Company's development of the Kings Valley Property* (continued)

The BLM currently identifies the Kings Valley Property site as sage-grouse habitat. Sage-grouse are currently identified as a BLM sensitive species and there has been recent discussion to consider federally listing the species as threatened or endangered. If this were to happen some portions of the Kings Valley Property lithium deposit, if found to be sage-grouse habitat, could be limited from mineral development. Should the species become federally listed, the Company would be required to comply with the Endangered Species Act resulting in possible restrictions and/or additional mitigation as applicable to the findings by the Federal Land Managers. Should the species remain as a BLM sensitive species, additional requirements, restrictions and/or mitigation could still be imposed.

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

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

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

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

*Western Lithium operates in a highly competitive mining industry.*

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

*Continued Operation of Fernley Facility.*

An interruption in or the loss of operations, or the failure to maintain the labour force at the Fernley Facility could delay or postpone production of the Hectatone™ products, which could have a material adverse effect on the Company's business, results of operations and financial condition

# WESTERN LITHIUM USA CORPORATION MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE SIX MONTHS ENDED MARCH 31, 2015

## **Risks and Uncertainties** (continued)

### ***Continued Operation of Fernley Facility*** (continued)

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

### ***Competition of Hectatone™ products with other materials.***

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

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

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

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

Business is transacted by the Company primarily in Canadian and U.S. currencies. Fluctuations in exchange rates may have a significant effect on the cash flows of the Company. Future changes in exchange rates could materially affect the Company's results in either a positive or negative direction. The Company's Kings Valley Property and Hectatone™ business are located in Nevada and most of the property related expenditures, exploration and development costs are denominated in U.S. dollars. Appreciation of U.S. currency compared to Canadian currency could make property expenditures more expensive for the Company. While the Company does not engage in foreign exchange hedging it holds a significant portion of its cash balance in U.S. currency in order to meet its U.S. obligations.

### ***The Company may face opposition to mining projects.***

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

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

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

# WESTERN LITHIUM USA CORPORATION MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE SIX MONTHS ENDED MARCH 31, 2015

## **Risks and Uncertainties** (continued)

### *No long term contracts and significant customers.*

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

### *Ability to achieve and manage growth.*

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

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

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

### *Future sales may cause dilution.*

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

## **Significant Accounting Policies**

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

# **WESTERN LITHIUM USA CORPORATION MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE SIX MONTHS ENDED MARCH 31, 2015**

## **Significant Accounting Policies (continued)**

### ***Critical Accounting Estimates***

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

### ***Critical Accounting Judgments***

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

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

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

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

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

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

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

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

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

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

# **WESTERN LITHIUM USA CORPORATION MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE SIX MONTHS ENDED MARCH 31, 2015**

## **Significant Accounting Policies (continued)**

### ***Exploration and Evaluation Assets***

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

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

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

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

### ***Capital Assets and Mine under Development***

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

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

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

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

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

### ***Leased Assets***

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

### ***Inventories***

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

**WESTERN LITHIUM USA CORPORATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE SIX MONTHS ENDED MARCH 31, 2015**

**Significant Accounting Policies** (continued)

***Product Development***

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

***Impairment of Long-lived Assets***

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

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

***Income Taxes***

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

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

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

# WESTERN LITHIUM USA CORPORATION MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE SIX MONTHS ENDED MARCH 31, 2015

## Significant Accounting Policies (continued)

### *Value-added tax receivables*

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

### *Stock - Based Compensation*

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

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

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

### *Valuation of Equity Units Issued in Private Placements*

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

### *Foreign Currency Translation*

#### *Functional and Presentation Currency*

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

# WESTERN LITHIUM USA CORPORATION MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE SIX MONTHS ENDED MARCH 31, 2015

## Significant Accounting Policies (continued)

### *Foreign Currency Translation (continued)*

#### Transactions and Balances

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

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

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

#### Parent and Subsidiary Companies

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

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

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

## New Accounting Standards and Recent Pronouncements

The Company has not yet adopted IFRS 9 – Financial Instruments: Classification and Measurement, which have been published, but is effective January 1, 2018.

## Investor Relations

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

## Qualified Person

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

## Disclosure Controls and Procedures

Disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed by the Company in its annual filings, interim filings or other reports filed under securities legislation is recorded, processed, summarized and reported within the time periods specified by securities regulators and include controls and procedures designed to ensure that information required to be disclosed by the Company in its annual filings, interim filings or other reports filed under securities legislation is accumulated and communicated to the issuer's management, including its certifying officers, as appropriate to allow timely decisions regarding required disclosure.

# **WESTERN LITHIUM USA CORPORATION MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE SIX MONTHS ENDED MARCH 31, 2015**

## **Disclosure Controls and Procedures** (continued)

The Company's management designed the disclosure controls and procedures to provide reasonable assurance that material information relating to the Company, including its consolidated subsidiaries, is made known to them on a timely basis. The Company's management believes that any disclosure controls and procedures, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the disclosure controls and procedures are met.

## **Internal Controls over Financial Reporting**

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

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

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

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

## **Forward Looking Statements**

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

These statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements. The Company believes that the expectations reflected in those forward-looking statements are reasonable but no assurance can be given that these expectations will prove to be correct and such forward-looking statements included in this report should not be unduly relied upon by investors as actual results may vary. These statements speak only as of the date of this report and are expressly qualified, in their entirety, by this cautionary statement. In particular, this report contain forward-looking statements, pertaining to the following: capital expenditure programs, estimates of the quality and quantity of the Mineral Resources and Mineral Reserves, as defined in NI 43-101, at its mineral properties, development of Mineral Resources and Mineral Reserves, treatment under governmental and taxation regimes, expectations regarding the Company's ability to raise capital, expectations regarding the Company's ability to develop and manufacture marketable drilling additives, expenditures to be made by the Company on its properties or in connection with the development and manufacture of drilling additives and work plans to be conducted by the Company.

**WESTERN LITHIUM USA CORPORATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE SIX MONTHS ENDED MARCH 31, 2015**

**Forward Looking Statements** (continued)

With respect to forward-looking statements listed above and contained in this report, the Company has made assumptions regarding, among other things:

- uncertainties relating to receiving mining, exploration, environmental and other permits or approvals in Nevada;
- uncertainties relating to successful ramp-up of production of a hectorite and other clay-based drilling additives;
- the impact of increasing competition in the lithium business;
- unpredictable changes to the market prices for lithium, and potassium sulfate and clay-based drilling additives;
- the market price of organoclay and WLC's ability to produce a rival product at a competitive price;
- exploration and development costs for the Kings Valley Property;
- anticipated results of exploration and development activities;
- availability of additional financing or joint-venture partners;
- the Company's ability to obtain additional financing on satisfactory terms;
- the ability to achieve production at any of the Company's mineral exploration and development properties; and
- the continued growth of the shale gas and ultra-deep oil drilling industries.

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

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