WESTERN LITHIUM USA CORPORATION

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED DECEMBER 31, 2015

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

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

	December 31, 2015 $	September 30, 2015 $
CURRENT ASSETS		
Cash and cash equivalents	2,646	5,552
Restricted cash (Note 9)	3,500	-
Receivables, prepaids and deposits	798	1,077
Inventories	489	426
	7,433	7,055
NON-CURRENT ASSETS		
Restricted cash	150	150
Capital assets (Note 5)	18,932	18,713
Exploration and evaluation assets (Note 6)	31,361	42,623
	50,443	61,486
TOTAL ASSETS	57,876	68,541
CURRENT LIABILITIES		
Accounts payable and accrued liabilities (Note 10)	2,869	3,285
Convertible security (Note 8)	1,871	2,772
Current portion of long-term borrowing (Note 7)	119	117
Obligation under finance leases	42	41
	4,901	6,215
LONG-TERM LIABILITIES		
Long-term borrowing (Note 7)	958	988
Obligation under finance leases	112	123
Decommissioning provision	300	300
	1,370	1,411
TOTAL LIABILITIES	6,271	7,626
SHAREHOLDERS EQUITY		
Share capital	104,069	99,318
Contributed surplus	11,203	10,847
Accumulated other comprehensive loss	(12,048)	(903)
Deficit	(51,619)	(48,347)
	51,605	60,915
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	57,876	68,541

Approved for issuance on February 10, 2016

On behalf of the Board of Directors:

"Terry Krepiakevich" Director *"John Macken"* Director

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

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

	For the three months ended December 31,	
	2015	**2014**
	$	**$**
EXPENSES		
Exploration expenditures (Note 11)	1,160	793
Organoclay research and development	91	129
Investor relations	44	52
Marketing	146	129
Office and administration	135	179
Professional fees	164	117
Regulatory and filing fees	20	20
Salaries and benefits	424	570
Stock-based compensation (Note 9)	379	252
Transactions costs	87	-
Travel and conferences	57	92
	2,707	2,333
OTHER INCOME/(EXPENSES)		
Foreign exchange loss	(97)	(54)
Convertible security accretion (Note 8)	(483)	-
Interest and other income	15	22
	(565)	(32)
NET LOSS FOR THE PERIOD	(3,272)	(2,365)
OTHER COMPREHENSIVE LOSS		
Unrealized loss on translation to reporting currency	(11,145)	(87)
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD	(14,417)	(2,452)
LOSS PER SHARE - BASIC AND DILUTED	(0.01)	(0.02)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING - BASIC AND DILUTED	269,645	119,286

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

WESTERN LITHIUM USA CORPORATION
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN EQUITY
(Expressed in thousands of US dollars and shares in thousands)

	Share capital					
	Number of Shares	**Amount $**	**Contributed surplus $**	**Accumulated other comprehensive loss $**	**Deficit $**	**Shareholders' equity $**
Authorized share capital: Unlimited common shares without par value						
Balance, September 30, 2014	119,235	53,036	9,176	(337)	(40,792)	21,083
Shares issued on exercise of stock options	83	52	(20)			32
Stock-based compensation	-	-	252	-	-	252
Net loss	-	-	-	-	(2,365)	(2,365)
Other comprehensive loss	-	-	-	(87)	-	(87)
Balance, December 31, 2014	119,318	53,088	9,408	(424)	(43,157)	18,915
Balance, September 30, 2015	266,485	99,318	10,847	(903)	(48,347)	60,915
Shares issued on exercise of stock options (Note 9)	188	59	(23)	-	-	36
Shares issued for financing (Note 9)	17,263	3,500	-	-	-	3,500
Share issuance costs (Note 9)	-	(190)	-	-	-	(190)
Shares issued for convertible security exercise (Note 8)	6,060	1,382	-	-	-	1,382
Stock-based compensation	-	-	379	-	-	379
Net loss	-	-	-	-	(3,272)	(3,272)
Other comprehensive loss	-	-	-	(11,145)	-	(11,145)
Balance, December 31, 2015	289,996	104,069	11,203	(12,048)	(51,619)	51,605

WESTERN LITHIUM USA CORPORATION
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS
(Unaudited – Prepared by Management)
(Expressed in thousands of US dollars)

	For the three months ended December 31,	
	2015	**2014**
	$	**$**
OPERATING ACTIVITIES		
Net loss for the period	(3,272)	(2,365)
Items not affecting cash:		
Stock-based compensation	379	252
Depreciation	40	10
Foreign exchange loss	97	54
Convertible security accretion	483	-
Other income	(4)	(13)
Changes in non-cash working capital items:		
Decrease/(increase) in receivables, prepaids and deposits	394	(60)
Decrease/(increase) in inventories	38	(180)
(Decrease)/increase in accounts payable and accrued liabilities	(510)	78
Net cash used in operating activities	(2,355)	(2,224)
INVESTING ACTIVITIES		
Additions to exploration and evaluation assets (Note 6)	(301)	(2)
Additions to capital assets (Note 5)	(303)	(2,007)
Net cash used in investing activities	(604)	(2,009)
FINANCING ACTIVITIES		
Proceeds from stock options exercise	36	32
Line of credit execution fee (Note 7)	(75)	-
Finance lease repayments	(10)	(8)
Repayment of long-term borrowing	(29)	(27)
Net cash used in financing activities	(78)	(3)
EFFECT OF FOREIGN EXCHANGE ON CASH	131	(137)
CHANGE IN CASH AND CASH EQUIVALENTS	(2,906)	(4,373)
CASH AND CASH EQUIVALENTS - BEGINNING OF PERIOD	5,552	7,160
CASH AND CASH EQUIVALENTS - END OF PERIOD	2,646	2,787

Supplemental disclosure with respect to cash flows (Note 14)

1. NATURE OF OPERATIONS

Western Lithium USA Corporation ("Western Lithium" or the "Company") is a Canadian based resource company focused on the development of two significant lithium development projects, the Cauchari-Olaroz Project, located in Jujuy province of Argentina, and the Kings Valley Project, located in northwestern Nevada, USA. The Company obtained control of the Cauchari-Olaroz Project following the plan of arrangement with Lithium Americas Corp. ("Lithium Americas" or "LAC") completed in September 2015 (Note 4). As at the date of this report, the Company is commissioning its Hectatone organoclay plant located in Fernley, Nevada. The plant has been constructed to manufacture specialty organoclay products ("Hectatone^{TM}" products), derived from hectorite and other clays, for sale to the oil and gas and other sectors.

The Company was incorporated on November 27, 2007, under the Business Corporations Act of the Province of British Columbia and became a publicly traded company on the TSX Venture Exchange on July 16, 2008. Effective February 2, 2011, the Company commenced trading on the Toronto Stock Exchange ("TSX") under the symbol WLC.

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

To date, the Company has not generated significant revenues from operations and has relied on equity and other financings to fund operations. The Company's organoclay project is considered to be in the commissioning stage. The recovery of the underlying value of the organoclay plant is dependent on the Company achieving profitable operations from the organoclay business. The underlying value of exploration and evaluation assets is entirely dependent on the existence of economically recoverable reserves, securing and maintaining title and beneficial interest in the properties, the ability of the Company to obtain the necessary financing to complete permitting, development, and future profitable operation.

2. BASIS OF PREPARATION AND PRESENTATION

These condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") applicable to the preparation of interim financial statements, including IAS 34, Interim Financial Reporting. The condensed consolidated financial statements should be read in conjunction with the annual consolidated financial statements for the year ended September 30, 2015, which have been prepared in accordance with IFRS as issued by the IASB.

These condensed consolidated interim financial statements are expressed in US dollars, the Company's presentation currency, and have been prepared on a historical cost basis. In addition, these condensed consolidated interim financial statements have been prepared using the accrual basis of accounting, except for cash flow information. The Company has used the same accounting policies and methods of computation as in the annual consolidated financial statements for the year ended September 30, 2015.

3. SIGNIFICANT ACCOUNTING POLICIES

Accounting Standards Issued but Not Yet Applied

On January 13, 2016 the IASB issued IFRS 16, Leases. According to the new standard, all leases will be on the balance sheet of lessees, except those that meet the limited exception criteria. Respectively, rent expense is to be removed and replaced by the recording of depreciation and finance expenses. The standard is effective for annual periods beginning on or after January 1, 2019. The Company has yet to assess the impact of adoption.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

***Accounting Standards Issued but Not Yet Applied** (continued)*

IFRS 9, *Financial Instruments*, was issued in November 2009 and addresses classification and measurement of financial assets. It replaces the multiple category and measurement models in IAS 39 for debt instruments with a new mixed measurement model having only two categories: amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments. Such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income. Where equity instruments are measured at fair value through other comprehensive income, dividends are recognized in profit or loss to the extent that they do not clearly represent a return of investment; however, other gains and losses (including impairments) associated with such instruments remain in accumulated comprehensive income indefinitely.

Requirements for financial liabilities were added to IFRS 9 in October 2010 and they largely carried forward existing requirements in IAS 39, *Financial Instruments – Recognition and Measurement*, except that fair value changes due to credit risk for liabilities designated at fair value through profit and loss are generally recorded in other comprehensive income. The standard is effective for annual periods beginning on or after January 1, 2018. The Company has yet to assess the impact of adoption.

Critical Accounting Estimates and Judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

In preparing these consolidated financial statements, the Company makes judgements, estimates and assumptions concerning the future which may vary from actual results. The significant estimates and judgements made by management in applying the Company's accounting policies and the key sources of estimation uncertainty were substantially the same as those that applied to the consolidated financial statements as at and for the year ended September 30, 2015.

4. PLAN OF ARRANGMENT

In September 2015, the Company completed the plan of arrangement (the "Arrangement') pursuant to which Western Lithium acquired all of the issued and outstanding common shares of Lithium Americas in exchange for 0.789 common shares of Western Lithium for each Lithium Americas share held. Lithium Americas has become a wholly-owned subsidiary of Western Lithium. The Arrangement is accounted for as an asset acquisition as Lithium Americas does not meet the definition of a business under IFRS 3, *Business Combinations*.

Pursuant to the Arrangement, Western Lithium issued an aggregate of 130,847,374 common shares to the former shareholders of Lithium Americas. These shares were issued to replace an aggregate of 165,839,511 of Lithium Americas shares, which included 156,433,614 shares outstanding as at the date of closing the transaction, 1,108,327 shares issued for cashless exercise of Lithium Americas options and 8,297,570 shares issued to settle change of control payments due to certain Lithium Americas executives. The fair value of the common shares was estimated to be CDN$0.39 per share, the closing market value of the Company's shares as at September 4, 2015. This was translated into US$ using the closing CDN$/US$ exchange rate as of September 4, 2015, of 0.7534. Transaction costs associated with the Arrangement of $959 were comprised of professional fees, filing and transfer agent fees, and other costs. In addition, 6,775,000 of Lithium Americas in-the-money outstanding stock options held by certain LAC executives (the "Replacement options") and 100,000 of outstanding share purchase warrants of Lithium Americas (the "Replacement warrants") were exchanged for fully vested stock options and warrants of Western Lithium with the term identical to the original LAC stock options and warrants, each of which is exercisable to acquire Western Lithium shares based on the exchange ratio.

4. PLAN OF ARRANGMENT (continued)

The allocation of the consideration transferred is summarized as follows:

Purchase price	
Fair value of Western Lithium shares issued to Lithium Americas shareholders	$ 38,447
Fair value of the Replacement options	903
Fair value of Replacement warrants	3
Transaction costs	959
Total purchase price	$ 40,312

Allocation of purchase price	
Cash and cash equivalents	$ 627
Other current assets	515
Capital assets	14
Exploration and evaluation assets	41,916
Accounts payable and accrued liabilities	(2,630)
Decommissioning provision	(130)
Net identifiable assets of Lithium Americas	$ 40,312

Option pricing models require the input of highly subjective assumptions including the estimate of the share price volatility. Changes in subjective input assumptions can materially affect the fair value estimate, and therefore the existing models do not necessarily provide a reliable single measure of the fair value of the Replacement options.

The fair value of the Replacement options was determined using the Black-Scholes option pricing model using the following assumptions:

Grant date Expiry date	September 4, 2015 April 18, 2019	September 4, 2015 February 12, 2020	September 4, 2015 July 16, 2019
Number of options granted *('000's)*	1,105	533	3,708
Exercise price per share (CDN$)	$0.38	$0.34	$0.29
Risk-free interest rate	0.6%	0.6%	0.6%
Expected life	3 years	3 years	3 years
Annualized volatility	80%	80%	80%
Dividend rate	0.00%	0.00%	0.00%
Fair value per stock option granted (CDN$)	$0.21	$0.22	$0.23
Total fair value of stock options granted (CDN$)	$227	$115	$856

5. CAPITAL ASSETS

	Land	Buildings	Equipment and machinery	Organoclay plant	Other	Total
	$	$	$	$	$	$
Cost						
As at September 30, 2014	349	1,789	4,332	9,169	331	15,970
Additions	22	168	736	1,980	37	2,943
Foreign exchange	-	-	-	-	(12)	(12)
As at September 30, 2015	371	1,957	5,068	11,149	356	18,901
Additions	11	42	14	194	1	262
Foreign exchange	-	-	-	-	(3)	(3)
As at December 31, 2015	382	1,999	5,082	11,343	354	19,160

5. CAPITAL ASSETS (continued)

	Land	Buildings	Equipment and machinery	Organoclay plant	Other	Total
	$	$	$	$	$	$
Accumulated depreciation						
As at September 30, 2014	-	-	-	-	37	37
Depreciation for the year	-	-	112	-	39	151
As at September 30, 2015	-	-	112	-	76	188
Depreciation for the period	-	-	28	-	12	40
As at December 31, 2015	-	-	140	-	88	228

The Company's organoclay plant is in the start-up stage and therefore no depreciation was taken during the period ended December 31, 2015.

	Land	Buildings	Equipment and machinery	Organoclay plant	Other	Total
	$	$	$	$	$	$
Net book value						
As at September 30, 2015	371	1,957	4,956	11,149	280	18,713
As at December 31, 2015	382	1,999	4,942	11,343	266	18,932

6. EXPLORATION AND EVALUATION ASSETS

	December 31, 2015		
	Kings Valley	Cauchari-Olaroz	Total
	$	$	$
Acquisition costs			
Balance, beginning	958	41,665	42,623
Additions	2	71	73
Change in foreign currency exchange rate	-	(11,335)	(11,335)
Total exploration and evaluation assets	960	30,401	31,361

	September 30, 2015		
	Kings Valley	Cauchari-Olaroz	Total
	$	$	$
Acquisition costs			
Balance, beginning	456	-	456
Additions (Note 4)	502	41,916	42,418
Change in foreign currency exchange rate	-	(251)	(251)
Total exploration and evaluation assets	958	41,665	42,623

6. EXPLORATION AND EVALUATION ASSETS (continued)

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

The Company has the following future obligations in respect to the Kings Valley project as at December 31, 2015, which will only be incurred if the Company starts production:

- Mining Option Agreement with Uravada Inc. ("Uravada") on certain mining claims for US$50 annual payment due on January 21 in advance net smelter return royalty payments. The Company's interest in these claims is subject to a 3% net smelter return royalty;
- Mining Option Agreement to acquire four mining claims for $2 per year in advance net smelter return royalty payments due on November 15. The Company's interest in these claims is subject to a 1.5% net smelter return royalty; and
- 20% royalty to Cameco Global Exploration II Ltd. solely in respect of uranium.

The Company has the following future obligations in respect to the Cauchari-Olaroz project as at December 31, 2015, which will only be incurred if the Company starts production:

- Annual royalty of $200 due in May of every year and expiring in 2041;
- One-time payment of $300 upon the Company beginning project construction and 3% net profit interest, commencing at the commercial production stage of the project. At any time, the Company can cancel the royalty in exchange for a one-time payment of $7,000. These payments are due to a company whose officer is a director of the Company; and
- Aboriginal programs agreements with six communities located on the project range in terms from five to thirty years. Under the terms of the agreements, the Company must pay annual fees over the term of the agreements. The total of payments due in fiscal 2016 is $79, between 2017 and 2021 is $800 and between 2021 and 2055 is $4,532, assuming that these payments will be extended for the life of the project.

The Company has granted a right to Jujuy Energia y Mineria Sociedad del Estado ("JEMSE"), a company owned by the government of Jujuy province in Argentina, to acquire an 8.5% equity interest in the Company's Argentinian subsidiary for one United States of America dollar and provide management services as required to develop the project. JEMSE will only acquire this equity position upon completion of the project financing. JEMSE will be required to cover its pro rata share of the financing requirements for the construction of the project. These funds will be loaned to JEMSE by the Company and will be repayable out of one-third of the dividends to be received by JEMSE over future years from the project. The distribution of dividends to JEMSE and other shareholders in the project will only commence once all commitments related to the project and debt financing are met.

7. LONG-TERM BORROWING

Promissory Note

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

7. LONG-TERM BORROWING (continued)

Line of Credit

On December 15, 2015, the Company signed an agreement for a $5,000 line of credit (the "LOC"). The funds drawn down under LOC accrue an interest rate of 1.25% per month, payable monthly. To date, the Company has not drawn down any funds under this facility. The Company paid a $75 execution fee to secure the LOC. The Company may draw down on the LOC from time to time in increments of $100, with each draw down subject to a fee of 1.25% of the amount drawn down. The LOC also has a standby fee equal to 1.5% of any undrawn amount, payable annually. The Company may cancel the LOC at any time provided there are no outstanding obligations. The balance owing matures and falls due on December 14, 2018, and maturity accelerates if the Company closes a financing of $10,000 or greater. The line of credit does not carry a conversion feature into common shares of the Company. The funds from the line of credit will be used for working capital requirements.

8. CONVERTIBLE SECURITY

In May 2015, the Company received $2,800 under the convertible security funding agreement between the Company and the Lind Partners ("Lind"), net of prepaid interest of $560 and financing fee of $140, and issued a convertible security with a face value of $3,500. The convertible security has a two-year term from the date of issue and incurs an interest rate of 10% on the amount of funding. Lind can increase the funding under the agreement by an additional $600 during the two-year term of the convertible security with an applicable interest of 10% per annum ($120 in total), in which case the face value of the convertible security would increase by $720. The agreement also provides, on mutual agreement of the Company and Lind, for the issuance of a second convertible security with a face value of $3,500 on the same terms as the original security. The Company has provided a second lien on its organoclay plant as a security for the convertible security.

Lind will be entitled to convert the convertible securities in monthly instalments over the two-year term. The Conversion Price will be at the higher of (a) 85% of the five day trailing volume weighted average price ("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. The conversion feature represents a derivative embedded in the host convertible security agreement because its value is linked to the 5-day VWAP (which would be different from the spot price at conversion date). Management assessed the value of this derivative to be a nominal amount.

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 15% discount the Company offered to Lind on conversion represents an incremental liability of $618 for the Company and is amortized over the term of the convertible security. The fair value of the proceeds received from the financing was allocated first to the conversion premium with the remaining balance allocated to the host debt component.

The Company has an option to prepay the outstanding amount at any time provided that Lind will have an option to convert up to 30% of the face value into shares at the Conversion Price. Management assessed the value of this prepayment option to be a nominal amount.

In respect of the first convertible security, the Company has issued 3,125 warrants, exercisable into shares for a period of three years at an exercise price of CDN$0.8464 per share. These warrants represent a financing cost that the Company had to offer to Lind in order to obtain financing. The warrants were valued giving consideration to the value of the warrants issued pursuant to the bought deal financing which closed in June 2015 (Note 11). The fair value of the warrants granted is calculated to be CND$0.09 per warrant for a total value of $236. The fair value of the warrants was deducted from the carrying value of the debt and will be amortized within the term of the debt. In addition, the Company incurred $187 in transaction costs. These costs, together with the prepaid interest of $560 and $140 financing fee paid to Lind, were deducted from the carrying value of the debt and will be amortized within the term of the debt.

8. CONVERTIBLE SECURITY (continued)

The following table presents the security conversions by Lind to December 31, 2015:

Conversion Date	Conversion Amount $	Calculated Conversion Price, CDN$	Number of Shares Issued
September 22, 2015	300	0.4721	838
October 13, 2015	350	0.2326	1,962
November 2, 2015	200	0.2995	875
November 30, 2015	275	0.2484	1,479
December 31, 2015	350	0.2786	1,744
	1,475	**0.29**	**6,898**

Subsequent to December 31, 2015, the Company issued 1,101 shares with a calculated conversion price of CDN$0.3242 for the conversion of a convertible security instalment with a face value of $250.

The carrying value of the convertible security is as follows:

	$
Face value of convertible security	3,500
Securities conversion	(300)
Prepaid interest for 2 years	(560)
Financing fee	(140)
Transaction costs	(187)
Fair value of warrants	(236)
Conversion discount liability	(618)
Convertible security accretion	748
Carrying value of the convertible security	2,207
Conversion discount liability	565
Convertible security, September 30, 2015	**2,772**
Securities conversion	(1,175)
Decrease in conversion discount liability	(209)
Convertible security accretion	483
Carrying value of convertible security	1,515
Conversion discount liability	356
Convertible security, December 31, 2015	**1,871**

9. ISSUED CAPITAL, STOCK OPTIONS AND WARRANTS

On July 20, 2015, the Company closed its non-brokered private placement (the "Private Placement") of subscription receipts ("Subscription Receipts") to an affiliate of The Bangchak Petroleum Public Company Limited ("Bangchak"). Pursuant to the Private Placement, the Company issued to Bangchak an aggregate of 9,214 Subscription Receipts at a price of $0.54264 per Subscription Receipt, for aggregate gross proceeds of $5,000. Each Subscription Receipt can be converted into 1.09375 common shares of the Company following satisfaction of certain conditions. During the year ended September 30, 2015, 2,764 Subscription Receipts (the "Shareholder Approval Subscription Receipts") were converted into 3,023 common shares of the Company at an exchange ratio of 1.09375 for total gross proceeds of $1,500. In the period ended December 31, 2015, 6,450 Subscription Receipts (the "Performance Subscription Receipts") were converted into 17,263 common shares of the Company at an exchange ratio of 2.6765092 for total gross proceeds of $3,500 which was held in escrow and reported as restricted cash on December 31, 2015**.** This amount was released from escrow to the Company in January 2016. The Company incurred $170 in costs associated with these Subscription Receipts in fiscal 2015 and additional $190 in the period ended December 31, 2015.

9. ISSUED CAPITAL, STOCK OPTIONS, AND WARRANTS (continued)

Stock Options

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

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

Number of Options Outstanding (in 000's)	Number of Options Exercisable (in 000's)	Exercise Price CDN$	Expiry Date
800	800	1.33	January 26, 2016
320	320	1.12	March 17, 2016
200	200	1.22	March 31, 2016
935	935	0.54	September 16, 2016
880	880	0.27	January 3, 2017
1,990	1,990	0.16	August 30, 2017
3,635	3,635	0.27	October 21, 2018
210	210	0.80	April 1, 2019
1,105	1,105	0.38	April 18, 2019
3,708	3,708	0.29	July 16, 2019
325	244	0.49	July 16, 2019
2,405	1,804	0.69	August 15, 2019
533	533	0.34	February 12, 2020
3,505	2,658	0.30	October 5, 2020
20,551	19,022		

On October 5, 2015, the Company granted 3,505 stock options at the exercise price of CDN$0.30 per option to its directors and employees. The expiry date of the stock options is October 5, 2020. The fair value of the stock options was estimated at CDN$0.16 per option for a total of CDN$561. The fair value of stock options was estimated on the date of grant using the Black-Scholes Option Pricing model with the following assumptions: risk-free rate of 0.7%, estimated volatility 80%, expected life of 3 years, share price on grant date of CDN$0.30, and expected divident yield of 0%. Annualized volatility was determined solely based on historical volatility.

A summary of changes to stock options outstanding is as follows:

	Number of Options *(in 000's)*	Weighted Average Exercise Price, *(CDN$)*
Balance, outstanding September 30, 2014	15,480	0.59
Issued Replacement options (Note 4)	5,346	0.31
Forfeited	(98)	(0.71)
Expired	(2,375)	(1.25)
Exercised	(1,022)	(0.45)
Balance, outstanding September 30, 2015	17,331	0.43
Expired	(97)	(1.25)
Exercised	(188)	(0.45)
Granted	3,505	0.30
Balance, outstanding December 31, 2015	20,551	0.41

9. ISSUED CAPITAL, STOCK OPTIONS, AND WARRANTS (continued)

Stock Options (continued)

Stock-based compensation expense of $379 (Q1 2015 - $252) was charged to operations and credited to contributed surplus to reflect the fair value of stock options vested during the period ended December 31, 2015. At December 31, 2015, $71 of the fair value of stock options previously granted but not yet vested remains to be expensed in fiscal 2016 and $11in fiscal 2017. The weighted-average share price on the date of the stock options exercised was CDN$0.32.

Warrants

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

	Number of Warrants (in '000's)	Weighted Average Exercise Price (CDN$)	Expiry Date
Balance, September 30, 2014	8,272	0.74	
Exercised	(107)	(0.75)	May 16, 2016
Exercised	(41)	(0.58)	May 16, 2016
Issued (Note 4)	79	0.48	August 28, 2016
Issued	5,707	0.90	June 9, 2017
Issued	742	0.70	June 9, 2017
Issued (Note 8)	3,125	0.8464	May 19, 2018
Balance, September 30 and December 31, 2015	17,777	0.81	

10. RELATED PARTY TRANSACTIONS

Compensation of Key Management

The Company pays its non-executive directors a fee of CDN$25 per year and an additional CDN$10 per year to the Company's Audit Committee Chair.

The remuneration of directors and members of the executive management team included:

	For the three months ended December 31,	
	2015 $	2014 $
Stock-based compensation	279	189
Salaries and benefits	277	338
Salaries and benefits included in marketing	58	42
Salaries, benefits and director's fees included in exploration expenditures	95	172
Salaries and benefits included in capital assets	-	72
Directors' fees included in salaries and benefits	21	36
Employee benefits included in salaries and benefits	5	7
	735	856

10. RELATED PARTY TRANSACTIONS (continued)

***Compensation of Key Management** (continued)*

	As at December 31, 2015 $	As at September 30, 2015 $
Total due to directors	44	58

During the Q1 2016, the Company has completed the $5,000 Line of Credit Agreement (the "Line of Credit Agreement") with its largest shareholder, Geologic Resource Partners LLC (the "Lender"). Concurrent with execution of the Line of Credit Agreement, Geologic assigned a beneficial interest in an aggregate $750 principal amount of the Line of Credit to each of John Kanellitsas, Vice-Chairman and a member of the Company's Board of Directors and Greenbrook Capital Partners Inc., a company wholly owned by Thomas Hodgson, CEO and member of the Company's Board of Directors.

The related party transactions incurred during the period ended December 31, 2015, were in the normal course of operations and were measured at 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.

11. EXPLORATION EXPENDITURES

The following tables summarize the Company's exploration expenditures during the periods ended December 31, 2015 and 2014:

	For the three months ended December 31, 2015		
	Kings Valley $	Cauchari-Olaroz $	Total $
Engineering	-	48	48
Environmental	23	-	23
Geological and consulting	555	301	856
Field supplies, other services, and taxes	44	161	205
Lithium demo plant equipment depreciation	28	-	28
Total exploration expenditures	650	510	1,160

	For the three months ended December 31, 2014	
	Kings Valley $	Total $
Engineering	57	57
Environmental	1	1
Geological and consulting	643	643
Field supplies and other services	92	92
Total exploration expenditures	793	793

12. COMMITMENTS AND CONTINGENCIES

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

	Not later than 1 year	Later than 1 year and not later than 5 years	Later than 5 years	**Total**
	$	$	$	$
Rent of office spaces (net of subleases)	207	19	-	**226**

Litigation:

- In calendar 2014, a legal claim for $340 was initiated against the Company's Argentine subsidiary, Minera Exar S.A. ("Minera Exar"), related to the fulfillment of contract and damages associated with an exploration contract with the option to acquire mining rights on a lime deposit in Argentina. This lime deposit is unrelated to the Company's principal lithium properties. Management is currently working with legal counsel to determine the validity and assessment of the claim. A $340 lien was applied on certain bank accounts of Minera Exar related to this matter. The lien was subsequently removed and replaced with an insurance policy.

- A former officer of Lithium Americas was terminated in 2013 and subsequently filed a statement of claim with a labour court in the Province of Mendoza, Argentina against the Company's Argentine subsidiary, Minera Exar, and the Company, for approximately 5.3 million Argentine pesos for severance and other labour-related payments allegedly due to the officer. The Company rejected the former officer's case and any liability with regard to the claims and counts made in such action. Without acknowledging explicitly or implicitly any amount due to the former officer, the Company continues to record a previously established provision in the amount of $539, which represents management's best estimate of any potential liability should the case of the former officer be upheld. Such provision does not constitute an admission or acceptance by the Company of a liability or of an obligation to disburse amounts to, or any other obligation with respect to, the former officer and is conditional and provisional in nature.

13. SEGMENTED INFORMATION

The Company operates in four reportable segments and four geographical segments. The Company's lithium projects are in the exploration stage and the organoclay project is in the commissioning stage.

The Company's reportable segments are summarized in the following tables:

	Corporate	Hectatone	Kings Valley	Cauchari-Olaroz	Total
	$	$	$	$	$
As at December 31, 2015					
Capital assets	24	17,728	1,170	10	18,932
Exploration and evaluation assets	-	-	960	30,401	31,361
Total assets	6,354	18,495	2,515	30,512	57,876
Total liabilities	(3,838)	(1,476)	(690)	(267)	(6,271)
For the period ended December 31, 2015					
Net loss	1,653	249	737	633	3,272
Exploration expenditures	-	-	650	510	1,160
Organoclay research and development	-	91	-	-	91

13. SEGMENTED INFORMATION (continued)

	Corporate $	Hectatone $	Kings Valley $	Cauchari-Olaroz $	Total $
As at September 30, 2015					
Capital assets	28	17,469	1,203	13	18,713
Exploration and evaluation assets	-	-	958	41,665	42,623
Total assets	5,897	18,159	2,564	41,921	68,541
Total liabilities	(5,631)	(1,377)	(314)	(304)	(7,626)
For the period ended December 31, 2014					
Net loss	1,078	953	334	-	2,365
Exploration expenditures	-	-	793	-	793
Organoclay research and development	-	129	-	-	129

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

	As at December 31, 2015				
	Canada $	United States $	Germany $	Argentina $	Total $
Current assets	6,330	821	182	100	7,433
Capital assets	24	17,918	980	10	18,932
Exploration and evaluation assets	-	960	-	30,401	31,361
	6,354	19,699	1,162	30,509	57,726

	As at September 30, 2015				
	Canada $	United States $	Germany $	Argentina $	Total $
Current assets	5,870	756	187	242	7,055
Capital assets	28	17,664	1,008	13	18,713
Exploration and evaluation assets	-	958	-	41,665	42,623
	5,898	19,378	1,195	41,920	68,391

14. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

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

	For the three months ended December 31,	
	2015 $	2014 $
Accounts payable and accrued liabilities related to capital assets	12	393
Accounts payable and accrued liabilities related to transaction cost (Note 4)	172	-
Accounts payable and accrued liabilities related to inventory	106	30
Accounts payable and accrued liabilities related to subscription receipts financing (Note 9)	264	-
Assets acquired under finance leases	-	51
Interest/finance charges paid	16	18
Income taxes paid	-	-

14. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS (continued)

As at December 31, 2015, the Company's cash and cash equivalents comprise of:

	2015 $	2014 $
Cash	1,951	2,787
Term deposits	695	-
	2,646	2,787

15. FINANCIAL INSTRUMENTS

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

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

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

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

Credit Risk

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

Included in the receivables, prepaids and deposits is value-added tax of $182 on purchases of equipment for the lithium demonstration plant in Germany. Value-added tax balances are recorded at their estimated recoverable amounts within current assets and reflect the Company's best estimate of their recoverability under existing tax rules in the respective jurisdictions. Management's assessment of recoverability involves judgments regarding classification on the consolidated statements of financial position and the probable outcomes of claimed deductions and/or disputes. The provisions and classifications made to date may be subject to change.

The Company's receivables, prepaids and deposits include a $107 bank deposit for the Company's secured credit cards and other miscellaneous receivables that are subject to normal industry credit risk.

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

15. FINANCIAL INSTRUMENTS (continued)

Liquidity Risk

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

As at December 31, 2015, the Company had a cash and cash equivalents balance of $2,646 (2015 - $5,552) to settle current liabilities of $4,901 (2015 - $6,215). In December 2015, the Company obtained a $5,000 line of credit for working capital purposes from a significant shareholder. Subsequent to December 31, 2015, the Company received $3,500 from Bangchak (Note 9).

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

	Years ending September 30,			
	2016	2017	2018 and later	Total
	$	$	$	$
Accounts payable and accrued liabilities	2,869	-	-	2,869
Convertible security[1]	2,025	-	-	2,025
Long-term borrowing[2]	129	172	1,006	1,307
Obligation under finance leases[2]	36	48	84	168
Decommissioning provision	-	-	300	300
Total	5,059	220	1,390	6,669

[1]*Lind has an option to convert monthly into the Company's shares and therefore the convertible note is classified as current.*
[2]*Long-term borrowing and obligation under capital leases include principal and interest/finance charges.*

Market Risk

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

Foreign Currency Risk

The Company incurs expenditures in Canadian dollars ("CDN$"), US dollars ("US$"), Euros ("€"), and Argentinian pesos ("ARS") with the majority of the expenditures being incurred in US$ by the Company's subsidiaries. Argentina has high inflation and the Company limits it foreign risk exposure to Argentinian currency by holding limited amounts of cash in Argentina. Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions, and from the translation of monetary assets and liabilities denominated in foreign currencies, are recognized in net income or loss.

16. CAPITAL DISCLOSURE

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

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

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. There were no changes in the Company's approach to capital management during the period ended December 31, 2015. The Lind convertible security subjects the Company to customary continuation of business covenants, which the Company is in compliance with.

WESTERN LITHIUM USA CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE THREE MONTHS ENDED DECEMBER 31, 2015

Background

This Management's Discussion and Analysis ("MD&A"), prepared as of February 10, 2016, should be read in conjunction with the condensed consolidated interim financial statements ("financial statements") and the notes thereto of Western Lithium USA Corporation ("Western Lithium", the "Company" or "WLC") for the three months ended December 31, 2015, and the audited annual consolidated financial statements and the notes thereto of the Company for the year ended September 30, 2015, 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 December 31, 2015, 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 deposits and is currently developing two advanced exploration-stage projects: Cauchari-Olaroz project ("Cauchari-Olaroz") located in Jujuy province of Argentina, and Kings Valley project ("Kings Valley") located in northwestern Nevada, USA. The Cauchari-Olaroz project is a lithium brine mineral project. The property has been the subject of resource estimation and a feasibility study in which it is reported to host reserves of approximately 2.7 million tonnes of lithium carbonate equivalent ("LCE") at a lithium cut-off grade of 354 milligrams per litre, and a mine development plan that contemplates production of 20,000 tonnes per year of LCE. The Kings Valley project is a smectite clay-based lithium project and has been the subject of resource estimation and a pre-feasibility study in which it is reported to host extensive current and historical lithium resources, including a lithium reserve of approximately 570,000 tonnes LCE at a lithium cut-off grade of 0.32% LCE, and a mine development plan that contemplates production of up to 26,000 tonnes per year of LCE.

For both projects, the Company is investigating innovative lithium extraction and processing technologies, and pursuing strategic alternatives with a view to securing near-term financing and development. The Company is advancing both of its projects for the extraction of lithium to produce lithium carbonate that is primarily intended for the lithium battery sector. The Company is also studying the production of lithium hydroxide which is also used in the lithium battery sector. Western Lithium intends to make its lithium business a significant contributor to the global lithium supply chain.

In addition, the Company's wholly-owned subsidiary Hectatone Inc. ("Hectatone") is commissioning its organoclay manufacturing plant located in Fernley, Nevada. Hectatone™ specialty organoclay products, derived from the Company's hectorite clay and other clays, 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 Company's hectorite clay mine is referred to as the 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 in Canada on the Toronto Stock Exchange under the symbol WLC and in the US on the OTCQX under the symbol WLCDF. The Company operates in the United States through its wholly owned subsidiaries, Western Lithium Corporation and Hectatone Inc. and in Argentina through its wholly owned subsidiary, Minera Exar S.A. Additional information relating to the Company is available on SEDAR at www.sedar.com.

Business Strategy

Merger with Lithium Americas

On September 4, 2015, the Company and Lithium Americas Corp. ("Lithium Americas" or "LAC") completed a plan of arrangement to combine the two companies. The transaction was structured as a statutory plan of arrangement under which Western Lithium acquired all of the outstanding shares of Lithium Americas in an all-stock transaction (the "Arrangement Agreement"). Pursuant to the Arrangement Agreement, all of the Lithium Americas issued and outstanding common shares were exchanged on the basis of one share of Lithium Americas for 0.789 of a common share of Western Lithium (the "Exchange Ratio"). Western Lithium has issued an aggregate of 130,847,374 common shares of Western Lithium (the "Western Lithium Shares") to the former shareholders of Lithium Americas. On closing of the Arrangement, former Lithium Americas shareholders held approximately 49.3% of the combined company on an undiluted basis.

Business Strategy (continued)

Merger with Lithium Americas *(continued)*

In connection with the Arrangement, three Lithium Americas nominees joined the Board of Directors of Western Lithium: Thomas Hodgson, Executive Chairman of Lithium Americas prior to the Arrangement; John Kanellitsas, Director, President and Chief Executive Officer of Lithium Americas prior to the Arrangement; and Franco Mignacco, Director of Lithium Americas prior to the Arrangement and President of Minera Exar S.A., a subsidiary of Lithium Americas. Effective November 17, 2015, Thomas Hodgson was appointed as the Company's new CEO and John Kanellitsas was appointed Vice Chairman. Jay Chmelauskas continues as President of Western Lithium, and Franco Mignacco continues as President of the Argentina-based subsidiary Minera Exar S.A., which controls the Company's Cauchari-Olaroz project.

This strategic combination reflects the commitment of both companies to create a leading lithium development company combining expertise, technology, and two significant lithium deposits based in North America and South America. The goal of the merger is to establish market leadership and develop future lithium supply requirements in a disciplined manner to reshape the current fragmented lithium development sector.

The combined entity controls two assets that it views as globally important to support the burgeoning lithium-ion battery market. In addition to geographic diversification, having two development stage assets will enable post-merger Western Lithium to better manage development timelines to match production supply with growing market demand.

Lithium Americas has completed a NI 43-101 compliant feasibility study on its Cauchari-Olaroz lithium project in Jujuy, Argentina, in which it is reported that the project hosts approximately 2.7 million tonnes of lithium carbonate equivalent (LCE) at a lithium cut-off grade of 354 milligrams per litre and which contemplates initial commercial production at a rate of 20,000 tonnes per year of LCE. The project is also permitted for construction. In May 2014, Western Lithium published a NI 43-101 compliant pre-feasibility study for the development of its Kings Valley Stage I lithium deposit, which established a proven and probable reserve of 570,000 tonnes of LCE at a lithium cut-off grade of 0.32%. The study contemplates starting production at normalized yearly rate of 13,000 tonnes of LCE, with an expansion to 26,000 tonnes in year four, and a project life of 20 years. Western Lithium will continue its permitting process in conjunction with its lithium demonstration plant trials. Both Western Lithium and Lithium Americas have been committed to the implementation of innovative lithium extraction technologies, and believe that emerging technologies may represent the optimal development opportunities for their combined lithium assets.

Transaction Highlights

Key highlights of the combined company include:

- Combines two large and geographically diverse lithium projects which allows for an orderly development timeline that commences with Western Lithium's Hectatone™ business revenues in 2016, followed by potential revenues from Lithium America's Cauchari-Olaroz project under a contemplated two-year development timeline, and potential revenues from Western Lithium's Kings Valley project under a contemplated four-year development timeline.
- Increased market capitalization, which should enhance trading liquidity and access to capital markets.
- Re-affirms commitment to establishing a first mover advantage in alternative processing and purification technologies, consistent with the end market demands and uses of lithium ion batteries.
- Creates a combined management team with a strong record of success and complementary skill sets, especially in the areas of project development and funding, and technology development.
- Establishes a shared commitment to corporate responsibility and sustainability. Both Western Lithium and Lithium Americas are strongly committed to sustainable practices. The shared values and experience in this area will be a competitive advantage in creating long-term value for shareholders.
- Reduces costs associated with general and administrative expenses to the operation of one public company.

Business Strategy (continued)

Cauchari-Olaroz Project, Jujuy Province, Argentina

The Company has signed in August, 2015 a Heads of Agreement ("HOA") with POSCO, a major South Korean steel and materials company. The HOA, which is non-binding and non-exclusive, defined the basic conditions that would apply to a joint venture to develop a portion of the Cauchari-Olaroz lithium brine deposit. The Joint Venture would expect to commence production in early 2017 and ramp up to 20,000 tons by late 2017 or early 2018. Mutual due diligence has commenced, and the Company and POSCO remain in discussions aimed at completion of a commercial agreement.

Kings Valley Project, Nevada, USA

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 currently operating to further de-risk the process technology and to attract construction capital. In addition, the Company continues to seek a strategic offtake partner, strategic investors or technical partner to advance the project and to realize its significant potential asset value.

Hectatone Business

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 construction of the Hectatone plant was completed during December 2014 and the commissioning 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.

The plant is currently commissioning with a crew for one shift. The Company 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 that are emerging as major new energy sources for nations such as the USA. Western Lithium believes that its Hectatone™ business will become a niche and critical business to support major new oil and gas discoveries made using directional 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. 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.

Business Strategy (continued)

***Hectatone Business** (continued)*

During the year ended September 30, 2015 the Company's Fernley Hectatone plant successfully completed initial production batches of 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 nine drilling service companies, including two of the major companies. The Company plans to continue qualification of its product line and to manufacture and qualify its other products in the coming months. In addition, the Company is now a certified vendor with a Fortune 500 industrial group to sell Hectabind™ products internationally to the animal feed market as mycotoxin binders. The first shipment of Hectabind™ product was made in July 2015.

Significant Events (fiscal year to date)

- On December 29, 2015, the Company announced that further to a non-brokered private placement with an affiliate of Bangchak Petroleum Public Company Limited ("Bangchak"), Bangchak has agreed to convert its remaining subscription receipts (the "Performance Subscription Receipts") into 17,263,345 common shares of the Company and release from escrow to the Company the final tranche of US$3.5 million. This brings the total investment by Bangchak into the common shares of the Company to US$5 million. As previously announced, the conversion of the Performance Subscription Receipts was subject to the satisfaction of certain conditions by the Company before December 31, 2015, including the completion of trial runs for the production of high purity lithium carbonate at its demonstration plant in Germany sufficient to support a feasibility study. As a result, each Performance Subscription Receipt was converted into 2.676509 common shares of the Company, at an effective price of CDN$0.281 per common share or approximately 5% discount to the 20-day Volume Weighted Average Price of the Company's shares on the Toronto Stock Exchange.

- On December 15, 2015 the Company has completed the US$5 million Line of Credit Agreement with its largest shareholder, Geologic Resource Partners LLC. The funds from the line of credit are available for use as working capital.

- On November 17, 2015 the Company announced a post-merger integration and organization update, the appointment of Thomas Hodgson as CEO, John Kanellitsas as Vice-Chairman and George Ireland, the Company's largest shareholder joined the Company's Board of Directors.

Cauchari-Olaroz Project Overview

The scientific and technical information contained under the heading "*Cauchari-Olaroz Project Summary*" below is derived from the Feasibility Study ("FS") which was prepared by (i) Mark King, PhD, Pl. Geo.; (ii) Roger Kelley, Chem. Eng.; and (iii) Daron G. Abbey M.Sc., P.Geo., all of whom are independent qualified persons for the purposes of NI 43-101. A copy of the FS is available on the Company's website at www.westernlithium.com and SEDAR at www.sedar.com.

The FS assumes the Cauchari-Olaroz project is built in two stages, with each stage consisting of a 20,000 TPA lithium carbonate facility and a 40,000 TPA potash facility. The second stage would be the subject of a separate study to be undertaken by the Company. Stage 2 is expected to improve the already positive Cauchari-Olaroz project financials for stage 1, as outlined in the FS. No estimated financial results associated with stage 2 are included in the FS results.

Cauchari-Olaroz Project Overview (continued)

POSCO's Proprietary Technology

The FS does not take into consideration the potential impact of the use of POSCO's proprietary technology at the Cauchari-Olaroz project. POSCO has developed a proprietary and innovative lithium extraction technology which it believes has numerous advantages compared to traditional lithium brine evaporation technology. Specifically, POSCO claims that its technology produces lithium considerably quicker; it minimizes the environmental footprint associated with large scale evaporation ponds; and has a recovery rate which is significantly higher. The higher recovery rates associated with POSCO's processing technology should result in a project requiring fewer production wells for a given level of production, thereby reducing the capital cost requirements for the wells as compared to traditional evaporation technology. In addition, higher recovery rates would serve to increase the effective size of a lithium resource, thereby extending the life of a project. The demonstration plant is intended to serve as the final stage of testing in the commercialization plan for its lithium extraction process, having previously operated pilot plants on different project sites in 2011 and 2013.

Update since publishing the FS

Since the FS was published in June of 2012, for the remainder of 2012, LAC received final permits for the construction of the Cauchari-Olaroz project. In 2013, LAC was focused on preserving cash and engaging in negotiations with potential strategic partners. In 2014 LAC entered into the Co-Operation Agreement with POSCO pursuant to which the latter located its demonstration plant at the Cauchari-Olaroz project. In August 2015, LAC and POSCO entered into a Heads of Agreement regarding the commercialization of the Cauchari-Olaroz project. The Heads of Agreement is non-binding and non-exclusive, and provides the framework and conditions to establish a joint venture company for the development of the Cauchari-Olaroz project, reflecting that POSCO would contribute to the joint venture the right to use its proprietary lithium extraction technologies for the production of lithium carbonate and lithium hydroxide, while LAC would contribute the right to use brine from the Cauchari-Olaroz project. The Co-Operation Agreement has also been amended and extended, and most recently expired on December 31, 2015. Both companies are continuing with due diligence and discussions over the future cooperation agreement.

Cauchari-Olaroz Project Summary

Property Description, Location and Access

The Cauchari and Olaroz Salars are located in the Department of Susques in the Province of Jujuy in northwestern Argentina, approximately 250 km northwest of San Salvador de Jujuy, the provincial capital. The nearest port is Antofagasta (Chile), located 530 km to the west. Access is via paved National Highways 9 and 52, which connect the site to San Salvador de Jujuy and Salta in Argentina. The midpoint between the Olaroz and Cauchari Salars is located on Highway 52, 55 km west of the Town of Susques. In addition, Highway 52 connects to Paso Jama, a national border crossing between Chile and Argentina, providing connection to Chilean Route 27 and granting convenient access to Antofagasta and Mejillones, likely embarkation ports for the product. Access is possible through a gravel road (Route 70) which skirts the west side of the salars, this road is approximately 1 km from the plant site.

LAC acquired its interest in the Cauchari-Olaroz Project, through its Argentinean subsidiary Minera Exar S.A. ("Minera"), through direct staking or entering into exploration contracts with third party property owners. The claims are contiguous and cover most of the Cauchari Salar and the eastern portion of the Olaroz Salar.

The area that contains the resource and reserve estimate is covered by mining concessions which grants the holder the perpetual mining right subject to the payment of a canon and an agreed upon investment.

History

Historically, Rio Tinto has mined borates on the western side of Cauchari, at Yacimiento de Borato El Porvenir. Grupo Minero Los Boros S.A. mines a few thousand tonnes per year of ulexite on the east side of the Olaroz Salar. No other mining activity (including lithium production) has been recorded at the properties comprising the Cauchari-Olaroz project. LAC acquired mining and exploration permits across the Cauchari and Olaroz Salars during 2009 and 2010 and initiated lithium exploration activities over these claims during 2009.

Cauchari-Olaroz Project Summary (continued)

Geological Setting, Mineralization and Deposit Types

Geology

There are two dominant structural features in the region of the Cauchari and Olaroz Salars: north-south trending high-angle normal faults and northwest-southeast trending lineaments. The high-angle north-south trending faults form narrow and deep horst-and-graben basins which are accumulation sites for numerous salars, including Olaroz and Cauchari. Basement rock in this area is composed of Lower Ordovician turbidites (shale and sandstone) intruded by Late Ordovician granitoids. It is exposed to the east, west and south of the two salars, and generally along the eastern boundary of the Puna Region.

The salars are in-filled with flat-lying salar deposits, including the following five primary informal lithological units that have been identified in drill cores: red silts with minor clay and sand; banded halite beds with clay, silt and minor sand; fine sands with minor silt and salt beds; massive halite and banded halite beds with minor sand; and medium and fine sands. Alluvial deposits intrude into these salar deposits to varying degrees, depending on location. The alluvium surfaces slope into the salar from outside the basin perimeter. Raised bedrock exposures occur outside the salar basin. The most extensive intrusion of alluvium into the basin is the Archibarca Fan, which partially separates the Olaroz and Cauchari Salars. Route 52 is constructed across this alluvial fan. In addition to this major fan, much of the perimeter zone of both salars exhibits encroachments of alluvial material associated with fans of varying sizes.

Mineralization

The brines from Cauchari are saturated in sodium chloride with total dissolved solids on the order of 27% (324 to 335 grams per litre) and an average density of about 1.215 grams per cubic centimetre. The other primary components of these brines include: potassium, lithium, magnesium, calcium, sulphate, HCO_3, and boron as borates and free H_3BO_3. Since the brine is saturated in NaCl, halite is expected to precipitate during evaporation. In addition, the Cauchari brine is predicted to initially precipitate ternadite as well as a wide range of secondary salts that could include: astrakanite, schoenite, leonite, kainite, carnalite, epsomite and bischofite.

Deposit Type

The Cauchari and Olaroz Salars are classified as "Silver Peak, Nevada" type terrigenous salars. Silver Peak, Nevada in the USA was the first lithium-bearing brine deposit in the world to be exploited. These deposits are characterized by restricted basins within deep structural depressions in-filled with sediments differentiated as inter-bedded units of clays, salt (halite), sands and gravels. In the Cauchari and Olaroz Salars, a lithium-bearing aquifer has developed during arid climatic periods. On the surface, the salars are presently covered by carbonate, borax, sulphate, clay and sodium chloride facies. Cauchari and Olaroz have relatively high sulphate contents and therefore both salars can be further classified as "sulphate type brine deposits".

Exploration

Other than drilling, the exploration programs conducted on the Cauchari-Olaroz project area included the following:

- Seismic Geophysical Program – Seismic surveying was conducted to support delineation of basin geometry, mapping of basin-fill sequences, and siting borehole locations.

- Time Domain Electromagnetic (TEM) Survey – TEM surveying was conducted to attempt to define fresh water and brine interfaces within the salar. The TEM survey results indicate that the method can be used to determine resistivity contrasts within the salar.

Cauchari-Olaroz Project Summary (continued)

Exploration *(continued)*

- Vertical Electrical Sounding (VES) Survey – A VES survey was conducted to attempt to identify fresh water and brine interfaces, and extensive fresh water occurrences. The VES results enabled the differential of the five zones on the Archibarca Fan and salar perimeter locations. The VES results are also useful for general delineation of the fresh water/brine interface on the salar boundary.

- Surface Water Sampling Program – An ongoing program is conducted to monitor the flow and chemistry of surface water entering the salars. Data acquired from this program supported the water balance calibration and numerical groundwater modelling.

- Pumping Test Program – Pumping and monitoring wells were installed and pumping tests were conducted at five locations to estimate aquifer properties related to brine recovery and fresh water supply.

- Boundary Investigation – This test pitting and borehole program was conducted to assess the configuration of the fresh water/brine interface at the salar surface and at depth, at selected locations on the salar perimeter. Data from this program were interpreted in conjunction with the VES survey and support the extension of the hydrostratigraphic model and the lithium grade interpolation to the outer boundaries of the salar and the evaluation of numerical model boundary conditions for lithium.

- Numerical Modelling – A detailed numerical evaluation of existing natural brine conditions and predicted responses to long term brine pumping was conducted to support the Reserve Estimate.

The above exploration initiatives along with several other programs such as surface sampling, a gravity survey, airlift testing program and the drill programs were used to support the Resource and Reserve estimates at the Cauchari-Olaroz project as set out herein.

Drilling

Reverse Circulation (RC) Borehole Drilling

In September 2009 and August 2010, LAC conducted dual tube reverse circulation drilling to develop vertical profiles of brine chemistry at depth in the salars and to provide geological and hydrogeological data. The program included installation of 24 boreholes and collection of 1,487 field brine samples (and additional Quality Control samples). The sampled brines had a relatively low Mg/Li ratio, indicating that the brines would be amenable to a conventional lithium recovery process.

Diamond Drilling (DD) Borehole Program

Diamond drilling at the Cauchari-Olaroz project was conducted between October 2009 and August 2010. This program was conducted to collect continuous cores for geotechnical testing and geological characterization. The program included 29 boreholes, some of which were completed as observation wells for future brine sampling and monitoring, and collection of 127 field brine samples (and additional Quality Control samples).

Sampling, Analysis and Data Verification

Sampling Method

During RC drilling, rock chips and brine were directed from the drill cyclone into a plastic bag, over a one meter interval. After the field measurements were taken, the brine sample was split into three, one-litre, clean plastic sample bottles. Two samples were mixed to form one sample, which was shipped to ASA. During diamond drilling PQ or HQ diameter cores were collected through a triple tube sampler.

Cauchari-Olaroz Project Summary (continued)

Sampling, Analysis and Data Verification *(continued)*

Sampling Method (continued)

The cores were taken directly from the triple tube and placed in wooden core boxes for geologic logging, sample collection, and storage. Undisturbed samples were shipped to D.B. Stephens & Associates Laboratory in the USA for analysis of geotechnical parameters. Brine sampling was conducted in selected DD program borehole locations. A two-valve low-flow pump was used to extract brine samples from the subsurface. After analysis of field and filed laboratory parameters, brine samples were split into three, one-litre, clean, plastic sample bottles. Two samples were mixed to form one sample, which was shipped to ASA.

Security

Samples were taken daily from the drill sites and stored at the Susques field office of LAC. All brine samples were stored inside a locked office, and all drill cores were stored inside a locked warehouse adjacent to the office. Brine samples were picked up from the Susques field office by the analytical laboratory every Friday and transported to Mendoza in a laboratory truck. Solid samples were periodically driven to Jujuy approximately three hours from the site. In Jujuy, solid samples were delivered to a courier for immediate shipment to the appropriate analytical laboratory.

Assaying and analytical procedure

Brine samples were analyzed by ASA, a laboratory independent from the Company. For the first six RC boreholes, sulphate was assayed using the turbidimetric method, with checking of 20% of samples using the gravimetric method. Subsequent samples were analyzed using only the gravimetric method. The argentometric method was used for assaying chloride and volumetric analysis was used for carbonates. Laboratory measurements were conducted to total dissolved solids, density and pH. D.B. Stephens and Associates Laboratory carried out selected geotechnical analyses on undisturbed samples from the geologic cores. Specific gravity was conducted for four formation samples as well as the relative brine release capacity method which is used to predict the volume of solution that can readily be extracted from an unstressed geologic sample.

Quality Assurance and Quality Control

Brine samples were bottled directly from the pumping test weirs and assayed at ASA, with some confirmatory assays done at Acme Santiago and the University of Antofagasta. LAC has been running a quality control program to monitor the quality of assays from ASA, which includes the insertion of a field blank, a field duplicate, and one of two remaining standards that appear to be relatively stable. These data were compiled by LAC staff and then sent to Smee and Associates Consulting Ltd. for confirmation of the accuracy and precision of the analysis.

Data verification

The qualified persons responsible for the preparation of the FS, conducted the following forms of data verification: visits to the Cauchari-Olaroz project site and LAC corporate office; review of LAC sampling procedures, although it is noted that actual brine sampling was not viewed due to the nature of the geologic units encountered by the RC drill at the time of the site visits; inspection of original laboratory results forms for the LAC brine dataset; inspection of electronic copies of the LAC brine dataset and comparison with corresponding stratigraphic logs; review and inspection of LAC field and laboratory QA/QC results; review of publicly available information from an adjacent exploration property in Olaroz Salar; inspection of borehole logs; inspection of the Cauchari-Olaroz project database; review of all data handling methods and procedures; inspection of original laboratory results forms for the LAC brine dataset and the Cauchari-Olaroz project database.

Cauchari-Olaroz Project Summary (continued)

Mineral Processing and Metallurgical Testing

For the brine processing development in the Salar de Cauchari contemplated in the FS, several tests were prepared in different qualified laboratories and also in pilot facilities located at the Cauchari-Olaroz project. The FS does not take into consideration the potential impact of POSCO's proprietary mineral processing technology used at the demonstration plant. The determinations of the evaporation path was made in laboratories of Universidad de Antofagasta (Chile) in late 2010 and early 2011. The tests were conducted on a brine without treatment and treated with CaO to bring down the Mg and treated with $CaCl_2$. Test results showed that it is possible to obtain a concentrated brine through an evaporation process by treating the brine with CaO to control Mg levels.

A further series of tests were performed in evaporation pans installed in the pilot plant sector in the Salar De Cauchari. All these results and analysis provided enough information for the mathematical model simulations and verify the prediction of the thermodynamic model, being able to predict the process and the thermodynamic properties of the brine.

In Minera's Laboratory, liming tests have been performed for decreasing the Mg content using different amounts of excess lime, measuring the rate of sedimentation and use of flocculants. The tests provided evidence of the amount of consumption lime required by the project.

With concentrated brine, solvent extraction bench testing was performed using various organic reagents capable of removing boron from the brine. Tests showed that the extraction process should be performed at pH=4 using HCI, and re-extraction at basic pH using a solution of NaOH. Carbonation tests were performed which established the ideal conditions which must be complied for each of the stages were obtained as well as the operating temperature and reagents dosage.

In the pilot plant located in the Salar de Cauchari, an entire string of ponds has been built to test the process of concentration and liming at a larger scale. The pond process showed better performance when liming was performed in the middle with excess lime of 10%. Similarly, it was verified that the use of $CaCl_2$ was not necessary because the Ca from the CaO is enough to stimulate the precipitation of a major portion of the SO_4, so that Li losses do not prevent the production of Li brine. In the lithium carbonate pilot plant, the possibility of removing the more complicated impurities was tested without problems, such as B, Mg and Ca and it was also possible to produce Lithium Carbonate with yields higher than 85% from concentrated Li brine produced in the pilot solar evaporation ponds.

In addition to this sylvite flotation tests conducted at the Saskatchewan Research Counsel, Mining and Minerals division, were able to establish a suitable series of process for the recovery of potash for commercial grade fertilizer

Mineral Resource and Reserve Estimates

A Mineral Resource and Reserve Estimate for the Cauchari-Olaroz project is summarized in the tables below for lithium and potassium, respectively. Both sets of results are expressed relative to a lithium grade cut-off of ≥ 354 mg/L, which was identified as a brine processing constraint by LAC engineers and have an effective date of July 11, 2012.

Lithium Resource and Reserve Summary

Description	Concentration (mg/L)	(cut-off 354 mg/L)		(m^3)
		Li (tonne)	Li_2CO_3 (tonne)	
Proven Reserves	679	37,000	197,000	5.50×10^7
Probable Reserves	665	477,000	2,517,000	7.16×10^8
Measured Resource	630	576,000	3,039,000	9.14×10^8
Indicated Resource	570	1,650,000	8,713,000	2.89×10^9

Cauchari-Olaroz Project Summary (continued)

Mineral Resource and Reserve Estimates *(continued)*

Potassium Resource and Reserve Summary

Description	Concentration (mg/L)	(cut-off 354 mg/L)		(m^3)
		K (tonne)	KCl (tonne)	
Proven Reserves	5483	302,000	576,000	5.50×10^7
Probable Reserves	5395	3,863,000	7,378,000	7.16×10^8
Measured Resource	5156	4,714,000	9,003,000	9.14×10^8
Indicated Resource	4753	13,755,000	26,271,000	2.89×10^9

- The values in the above tables are expressed as total contained metals. Reserve Estimate values are based on numerical model predictions of pumped brine (pre-processing).
- Extensive sampling indicates that the brine has a relatively low magnesium/lithium ratio (lower than three, on average), suggesting that it would be amenable to conventional lithium recovery processing. The brine is relatively high in sulphate which is also advantageous for brine processing because the amounts of sodium sulphate or soda ash required for calcium removal would be relatively low.

The lithium and potassium reserves described above occur in subsurface brine. The brine is contained within the pore space of salar deposits that have accumulated in a structural basin. A numerical groundwater model was developed for the central area of the basin, to support the reserve estimate. The model simulates long term brine recovery and is based on a rigorous assembly of groundwater flow and solute transport parameters.

Mining Operations

In the FS, lithium brine is to be extracted using production wells. The number of wells used in the operation will depend on the ponds system brine demand and therefore will impose restrictions on the production wells. Details of the mining operations are summarized further in the text below.

Processing and Recovery Operations

LAC and its consultants subjected the brine chemistry of the Cauchari deposit to a process simulation, using physicochemical properties estimation methods and process simulation techniques for phase equilibrium of solids in electrolytes (brine), specially prepared for this project. This work has been supported by the results of laboratory evaporation test work and test work at both the pilot plant and the pilot ponds. The production of Lithium Carbonate is the main focus of the project; however, experimental work evidences that it is feasible to produce Potash from the recovery of discards of the previous process; therefore the FS included this option.

Lithium Carbonate and Potash Production

In the mine plan, LAC contemplated adopting the following process route for the Cauchari brines: (i) brine extracted from the salar wells is subjected to solar evaporation in the pre-concentration ponds, allowing the removal of sulphates and other unwanted salts; (ii) then lime is added to remove magnesium and most of the sulphates; and (iii) after another concentration stage at the corresponding ponds, the concentrated lithium-rich brine is fed to the Lithium Carbonate plant and left over salts are delivered to the Potash plant.

Cauchari-Olaroz Project Summary (continued)

The initial stage at the Lithium Carbonate plant is where boron is extracted through an organic solvent extraction process. Afterwards, the brine goes into two carbonation stages with sodium carbonate, after which Lithium Carbonate is obtained. Potash is obtained from the left over salts by means of a milling, attrition, repulping and flotation process. In the next two tables, operating criteria are presented for both the Lithium Carbonate plant and the Potash plant.

Lithium Carbonate Plant Operating Criteria

Description	Unit	Value
Li_2CO_3 production	Tonnes per year	20,000
Feed grade of Li	%	0.052
Annual operation days	days	330
Annual operation hours	hours	7,700
Availability	%	90.4
Utilization (22 h/d)	%	97.2
Design factor	-	1.2

Potash Plant Operating Criteria

Description	Unit	Value
KCl production (fertilizer grade)	Tonnes per year	40,000
Feed grade of KCl (average)	%	17
Annual operation days	days	330
Annual operation hours	hours	7,700
Availability	%	90.4
Utilization (22 h/d)	%	97.2
Design factor	-	1.2

Infrastructure, Permitting and Compliance Activities

Equipment, Wells & Ponds

In the mine plan, LAC proposed to operate the production wells using submersible electric pumps with a designed slotted casing that would be located in the largest lithium concentrated brine layers. These pumps would send the brine to evaporation ponds.

For process pond design, an evaporation rate of 2,554 mm per year was adopted. Based on that evaporation rate, the total evaporation pond surface area required for the production of 20,000 TPA of Lithium Carbonate and 40,000 TPA of Potash is 656 ha, of which 60 ha are required for harvest and maintenance work.

Site Infrastructure and Support Systems

The infrastructure required for the development and operation of the Lithium Carbonate and Potash plants (including generators) include process buildings; products and supplies warehouses; a combined heat and power unit; substations and electrical rooms.

Cauchari-Olaroz Project Summary (continued)

Infrastructure, Permitting and Compliance Activities *(continued)*

Site Infrastructure and Support Systems (continued)

Heat and power would be sourced externally, and delivered on site through a four inch diameter pipeline, with a total length of approximately 50 km. The combined heat and power unit operates on natural gas and uses diesel as backup fuel. To provide the required energy for the brine extraction wells, evaporation ponds, Lithium Carbonate plant and Potash plant, the generation capacities are electrical power of 8.4 MW and thermal power 8.6 MW. Four electric generators are required, each one with a generating capacity of 2.1 MW. Thermal power heat is used to maintain the process fluids at a suitable temperature and allow the desired chemical reactions to develop.

In the mine plan, LAC proposes to build a permanent camp, for approximately 120 people.

Water demands for industrial use will be supplied by groundwater collecting adjacent to the salar. The wells will be located in the studied subbasins which presented favourable results. Installations for the production of Lithium Carbonate will be located close to industrial water wells. For the overall project, the estimated average consumption of industrial water is 80 liters per second ± 20%.

Environmental and Social Studies

LAC completed a number of environmental studies to support the establishment of Cauchari-Olaroz's environmental baseline. This evaluation was performed for each stage of the project: construction, operation and closure. In August 2012, the Provincial Environmental Agency of Jujuy Province, recommended approval of the EIS for the construction of the Cauchari-Olaroz project.

LAC used Equator Principles as the basis for its minimum standards for developing the Cauchari-Olaroz project. LAC development plan has been designed to promote social and economic development in a sustainable framework. LAC has signed formal contracts with the neighbouring communities that own the surface ground where the Project will be developed. According to these contracts, the communities grant LAC traffic and other rights, while the Company ensures them a regular cash flow, to be used as the members of the communities decide.

Permits and Authorities

Argentina has a provincial system to manage natural resources. Therefore, the province of Jujuy has the responsibility of providing social and environmental permits, through various departments and agencies.

These authorities have granted in due course all the authorizations and permits required for the exploration and test work carried out by LAC at the Cauchari-Olaroz project. In December 2012, LAC received approval for the construction of the Cauchari-Olaroz project from the agency in Jujuy tasked with assessing the impact and benefits to the province of any proposed lithium project.

Waste and Tailing Disposals

The evaporation process in the ponds leaves considerable amounts of salts on the bottom of the ponds. These salts must be removed and transported to nearby piles. These discarded salts can be considered as inert waste. The salts are generated from brines already present in the salar and do not introduce foreign compounds to it. They are composed of sodium chloride (common salt), sodium and calcium sulphates and boron. It is estimated that sodium chloride and sulphate make up over 87% of this waste. The Cauchari-Olaroz project does not require a tailings dam.

Several possible sites for the evaporation ponds for the plant's industrial liquid wastes were analyzed. A location close to the plant, on the salar was chosen, which is not proximate to any populated areas. A total of 20 ha are required for this purpose.

Cauchari-Olaroz Project Summary (continued)

Capital and Operating Cost Estimate

Capital Cost Estimate

The capital cost estimates are expressed in second quarter 2012 US dollars. No provision has been included to offset future cost escalation since expenses, as well as revenue, are expressed in constant dollars. The capital costs estimate includes direct and indirect costs for: General areas, such as electric, gas and water distribution; Brine production wells; Evaporation and concentration ponds; Lithium Carbonate plant, Potash plant; Infrastructure, including gas pipeline, power plant, roads, offices, laboratory and camp, and other items. Contingencies, salaries, construction equipment mobilization, and other expenses. Expected confidence range of this estimate is ± 15%, while contingencies are estimated as 10% of direct and indirect costs.

The capital investment for the 20,000 TPA Lithium Carbonate Cauchari project, including equipment, materials, indirect costs and contingencies during the construction period is estimated to be US$269 million. This total excludes interest expense that might be capitalized during the same period. Disbursements of these expenditures would start in year one of development. Sustaining capital expenditures total US$28.5 million over the 40 year timeline of the mine plan.

The capital investment for the 40,000 TPA Potash Cauchari project, including equipment, materials, indirect costs and contingencies during the construction period is estimated to be US$45 million. This total excludes interest expense that might be capitalized during the same period.

The following items are not included in this estimate: sunk costs for a total of US$36.5 million, considered in the economic evaluation only for tax purposes; detail engineering; legal costs; special incentives and allowances; permissions and construction insurance; escalation; interest and financing costs; and start-up costs beyond those specifically included.

Operating Cost Estimate

Operating costs were estimated as follows:

Operating Costs Summary

Description	**Total KUS$**	**Li_2CO_3 US$/tonne**	**KCl US$/tonne**
Direct Costs			
Reagents	25,660	1,163	60
Salt Rem. and Trans.	4,015	124	38
Energy	4,968	191	29
Manpower	3,983	134	33
Cat. & Camp Services	1,311	44	11
Maintenance	2,842	103	19
Transportation	3,231	62	50
Direct Costs Subtotal	**46,009**	**1,821**	**240**
Indirect Costs			
G&A	1,487	56	9
Indirect Costs Subtotal	**1,487**	**56**	**9**
Total Costs	**47,496**	**1,876**	**249**

Lithium Carbonate production costs shown in the previous table were derived applying a 75/25 % cost split between Lithium Carbonate and Potash. It is also customary in the mining industry to report the cost of the main product net of the benefit produced by secondary products or by products, and in the FS the authors include a net lithium carbonate unit operating cost estimate.

Cauchari-Olaroz Project Summary (continued)

Economic Analysis

The economic analysis is done generating a before and after tax cash flow scenario. Prices for Lithium Carbonate were taken from a market study carried out by a third party. Potash was assumed to be sold 75% in Brazil and 25% in Argentina. Evaluation criteria and tax assumptions used in developing the cash flow model are detailed in the corresponding section. Among them, it must be emphasized that the model assumes that the current tax and royalty legislation and export retention levels remain unchanged for the life of the project. In addition, the model assumes no participation of the Jujuy Government in the equity of the project.

Production schedule

The production schedule and revenues are estimated as follows:

Production Schedule, tonnes

Year	2013	2014	2015	2016	2017	2018	2019	2024	2034	2044	2054	Total
	1	2	3	4	5	6	7	12	22	32	42	
Li_2CO_3	-	-	10,000	15,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	**785,000**
KCl	-	-			40,000	40,000	40,000	40,000	40,000	40,000	40,000	**1,520,000**

Production Revenues

Production Revenues

Medium Price Scenario, KUS$												
	Year											TOTAL
	1	2	3	4	5	6	7	12	22	32	42	
Li_2CO_3	-	-	57,000	87,000	114,000	116,000	120,000	150,000	154,000	154,000	154,000	**5,804,000**
KCl	-	-			18,780	18,750	20,030	21,000	21,000	21,000	21,000	**792,560**
Total	**-**	**-**	**57,000**	**87,000**	**132,780**	**134,750**	**140,030**	**171,000**	**175,000**	**175,000**	**175,000**	**6,596,560**

Other Expenses

Other expenses and cash flow items considered in the model include Argentinean transaction tax, Jujuy and private royalties, licenses and permits, export retentions and refunds, easement rights, equipment depreciation, sustaining capital, exploration expenses amortization and remediation allowances.

Cauchari-Olaroz Project Summary (continued)

Economic Evaluation Results

Project Evaluation Results Summary

Price Case	High	Medium	Low
	(MUS$)		
CAPEX	314	314	314
Max. Negative Cash Flow	292	292	292
	Values, year 20 (MUS$)		
Revenue	213	175	127
OPEX	47	47	47
Other Expenses	14	11	7
EBITDA	**152**	**117**	**72**
	Before Taxes (MUS$)		
NPV (8%)	988	738	368
Simple Pay Back[1]	2 Y, 10 M	3 Y, 2 M	4 Y, 8 M
DCF (8%) Pay Back[1]	3 Y, 11 M	4 Y, 5 M	7 Y, 2 M
IRR	26.3%	23.4%	16.8%
	After Taxes (MUS$)		
NPV (8%)	627	464	218
Simple Pay Back[1]	3 Y	3 Y, 3 M	4 Y, 9 M
DCF (8%) Pay Back[1]	4 Y, 5 M	5 Y, 1 M	8 Y, 6 M
IRR	22.3%	19.9%	14.3%

[1] Measured from the end of the capital investment period

Exploration and Development of the Cauchari-Olaroz Project

Based on the results of the FS, LAC had previously identified its goal of achieving commercial production of battery grade lithium carbonate, using traditional evaporation technology, during 2016. Since the date of the FS there has been minimal exploration and development activity by LAC on the property, as the focus has been on securing financing and exploring other development alternatives. This includes in particular incorporating POSCO's lithium extraction technology versus traditional evaporation technology, into the development process.

Kings Valley 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).

Kings Valley Project Summary (continued)

Property Location *(continued)*

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 Malheur 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 Township 44 North, Range 35 East 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 Route 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.

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.

Kings Valley Project Summary (continued)

***Geological Setting* (continued)**

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 volcaniclastic 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.

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

Cutoff Li PPM	MTonnes	Li%	Ktonnes LCE	K%	Ktonnes K
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

Cutoff Li PPM	MTonnes	Li%	Ktonnes LCE	K%	Ktonnes K
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
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

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/m3 tonnage factor used.

(5) Conversion factor for LCE = 5.323.

(6) Conversion factor for Li2O = 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.

Kings Valley Project Summary *(continued)*

Stage 2 Lens (continued)

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^3 for the mineralized volume was used as tonnage factor.

Kings Valley Lithium and Potassium Mineral Resource Stage 2 Lens Area

Kings Valley Lithium Mineral Resources, 0.20% Li cutoff					
Category	**MTonnes**	**Li %**	**Contained kTonnes Lithium Carbonate Equivalent**	**K%**	**Contained kTonnes Potassium**
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/m3.
(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 dated May 2014 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.

Kings Valley Project Summary *(continued)*

Mining Operations *(continued)*

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

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

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:

	Ore Mined (Dry Tonnes)	Waste Mined (Dry Tonnes)	Total Mined (Dry Tonnes)	Strip Ratio	Ore % Li	Ore % K	Ore % Na
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 Li2CO3 (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%.

Kings Valley Project Summary *(continued)*

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.

The U.S. Fish and Wildlife Service (USFWS) recently (September 22, 2015) determined that listing the sage-grouse was not warranted under the Endangered Species Act. Concurrently, the Bureau of Land Management (BLM) finalized their Land Use Plan Amendment (LUPA) that helps to conserve greater sage-grouse habitat. The BLM still considers the sage-grouse to be a special status species. The BLM Winnemucca District LUPA designates the Kings Valley Stage 1 Property as a Priority Habitat Management Area (PHMA) and also designates the Kings Valley Stages 2-5 Property as PHMA, but within a Sagebrush Focal Area (SFA). SFAs are more sensitive areas within the PHMAs. The BLM recently initiated steps to withdraw SFA-designated lands from location and entry under the United States mining laws, subject to valid existing rights. An immediate segregation, which lasts up to two years (with an option for a two year extension) until the Secretary decides whether to make the withdrawal permanent, prohibits the location of any new mining claims in the designated areas. WLC has over 2,500 mining claims within and surrounding the Kings Valley Lithium Project Stages 1-5, including those within the SFA, which have valid existing rights. WLC anticipates that it will be required by BLM to implement varying stages of mitigation measures for sage-grouse habitat throughout development of its Kings Valley Property. WLC understands that the BLM can impose conditions on access, project design, and periods of use where needed to limit impacts to sage-grouse habitat. WLC understands that if WLC files notices of intent to operate or applications for plans of operation for Stages 2-5, BLM may require a validity exam for some or all of the mining claims associated with Stages 2-5. Further, due to the requirement of a validity exam in Stages 2-5 areas, there is a risk that development may be subject to time delays or restrictions or mitigation measures in order to address sage-grouse habitat protection that could compromise the economic viability of future development of the Kings Valley Property. WLC will continue to build on our partnerships with the BLM, Nevada Department of Wildlife, and State of Nevada Sagebrush Ecosystem Technical Team to identify lasting conservation efforts and productive mitigation.

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.

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.

Kings Valley Project Summary *(continued)*

Case 2 Capital Costs (continued)

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. 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.

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.

Kings Valley Project Summary *(continued)*

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 ("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:

Market Prices – Case 1 and Case 2

Description	Market Price	Unit	Model Value	Unit
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.

Hectatone Business

WLC has 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 and other industries. 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 commissioning its organoclay manufacturing plant in Fernley, Nevada, with a planned initial 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. Certain 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. Permits for the 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.

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.

Hectatone Business (continued)

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 metres 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.

Sales and Marketing

The Company hired an experienced President for Hectatone 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. 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 intent 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.

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

	2016	2015				2014		
	Q1 US$	Q4 US$	Q3 US$	Q2 US$	Q1 US$	Q4 US$	Q3 US$	Q2 US$
Total assets	57,876	68,541	27,572	20,072	21,476	24,354	25,649	15,691
Exploration and evaluation assets	31,361	42,623	508	508	458	456	-	-
Capital assets	18,932	18,713	18,383	17,892	17,248	15,933	12,679	9,052
Working capital	2,532	840	4,595	427	2,571	6,050	11,316	4,713
Expenses	(2,707)	(1,546)	(1,263)	(1,461)	(2,333)	(2,165)	(1,604)	(1,266)
Net (loss)/income for the period	(3,272)	(2,202)	(1,419)	(1,569)	(2,365)	(2,173)	2,066	216
Basic (loss)/earnings per common share	(0.01)	(0.06)	(0.01)	(0.01)	(0.02)	(0.02)	0.02	0.00
Diluted (loss)/earnings per common share	(0.01)	(0.06)	(0.01)	(0.01)	(0.02)	(0.02)	0.02	0.00

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 during the period ended December 31, 2015, mostly due to the decrease in exploration and evaluation asset as result of significant change in Argentinian peso/US$ exchange rate. The significant change in foreign exchange rate is due to the implementation of new economic policies by the recently elected president in Argentina.

The Company's Cauchari-Olaroz project cost is denominated in Argentinian pesos and translated for reporting purposes to US$ at spot rate at the end of the reporting period. The peso weakened 37%, from 9.41 per US$1 on September 30, 2015 to 12.95 per US$1 on December 31, 2015. As the result, the Company recorded a comprehensive loss of $11,335 on translation of the property cost to the reporting currency.

The Company's total assets increased by $40,969 in Q4 2015 compared to Q3 2015 mainly due to the acquisition costs of $41,665 for the Cauchari-Olaroz project.

The Company's total assets increased by $7,500 in Q3 2015 compared to Q2 2015 due to net proceeds of $5,827 from a bought deal offering, net proceeds of $2,613 from a convertible security financing, offset by cash expenses of $1,159. The Company's total assets decreased by $1,404 in Q2 2015 mainly due to cash expenses of $1,284. The Company's total assets decreased by $2,878 in Q1 2015 mainly due to cash expenses of $2,071.

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 and $8,459 proceeds from a bought deal offering offset with $1,214 in associated offering costs and expenses of $1,431.

Exploration and Evaluation Assets

In Q1 2016, the Company capitalized $71 for the Cauchari-Olaroz project. The significant decrease in the amount of the Company's Cauchari-Olaroz project cost is due to the significant foreign exchange rate fluctuation for Argentinian pesos.

In Q4 2015, the Company capitalized $452 related to the annual claim fees paid to BLM for the Kings Valley project and recorded additions of $41,665 net of $251 for foreign exchange differences for the Cauchari-Olaroz project.

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

Exploration and Evaluation Assets (continued)

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 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.

Capital Assets

In Q1 2016, the Company's capital assets increased by $219, mainly due to $194 of expenditures capitalized to the organoclay plant.

In Q4 2015, the Company's capital assets increased by $330, mainly due to expenditures for the construction of the organoclay plant.

In Q3 2015, the Company's capital assets increased by $491, mainly due to $311 of expenditures for the construction of the organoclay plant and $103 for the additions and improvements to process equipment for the organoclay plant.

In Q2 2015, the Company's capital assets increased by $644, mainly due to $424 of expenditures for the construction of the organoclay plant and $162 for the additions to process equipment for the organoclay 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 of 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.

Working Capital

The increase in working capital of $1,692 in Q1 2016 compared to Q4 2015 was mostly due to the net proceed of $3,310 from a subscription receipts financing offset by operating expenses, additions to capital assets and exploration assets.

The decrease in working capital of $3,755 in Q4 2015 compared to Q3 2015 was mostly due to net proceeds of $1,330 from a subscription receipts financing, and the addition of Lithium America's consolidated cash and other current assets on the day of acquisition, offset by operating expenses, convertible securities, repayment of long-term borrowing, lease payments, additions to capital asset cash payments, and Lithium America's outstanding payables on the day of acquisition.

The increase in working capital in Q3 2015 compared to Q2 2015 was mostly due to the net proceeds of $5,891 from a bought deal offering, $110 in proceeds from the exercise of stock options and $86 in proceeds from the exercise of warrants offset by operating expenses, convertible security, additions to capital assets, repayments of long-term borrowing and capital leases payments. The decrease 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.

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, $7,526 of 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 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 *(continued)*

Expenses and Net (Loss)/Income

In Q1 2016 expenses increased by $1,161 compared to Q4 2015 mainly due to an increase in the Kings Valley exploration expenditures of $263, an increase in the Cauchari-Olaroz project exploration expenditures of $409, increase in salaries and benefits of $130, and an increase in stock-based compensation expense of $325 for the options granted in the quarter. In Q4 2015, the Company reported one month of the Cauchari-Olaroz project expenditures versus three months of expenditures in Q1 2016. The increase in the salaries and benefits during the Q1 2016 is mainly due to the additions to the Company's management team as a result of the merger with Lithium Americas.

In Q4 2015 expenses increased by $283 compared to Q3 2015 mainly due to an increase in professional fees of $107 and exploration expenditures of $183 related to the additon of the Cauchari – Olaroz project during the quarter.

In Q3 2015 expenses decreased by $150 compared to Q2 2015 mainly due to a decrease in exploration expenditures of $115 and stock based compensation expense of $74.

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 for other presented periods were mainly due to changes in exploration activities and stock-based compensation expense.

In Q1 2016 the Company recorded convertible security accretion expense of $483 compared to $644 in Q4 2015.

Total comprehensive loss in Q1 2016 includes an unrealized loss on the translation to reporting currency of $11,145 mainly due to the Argentinian pesos exchange rate fluctuation. The peso weakened 37% during the period, and as a result the Company recorded a comprehensive loss of $11,335 on translation of the Cauchari-Olaroz property cost to the reporting currency.

Results of Operations – Three Months Ended December 31, 2015

For the three months ended December 31, 2015, the Company reported a loss of $3,272 compared to a loss of $2,365 for the three months ended December 31, 2014, of which $2,707 (Q1 2015 - $2,333) is attributed to expenses, mostly in the following categories:

Exploration expenditures of $1,160 (Q1 2015 – $793) include $650 (Q1 2015 - $793) of expenditures for the Kings Valley project, and $510 (Q1 2015 - $Nil) for the Cauchari-Olaroz lithium project. Included in the Kings Valley project expenditures is $517 (Q1 2015 - $616) related to the lithium demonstration plant;

Marketing expenses of $146 (Q1 2015 - $129) include compensation of the Company's two full-time marketing professionals and expenses incurred for the marketing of Hectatone products;

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

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

Office expenses of $135 (Q1 2015 – $179) include Vancouver, Reno, and Toronto office rent, insurance, IT, telephone and other related expenses and general office expenses at the organoclay plant's Fernley office;

Professional fees of $164 (Q1 2015 - $117) consist of legal fees of $76 (Q1 2015 - $54), consulting fees of $50 (Q1 2015 - $40), public relations fees of $6 (Q1 2015 - $6), and accounting fees of $32 (Q1 2015 - $17);

Salaries and benefits of $424 (Q1 2015 – $570) include salaries and benefits for the Company's employees. Salaries and benefits were higher in Q1 2015 mainly due to payment of employees' bonuses at the end of calendar 2014 and no bonuses paid at the end of 2015. This was offset by the additional employees as a result of the merger with Lithium Americas;

Stock-based compensation of $379 (Q1 2015 - $252) 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 increase in this expense is due to a new stock options grant in Q1 2015.

Included in other expenses is the convertible security accretion expense of $483 (Q1 2015 - $Nil).

Liquidity and Capital Resources

Cash Flow Highlights	**Three months ended December 31,**	
	2015 **$**	2014 $
Cash used in operating activities	**(2,355)**	(2,224)
Cash used in investing activities	**(604)**	(2,009)
Cash used in financing activities	**(78)**	(3)
Effect of foreign exchange on cash	**131**	(137)
Decrease in cash	**(2,906)**	(4,373)
Cash and cash equivalents - beginning of period	**5,552**	7,160
Cash and cash equivalents- end of period	**2,646**	2,787

As at December 31, 2015, the Company had cash of $2,646 and working capital of $2,532 compared to $5,552 cash and working capital of $840 on September 30, 2015. Working capital as at December 31, 2015, includes a convertible security liability of $1,871 (September 30, 2015 - $2,772). The lender of this convertible security is entitled to convert it into shares in monthly instalments. In Q1 2016, the lender of the convertible security converted $1,175 of the outstanding amount into shares and subsequent to December 31, 2015, the lender converted additional $250 of the outstanding amount into shares.

On December 15, 2015, the Company obtained a $5,000 line of credit for working capital purposes.

Subsequent to December 31, 2015, the Company received $3,500 from the non-brokered private placement of subscription receipts reported as restricted cash on December 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.

Liquidity and Capital Resources (continued)

The Company will require additional working capital to continue development of its Hectatone business. The Company will also continue to rely on additional financings for further development of its lithium projects. 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.

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

Line of Credit

On December 15, 2015 the Company completed the $5,000 Line of Credit Agreement (the "Line of Credit Agreement") with its largest shareholder, Geologic Resource Partners LLC (the "Lender").

Pursuant to the terms of the Line of Credit Agreement, the Lender agreed to advance a $5,000 line of credit (the "Line of Credit") to the Company with an interest rate of 1.25% per month, on the drawn funds, payable monthly. To date the Company has not drawn down any funding under this facility. Upon execution, the Company paid a $75 fee. The Company may draw down on the Line of Credit from time to time in increments of $100, with each draw down subject to a fee of 1.25% of the amount drawn down. Any amounts disbursed, once repaid, will no longer be available for draw down. The Line of Credit also has a standby fee equal to 1.5% of any undrawn amount, payable annually. The Company may cancel the Line of Credit at any time provided there are no outstanding obligations. The balance owing matures and falls due on December 14, 2018, and maturity accelerates if the Company closes a financing of $10,000 or greater. The Line of Credit does not carry a conversion feature into common shares of the Company. The funds from the Line of Credit will be used for working capital purposes. Concurrent with execution of the Line of Credit Agreement, Geologic assigned a beneficial interest in an aggregate $750 principal amount of the Line of Credit to each of John Kanellitsas, a member of the Company's Board of Directors and Greenbrook Capital Partners Inc., a company wholly owned by Thomas Hodgson, CEO and member of the Company's Board of Directors.

Bangchak Financing

On July 20, 2015, the Company closed its non-brokered private placement (the "Private Placement") of subscription receipts ("Subscription Receipts") to an affiliate of The Bangchak Petroleum Public Company Limited ("Bangchak"). Pursuant to the Private Placement, the Company issued to Bangchak an aggregate of 9,214 Subscription Receipts at a price of $0.54264 per Subscription Receipt, for aggregate gross proceeds of $5,000.

Of these Subscription Receipts:

a) In fiscal 2015, 2,764 Subscription Receipts were converted into 3,023 common shares of the Company at the exchange ration of 1.09375 for total gross proceed of $1,500. The Company paid $96 in related costs.
b) In Q1 2016, 6,450 Subscription Receipts were converted into 17,263 common shares of the Company at the exchange ration of 2.6765092 for total gross proceed of $3,500 which was held in escrow and reported as restricted cash on December 31, 2015. Included in accounts payable and accrued liabilities on December 31, 2015, is $264 in related costs.

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

Financings (continued)

June 2015 Bought Deal Offering

In June 2015, the Company closed a bought deal offering. The offering consisted of 11,414 units of the Company (the "Units") at a price of CDN$0.70 per unit for aggregate gross proceeds of $6,487. Each unit consists of one common share of the Company and one-half of one common share purchase warrant. Each whole common share purchase warrant ("Warrant") entitles the holder thereof to acquire one share at a price of CDN$0.90 until June 9, 2017. In addition, the Company issued 742 brokers' warrants. Brokers' warrants entitle the holder to purchase one common share for a price of CDN$0.70 per share until June 9, 2017.

The Company used the proceeds from the offering as follows:

USE OF PROCEEDS	12-MONTHS BUDGET AMOUNT (as reported in the June 2015 Prospectus) in CDN$, millions	12-MONTHS BUDGET AMOUNT (as reported in the June 2015 Prospectus) in US$, millions[1]	SPENT from June 9th, 2015 to December 31, 2015, in US$, millions
Hectatone organoclay manufacturing plant:			
Inventory acquisition, production inputs, operating expenses	1.2	1.0	1.6
Subtotal	**$1.2**	**$1.0**	**$1.6**
Lithium Demonstration Plant:			
Lithium Demonstration Plant trials	1.0	0.8	0.6
Subtotal	**$1.0**	**$0.8**	**0.6**
Kings Valley project:			
Kings Valley project annual claim fees (2 years)	1.0	0.8	0.5
Lithium hydroxide studies and testing	0.25	0.2	0.3
Engineering and optimization studies	0.75	0.6	-
Subtotal	**$2.0**	**$1.6**	**$0.8**
General and administration	3.0	2.4	1.7
Total	**$7.2**	**$5.0**	**$4.7**

(1) Amounts determined using June 9, 2015 exchange rate of CDN$1=US$0.8119

May 2015 Convertible Security

In May 2015, the Company received $2,800 under the convertible security funding agreement between the Company and the Lind Partners ("Lind"), net of prepaid interest of $560 and financing fee of $140, and issued a convertible security with a face value of $3,500. The convertible security has a two-year term from the date of issue and incurs a simple prepaid interest rate of 10% on the amount of funding. Lind can increase the funding under the agreement by an additional $600 during two-year term of the convertible security with an applicable interest of 10% per annum ($120 in total) in which case the face value of the convertible security would increase by $720. The Company has provided a second lien on its Organoclay plant as a security for the convertible security.

Lind is entitled to convert the convertible securities in monthly installments over the two-year term. The Conversion Price is 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 is also 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.

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Financings (continued)

May 2015 Convertible Security *(continued)*

The 15% discount the Company offered to Lind on conversion represents an incremental liability of $618 for the Company and is amortized over the term of the convertible security. The fair value of the proceeds received from the financing was allocated first to the conversion discount with the remaining balance allocated to the host debt component.

The following table presents the security conversions by Lind:

Conversion Date	Conversion Amount $	Calculated Conversion Price CDN$	Number of Shares Issued
September 22, 2015	300	0.4721	838
October 13, 2015	350	0.2326	1,962
November 2, 2015	200	0.2995	875
November 30, 2015	275	0.2484	1,479
December 31, 2015	350	0.2786	1,744
January 25, 2016	250	0.3242	1,101
Subtotal	**1,725**	**0.29**	**7,999**

The Company has an option to pre-pay the outstanding amount at any time at face value provided that Lind will have an option to convert up to 30% of the face value into shares at Conversion Price. Management assessed the value of this prepayment option to be a nominal amount.

In respect of the first convertible security, the Company has issued 3,125 warrants, exercisable into common shares for a period of three years at an exercise price of CDN$0.8464 per common share.

Operating Activities

Cash used in operating activities during the period ended December 31, 2015, was $2,355 compared to $2,224 net cash used during the period ended December 31, 2014. The significant components of operating activities are discussed in the Results of Operations sections above.

Investing Activities

Investing activities required cash of $604 during the period ended December 31, 2015, compared to $2,009 used during the period ended December 31, 2014. The cash used in investing activities during the period ended December 31, 2015, was for the additions to capital assets of $303 (Q1 2015 - $2,007) and additions to exploration and evaluation assets of $301 (Q1 2015 - $2). The additions to capital assets are mostly for the construction of the Company's organoclay plant and include $53 (Q1 2015 - $108) for the buildings improvements, capitalized interest and taxes, $194 (Q1 2015 - $701) for the asset under construction costs, and $14 (Q1 2015 - $278) for the process plant equipment.

Accounts payable and accrued liabilities related to the transaction costs with Lithium Americas were $400 as at September 30, 2015 and $172 as at December 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.

Financing Activities

During the period ended December 31, 2015, the Company received cash of $36 (Q1 2015 - $32) from the exercise of stock options and repaid finance leases of $10.

On December 15, 2015 the Company completed a $5,000 Line of Credit Agreement with its largest shareholder, Geologic Resource Partners LLC and paid $75 in related costs.

Subsequent to December 31, 2015, the Company received $3,500 from the subscription receipt financing. Accounts payable and accrued liabilities related to the subscription receipts financing on December 31, 2015, were $264.

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 ($29 repaid in fiscal 2016, $111 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 291,098 common shares issued and outstanding, 19,751 stock options outstanding, and 17,777 warrants.

Related Party Transactions

Compensation of Key Management

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

The remuneration of directors and members of the executive management team included:

	For the three months ended December 31,	
	2015	2014
	$	$
Stock-based compensation	279	189
Salaries and benefits	277	338
Salaries and benefits included in marketing	58	42
Salaries, benefits and director's fees included in exploration expenditures	95	172
Salaries and benefits included in capital assets	-	72
Directors' fees included in salaries and benefits	21	36
Employee benefits included in salaries and benefits	5	7
	735	856

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

Related Party Transactions (continued)

Compensation of Key Management *(continued)*

	As at December 31, 2015 $	As at September 30, 2015 $
Total due to directors	44	58

During the Q1 2016, the Company has completed the US$5,000 Line of Credit Agreement (the "Line of Credit Agreement") with its largest shareholder, Geologic Resource Partners LLC (the "Lender"). Concurrent with execution of the Line of Credit Agreement, Geologic assigned a beneficial interest in an aggregate US$750 principal amount of the Line of Credit to each of John Kanellitsas, Vice-Chairman and a member of the Company's Board of Directors and Greenbrook Capital Partners Inc., a company wholly owned by Thomas Hodgson, CEO and member of the Company's Board of Directors.

The related party transactions incurred during the period ended December 31, 2015, were in the normal course of operations. 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.

Commitments

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

	As at December 31, 2015 $
Not later than one year	
Rent of office space	207

Other obligations and commitments are disclosed in Note 6 through Note 8 of the Company's condensed consolidated interim financial statement for the period ended December 31, 2015

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, convertible security obligation, and obligations under finance leases. Accounts payable, accrued liabilities, convertible security obligation, 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.

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Off-Balance Sheet Arrangements

The Company's off-balance sheet arrangements related to the exploration and evaluation assets are disclosed in note 6 of the Company's condensed consolidated interim financial statements for the period ended December 31, 2015. The Company's reclamation bond arrangement is disclosed below.

Decommissioning Provision and Reclamation Bonds

The Company estimated the fair value of the liability for decommissioning provision that arose to-date as a result of exploration activities to be $170 for the Kings Valley Property in Nevada and $130 for the Cauchari-Olaroz Property in Argentina. The fair value of the liability was determined to be equal to the estimated remediation costs. In May 2014, the Company's $908 reclamation bond payable to the Bureau of Land Management ("BLM") was guaranteed by a third-party insurance company upon the issuance of Kings Valley Mine project permit to the Company. The bond guarantee is renewed annually and secured by the Company's $150 security deposit.

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 interim financial statements for the period ended December 31, 2015.

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.

The Cauchari-Olaroz project and the Kings Valley project 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 Cauchari-Olaroz project and the Kings Valley project 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 a feasibility study at the Cauchari-Olaroz project and a pre-feasibility study at the Kings Valley project, there can be no assurance that the Company will ever develop either one of these projects as planned. If the Company is unable to develop all or any of its projects into a commercial operating mine, its business and financial condition will be materially adversely affected.

The Company may not consummate a commercialization agreement with POSCO.

The Heads of Agreement with POSCO contemplates implementation of commercial arrangement for the Cauchari-Olaroz project that the Company believes could greatly enhance its prospects for development financing and its commercial viability as an operating mine. The Heads of Agreement is non-binding and several important commercial terms of such an arrangement are not yet finalized. There is no guarantee that the parties will consummate a commercialization agreement with POSCO on terms as contemplated in the Heads of Agreement or at all. If WLC does not reach such an agreement, it will need to secure alternate arrangements to support development financing and production, which in turn could delay or prevent the future development of the Cauchari-Olaroz project.

Risks and Uncertainties (continued)

POSCO's technology is proprietary and not subject to any independent economic study.

The Company believes that POSCO's lithium extraction technology may have the potential to greatly improve the financial viability of the Cauchari-Olaroz project. However, POSCO alone is responsible for the development of the technology and management and operation of the demonstration plant, and the Company currently does not have any rights or ownership interest in the demonstration plant installed by POSCO on the Cauchari-Olaroz project or the technology used to process the lithium therein. Unless and until such time as WLC completes a commercialization agreement with POSCO, it will not be able to integrate POSCO's lithium extraction technology into the Cauchari-Olaroz project development planning. Further, the Company has not yet conducted its own analysis of the results of lithium processing operations on the Cauchari-Olaroz project using POSCO's technology, and accordingly the Company cannot predict the successful application for commercial production of POSCO's proprietary technology to the brine extracted from the Cauchari-Olaroz project.

Market prices for key end-use products will greatly affect the value of the Company and the ability of the Company to develop the Cauchari-Olaroz project and the Kings Valley project.

The ability of the Company to develop the Cauchari-Olaroz project and the Kings Valley project will be significantly affected by changes in the market price of lithium and potassium based end products, such as lithium carbonate and lithium hydroxide. The market price of these commodity-based products fluctuates widely and is affected by numerous factors beyond WLC's control, including world supply and demand, pricing characteristics for alternate energy sources such as oil and gas, the level of interest rates, the rate of inflation, and the stability of currency exchange rates . Such external economic factors are influenced by changes in international investment patterns, various political developments and macro-economic circumstances. In addition, the price of lithium products is determined by their purity and performance. A fluctuation in these product prices may affect the value of the Company and the potential value of its properties.

There is risk to the growth of lithium markets.

The development of lithium operations at the Cauchari-Olaroz project and the Kings Valley project 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. To the extent that such markets do not develop in the manner contemplated by the Company, then the long-term growth of lithium products will be adversely affected, which would inhibit the potential for development of the projects, their potential commercial viability and would otherwise have a negative effect on the business and financial condition of the Company.

There is a risk that WLC will not obtain required government permits and operations will be limited by government-imposed limitations

Government regulations relating to mineral rights tenure, permission to disturb areas and the right to operate can adversely affect WLC. 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 Cauchari-Olaroz project and the Kings Valley project. 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. While WLC holds permits to construct and operate the Cauchari-Olaroz project in accordance with the plan established in the Cauchari-Olaroz Report, any amendments to this mine plan, including those that may occur as a result of a joint venture with POSCO, would need to be approved by regulatory authorities in Argentina.

At the Kings Valley project, the permitting process for lithium mining operations is incomplete at this time. 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 Cauchari-Olaroz project or the Kings Valley project.

Risks and Uncertainties (continued)

There is technology risk to the development of the Cauchari-Olaroz project and the Kings Valley project.

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 WLC 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. With respect to the Cauchari-Olaroz project, similar to solid rock deposits, production from brine-recovery projects may be less than in situ volume/grade-based estimates. In the case of brine-recovery projects, the primary extractability limitations are related to low permeability zones, from which brine does not readily flow. A possible analogy in solid rock deposits may be high grade zones for which recovery is not economically feasible due to surrounding lower grade materials, therefore actual production from brine-recovery projects may be less than in situ grades or quantities.

Foreign Operations and Political Risk

The Company's properties are located in Argentina and the United States, exposing it to the laws governing the mining industry in those countries. Changes, if any, in mining or investment policies or shifts in political attitude in any of the jurisdictions in which the Company operates may adversely affect the Company's operations or profitability. Operations may be affected in varying degrees by government regulations with respect to, but not limited to, taxes, royalties, environmental legislation, currency matters and mine safety. Regardless of the economic viability of the Company's interest in the Company's properties, and despite being beyond the Company's control, such factors may prevent or restrict mining of some or all of any deposits which the Company may find on the Company's properties.

The Company's operations in Argentina expose WLC to heightened risks relating to prevailing political and socioeconomic conditions which have historically included, but are not limited to: high rates of inflation; military repression; social and labour unrest; violent crime; extreme fluctuations in currency exchange rates; expropriation and nationalization; renegotiation or nullification of existing concessions, licenses, permits and contracts; changes in taxation policies; restrictions on foreign exchange and repatriation; and changing political norms, currency controls and governmental regulations that favour or require the Company to award contracts in, employ citizens of, or purchase supplies from, a particular jurisdiction. As an example, in May 2012, the government of Argentina re-nationalized *Yacimientos Petrolíferos Fiscales*, the country's largest oil and gas company. There can be no assurance that the government of Argentina will not nationalize other businesses operating in the country, including the business of the Company

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 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 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.

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. (continued)

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.

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 business. 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.

Changes in government regulations may affect the Company's development of the Cauchari-Olaroz project and the Kings Valley project.

Changes to government laws and regulations may affect the development of the Cauchari-Olaroz project and the Kings Valley project. Such changes could include laws relating to taxation, royalties, the repatriation of profits, restrictions on production, export controls, environmental and ecological compliance and numerous other aspects of the business, Provincial governments of Argentina have considerable authority over exploration and mining in their province and there are Argentinean provinces where the provincial government has taken an anti-mining stance by passing laws to curtail or ban mining in those provinces. The current provincial government of Jujuy Province, where the Cauchari-Olaroz project is situated, is supportive of the exploration and mining industry; The Company and JEMSE, the Jujuy government's mining Company, have entered into a letter of intent whereby JEMSE will receive an 8.5% equity interest in Minera and is to pay for this interest from dividends from future profits from operations. Nevertheless, such sentiment and situation may change in the future.

The U.S. Fish and Wildlife Service (USFWS) recently (September 22, 2015) determined that listing the sage-grouse was not warranted under the Endangered Species Act. Concurrently, the Bureau of Land Management (BLM) finalized their Land Use Plan Amendment (LUPA) that helps to conserve greater sage-grouse habitat. The BLM still considers the sage-grouse to be a special status species. The BLM Winnemucca District LUPA designates the Kings Valley Stage 1 Property as a Priority Habitat Management Area (PHMA) and also designates the Kings Valley Stages 2-5 Property as PHMA, but within a Sagebrush Focal Area (SFA). SFAs are more sensitive areas within the PHMAs. The BLM recently initiated steps to withdraw SFA-designated lands from location and entry under the United States mining laws, subject to valid existing rights. An immediate segregation, which lasts up to two years (with an option for a two year extension) until the Secretary decides whether to make the withdrawal permanent, prohibits the location of any new mining claims in the designated areas. WLC has over 2,500 mining claims within and surrounding the Kings Valley Lithium project Stages 1-5, including those within the SFA, which have valid existing rights. WLC anticipates that it will be required by BLM to implement varying stages of mitigation measures for sage-grouse habitat throughout development of its Kings Valley Property.

WLC understands that the BLM can impose conditions on access, project design, and periods of use where needed to limit impacts to sage-grouse habitat. WLC understands that if WLC files notices of intent to operate or applications for plans of operation for Stages 2-5, BLM may require a validity exam for some or all of the mining claims associated with Stages 2-5. Further, due to the requirement of a validity exam in Stages 2-5 areas, there is a risk that development may be subject to time delays or restrictions or mitigation measures in order to address sage-grouse habitat protection that could compromise the economic viability of future development of the Kings Valley Property. WLC will continue to build on our partnerships with the BLM, Nevada Department of Wildlife, and State of Nevada Sagebrush Ecosystem Technical Team to identify lasting conservation efforts and productive mitigation.

Risks and Uncertainties (continued)

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

WLC must comply with stringent environmental regulation in carrying out work on the Cauchari-Olaroz project and the Kings Valley project. 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 Cauchari-Olaroz project and the Kings Valley project.

The Company may not be insured against all risks involved in its business operations.

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.

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.

There is mineral tenure risk associated with the Kings Valley project.

The Mining Act, as amended, authorizes the Company to develop and mine the minerals on the UM Claims that form the Kings Valley project which are locatable under the Mining Act. The Mining Act does not explicitly authorize the owner of an unpatented mining claim to sell minerals that are leasable 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 unpatented mining 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.

The Company 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 analyse a project's potential and the capital required to develop a mine, larger companies with significant resources may have a competitive advantage over WLC. The Company faces strong competition from other mining companies, some with greater financial resources, operational experience and technical capabilities than WLC possesses.

Risks and Uncertainties (continued)

The Company also plans to purchase certain supplies and retain the services of various companies in Argentina to meet its future business plans. It may be difficult to find or hire qualified people in the mining industry who are situated in Argentina or to obtain all of the necessary services or expertise in Argentina or to conduct operations on its projects at reasonable rates. If qualified people and services or expertise cannot be obtained in Argentina, the Company may need to seek and obtain those services from people located outside of Argentina which will require work permits and compliance with applicable laws and could result in delays and higher costs to the Company to conduct its operations in Argentina. 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.

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

The Company has not conducted an independent economic analysis of the financial viability of its Hectatone Business. It has, however, completed extensive financial planning derived from business plans that are based on likely outcomes from sales and marketing efforts. Hectatone Inc. manufactures six products and is currently developing two products. Product pricing is based on a number of factors including product formulation, end-use market, and customer's volume requirements. There are market price indicators to support short-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.

There is a market acceptance risk associated with the Hectatone business.

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.

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

The mineral resources and reserves estimates included in this MD&A 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 MD&A 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 Amended and Restated Kings Valley Project 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.

Failure to maintain continued operation of the Fernley Facility would negatively impact the Company's business.

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. 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.

Risks and Uncertainties (continued)

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.

Hectatone™ products compete with other materials.

The use of Hectatone™ products depends in large part on the state of deep well and directional drilling to access deposits of oil and gas. 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 relies on third party suppliers for its Hectatone Business. 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.

In addition, there is ongoing research and technological developments with respect to the various processes associated with the production of drilling additives and other products for new markets, 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.

The Company may face opposition to mining projects.

The Cauchari-Olaroz project and the Kings Valley project, 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 Cauchari-Olaroz project and the Kings Valley project, 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.

The closest port for the Company's potential production from the Cauchari-Olaroz project for export is located in Chile.

The Company's Cauchari-Olaroz project has highway access to the world's primary lithium export port of Antofagasta in Chile. As a result, the Company could potentially export lithium products through the Antofagasta port. However, the Company's ability to export from this port is subject to tariffs, border restrictions or other impediments that may exist or be established between the Argentinean and Chilean border. If the Company's access to the Antofagasta port is restricted, and/or the Company is forced to export through alternative ports in Argentina, its transportation costs may materially increase and its results of operations may be materially adversely affected.

The Cauchari and Olaroz salt lakes are not subject to reservoir management rules.

There are no unitization or reservoir management rules governing the salt lakes on which the Company's Cauchari-Olaroz project is situated or on any of the other salt lakes at which the Company holds mining or exploration permits. Unitization is the joint, coordinated operation of a reservoir by all the owners of rights in the separate tracts overlying the reservoir. Without unitized operation of the reservoir, the "rule of capture" results in competitive drilling, extraction and production with consequent economic and physical waste, as each separate owner attempts to secure his or her "fair share" of the underground resource by drilling more and pumping faster than its neighbour. As a result, the lack of unitization and reservoir management rules on the salt lakes on which the Company operates may materially adversely affect the Company's operations and production.

Risks and Uncertainties (continued)

The aboriginal communities located on the Cauchari-Olaroz properties may not honour the current surface access agreements with Minera.

Minera has entered into six agreements for surface access with the aboriginal communities located on the exploitation area of the Cauchari-Olaroz project. Should any of the aboriginal communities decide not to honour such agreements, Minera would be required to enforce its statutory access rights under the provisions of the Argentinean Mining Code; however this would be a disruptive and potentially costly process. In addition, lack of surface access agreements with local communities could affect the renewal of the EIS.

Costs of environmental remediation are uncertain.

The actual costs of remediation are uncertain and planned expenditures may differ from the actual expenditures required. It is not possible to determine the exact amount that will be required to complete remediation activities, and the amount that the Company is required to spend could be materially different than current estimates. Environmental bonds or other forms of financial assurance represent only a portion of the total amount of money that will be spent on remediation over the life of a mine's operation. Although the Company includes estimated remediation costs in its mining plans, it may be necessary to revise the planned expenditures and the operating plan for the Company's properties in order to fund required remediation activities. Any additional amounts required to be spent on remediation may have a material adverse effect on the Company's financial condition and results of operations.

Business risks

The Company 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, 2016. 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.

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

The Company has limited financial resources and is subject to significant capital requirements associated with its expanded portfolio of projects following the Plan of Arrangement. 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. A likely source of future financing is 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. The Company may also sell an interest in the Cauchari-Olaroz project, Kings Valley project 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 Cauchari-Olaroz project, Kings Valley project, or the Hectatone™ business, respectively.

Risks and Uncertainties (continued)

There is intellectual property risk associated with the Company.

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.

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.

WLC 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 project or the Cauchari-Olaroz project are 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, WLC 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 Cauchari-Olaroz project or the Kings Valley project.

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.

Risks and Uncertainties (continued)

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

Business is transacted by the Company primarily in Canadian, U.S. and Argentinean currencies. Fluctuations in exchange rates may have a significant effect on the cash flows of the Company. The Argentinean peso has been subject to large devaluations and revaluations in the past and may be subject to significant fluctuations in the future. Future changes in exchange rates could materially affect the Company's results in either a positive or negative direction. The Company's Kings Valley project and Hectatone™ business are located in Nevada and most of the property related expenditures, exploration and development costs are denominated in U.S. dollars. The Company's Cauchari-Olaroz project is located in Argentina where costs are denominated in the Argentinean peso. Appreciation of U.S. or Argentinean 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.

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.

The Company does not have any 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.

The Company may not be able to achieve and manage its expected growth.

A transition or one or both of the mineral projects to a development and mineral operations, as well as growth of the Hectatone Business, may place a strain on managerial, financial and human resources. The Company's ability to succeed in these endeavours 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.

The Company may have difficulty completing integration from the Plan of Arrangement

The Company recently completed the Plan of Arrangement, which has resulted in a substantial expansion of its assets and business operations and requires the integration of management, employees and infrastructure into one combined enterprise. While the Company has commenced this process, it is not complete. The Plan of Arrangement has changed the scale of the Company's business and operations, and has exposed the Company to new geographic, political, operating, financial and geological risks. The Company may have difficulty completing this integration, realizing anticipated synergies and maximizing the financial and strategic position of the combined enterprise, and maintaining uniform standards, policies and controls across the organization; the integration of the acquired business or assets may disrupt the Company's ongoing business and its relationships with employees, suppliers and contractors. There can be no assurance that the Company would be successful in overcoming these risks or any other problems encountered in connection with such acquisitions.

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

The market price of a publicly traded stock, especially a resource issuer such as WLC, 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.

Risks and Uncertainties (continued)

There may be difficulties in conducting business in Argentina through a foreign subsidiary.

The Company conducts its business through its Argentinean subsidiary, Minera. Any limitation on the transfer of cash or other assets between the Company and the Argentinean subsidiary or the perception that such limitation may exist now or in the future, could have an adverse impact on the Company's valuation and the price of its Common Shares.

Significant Accounting Policies

The preparation of these 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.

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, the assumptions used in the determination of the fair value of stock-based compensation, and the estimates involved in convertible security as described in Note 8 to the Company's condensed consolidated financial statements for the period ended December 31, 2015.

Critical Accounting Judgments

Critical accounting judgments pertain to 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 Cauchari-Olaroz and Kings Valley Projects have not demonstrated these characteristics. All costs with respect to maintaining and permitting the hectorite mine and costs with respect to the lithium projects 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. The Company incurs costs on development of new organoclay products. Management determined that the new organoclay products development project has not met the criteria for capitalization.

The determination of the start date of Hectatone plant operations. The Company's Hectatone organoclay plant has been recently constructed to manufacture specialty organoclay products ("Hectatone™" products), derived from hectorite and other clays, for sale to the oil and gas and other sectors. As at the date of this report, the Company is commissioning the plant. When a project nears the end of construction and commissioning, management has to exercise judgment to determine the date at which the asset was in the location and condition necessary to operate as intended by management. The identification of this date is important since it establishes the point in time at which costs cease to be capitalized unless they provide an enhancement to the economic benefits of the asset, borrowing costs cease to be capitalized, processing costs begin to stabilize, the capitalization of pre-start-up revenue ceases and depreciation of the asset commences. Management will continue to assess the appropriate start date of the Hectatone plant during the financial year ending September 30, 2016.

Significant Accounting Policies (continued)

***Critical Accounting Judgments** (continued)*

In accordance with International Accounting Standard ("IAS") 21, *The Effects of Changes in Foreign Exchange Rates*, management determined that the functional currency of Western Lithium USA Corporation, Lithium Americas Corp. and 2265866 Ontario Inc is the Canadian dollar, the functional currency of Western Lithium Corporation, KV Project LLC and Hectatone Inc. is the US dollar, and the functional currency of Minera Exar S.A. and Potassium S.A. is the Argentinian peso, 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 (loss)/income 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.

Exploration and Evaluation Assets

Exploration expenditures not including the acquisition costs and claim maintenance costs 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 mineral property 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 title to mineral properties in which it has an interest, these procedures do not guarantee the Company's title. Such properties may be subject to prior agreements or transfers, or title may be affected by undetected defects.

Capital Assets

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 proceeds from sales during this period, are capitalized to the asset under construction and equipment. Capitalization of costs incurred ceases when commercial production commences in the manner intended by management. The Company applies judgment in its assessment of when the asset is capable of operating in the manner intended by management.

Significant Accounting Policies (continued)

***Capital Assets** (continued)*

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.

Capital assets that are currently in use are depreciated as follows:

- Equipment, vehicles and machinery – declining balance method at 20% annual rate;
- Lithium demonstration plant equipment (included in "Equipment and machinery") – straight-line basis over the estimated useful life of 10 years; and
- Other – straight-line basis over the estimated useful life of 3 to 15 years.

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 and 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.

Hectatone 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 it 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.

Significant Accounting Policies (continued)

Impairment of Long-lived Assets *(continued)*

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.

Value-added Tax Receivable

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.

Significant Accounting Policies (continued)

Stock - Based Compensation *(continued)*

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 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 they were valued at their fair value, as determined by the closing quoted bid price. 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 attributed 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 currencies of the subsidiaries are US Dollars and Argentinian Pesos and the group presentation currency is US Dollars.

Transactions and Balances

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

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

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 and IFRS 15-Revenue from Contracts with Customers which is effective on or after January 1, 2018.

Investor Relations

Thomas Hodgson, CEO, John Kanellitsas, Vice-Chairman and Jay Chmelauskas, President, coordinate 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).

Changes in Directors and Management

On November 17, 2015, George R. Ireland, a well-respected geologist and the President and CEO of Geologic Resource Partners LLC, and the Company's largest shareholder, joined the Board of Directors. Mr. Ireland filled the vacancy created by the recent untimely passing of Ed Flood, also a geologist and investment manager, and one of the founders of Western Lithium.

Also on November 17, 2015 the Company announced that after a comprehensive review of the newly combined businesses, the Board of Directors has announced a restructuring of the senior management team aimed at accelerating development of the Company's large lithium resources in Argentina and the U.S. Thomas Hodgson, with more than 30 years of senior executive experience and a director of Western Lithium, will lead the team as the Company's new CEO. John Kanellitsas, an experienced business executive and former CEO of Lithium Americas has been appointed Vice Chairman. Jay Chmelauskas will remain as President of Western Lithium, and Franco Mignacco will continue as President of the Argentina-based subsidiary Minera Exar S.A.

Disclosure Controls and Procedures

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

Internal Controls over Financial Reporting *(continued)*

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 Company's future performance. All statements, other than statements of historical fact, may be forward-looking statements. Information concerning mineral resource and mineral 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 contains forward-looking statements, pertaining to the following: capital expenditure programs; estimates of the quality and quantity of the mineral resources and mineral reserves 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; expenditures to be made by the Company on its properties; the Company's expectations regarding timing and successful production of lithium carbonate and other by-products from the lithium demonstration plant; the Company's expectations regarding the preparation of a feasibility study for lithium carbonate production at the Kings Valley project; the expectation to enter into a joint venture agreement with POSCO for the development of the Cauchari-Olaroz project; work plans to be conducted by the Company, including expectations with respect to the operational status of, and timing of commercial production at, its organoclay plant; the Company's plans to introduce certain products to the market; and the Company's ability to source sales contracts for its organoclay products.

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

- uncertainties relating to receiving mining, exploration, environmental and other permits or approvals in Nevada and Argentina;
- the potential production from the demonstration plant;
- the potential Kings Valley production of lithium, potassium and sodium products from the lithium demonstration plant in Germany;
- the potential production at the Fernley Facility;

Forward Looking Statements (continued)

- the impact of increasing competition in the lithium business;
- unpredictable changes to the market prices for lithium, and potassium and clay-based drilling additives;
- the market price of organoclay, the Company's ability to produce a rival product at a competitive price and to source sales contracts;
- exploration and development costs for the Cauchari-Olaroz project and the Kings Valley project;
- 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;
- preparation of a feasibility study for lithium carbonate production at the Kings Valley project; and
- the continued growth of the shale gas and ultra-deep oil drilling and lithium 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: volatility in the market price for minerals; uncertainties associated with estimating mineral resources and mineral reserves, including uncertainties relating to the assumptions underlying mineral resource and mineral reserve estimates; uncertainty of whether there will ever be production at the Company's mineral exploration properties; geological, technical, drilling or processing problems; liabilities and risks, including environmental liabilities and risks, inherent in mineral extraction operations; fluctuations in currency exchange and interest rates; incorrect assessments of the value of acquisitions; unanticipated results of exploration activities; competition for, amongst other things, capital, undeveloped lands and skilled personnel; lack of availability of additional financing and/or joint venture partners; unpredictable weather conditions; unanticipated delays at the lithium demonstration plant or at the Fernley Facility or in preparing the feasibility study; the ability to manufacture an organoclay product that meets customer requirements; an increase in the costs of manufacturing organoclay, including the costs of any raw materials used in the process; and 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.