

**WESTERN URANIUM CORPORATION**  
**(formerly Navan Capital Corp.)**

**CONSOLIDATED FINANCIAL STATEMENTS**  
**(Expressed in Canadian Dollars)**

**SEPTEMBER 30, 2006**

**Auditors' Report**

**To the Shareholders of  
Western Uranium Corporation**

We have audited the consolidated balance sheets of Western Uranium Corporation as at September 30, 2006 and 2005, and the consolidated statements of operations and deficit, and cash flows for the periods then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at September 30, 2006 and 2005, and the results of its operations and its cash flows for the periods then ended in accordance with Canadian generally accepted accounting principles.

**Vancouver, Canada  
December 21, 2006**

***"MacKay LLP"*  
Chartered Accountants**

**WESTERN URANIUM CORPORATION**  
(formerly Navan Capital Corp.)  
**CONSOLIDATED BALANCE SHEETS**  
(Expressed in Canadian Dollars)

	September 30, 2006	September 30, 2005
<b>ASSETS</b>		
<b>Current</b>		
Cash and cash equivalents	\$ 5,675,443	\$ 1,097,479
Receivables	99,928	3,072
Prepaid expenses	<u>23,283</u>	<u>6,280</u>
	5,798,654	1,106,831
<b>Mineral properties and deferred costs</b> (Note 4)	5,989,247	1,670,721
<b>Equipment</b> (Note 5)	<u>46,400</u>	<u>38,709</u>
	<u>\$ 11,834,301</u>	<u>\$ 2,816,261</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	<u>\$ 121,989</u>	<u>\$ 105,320</u>
<b>Shareholders' equity</b>		
Share capital (Note 6)	12,741,443	3,040,643
Contributed surplus (Note 6)	2,032,059	33,932
Cumulative translation adjustment (Note 2)	(159,931)	(159,931)
Deficit	<u>(2,901,259)</u>	<u>(203,703)</u>
	<u>11,712,312</u>	<u>2,710,941</u>
	<u>\$ 11,834,301</u>	<u>\$ 2,816,261</u>

**Nature and continuance of operations** (Note 1)

**Commitments** (Note 11)

**Subsequent events** (Note 12)

**On behalf of the Board:**

\_\_\_\_\_  
*"Pam Klessig"*

Director

\_\_\_\_\_  
*"John Proust"*

Director

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

**WESTERN URANIUM CORPORATION**  
(formerly Navan Capital Corp.)  
**CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT**  
(Expressed in Canadian Dollars)

	Year Ended September 30, 2006	Period from November 25, 2004 (Incorporation) to September 30, 2005
<b>EXPENSES</b>		
Amortization	\$ 12,308	\$ 6,421
Consulting fees	72,511	16,000
Office and miscellaneous	114,146	22,440
Professional fees	327,539	39,875
Property investigation	17,100	-
Regulatory and filing fees	16,515	-
Rent	70,302	19,507
Stock-based compensation (Note 6)	1,621,334	33,932
Telephone	12,478	3,773
Travel	28,551	6,718
Wages and benefits	<u>307,691</u>	<u>63,581</u>
<b>Loss before other items</b>	<u>(2,600,475)</u>	<u>(212,247)</u>
<b>OTHER ITEMS</b>		
Realized foreign exchange (loss) gain	(140,139)	2,221
Interest income	<u>186,748</u>	<u>6,323</u>
	<u>46,609</u>	<u>8,544</u>
<b>Loss for the period</b>	(2,553,866)	(203,703)
<b>Deficit, beginning of period</b>	(203,703)	-
<b>Liabilities in excess of assets acquired (Note 3)</b>	<u>(143,690)</u>	<u>-</u>
<b>Deficit, end of period</b>	\$ (2,901,259)	\$ (203,703)
<b>Basic and diluted loss per share</b>	\$ (0.12)	\$ (0.03)
<b>Weighted average number of shares outstanding</b>	20,913,705	6,926,674

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

**WESTERN URANIUM CORPORATION**  
(formerly Navan Capital Corp.)  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(Expressed in Canadian Dollars)

	Year Ended September 30, 2006	Period from November 25, 2004 (Incorporation) to September 30, 2005
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Loss for the period	\$ (2,553,866)	\$ (203,703)
Items not affecting cash:		
Amortization	12,308	6,421
Stock-based compensation	1,621,334	33,932
Changes in non-cash working capital items:		
Increase in receivables	(96,856)	(3,210)
Increase in prepaid expenses	(17,003)	(6,562)
Decrease/(increase) in accounts payable and accrued liabilities	(58,771)	19,621
Net cash used in operating activities	<u>(1,092,854)</u>	<u>(153,501)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Acquisition of mineral properties and deferred costs	(2,522,802)	(1,655,185)
Purchase of equipment	(20,000)	(46,865)
Net cash acquired on reverse takeover transaction (Note 3)	4,276	-
Net cash used in investing activities	<u>(2,538,526)</u>	<u>(1,702,050)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Repayment of advances from related parties	(140,000)	-
Issuance of common shares	9,098,728	3,040,643
Share issue costs	(749,384)	-
Net cash provided by financing activities	<u>8,209,344</u>	<u>3,040,643</u>
<b>Effect of foreign exchange on cash</b>	<u>-</u>	<u>(87,613)</u>
<b>Change in cash and cash equivalents during period</b>	4,577,964	1,097,479
<b>Cash and cash equivalents, beginning of period</b>	<u>1,097,479</u>	<u>-</u>
<b>Cash and cash equivalents, end of period</b>	<u>\$ 5,675,443</u>	<u>\$ 1,097,479</u>
<b>Cash paid for interest</b>	<u>\$ -</u>	<u>\$ -</u>
<b>Cash paid for income taxes</b>	<u>\$ -</u>	<u>\$ -</u>
<b>CASH AND CASH EQUIVALENTS IS COMPRISED OF:</b>		
Cash	\$ 423,160	\$ 101,386
Term deposits	<u>\$ 5,252,283</u>	<u>\$ 996,093</u>
	<u>\$ 5,675,443</u>	<u>\$ 1,097,479</u>

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

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

**WESTERN URANIUM CORPORATION**  
(formerly Navan Capital Corp.)  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED SEPTEMBER 30, 2006 AND 2005**  
(Expressed in Canadian Dollars)

**1. NATURE AND CONTINUANCE OF OPERATIONS**

The Company was incorporated under the provisions of the British Columbia Business Corporations Act on February 7, 2000. On March 31, 2006, the Company acquired all of the issued and outstanding shares of Western Uranium Corporation (“Western”) (Note 3) and changed its name from Navan Capital Corp. to Western Uranium Corporation. Following the acquisition, the Company amalgamated with Western. The principal business of the Company is the acquisition and exploration of resource properties in North America (Note 4). To date, the Company has not generated significant revenues from operations and is considered to be in the exploration stage. The amounts shown as mineral properties and deferred costs represent expenditures incurred to date and do not necessarily represent present or future values. The underlying value of mineral properties and deferred costs are entirely dependant on the existence of economically recoverable reserves, securing and maintaining title and beneficial interest in the properties, the ability of the Company to obtain the necessary financing to complete development, and future profitable production.

The Company considers that it has adequate resources to maintain its core operations for the next fiscal year. The Company will continue to rely on successfully completing additional equity financing.

**2. SIGNIFICANT ACCOUNTING POLICIES**

*Basis of Presentation*

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (“Canadian GAAP”). The consolidated financial statements have, in management’s opinion, been prepared using careful judgment.

*Accounting Policy Change - Translation of Foreign Currencies*

The Company reports using the Canadian dollar. Prior to October 1, 2005, the Company determined that its functional currency was the United States dollar and the Company, its Canadian subsidiary and its integrated US subsidiary were translated using the current rate method. All assets and liabilities denominated in US dollars were translated into Canadian dollar equivalents at the exchange rate in effect at the balance sheet date. Revenues and expenses denominated in other than Canadian dollars were translated at the exchange rate in effect at the time of the transaction. Gains and losses arising on translation were included as a separate component of shareholders’ equity.

Effective October 1, 2005, the Company determined that its functional currency is the Canadian Dollar due to the Company becoming a Canadian public company traded on the TSX Venture Exchange and all capital raised in fiscal 2006 was in Canadian dollars. The Company’s foreign operations are integrated and effective October 1, 2005, are translated using the temporal method. According to Section 1650 of the Canadian Institute of Chartered Accountants Handbook (“Canadian GAAP”) this change is accounted for prospectively. Exchange gains and losses previously deferred and accumulated in a cumulative translation adjustment component of shareholders’ equity continue to be deferred in shareholders’ equity. The translated amounts for non-monetary items at the end of the prior period become the historical basis for those items in the period of the change and subsequent periods. The table below summarizes the effect of the change in accounting policy on the financial results for the year ended September 30, 2006:

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

	Temporal method, \$	Current Rate Method, \$	Change, \$
Balance Sheet			
Mineral properties and deferred costs	5,989,247	5,882,584	106,663
Equipment	46,400	44,460	1,940
Cumulative translation adjustment	(266,315)	(159,931)	(106,384)
Statement of Operations and Deficit			
Realized foreign exchange loss	140,139	142,358	(2,219)
Basic and diluted loss per share	(0.12)	(0.12)	-

Under the temporal method, the Company translates monetary assets and liabilities denominated in foreign currency at period-end rates. Non-monetary assets and liabilities are translated at historical rates. Revenues and expenses are translated at average rates in effect during the period except for amortization which is translated at historical rates. The resulting gains and losses are reflected in operating results in the period of translation.

*Use of Estimates*

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

*Principles of Consolidation*

The consolidated financial statements contained herein include the accounts of Western Uranium Corporation (formerly "Navan Capital Corp."), its wholly-owned USA subsidiary, Western Energy Development Corp. ("WEDC") and its wholly-owned Canadian subsidiary, Ruby Hill Exploration Inc. All inter-company transactions and balances have been eliminated.

*Mineral Properties and Deferred Costs*

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

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

*Mineral Properties and Deferred Costs* (continued)

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

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

*Cash and Equivalents*

For purposes of reporting cash flows, the company considers cash and cash equivalents to include amounts held in banks and highly liquid investments with remaining maturities at point of purchase of 90 days or less. The company places its cash and cash investments with institutions of high-credit worthiness.

*Temporary investments*

The Company has temporary investments which are carried at cost plus accrued interest and are valued at the lower of market value or cost.

*Equipment*

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

Computer equipment	30%
Office equipment	20%

*Asset Retirement Obligations*

Asset retirement obligations are recognized when a legal or constructive obligation arises. This liability is recognized at the fair value of the asset retirement obligation. When the liability is initially recorded the Company capitalizes the cost by increasing the carrying amount of the related long-lived assets. Over time the liability is accreted to its estimated future value, and the capitalized cost is amortized over the useful life of the related asset. Upon settlement of the liability, the Company may incur a gain or loss. As at September 30, 2006 the Company does not have any asset retirement obligations.

*Impairment of Long-Lived Assets*

Long-lived assets are reviewed for impairment when events or circumstances suggest their carrying value has become impaired. Management considers assets to be impaired if the carrying value exceeds the estimated undiscounted future projected cash flows to result from the use of the asset and its eventual disposition. If impairment is deemed to exist, the assets will be written down to fair value. Fair value is generally determined using a discounted cash flow analysis.

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

*Concentration of Credit Risk*

Financial instruments that potentially subject the Company to a significant concentration of credit risk consist primarily of cash and equivalents and receivables. The Company limits its exposure to credit loss by placing its cash and cash equivalents with major financial institutions.

*Fair Values of Financial Instruments*

The fair value of the Company's financial instruments consisting of cash and equivalents, receivables and accounts payable and accrued liabilities approximate their carrying values due to the short-term nature of those instruments.

*Income Taxes*

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

*Flow-Through Shares*

Canadian tax legislation permits a company to issue flow-through shares whereby the deduction for tax purposes relating to qualified resource expenditures is claimed by the investors rather than the Company. Recording these expenditures for accounting purposes gives rise to taxable temporary differences. When flow-through expenditures are renounced, a portion of the future income tax assets that were not recognized in previous years, due to the recording of a valuation allowance, are recognized as a recovery of income taxes in the statement of operations.

*Loss Per Share*

Loss per share is calculated based on the weighted average number of common shares issued and outstanding during the period. The effect of potential issuances of shares under options and warrants would be anti-dilutive and therefore basic and diluted losses per share are the same. Information regarding securities that could potentially dilute basic earnings per share in the future is presented in Note 6.

*Share Issue Costs*

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

*Stock Based Compensation*

The Company has an employee stock option plan. The Company recognizes an expense or addition to mineral properties and deferred exploration expenditures arising from stock options granted to both employees and non-employees using the fair value method. The fair value of option grants is generally established at the date of grant using a Black Scholes Option Pricing Model and the expense or addition to mineral properties is recognized over the vesting period.

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

*Currency risk*

All current assets and liabilities of the Company, except cash of \$1,819,960, receivables of \$99,928, prepaid expenses of \$16,914 and accounts payable and accrued liabilities of \$43,556, are denominated in US dollars and have been translated at a value of \$1.1177 Canadian dollars to \$1.00 US dollar.

*Variable Interest Entities*

Effective January 1, 2005, the Company adopted Accounting Guideline AcG-15, Consolidation of Variable Interest Entities, which requires consolidation of entities in which the Company expects to receive or absorb the majority of the entity's expected losses, expected residual returns or both. The Company has determined that it has no variable interest entities.

**3. ACQUISITION OF WESTERN**

On March 31, 2006, the Company acquired all of the issued and outstanding shares of Western in exchange for the issuance of 19,153,707 common shares of the Company, of which 3,187,500 are held in escrow in accordance with the policies of the TSX Venture Exchange ("TSX-V").

Legally, Navan is the parent of Western. However, as a result of the share exchange described above, control of the combined companies passed to the former shareholders of Western. This type of share exchange, referred to as a "reverse takeover", deems Western to be the acquirer for accounting purposes. Accordingly, the net assets of Western are included in the balance sheet at book values and the deemed acquisition of the Company is accounted for by the purchase method with the net assets of the Company recorded at fair market value at the date of acquisition. The expenses and assets and liabilities subsequent to the date of acquisition include the accounts of Navan and Western. The expenses for the period ended September 30, 2005 and the assets and liabilities at September 30, 2005 are those of Western.

The cost of an acquisition should be based on the fair value of the consideration given, except where the fair value of the consideration given is not clearly evident. In such a case, the fair value of the net assets acquired is used.

Due to the number of shares exchanged and the possible effects of price fluctuations it was impossible to estimate the actual market value of the 19,153,707 common shares. Therefore, the cost of the acquisition has been determined by the fair value of the Company's net assets.

The total purchase price was allocated as follows:

Cash	\$ 4,276
Receivables	12,927
Accounts payable	(20,893)
Loans and advances payable	<u>(140,000)</u>
	<u>\$ (143,690)</u>

The excess of the liabilities over the assets acquired represents a transaction cost and is recorded as a charge to deficit for the period.

**WESTERN URANIUM CORPORATION**  
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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**4. MINERAL PROPERTIES AND DEFERRED COSTS**

<b>For the period from Incorporation on November 25, 2004 to September 30, 2005</b>	Kings Valley Claims	Treeline Claims	Virgin Valley Claims	Total
<b>Acquisition costs incurred during the period</b>	\$ 1,139,177	\$ 237,267	\$ -	\$ 1,376,444
<b>Deferred exploration costs incurred during the period</b>				
Mapping, supplies and other costs	32,873	1,054	-	33,927
Geological and consulting	185,761	28,136	3,226	217,123
Transportation and travel	3,318	7,493	630	11,441
Sampling	19,154	12,632	-	31,786
Total deferred exploration costs	241,106	49,315	3,856	294,277
<b>Total mineral property costs</b>	\$ 1,380,283	\$ 286,582	\$ 3,856	\$ 1,670,721

<b>For the year ended September 30, 2006</b>	Thelon Basin Permits and Claims	Kings Valley Claims	Treeline Claims	Virgin Valley Claims	Total
<b>Acquisition costs</b>					
Balance, beginning of year	\$ -	\$ 1,139,177	\$ 237,267	\$ -	\$ 1,376,444
Additions	1,748,202	476,459	55,234	28,792	2,308,687
Balance, end of year	1,748,202	1,615,636	292,501	28,792	3,685,131
<b>Deferred exploration costs incurred during the year:</b>					
Mapping, supplies and other costs	7,872	50,128	22,868	285	81,153
Geological and consulting	1,188,694	310,766	54,911	4,077	1,558,448
Transportation and travel	-	19,280	9,477	-	28,757
Sampling	-	38,785	4,353	-	43,138
Drilling	-	232,307	66,036	-	298,343
Total deferred exploration costs	1,196,566	651,266	157,645	4,362	2,009,839
Balance, beginning of year	-	241,106	49,315	3,856	294,277
Balance, end of year	1,196,566	892,372	206,960	8,218	2,304,116
<b>Total mineral property costs</b>	\$ 2,944,768	\$ 2,508,008	\$ 499,461	\$ 37,010	\$ 5,989,247

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

**Kings Valley Claims, Nevada, USA**

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

- US\$30,000 on or before January 21, 2006 (paid),
- US\$50,000 on or before January 21, 2007 (note 12),
- US\$75,000 on or before January 21, 2008,
- US\$100,000 on or before January 21, 2009, and
- US\$125,000 on or before January 21, 2010.

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

During the year ended September 30, 2006, the Company staked additional claims on this property.

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

- US\$2,000 on or before November 15, 2006 (note 12),
- US\$3,500 on or before November 15, 2007,
- US\$5,500 on or before November 15, 2008,
- US\$7,500 on or before November 15, 2009, and
- US\$9,000 on or before November 15, 2010.

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

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

- US\$10,000 on or before November 15, 2005 (paid),
- US\$5,000 on or before November 15, 2006 (note 12),
- US\$5,000 on or before November 15, 2007,
- US\$5,000 on or before November 15, 2008, and
- US\$10,000 on or before November 15, 2009 and each anniversary date thereafter.

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

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

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

**Treeline Claims, New Mexico, USA**

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

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

**Virgin Valley Claims, Nevada, USA**

The Company has staked a number of federal lode mining claims, with the Bureau of Land Management, on this property. The Company paid \$13,570 (US\$11,560) filing fees on November 29, 2005 to perfect the claims.

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

On May 31, 2006, the Company acquired 100% of the issued and outstanding share capital of Ruby Hill Exploration Inc. ("Ruby Hill") for 1,115,000 shares, including a finder's fee of 15,000 shares, valued at \$1,728,250, using the market value of the shares on the date of transaction. At May 31, 2006, Ruby Hill's net assets consisted entirely of prospecting permits and mineral claims in the Thelon Basin in Nunavut and the Northwest Territories, therefore, the entire purchase price was allocated to the mineral property. The acquisition of Ruby Hill has been accounted for using the purchase method and accordingly, these consolidated financial statements include the results of operations of Ruby Hill from the date of acquisition.

**5. EQUIPMENT**

	September 30, 2006			September 30, 2005		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Computer equipment	\$ 33,192	\$ 13,238	\$ 19,954	\$ 33,192	\$ 4,979	\$ 28,213
Office equipment	<u>31,662</u>	<u>5,216</u>	<u>26,446</u>	<u>11,663</u>	<u>1,167</u>	<u>10,496</u>
	<u>\$ 64,854</u>	<u>\$ 18,454</u>	<u>\$ 46,400</u>	<u>\$ 44,855</u>	<u>\$ 6,146</u>	<u>\$ 38,709</u>

**6. SHARE CAPITAL AND CONTRIBUTED SURPLUS**

In accordance with reverse takeover accounting policies, Western, the legal subsidiary, is deemed to have acquired control of the net assets of the legal parent, Navan (Note 3). Accordingly, the number of issued shares reflects the structure of Navan, while the value of the issued share capital reflects the position of Western adjusted for the cost of purchase.

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

	Number	Amount	Contributed Surplus
Authorized			
Unlimited common shares without par value			
Issued			
As at November 25, 2004	3,048,450	\$ -	\$ -
Issued to acquire Kenmare	500,000	-	-
Exercise of options	10,000	-	-
Initial capitalization of Western	-	3,040,643	-
Stock-based compensation	-	-	33,932
As at September 30, 2005	3,558,450	3,040,643	33,932
Exercise of options	140,000	-	-
Private placement	-	6,250,000	-
Agent shares	-	13,383	-
Share issuance costs	-	(825,802)	-
Agent warrants	-	-	318,000
Exercise of options	-	24,387	-
Fair value of options exercised	-	17,135	(17,135)
Stock-based compensation	-	-	1,578,826
Stock-based compensation recovery on cancelled options	-	-	(24,651)
Issued shares of the Company and stated capital of Western at date of acquisition	3,698,450	8,519,746	1,888,972
Issued as fees on the redemption of preferred shares	350,000	-	-
Shares issued pursuant to reverse takeover (Note 3)	19,153,707	-	-
Share issuance costs	-	(500)	-
Stock-based compensation	-	-	67,159
Exercise of agent warrants	85,867	39,978	(4,388)
Issued pursuant to Ruby Hill acquisition	1,115,000	1,728,250	-
Private placement	2,231,000	2,788,750	-
Agent warrants	-	-	80,316
Share issuance costs	-	(334,781)	-
As at September 30, 2006	26,634,024	\$ 12,741,443	\$ 2,032,059

During the year ended September 30, 2006, the Company:

- a) completed a private placement of 5,000,000 units at \$1.25 per unit for proceeds of \$6,250,000. Each unit consists of one common share and one-half of one common share purchase warrant. Each whole warrant entitles the holder to acquire one additional common share for \$1.50 for a period of two years. Agents were granted 600,000 agent warrants exercisable at \$1.25 per share for a period of two years and issued 10,706 units where each unit consists of one common share and one whole common share purchase warrant entitling the holder to acquire one additional common share for \$1.50 for a period of two years. The agent's warrants were valued using the Black Scholes Option Pricing Model. The warrants were valued at \$0.53 per warrant for a total value of \$318,000 and have been recorded as share issue costs with a corresponding increase to contributed surplus. At September 30, 2006, 8,280 of agent's warrants had been exercised. Share issue costs of \$494,419 were also paid in connection with the private placement.

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

- b) issued 85,867 common shares for proceeds of \$35,590 pursuant to the exercise of warrants previously granted.
- c) issued 1,115,000 shares, including a finder's fee of 15,000 shares, valued at \$1,728,250 to acquire 100% of the issued and outstanding share capital of Ruby Hill Exploration Inc.
- d) issued 350,000 common shares for total proceeds of \$24,387 pursuant to the exercise of options previously granted.
- e) completed a private placement of 2,231,000 flow-through common shares at \$1.25 per share for gross proceeds of \$2,788,750. The agents were paid a commission of \$223,100 equal to 8% of the gross proceeds of the financing and received warrants entitling them to acquire, for a period of 12 months, 178,480 common shares at a price of \$1.25 per common share. The agent's warrants were valued using the Black Scholes Option Pricing Model. The warrants were valued at \$0.45 per warrant for a total value of \$80,316 and have been recorded as share issue costs with a corresponding increase to contributed surplus. At September 30, 2006, no agent's warrants had been exercised.

As at September 30, 2006, 2,936,250 shares are held in escrow pursuant to the Escrow Agreement dated March 31, 2006 between the Company, Computershare and certain officers and directors of the Company.

**Stock options**

The Company has a stock option plan in accordance with the policies on the TSX Venture Exchange whereby, from time to time at the discretion of the board of directors, stock options are granted to directors, officers and certain consultants. Under the plan up to 4,640,431 common shares are reserved for the issuance of stock options, being 20% of the issued and outstanding share capital at the time of completion of acquisition of Western (note 3). The exercise price of each option is based on the market price of the Company's common stock at the date of the grant less an applicable discount. The options can be granted for a maximum term of 5 years.

During the year ended September 30, 2006, the Company granted incentive stock options to directors, officers, employees and consultants to acquire 2,940,000 common shares, exercisable at \$1.25 per share for a period of five years. For the stock options granted during the year, 25% vest on the date of the grant and 25% vest every six months for a period of eighteen months from the grant date. In 2006 stock-based compensation expense of \$1,645,985 was charged to operations and credited to shareholders' equity to reflect the fair value of stock options granted that vested during the year. At September 30, 2006, \$709,206 of the fair value of stock options previously granted but not yet vested remains to be expensed, of which \$705,156 will be expensed in 2007 and \$4,050 in 2008.

During the period ended September 30, 2006, the Company cancelled 1,050,000 unvested stock options resulting in a net stock-based compensation recovery of \$24,651.

A summary of the Company's outstanding options at September 30, 2006 and 2005 and the changes for the periods ending on those days is as follows:

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

	Year ended September 30, 2006	Period from November 25, 2004 (Incorporation) to September 30, 2005		
	Number of Options	Weighted Average Exercise Price	Number of Options	Exercise Price
Balance, beginning of period	1,400,000	US\$0.07 and Market	-	-
Granted	2,940,000	\$ 1.25	1,400,000	US\$ 0.07 and Market
Exercised	(350,000)	US\$ 0.07	-	-
Cancelled	(1,050,000)	Market	-	-
Balance, end of period	2,940,000	\$ 1.25	1,400,000	US\$ 0.07 and Market

As at September 30, 2006 the following incentive stock options are outstanding:

	Number of Options	Exercise Price, \$	Expiry Date
	2,790,000	1.25	March 31, 2011
	150,000	1.25	June 8, 2011
<b>Total</b>	<b>2,940,000</b>		

As at September 30, 2006, 1,432,500 of the stock options are exercisable.

During the year ended September 30, 2006, the Company granted 2,940,000 stock options. The fair value of stock options granted is estimated on the dates of grants using the Black-Scholes Pricing Model with the following assumptions used for the grants made during the year:

	2006
Risk-free interest rate	4.19%
Expected life	5 years
Annualized volatility	75%
Dividend rate	0.00%

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

The weighted average fair value per share of stock options granted during the year was \$0.80 per share. Option pricing models require the use of estimates and assumptions including the expected volatility. Changes in the underlying assumptions can materially affect the fair value estimates and, therefore, existing models do not necessarily provide reliable measure of the fair value of the Company's stock options.

**Warrants**

A summary of the number of common shares reserved pursuant to the Company's outstanding warrants and agents warrants outstanding at September 30, 2006 and 2005 and the changes for the periods ending on those dates is as follows:

	Year ended September 30, 2006	Weighted Average Exercise Price	Period from November 25, 2004 (Incorporation) to September 30, 2005	Weighted Average Exercise Price
Balance, beginning of period	8,850,000	US\$0.25	-	
Issued	14,649,892	\$0.75	8,850,000	US\$0.25
Exercised	(85,867)	\$0.41	-	
Cancelled	(11,360,706)	\$0.55	-	
Balance, end of period	12,053,319	\$0.60	8,850,000	US\$0.25

Common shares reserved pursuant to warrants and agent warrants outstanding at September 30, 2006 are as follows:

Number of Warrants	Exercise Price	Expiry Date
2,508,119	\$ 1.50	December 20, 2007
591,720	\$ 1.25	December 20, 2007
8,775,000	US\$ 0.25	March 28, 2008
178,480	\$ 1.25	July 7, 2007
12,053,319		

**7. RELATED PARTY TRANSACTIONS**

During the year ended September 30, 2006, the Company entered into transactions with related parties as follows:

- a) paid or accrued \$142,053 (September 30, 2005 - \$61,190) as salary and bonus to the President of the Company.
- b) paid or accrued \$81,312 (September 30, 2005 - \$7,000) in professional fees to a firm in which a former officer of the Company is a partner.

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**7. RELATED PARTY TRANSACTIONS** (continued)

- c) paid or accrued \$48,000 (September 30, 2005 - \$16,000) in consulting fees and \$12,000 (September 30, 2005 - \$Nil) in administration fees to a company controlled by a director of the Company.

Included in accounts payable at September 30, 2006 is \$15,582 (September 30, 2005 - \$Nil) due to a firm in which a former officer of the Company is a partner.

These transactions were in the normal course of operations and were measured at the exchange value, which represented the amount of consideration established and agreed to by the related parties.

The fair value of the amounts due to related parties is not determinable as they have no fixed terms of repayment, do not bear interest, and are unsecured.

**8. INCOME TAXES**

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

	Year Ended September 30, 2006 \$	Period from November 25, 2004 (Incorporation) to September 30, 2005 \$
Loss for the period	(2,553,866)	(203,703)
Expected income tax recovery	871,379	71,805
Item not deductible for income tax purposes	(451,056)	(11,959)
Tax differential on United States net loss	(1,941)	(15,765)
Unrecognized benefit of non-capital losses:		
Canada	(239,418)	(20,737)
United States	(178,964)	(23,344)
Total income taxes	-	-

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

	September 30, 2006 \$	September 30, 2005 \$
Future income tax assets		
Financing costs	208,205	-
Operating loss carryforward	471,909	44,081
	680,114	44,081
Valuation allowance for future income tax asset	(680,114)	(44,081)
	-	-

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**8. INCOME TAXES** (continued)

The Company has Canadian non-capital loss carryforwards of \$760,523 that may be available for tax purposes. The losses expire as follows:

Expiry Date	\$
2015	58,829
2026	<u>701,694</u>
	<u><u>760,523</u></u>

The Company has US non-capital loss carryforwards of US\$557,003 that may be available for tax purposes. The losses expire as follows:

Expiry Date	US\$
2025	88,784
2026	<u>468,219</u>
	<u><u>557,003</u></u>

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

During the period ended September 30, 2006, the Company had the following significant non-cash transactions:

- a) Allocated \$21,523 to capital stock from contributed surplus for stock options and agent warrants exercised during the period.
- b) Recorded, using the Black Scholes Pricing Model, stock-based compensation with a fair value of \$1,621,334 for stock options granted and vested during the period.
- c) Cancelled 1,050,000 unvested stock options resulting in a net stock-based compensation recovery of \$24,651.
- d) Issued 1,115,000 shares, including a finder's fee of 15,000 shares, with a fair value of \$1,728,250 to acquire 100% of the issued and outstanding share capital of Ruby Hill Exploration Inc. as outlined in Note 4.
- e) Recorded, using the Black-Scholes Pricing Model, share issue costs with a fair value of \$398,316 for warrants granted to agents for financings incurred during the year.

**10. SEGMENTED INFORMATION**

The Company operates in one business segment, being the acquisition and exploration of mineral properties. The Company is in the exploration stage and, accordingly, has no reportable segment revenues or operating results for each of fiscal 2006 and 2005. The Company's total assets are segmented geographically as follows:

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**10. SEGMENTED INFORMATION** (continued)

	September 30, 2006		
	Canada	United States	Total
	\$	\$	\$
Current assets	4,767,722	1,030,932	5,798,654
Equipment	-	46,400	46,400
Mineral properties and deferred costs	2,944,768	3,044,479	5,989,247
	7,712,490	4,121,811	11,834,301

  

	September 30, 2005		
	Canada	United States	Total
	\$	\$	\$
Current assets	6,656	1,100,175	1,106,831
Equipment	-	38,709	38,709
Mineral properties and deferred costs	-	1,670,721	1,670,721
	6,656	2,809,605	2,816,261

**11. COMMITMENTS**

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

2007	\$58,506
2008	\$21,125

- b) Mineral properties (Note 4).
- c) The Company entered into flow-through share subscription agreements during the current year whereby it is committed to incur on or before December 31, 2006 and renounce to the subscribers, a total of \$2,788,750 of qualifying Canadian Exploration Expenses (of which \$1,188,694 have been incurred to September 30, 2006) as described in the Income Tax Act of Canada. Commencing February 1, 2007, the Company will be liable to pay a tax of approximately 7% per annum, calculated monthly on the unspent portion of the commitment.

**12. SUBSEQUENT EVENTS**

Subsequent to September 30, 2006, the Company:

- a) completed a brokered private placement of 6,060,000 units at \$1.10 per unit for gross proceeds of \$6,666,000. Each unit consists of one common share and one-half of a share purchase warrant. Each warrant will entitle the holder to acquire an additional common share until November 2, 2007 at a price of \$1.50. If after 4 months from the closing of the private placement the Company's common shares close on the TSX Venture Exchange above \$2.00 for 20 consecutive trading days the Company will have the right to accelerate the expiry date of the warrants to a date that is 30 days from the date the Company gives notice to the holders of such early expiry. The agent received a cash commission of \$399,960 equal to 6% of the gross proceeds of the offering and compensation warrants which will entitle the agent to acquire until November 2, 2007, 363,600 common shares at an exercise price of \$1.29 per share.

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**12. SUBSEQUENT EVENTS** (continued)

- b) granted stock options to an officer of the Company at \$1.25 to acquire 100,000 common shares on or before October 17, 2011. 25% of the stock options granted vest on the date of the grant and 25% vest every six months for a period of eighteen months from the date of the grant.
- c) fulfilled its November 15, 2006 and January 21, 2007 Mining Option Agreement and mining lease obligations on Kings Valley Claims by making payments of US\$2,000, US\$5,000 and US\$50,000.
- d) issued 104,055 common shares for \$130,069 on the exercise of broker warrants and 100,000 shares for US\$25,000 on exercise of warrants.
- e) 545,625 shares were released from escrow on October 5, 2006, pursuant to the Escrow Agreement dated March 31, 2006 between the Company, Computershare and certain officers and directors of the Company.