
WESTERN URANIUM CORPORATION

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED
SEPTEMBER 30, 2007 and 2006

(Expressed in Canadian Dollars)

Auditors' Report

**To the Shareholders of
Western Uranium Corporation**

We have audited the consolidated balance sheets of Western Uranium Corporation as at September 30, 2007 and 2006, and the consolidated statements of operations and deficit, and cash flows for the years 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, 2007 and 2006, and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Vancouver, Canada

December 21, 2007

"MacKay LLP"

Chartered Accountants

WESTERN URANIUM CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT
FOR THE YEARS ENDED SEPTEMBER 30, 2007 AND 2006
(Expressed in Canadian Dollars)

	2007	2006
EXPENSES		
Amortization	\$ 10,735	\$ 12,308
Audit and accounting	85,008	101,685
Consulting fees	95,000	72,511
Corporate development	125,000	-
Interest and bank charges	19,526	2,035
Investor relations	12,833	-
Legal fees	55,927	225,224
Office and miscellaneous	158,832	112,111
Property investigation	6,491	17,730
Regulatory and filing fees	27,176	16,515
Rent	93,489	70,302
Stock-based compensation (Note 6)	1,345,164	1,621,334
Telephone	12,735	12,478
Travel	55,119	28,551
Wages and benefits	<u>441,163</u>	<u>307,691</u>
LOSS BEFORE OTHER ITEMS	<u>(2,544,198)</u>	<u>(2,600,475)</u>
OTHER ITEMS		
Foreign exchange loss	(637,702)	(140,139)
Interest income	<u>1,002,364</u>	<u>186,748</u>
	<u>364,662</u>	<u>46,609</u>
LOSS BEFORE INCOME TAXES	(2,179,536)	(2,553,866)
FUTURE INCOME TAXES RECOVERED (Note 6 and 8)	<u>174,130</u>	<u>-</u>
NET LOSS AND COMPREHENSIVE LOSS	<u>(2,005,406)</u>	<u>(2,553,866)</u>
DEFICIT – BEGINNING OF YEAR	<u>(2,901,259)</u>	<u>(203,703)</u>
Liabilities in excess of assets acquired (Note 3)	<u>-</u>	<u>(143,690)</u>
DEFICIT – END OF YEAR	<u>\$ (4,906,665)</u>	<u>\$ (2,901,259)</u>
BASIC AND DILUTED LOSS PER SHARE	<u>\$ (0.05)</u>	<u>\$ (0.12)</u>
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING – BASIC AND DILUTED	41,729,074	20,913,705

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

WESTERN URANIUM CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2007 AND 2006
(Expressed in Canadian Dollars)

	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss for the period	\$ (2,005,406)	\$ (2,553,866)
Items not affecting cash:		
Amortization	10,735	12,308
Future income tax recovered	(174,130)	-
Stock-based compensation	1,345,164	1,621,334
Changes in non-cash working capital items:		
(Decrease)/increase in receivables	16,899	(96,856)
Increase in prepaid expenses and deposits	(70,333)	(17,003)
Decrease in accounts payable and accrued liabilities	<u>(58,648)</u>	<u>(58,771)</u>
Net cash used in operating activities	<u>(935,719)</u>	<u>(1,092,854)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of mineral properties and deferred costs	(7,837,840)	(2,522,802)
Purchase of equipment	-	(20,000)
Net cash acquired on reverse takeover transaction	<u>-</u>	<u>4,276</u>
Net cash used in investing activities	<u>(7,837,840)</u>	<u>(2,538,526)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Advances from related parties	-	(140,000)
Issuance of common shares	55,870,212	9,098,728
Share issue costs	<u>(1,709,328)</u>	<u>(749,384)</u>
Net cash provided by financing activities	<u>54,160,884</u>	<u>8,209,344</u>
CHANGE IN CASH AND CASH EQUIVALENTS DURING THE YEAR	45,387,325	4,577,964
CASH AND CASH EQUIVALENTS – BEGINNING OF YEAR	<u>5,675,443</u>	<u>1,097,479</u>
CASH AND CASH EQUIVALENTS – END OF YEAR	\$ 51,062,768	\$ 5,675,443
CASH AND CASH EQUIVALENTS IS COMPRISED OF:		
Cash	\$ 5,362,678	\$ 423,160
Term deposits	<u>45,700,090</u>	<u>5,252,283</u>
	\$ 51,062,768	\$ 5,675,443

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

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

WESTERN URANIUM CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2007 AND 2006
(Expressed in Canadian Dollars)

1. NATURE 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 year.

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.

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.

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.

WESTERN URANIUM CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2007 AND 2006
(Expressed in Canadian Dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (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.

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.

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, 2007 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.

WESTERN URANIUM CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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 and loss carryforwards, 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

The Company has financed a portion of its exploration activities through the issue of flow-through shares, which transfer the income tax deductibility of exploration expenditures to the investor. Proceeds received on the issue of such shares have been credited to share capital and the related exploration costs have been charged to the mineral properties and deferred costs. A future income tax liability is recognized, and the shareholders' equity reduced, on the date the Company renounces the income tax benefits associated with the expenditures, provided there is reasonable assurance that the expenditures will be made. The Company may also recognize the benefit of previously unrecognized future income tax assets to offset the future income tax liability arising on a renouncement of expenditures. The corresponding credit reduces future income tax expense.

WESTERN URANIUM CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Loss Per Share

Loss per share is calculated based on the weighted average number of common shares issued and outstanding during the period. The Company uses the treasury stock method to calculate fully diluted per share amounts whereby any proceeds from dilutive instruments are assumed to be used to purchase common shares at the average market price 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.

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 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.

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.

Currency risk

All current assets and liabilities of the Company, except cash and cash equivalents of \$48,068,645, receivables of \$83,029, prepaid expenses of \$87,410 and accounts payable and accrued liabilities of \$427,231, are denominated in US dollars and have been translated at a value of \$0.9948 Canadian dollars to \$1.00 US dollar.

Comparative Figures

Certain of the prior year comparatives have been reclassified to conform with the current year's presentation.

New Accounting Policies

Effective October 1, 2006, the Company adopted CICA Handbook Section 1530, *Comprehensive Income*, CICA Handbook Section 3855, *Financial Instruments – Recognition and Measurement*, CICA Handbook Section 3861, *Financial Instruments – Presentation and Disclosure* and CICA Handbook Section 3865, *Hedges*. These new Handbook Sections provide comprehensive requirements for the recognition and measurement of financial instruments, as well as standards on when and how hedge accounting may be applied. Handbook Section 1530 also introduces a new component of equity referred to as comprehensive income.

Under these new standards, all financial assets must be classified as held-to-maturity, loans and receivables, held-for-trading and all financial liabilities must be classified as held for trading or other. All financial instruments are recorded on the balance sheet at fair value and changes in fair value are included in earnings, except for derivative financial instruments designated as hedges, for which changes in fair value will be included in comprehensive income.

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2. SIGNIFICANT ACCOUNTING POLICIES (continued)

The Company has designated its financial instruments as follows:

- i) Cash and cash equivalents are classified as "*Available-for-sale*". Due to their short-term nature, their carrying value is equal to their fair value.
- ii) Receivables, prepaid expenses and deposits are classified as "*Loans and Receivables*". These financial assets are recorded at values that approximate their amortized cost using the effective interest method.
- iii) Accounts payable and accrued liabilities are classified as "*Other Financial Liabilities*". These financial liabilities are recorded at values that approximate their amortized cost using the effective interest method.

In accordance with the provisions of these new standards, the only adjustment required to the Company's consolidated financial statements as of September 30, 2007 was to present cumulative translation adjustment as accumulated other comprehensive income.

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.

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 March 31, 2006 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
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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(Expressed in Canadian Dollars)

4. MINERAL PROPERTIES AND DEFERRED COSTS

For the year ended September 30, 2007	Thelon Basin Permits and Claims	Kings Valley Claims	Treeline Claims	Virgin Valley Claims	Total
Acquisition costs					
Balance, beginning of year	\$ 1,748,202	\$ 1,615,636	\$ 292,501	\$ 28,792	\$ 3,685,131
Additions	<u>201</u>	<u>1,183,987</u>	<u>23,540</u>	<u>-</u>	<u>1,207,728</u>
Balance, end of year	<u>1,748,403</u>	<u>2,799,623</u>	<u>316,041</u>	<u>28,792</u>	<u>4,892,859</u>
Deferred exploration costs incurred during the year:					
Drilling	2,507,258	1,074,513	-	-	3,581,771
Geological and consulting	315,993	1,122,631	116,985	19,453	1,575,062
Geophysics	788,843	260,058	-	-	1,048,901
Mapping, supplies and other	508,096	206,418	28,771	458	743,743
Sampling	-	160,669	346	407	161,422
Transportation and travel	<u>42,254</u>	<u>27,523</u>	<u>11,407</u>	<u>-</u>	<u>81,184</u>
Total deferred exploration costs	4,162,444	2,851,812	157,509	20,318	7,192,083
Balance, beginning of year	<u>1,196,566</u>	<u>892,372</u>	<u>206,960</u>	<u>8,218</u>	<u>2,304,116</u>
Balance, end of year	<u>5,359,010</u>	<u>3,744,184</u>	<u>364,469</u>	<u>28,536</u>	<u>9,496,199</u>
Total mineral property costs	\$ 7,107,413	\$ 6,543,807	\$ 680,510	\$ 57,328	\$ 14,389,058
For the year ended September 30, 2006	Thelon Basin Permits and Claims	Kings Valley Claims	Treeline Claims	Virgin Valley Claims	Total
Acquisition costs					
Balance, beginning of year	\$ -	\$ 1,139,177	\$ 237,267	\$ -	\$ 1,376,444
Additions	<u>1,748,202</u>	<u>476,459</u>	<u>55,234</u>	<u>28,792</u>	<u>2,308,687</u>
Balance, end of year	<u>1,748,202</u>	<u>1,615,636</u>	<u>292,501</u>	<u>28,792</u>	<u>3,685,131</u>
Deferred exploration costs incurred during the year:					
Drilling	-	232,307	66,036	-	298,343
Geological and consulting	1,188,694	310,766	54,911	4,077	1,558,448
Mapping, supplies and other	7,872	50,128	22,868	285	81,153
Sampling	-	38,785	4,353	-	43,138
Transportation and travel	<u>-</u>	<u>19,280</u>	<u>9,477</u>	<u>-</u>	<u>28,757</u>
Total deferred exploration costs	1,196,566	651,266	157,645	4,362	2,009,839
Balance, beginning of year	<u>-</u>	<u>241,106</u>	<u>49,315</u>	<u>3,856</u>	<u>294,277</u>
Balance, end of year	<u>1,196,566</u>	<u>892,372</u>	<u>206,960</u>	<u>8,218</u>	<u>2,304,116</u>
Total mineral property costs	\$ 2,944,768	\$ 2,508,008	\$ 499,461	\$ 37,010	\$ 5,989,247

WESTERN URANIUM CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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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 (paid),
- 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.

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 (paid),
- US\$3,500 on or before November 15, 2007 (note 12),
- 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 (paid),
- US\$5,000 on or before November 15, 2007 (note 12),
- 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. During the years ended September 30, 2007, 2006 and 2005, the Company staked and filed a number of federal lode mining claims, with the Bureau of Land Management, on this property.

In February 2007 the Company added an additional 1,982 lode claims or over 39,000 acres to the existing land position. The new claims, staked within the McDermitt Caldera, are contiguous with existing Company's claims.

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4. MINERAL PROPERTIES AND DEFERRED COSTS (continued)

The Company now controls over 3,900 federal lode claims encompassing over 78,000 acres within and bordering McDermitt Caldera on the Nevada side of the caldera.

Spin-out of Lithium Assets

The Company announced the proposed spin-out of the lithium resources located in the Company's Kings Valley Claims, into a newly incorporated, wholly owned subsidiary of the Company ("Newco"). Upon completion of the conveyance of the lithium assets, shares of Newco will be distributed to Western's shareholders. Application will also be made to list the shares of Newco on the appropriate exchange.

As at September 30, 2007, the Company spent \$198,411 on exploration of lithium assets, which are included in Kings Valley Claims mineral properties and deferred costs. The spin-out transaction will be completed pursuant to a plan of arrangement and will be subject to regulatory approval and approval by not less than two-thirds of the votes cast at a special meeting of the shareholders of the Company that will be called to approve the transaction.

Treeline Claims, New Mexico, USA

On March 30, 2005, the Company purchased a leasehold interest in property located in New Mexico for \$91,785 (US\$75,000) and purchased data on the surrounding ground for \$6,119 (US\$5,000). During the year ended September 30, 2005 and 2006, the Company staked and filed a number of federal lode mining claims, with the Bureau of Land Management, on this property. The Treeline project consists of 480 acres of private lands leased by the Company and approximately 3,380 acres of unpatented mining claims.

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.

The Company's nine exploration permits cover approximately 355,000 acres in Nunavut and one exploration permit and three claims blocks cover approximately 130,000 acres in the Northwest Territories all in the Thelon Basin.

5. EQUIPMENT

	September 30, 2007			September 30, 2006		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Computer equipment	\$ 33,192	\$ 18,870	\$ 14,322	\$ 33,192	\$ 13,238	\$ 19,954
Office equipment	31,662	10,318	21,344	31,662	5,216	26,446
	\$ 64,854	\$ 29,188	\$ 35,666	\$ 64,854	\$ 18,454	\$ 46,400

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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, prior to the acquisition date, 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.

	Number	Amount, \$	Contributed Surplus, \$
<hr/>			
Authorized			
Unlimited common shares without par value			
Issued			
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)
At date of acquisition	<u>3,698,450</u>	<u>8,519,746</u>	<u>1,888,972</u>
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	<u>26,634,024</u>	<u>12,741,443</u>	<u>2,032,059</u>
Private placement	6,060,000	6,666,000	-
Bought deal financing	5,300,000	20,140,000	-
Cameco private placement	5,586,244	21,227,727	-
Fair value of agent warrants granted	-	(499,212)	499,212
Share issuance costs	-	(1,709,328)	-
Exercise of agent warrants	972,518	1,227,123	-
Fair value of agent warrants exercised	-	483,944	(483,944)
Exercise of warrants	11,165,266	6,093,738	-
Exercise of stock options	412,500	515,625	-
Fair value of stock options exercised	-	331,565	(331,565)
Net future income tax on flow-through expenses renounced	-	(174,130)	-
Stock-based compensation	-	-	1,345,164
As at September 30, 2007	<u>56,130,552</u>	<u>\$ 67,044,495</u>	<u>\$ 3,060,926</u>

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6. SHARE CAPITAL AND CONTRIBUTED SURPLUS (continued)

During the year ended September 30, 2007, the Company:

- a) completed a private placement of 5,586,244 units at a price of \$3.80 per unit to the wholly-owned subsidiary of Cameco Corporation ("Cameco") for gross proceeds of \$21,227,727. Each unit is comprised of one common share and one-half of a share purchase warrant. Each whole share purchase warrant entitles Cameco to acquire an additional common share at a price of \$4.25 until August 29, 2008. Share issue costs of \$76,401 were paid in connection with the financing.
- b) completed a bought deal financing of 5,300,000 common shares as a price of \$3.80 per common share for gross proceeds of \$20,140,000. The agent received a cash commission of \$1,094,400 and compensation warrants which will entitle the agent to acquire until March 13, 2008, 288,000 common shares at an exercise price of \$4.25 per share. Share issue costs of \$67,760 were also paid in connection with the financing. The agent's warrants were valued using the Black-Scholes Option Pricing Model with the following assumptions: risk-free interest rate of 4.24%, expected life of 1 year, annualized volatility of 75% and dividend rate of 0%. The warrants were valued at \$1.14 per warrant for a total value of \$328,320 and have been recorded as share issue costs with a corresponding increase to contributed surplus.
- c) 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 October 31, 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 1, 2007, 363,600 common shares at an exercise price of \$1.29 per share. Share issue costs of \$70,807 were also paid in connection with the private placement. The agent's warrants were valued using the Black-Scholes Option Pricing Model with the following assumptions: risk-free interest rate of 4.12%, expected life of 1 year, annualized volatility of 75% and dividend rate of 0%. The warrants were valued at \$0.47 per warrant for a total value of \$170,892 and have been recorded as share issue costs with a corresponding increase to contributed surplus.
- d) issued 972,518 common shares for proceeds of \$1,227,123 pursuant to the exercise of agent's warrants previously granted.
- e) issued 11,165,266 common shares for total proceeds of \$6,093,739 pursuant to the exercise of warrants previously granted.

During fiscal 2006, the Company entered into flow-through share subscription agreements whereby it is committed to renounce to the subscribers, a total of \$2,788,750 of qualifying Canadian Exploration Expenses as described in the Income Tax Act of Canada. Pursuant to the terms of the flow-through share agreements, the tax attributes of the related expenditures are renounced to the subscribers. In January 2007, the Company renounced the flow-through expenditures. As a result, the Company recognized a future income tax liability of \$864,513 and reduced it by recognizing a future income tax asset for the share issue costs in the amount of \$690,382 and non-capital losses in the amount of \$174,131.

As at September 30, 2007, 1,912,500 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. 478,125 of these shares are released every six months with the next release on October 4, 2007 and the last release on April 4, 2009.

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6. SHARE CAPITAL AND CONTRIBUTED SURPLUS (continued)

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

- f) completed a private placement of 5,000,000 units at \$1.25 per unit for proceeds of \$6,250,000. Each unit consisted 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 with the following assumptions: risk-free interest rate of 4.12%, expected life of 1 year, annualized volatility of 75% and dividend rate of 0%. 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. Share issue costs of \$494,419 were also paid in connection with the private placement.
- g) issued 85,867 common shares for proceeds of \$35,590 pursuant to the exercise of warrants previously granted.
- h) 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.
- i) issued 350,000 common shares for total proceeds of \$24,387 pursuant to the exercise of options previously granted.
- j) 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.

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 year ended September 30, 2007, the Company granted a total of 500,000 incentive stock options to two officers and a consultant to acquire 100,000 common shares at \$1.25 per share, 100,000 common shares at US\$2.10 per share and 300,000 common shares at \$3.80 per share, for a period of five years and with various vesting times. Stock-based compensation expense of \$1,072,898 was charged to operations and credited to contributed surplus to reflect the fair value of stock options vested during the period. At September 30, 2007, \$287,630 of the fair value of stock options previously granted but not yet vested remains to be expensed, of which \$274,601 will be expensed in fiscal 2008 and \$13,029 in fiscal 2009.

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6. SHARE CAPITAL AND CONTRIBUTED SURPLUS (continued)

A summary of the Company's outstanding options at September 30, 2007 and 2006, and the changes for the years ended on those dates is presented below:

	Year Ended September 30, 2007		Year Ended September 30, 2006	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Balance, beginning of period	2,940,000	\$ 1.25	1,400,000	US\$ 0.07 and Market
Granted	500,000	\$ 2.95	2,940,000	\$ 1.25
Exercised	(412,500)	\$ 1.25	(350,000)	US\$ 0.07
Expired or cancelled	(135,000)	\$ 1.25	(1,050,000)	Market
Balance, end of period	2,892,500	\$ 1.54	2,940,000	\$ 1.25

As at September 30, 2007 the following incentive stock options are outstanding and exercisable:

	Number of Options Outstanding	Number of Options Exercisable	Exercise Price	Expiry Date
	2,280,000	2,280,000	\$ 1.25	March 31, 2011
	112,500	75,000	\$ 1.25	June 8, 2011
	100,000	50,000	\$ 1.25	October 17, 2011
	100,000	25,000	US\$ 2.10	January 29, 2012
	300,000	150,000	\$ 3.80	March 30, 2012
Total	2,892,500	2,580,000		

During fiscal 2007, the Company granted 500,000 stock options (2006 – 2,940,000). 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:

	2007	2006
Risk-free interest rate	4.01% - 4.13%	4.19%
Expected life	5 years	5 years
Annualized volatility	75%	75%
Dividend rate	0.00%	0.00%

The weighted average fair value of stock options granted during the period was \$1.92 per option. Option pricing models require the use of estimates and assumptions including the expected volatility. Changes in the underlying assumptions can materially affect the fair value estimates.

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6. SHARE CAPITAL AND CONTRIBUTED SURPLUS (continued)

Warrants

A summary of the number of common shares reserved pursuant to the Company's outstanding warrants and agents warrants outstanding at September 30, 2007 and 2006, and the changes for the fiscal years ended on those dates is as follows:

	Year Ended September 30, 2007		Year Ended September 30, 2006	
	Number of Warrants	Weighted Average Exercise Price	Number of Warrants	Weighted Average Exercise Price
Balance, beginning of year	12,053,319	\$ 0.60	8,850,000	US\$ 0.25
Issued	6,474,722	\$ 1.69	14,649,892	\$ 0.75
Exercised	(12,142,784)	\$ 0.57	(85,867)	\$ 0.41
Cancelled	-	-	(11,360,706)	\$ 0.55
Balance, end of year	6,385,257	\$ 1.36	12,053,319	\$ 0.60

Common shares reserved pursuant to warrants and agent warrants outstanding at September 30, 2007 are as follows:

Number of Warrants	Exercise Price	Expiry Date
1,885,000	\$ 1.50	October 31, 2007
76,713	\$ 1.29	November 1, 2007
1,257,853	\$ 1.50	December 20, 2007
84,569	\$ 1.25	December 20, 2007
288,000	\$ 4.25	March 13, 2008
2,793,122	\$ 4.25	August 29, 2008
6,385,257		

7. RELATED PARTY TRANSACTIONS

- a) The President of the Company provides her services on a full-time basis and in fiscal 2007 was paid US\$157,500 (2006 – US\$105,000) as salary and US\$75,000 (2006 – US\$25,000) as bonus.
- b) During fiscal 2007 the Company paid \$48,000 (2006 - \$48,000) in consulting fees, \$19,000 (2006 - \$12,000) in administration fees and \$34,040 (2006 - \$Nil) in accounting fees to a company controlled by a director of the Company.
- c) The Company paid \$28,000 (2006 - \$Nil) in consulting fees to the Chairman of the Board of the Company.
- d) During 2007 the Company paid US\$8,511 (2006 - \$Nil) for the environmental consulting to a Director of the Company.
- e) During 2006, the Company paid or accrued \$81,312, of which \$15,582 was included in accounts payable as at September 30, 2006, in professional fees 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.

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8. INCOME TAXES

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

	Year Ended September 30, 2007 \$	Year Ended September 30, 2006 \$
Loss for the period	<u>(2,179,536)</u>	<u>(2,553,866)</u>
Expected income tax recovery	743,658	871,379
Item not deductible for income tax purposes	(596,446)	(451,056)
Change in tax rates	52,258	(1,941)
Change in valuation allowance	<u>(373,601)</u>	<u>(418,382)</u>
Future income tax recovery	<u>(174,130)</u>	<u>-</u>

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

	September 30, 2007 \$	September 30, 2006 \$
Future income tax assets/(liabilities)		
Oil and Gas Properties	(808,738)	-
Financing costs	536,578	208,205
Operating loss carryforward	<u>588,025</u>	<u>471,909</u>
	315,865	680,114
Valuation allowance for future income tax asset	<u>(315,865)</u>	<u>(680,114)</u>
	<u>-</u>	<u>-</u>

The Company has Canadian non-capital loss carryforwards of \$968,689 that may be available for tax purposes. The losses expire as follows:

Expiry Date	\$
2015	58,829
2026	502,882
2027	<u>406,978</u>
	<u>968,689</u>

The Company has US non-capital loss carryforwards of US\$1,067,080 that may be available for tax purposes. The losses expire as follows:

Expiry Date	US\$
2025	90,183
2026	460,741
2027	<u>516,156</u>
	<u>1,067,080</u>

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9. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

The Company had the following significant non-cash transactions:

- a) allocated \$483,944 (2006 - \$4,388) to share capital from contributed surplus for the fair value of the agents warrants and \$331,565 (2006 - \$17,135) for the fair value of the stock options exercised during the year.
- b) recorded, using the Black-Scholes Pricing Model, stock-based compensation with a fair value of \$1,345,164 (2006 - \$1,621,334) for stock options vested during the year.
- c) recorded, using the Black-Scholes Pricing Model, share issue costs with a fair value of \$499,212 (2006 - \$398,316) for warrants granted to agents for financings incurred during the period.
- d) included \$561,971 of accounts payable relating to the property expenditures in investing activities.
- e) recorded share issue costs of \$174,130 for the future income tax cost of the exploration expenditures the Company renounced in January 2007 on the flow-through shares issued in 2006.
- f) during fiscal 2006, 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 and cancelled 1,050,000 unvested stock options resulting in a net stock-based compensation recovery of \$24,651.

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 2007 and 2006.

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

	September 30, 2007		
	Canada	United States	Total
	\$	\$	\$
Current assets	48,239,085	3,000,328	51,239,413
Equipment	-	35,666	35,666
Mineral properties and deferred costs	7,107,413	7,281,645	14,389,058
	55,346,498	10,317,639	65,664,137

	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

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11. COMMITMENTS

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

2008	\$73,064
2009	\$73,657
2010	\$73,657
2011	\$6,138

- b) Mineral properties (Note 4).

12. SUBSEQUENT EVENTS

Subsequent to September 30, 2007, the Company:

- a) issued 2,911,250 common shares on exercise of warrants, 161,282 common shares on exercise of broker warrants and 18,750 common shares on exercise of stock options for total proceeds of \$4,590,296.
- b) granted 475,000 stock options to consultants of the Company. The stock options granted were valued using the Black-Scholes Option Pricing Model with the following assumptions: risk-free interest rate of 3.89% - 4.12%, expected life of 5 years, annualized volatility of 75% and dividend rate of 0%. Of the options granted, 50,000 were valued at \$1.64 per option and 425,000 were valued at \$1.34 per option for a total value of \$651,500.
- c) fulfilled its November 15, 2007 and January 21, 2007 Mining Option Agreements and mining lease obligations on Kings Valley Claims by making payment of US\$3,500, US\$75,000 and US\$5,000.
- d) 478,125 shares were released from escrow on October 5, 2007, pursuant to the Escrow Agreement dated March 31, 2006 between the Company, Computershare and certain officers and directors of the Company.