

## **MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2010**

The following management discussion and analysis of Western Copper Corporation ("Western Copper" or the "Company") is dated November 3, 2010, and provides an analysis of the Company's results of operations for the three and nine months ended September 30, 2010.

This discussion is intended to provide investors with a reasonable basis for assessing the financial performance of the Company as well as certain forward looking statements relating to its potential future performance. The information should be read in conjunction with the Western Copper Corporation September 30, 2010 unaudited interim consolidated financial statements and December 31, 2009 audited annual consolidated financial statements and the related notes for the periods then ended which have been prepared in accordance with Canadian generally accepted accounting principles. Western Copper's accounting policies, other than as noted in note 3 of the September 30, 2010 unaudited interim consolidated financial statements, are described in note 2 of the December 31, 2009 audited annual consolidated financial statements. All of the financial information presented herein is expressed in Canadian dollars ("C\$"), unless otherwise indicated.

Western Copper is listed on the Toronto Stock Exchange under the symbol 'WRN' and is registered under Form 20-F with the United States Securities and Exchange Commission. On November 3, 2010, the Company had 81,912,336 common shares outstanding.

Additional information on the Company can be found in the Company's Annual Information Form ("AIF"), filed with Canadian regulators on SEDAR at [www.sedar.com](http://www.sedar.com) and with the United States Securities and Exchange Commission at [www.sec.gov](http://www.sec.gov) on Form 20-F.

### **DESCRIPTION OF BUSINESS**

Western Copper Corporation is a Canadian-based publicly-traded mineral exploration company with a primary focus of advancing its mineral properties towards production.

All of Western Copper's properties are located in Canada. The Company's two most advanced projects are located in the Yukon. The Company's Casino project is one of the largest undeveloped porphyry deposits in Canada. Western Copper is currently working on updating the pre-feasibility study that it completed on the project in June 2008. The Company's Carmacks Copper Project is in the last phase of permitting.

### **QUARTERLY SUMMARY OF ACTIVITIES**

#### **Significant increase to the Casino Project's Mineral Resource Estimate**

On November 1, 2010, Western Copper announced an updated resource estimate for the Casino Project. The new resource estimate is the first estimate to include the 26,000 metres of drilling performed by Western Copper over the past 3 years and represents a significant update to the resource estimated in 2008. In addition to the inclusion of the new drilling, the new estimate includes a re-interpretation of the geology of the deposit, which includes the re-logging of 90,000 metres of core under the direction of Jack McClintock, Consulting Geologist for Western Copper. Refer to the Property Overview section for more detail.

## PROPERTY OVERVIEW

### Casino Property (Yukon, Canada)

The Casino porphyry copper-gold-molybdenum deposit is located, by road, 380 kilometres northwest of Whitehorse, Yukon. It has been the subject of considerable exploration going back to 1967.

In June 2008, Western Copper announced that an independent pre-feasibility study on the Casino property supports the development of the project. Based on the mill proven and probable reserve estimate of 914 million tonnes, the mine has an estimated 30 year ore production life.

The financial model formed as part of the pre-feasibility study used commodity prices of US\$2.95 per pound for copper, US\$647 per ounce for gold, and US\$31 per pound of molybdenum and an exchange rate of 1 US\$/ to assess the viability of the project. Initial capital development costs were estimated to be \$2.1 billion, including \$550 million for a power plant. Based on these and other factors, the pre-feasibility study pre-tax internal rate of return ("IRR") was estimated to be 20.4% based on 100% equity financing.

Management has updated the financial model with commodity prices and the US\$/ exchange rate in effect as at the date of this report. The analysis, which uses spot commodity prices of US\$3.79 per pound for copper, US\$1,338 per ounce for gold, US\$15.50 per pound for molybdenum and an exchange rate of 0.99 US\$/, produces an estimated unleveraged pre-tax IRR of 29%.

On November 1, 2010, Western Copper announced an updated resource estimate for the Casino Project. The new resource estimate is the first estimate to include the 26,000 metres of drilling performed by Western Copper over the past 3 years and represents a significant update to the resource estimated in 2008. In addition to the inclusion of the new drilling, the new estimate includes a re-interpretation of the geology of the deposit, which includes the re-logging of 90,000 metres of core under the direction of Jack McClintock, Consulting Geologist for Western Copper.

The goal of the drilling campaign, to increase the near-surface supergene sulfide zone, was achieved. The size of this zone has increased from 133 million tonnes to 252 million tonnes at the measured and indicated level – an increase of 90% (Table 1).

Table 1: Supergene Sulphide Zone Measured & Indicated Resource

Supergene Sulfide Zone (2010 Estimate)											
Class	Cutoff	Tonnes M	Copper %	Gold g/t	Moly %	Silver g/t	CuEq %	Copper B lb	Gold M oz	Moly M lb	Silver M oz
	CuEq (%)										
<b>Measured</b>	<b>0.25%</b>	36	0.39	0.41	0.029	2.34	0.84	0.3	0.5	23	2.7
<b>Indicated</b>	<b>0.25%</b>	216	0.24	0.22	0.019	1.72	0.50	1.1	1.5	90	11.9
<b>Total Measured + Indicated</b>		<b>252</b>	<b>0.26</b>	<b>0.25</b>	<b>0.021</b>	<b>1.81</b>	<b>0.55</b>	<b>1.4</b>	<b>2.0</b>	<b>117</b>	<b>14.7</b>

Supergene Sulfide Zone (2008 Estimate)											
Class	Cutoff	Tonnes M	Copper %	Gold g/t	Moly %	Silver g/t	CuEq %	Copper B lb	Gold M oz	Moly M lb	Silver M oz
	CuEq (%)										
<b>Measured</b>	<b>0.25%</b>	33	0.39	0.47	0.030	-	0.87	0.3	0.5	22	-
<b>Indicated</b>	<b>0.25%</b>	100	0.29	0.25	0.020	-	0.56	0.6	0.8	44	-
<b>Total Measured + Indicated</b>		<b>133</b>	<b>0.31</b>	<b>0.31</b>	<b>0.020</b>		<b>0.63</b>	<b>0.9</b>	<b>1.3</b>	<b>59</b>	<b>-</b>

The largest increase to the resource comes at the inferred level of categorization. The combined supergene oxide, supergene sulphide, and hypogene inferred resource, at a 0.25% Copper Equivalent ("CuEq") cutoff grade has been increased over 6 times to 1.70 billion tonnes (Table 2). The most recent results have added 7.4 million ounces of gold, 4.4 billion pounds of copper, and 615 million pounds of molybdenum to the resource at the inferred level.

Table 2: Inferred Resource of combined Supergene Oxide, Supergene Sulphide, and Hypogene Zones at 0.25% CuEq Cut-off

Estimate	Tonnes	Copper	Gold	Moly	Silver	CuEq	Copper	Gold	Moly	Silver
	M	%	g/t	%	g/t	%	B lb	M oz	M lb	M oz
<b>New (2010)</b>	1,696	0.14	0.16	0.019	1.37	0.37	5.2	8.7	711	74.7
<b>Old (2008)</b>	232	0.16	0.18	0.019	-	0.38	0.8	1.3	95	-

Gary Giroux, P.Geo. is the independent qualified person responsible for the preparation of the updated Mineral Resource estimate and the 2008 Mineral Resource estimate.

The technical report relating to the 2010 Mineral Resource estimate will be published shortly, in compliance with security regulations. The Copper Equivalent grade has been calculated using the following commodity prices: US\$2.00/lb copper, US\$875/oz gold, US\$11.25/lb molybdenum, US\$11.25/oz silver, and assuming 100% metallurgical recoveries.

The August 2008 Mineral Resource update Copper Equivalent grade has been calculated using the following commodity prices: US\$0.80/lb copper, US\$350/oz gold, US\$4.50/lb molybdenum, and assuming 100% metallurgical recoveries.

There has been no discount for metallurgical recovery in contained metal figures.

The increase in supergene mineralization should result in higher grades at the beginning of the mine life and a lower strip ratio. Both of these factors are expected to improve the project's economics when Western Copper updates the Casino Project pre-feasibility study in early 2011.

### **Carmacks Copper Project (Yukon, Canada)**

The Carmacks Copper Project is located 220 kilometres north of Whitehorse, Yukon.

In 2007, Western Copper reported the key findings of its feasibility study on the project and announced that the study supports the development of the mine. Based on the proven and probable reserve estimate of 10.6 million tonnes, the mine has an estimated six year ore production life. The feasibility study indicated initial capital development costs of \$144 million, including a contingency of \$14.1 million. An additional sum of \$7.3 million is attributable to owner's costs, which include the Company's project team salaries, spare parts, and bond costs. The life-of-mine operating costs were estimated to be \$0.98 per pound of copper (US\$0.84 per pound of copper at 0.85 US\$/). Using a copper price of US\$2.32 per pound and an exchange rate of 0.85 US\$/\$, the feasibility study indicated a pre-tax IRR of 21.1% for the project based on 100% equity financing.

Management has updated the financial model to reflect the spot copper price and the US\$/ exchange rate in effect as at the date of this report. The analysis, which uses a copper price of US\$3.79 per pound and an exchange rate of 0.99 US\$/\$, results in an unleveraged pre-tax IRR of 42%.

In April 2009, Western Copper received the Quartz Mining Licence ("QML") for the Carmacks Copper Project. This licence permits the Company to begin construction of the Carmacks Copper Mine and establishes many of the terms and conditions under which the mine will operate.

The Water Use Licence is the next and final permit required to build and operate the Carmacks Copper Project. On May 10, 2010, Western Copper was notified by the Water Board that the Carmacks Copper Project would not be licenced.

The Company has filed a Petition with the Yukon Supreme Court appealing the Yukon Water Board decision. The appeal seeks direction from the Court respecting the jurisdiction and responsibilities of the Yukon Water Board in the context of the jurisdiction and responsibilities of the Yukon Environmental and Socio-economic Assessment Board and the Minister of Energy, Mines and Resources under the Quartz Mining Act.

The hearing of the appeal is scheduled to begin on December 7, 2010. It is Western Copper's intention to seek reconsideration of its Water Use Licence application and this appeal will provide clarity and certainty regarding the process to be followed.

#### **Island Copper/Hushamu (British Columbia, Canada)**

The Island Copper property consists of three blocks of mineral claims in a prospective copper-gold porphyry belt located on northern Vancouver Island, approximately 25 kilometres west of Port Hardy and 360 kilometres northwest of Vancouver, British Columbia.

Since August 2008, the Island Copper property was under option, most recently with Kobex Minerals Inc. ("Kobex"). On July 15, 2010, Kobex terminated its rights to earn-in to the property.

#### **Redstone (Northwest Territories, Canada)**

The Redstone property comprises five mining leases and 16 mineral claims in six distinct areas in the Nahanni Mining District southwest of Norman Wells in the Northwest Territories.

In 2007, the Company signed an agreement with the Mineral Deposits Research Unit at the University of British Columbia ("MDRU") to fund a research project that will aim to provide a better understanding of the regional geology and to identify areas covered by the Company's existing claims and leases that offer the most exploration potential.

MDRU spent the summers of 2009 and 2010 at the property studying the geology in the area covered by the Redstone claims and leases. A progress report was made to Western Copper in September 2010. The research program is on-going.

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**SELECTED QUARTERLY FINANCIAL INFORMATION**

The following quarterly information has been extracted from the Company's unaudited interim consolidated financial statements.

<b>As at and for the quarter ended</b> Expressed in Canadian dollars	<b>30-Sep-10</b> \$	<b>30-Jun-10</b> \$	<b>31-Mar-10</b> \$	<b>31-Dec-09</b> \$
Loss and comprehensive loss	573,719	775,448	761,826	233,672
Loss per share – basic and diluted	0.01	0.01	0.01	-
Mineral properties	84,307,328	80,893,851	75,376,844	72,790,644
Cash, cash equivalents, and short-term investments	3,728,713	8,232,576	10,798,525	13,667,179
Total assets	88,500,931	89,688,423	87,003,474	86,876,176
<b>As at and for the quarter ended</b> Expressed in Canadian dollars	<b>30-Sep-09</b> \$	<b>30-Jun-09</b> \$	<b>31-Mar-09</b> \$	<b>31-Dec-08</b> \$
Loss and comprehensive loss	509,122	594,590	522,773	599,667
Loss per share – basic and diluted	0.01	0.01	0.01	0.01
Mineral properties	70,960,998	67,117,675	65,970,008	65,702,582
Cash, cash equivalents, and short-term investments	11,786,066	10,931,098	12,177,922	13,062,366
Total assets	83,316,052	78,478,161	78,503,650	79,216,492

Significant quarterly fluctuations above are due to the following:

Cash is being spent to fund ongoing operations and to increase the value of the Company's mineral properties. This has led to a decrease in cash, cash equivalents and short-term investments and an increase in mineral properties in each quarter presented above, except Q3 and Q4 2009. Cash, cash equivalents and short-term investments increased during the second half of 2009 because the Company raised \$4 million through a private placement in July 2009 and \$5.4 million through a private placement in December 2009.

The Q3 2010 loss is in-line with the loss figures from December 31, 2008 to September 30, 2009. This is the approximate loss figure expected on a quarterly basis.

Loss and comprehensive loss is higher in Q2 2010 than the previous quarters due to payments relating to changes in management.

Loss and comprehensive loss is higher in Q1 2010 than the previous quarters because Western Copper issued and donated common shares in February 2010. The fair value of the common shares totaled \$117,900 and was recorded as an Office and Administration expense.

Loss and comprehensive loss in Q4 2009 is lower than the other quarters due to a future income tax recovery of \$396,000 recorded in Q4 2009. A similar recovery was recorded in Q4 2008, but at that time, the future income tax recovery of \$452,000 was off-set by the \$405,000 write-down of the Company's Sierra Almolya mineral property.

## RESULTS OF OPERATIONS

The following information has been extracted from the Company's unaudited interim consolidated financial statements.

Expressed in Canadian dollars	Three months ended September 30,		Nine months ended September 30,	
	2010 \$	2009 \$	2010 \$	2009 \$
ADMINISTRATIVE EXPENSES				
Accounting and legal	37,593	61,708	138,778	159,129
Filing and regulatory fees	11,414	16,634	76,330	66,073
Office and administration	443,662	376,804	1,575,116	1,317,804
Shareholder communication	91,274	113,382	362,729	270,775
<b>LOSS BEFORE OTHER ITEMS</b>	<b>583,943</b>	<b>568,528</b>	<b>2,152,953</b>	<b>1,813,781</b>
OTHER ITEMS				
Foreign exchange	1,187	2,934	1,305	10,543
Interest income	(11,411)	(62,340)	(43,265)	(197,839)
<b>LOSS AND COMPREHENSIVE LOSS</b>	<b>573,719</b>	<b>509,122</b>	<b>2,110,993</b>	<b>1,626,485</b>

Western Copper had a loss of 574,000 (\$0.01 per common share) for the three months ended September 30, 2010 compared to a loss of \$509,000 (\$0.01 per common share) during the same period in 2009. For the nine months ended September 30, 2010, Western Copper had a loss of \$2.11 million (\$0.03 per common share). The Company had a loss of \$1.63 million (\$0.02 per common share) during the nine months ended September 30, 2009.

The scale and nature of the Company's operations has remained relatively consistent with 2009 and this trend is expected to continue throughout 2010; however, the Company's 2010 year-to-date loss is \$480,000 higher than the prior year due to a number of factors. These factors are discussed below.

Western Copper continues to earn interest on its cash deposits held at banks and on its short-term investments. Despite recent interest rate increases, the Bank of Canada has generally been lowering its key interest rate over the past two years. In November 2009, investments earning over 2% matured and were replaced with investments earning less than 1%. As the Company uses cash reserves to fund its 2010 operations, its interest bearing balances have been declining. Decreasing interest bearing balances and decreasing interest rates have both contributed to the Company earning \$154,000 less interest income in the first nine months of 2010 than it did during the first nine months of 2009. For the same reasons, Western Copper earned \$51,000 less interest income in Q3 2010 as compared to the same period in the previous year.

In February 2010, Western Copper made a donation of common shares to a registered charity. This donation was valued at \$118,000 and was recorded as an Office and Administration expense. There was no such cost in 2009.

Stock-based compensation expense allocated to Office and Administration has increased \$93,000 year-to-date in 2010 as compared to 2009. The reason for the increase is the timing and valuation of stock option grants to employees and directors.

The Company made payments relating to a number of management changes in Q2 2010. These payments increased Office and Administration during the nine months ended September 30, 2010 as compared to the prior year.

Shareholder Communication expenses are higher in 2010 than in the previous year because the Company minimized its investor relation activities during the first half of 2009 due to the downturn in the capital markets. Since then, the Company has augmented its marketing activities. Advertising, road show and conference costs have all increased in 2010.

The Q3 2010 loss figure is \$65,000 higher than in Q3 2009. The major items contributing to the increase are increased shareholder communication activity, the decrease in interest income, and an increase in stock-based compensation. Refer to the above year-to-date discussion for more detail.

## LIQUIDITY AND CAPITAL RESOURCES

The following information has been extracted from the Company's unaudited interim consolidated financial statements.

	Three months ended September 30,		Nine months ended September 30,	
	2010	2009	2010	2009
Expressed in Canadian dollars	\$	\$	\$	\$
CASH PROVIDED BY (USED IN)				
Operating activities	(365,948)	(683,590)	(1,832,529)	(1,655,901)
Financing activities	11,880	3,661,346	2,917,426	3,661,346
Investing activities	(149,058)	(2,179,248)	(2,792,756)	(3,449,285)
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(503,126)</b>	<b>798,508</b>	<b>(1,707,859)</b>	<b>(1,443,840)</b>
Cash and cash equivalents – beginning	2,231,398	2,794,856	3,436,131	5,037,204
<b>CASH AND CASH EQUIVALENTS – ENDING</b>	<b>1,728,272</b>	<b>3,593,364</b>	<b>1,728,272</b>	<b>3,593,364</b>

In addition to its cash and cash equivalents, the Company had \$2.0 million in short-term investments as at September 30, 2010. At September 30, 2010, cash, cash equivalents, and short-term investments totaled \$3.7 million and working capital was \$2.6 million. At December 31, 2009, Western Copper had working capital of \$12.7 million.

The decrease in working capital is mostly due to the Company's continued permitting and exploration work on the Casino Project and general administrative expenses.

Short-term investments consist of Guaranteed Investment Certificates held with Canadian chartered banks. All certificates are redeemable in full or in portion at the Company's option without penalty. Interest is paid on amounts redeemed subsequent to 30 days from the date of acquisition of the investment.

Western Copper is an exploration stage enterprise. As at the date of this report, the Company has not earned any production revenue. It depends heavily on its working capital balance and its ability to raise funds through capital markets to finance its operations. The Company will have to raise additional capital prior to building any of its projects in order to fund construction costs.

### Operating activities

The significant components of operating activities are discussed in the Results of Operations section above.

### **Financing activities**

During the three and nine months ended September 30, 2009, the Company raised net proceeds of \$3.6 million by issuing 4,000,000 units as part of a private placement. Western Copper has not raised funds through new financings in 2010.

Western Copper received \$2.46 million during the nine months ended September 30, 2010 from the exercise of 1,964,000 warrants issued as part of its July 2009 private placement. In May 2010, the expiration date of the warrants was accelerated from July 2012 to June 2010. All warrants were exercised in Q1 and Q2 2010.

The Company received \$464,643 from the exercise of 553,300 stock options during the nine months ended September 30, 2010. 19,800 stock options were exercised for total proceeds of \$11,880 in Q3 2010. There was no financing activity from January 1, 2009 to June 30, 2009. In Q3 2009, 13,333 stock options were exercised for a total of \$16,666.

### **Investing activities**

Investing activities include both mineral property expenditures and proceeds from the divestiture of short-term investments. The Company transferred approximately \$4 million from short-term investments to cash and cash equivalents during Q3 2010. These funds were mostly used to pay for the exploration and on-going permitting activities at the Casino Project. Western Copper has transferred approximately \$8 million year-to-date. It did not transfer any money during the nine months ended September 30, 2009.

Western Copper spent approximately \$4.0 million on mineral property expenditures during the third quarter of 2010. This compares with \$2.2 million during the same period in 2009. The majority of the costs were spent on the exploration program at the Casino Project. The 2010 exploration program had a much larger scope than the 2009 program. As a result, exploration expenditures increased in 2010.

Western Copper incurred over \$1.8 million more mineral property expenditures during Q3 2010 than it did in Q3 2009 because the 2010 exploration program continued throughout the quarter whereas the 2009 program did not start until August 2009.

The mineral property additions shown below represent costs incurred, not necessarily cash spent, on mineral property expenditures during the nine months ended September 30, 2010. Despite not taking into account changes in working capital balances, the mineral property costs below are a good representation of Western Copper's mineral property expenditures during the period.

A summary of activities relating to each project is available under the Quarterly Summary of Activities and the Property Overview sections at the beginning of this document.

	<b>Casino Project</b>	<b>Carmacks Copper Project</b>
Expressed in Canadian dollars	\$	\$
<b>DECEMBER 31, 2009</b>	<b>26,688,744</b>	<b>15,956,231</b>
CASH ITEMS		
Advance royalty	-	100,000
Claims maintenance	7,095	210
Detailed engineering	-	54,503
Engineering studies	869,917	-
Exploration	6,101,804	-
Permitting	3,018,510	634,980
Salary and wages	173,273	126,707
<b>CASH ITEMS</b>	<b>10,170,599</b>	<b>916,400</b>
NON-CASH ITEMS		
Exploration	41,031	-
Stock-based compensation	61,600	30,565
<b>NON-CASH ITEMS</b>	<b>102,631</b>	<b>30,565</b>
<b>SEPTEMBER 30, 2010</b>	<b>36,961,974</b>	<b>16,903,196</b>

## CONTRACTUAL OBLIGATIONS

The Company leases office space in Vancouver, British Columbia and Whitehorse, Yukon. The future minimum lease payments by calendar year are approximately as follows:

	<b>Vancouver</b>	<b>Whitehorse</b>
Expressed in Canadian dollars	\$	\$
2010	44,908	6,818
2011	182,164	27,271
2012	183,973	-
2013	186,504	-
2014	78,464	-
Thereafter	-	-
<b>TOTAL</b>	<b>676,013</b>	<b>34,089</b>

Western Copper has no debt and does not pay dividends.

The Company has no material off-balance sheet arrangements, no material capital lease agreements and no material long term obligations other than those described above or in the description of mineral properties contained in the interim financial statements.

Neither the Company nor any of its subsidiaries has any externally imposed capital requirements.

## **SIGNIFICANT ACCOUNTING ESTIMATES**

### **Use of estimates**

The preparation of the consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and the related notes. Significant areas where management's judgment is applied include the assessment of impairment to the carrying value of mineral properties, the determination of the likelihood that future income tax benefits can be realized, the assumptions used to calculate the fair value of warrants and stock options, amounts and likelihood of contingent liabilities, and the cost allocation methodologies used to determine results of operations, the value of financing components, and the value of purchased assets. Actual results could differ from the estimates by a material amount.

### **Mineral properties**

Direct costs related to the acquisition, exploration, and development of mineral properties owned or controlled by the Company are deferred on an individual property basis until the viability of a property is determined or until the property is sold, abandoned, placed into production or determined to be impaired. Administration costs and general exploration costs are expensed as incurred. If a property is placed into commercial production, deferred costs will be amortized using the unit-of production method based on proven and probable reserves. The carrying amount for mineral properties represents costs net of write-downs to date and does not necessarily reflect present or future values. Recovery of capitalized costs is dependent on successful development of economic mining operations or the disposition of the related mineral properties.

Cost recoveries, including tax credits and funds received as part of government assistance programs, are recognized as a reduction in the carrying value of the related asset when it is more likely than not that the money will be received. If the applicable property has been written-off, the amount received is recorded as a credit to the statement of loss when it is more likely than not that the money will be received.

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

### **Impairment of long-lived assets**

The Company reviews the carrying value of mineral properties and deferred exploration costs when there are events or changes in circumstances that may indicate impairment. Where estimates of future cash flows are available, an impairment charge is recorded if the undiscounted future net cash flows expected to be earned from the property are less than the carrying amount. Reductions in the carrying value of properties are recorded to the extent the net book value of the property exceeds management's estimate of fair values.

Fair value is determined with reference to discounted estimated future cash flow analysis or on recent transactions involving dispositions of similar properties.

The estimated cash flows used to assess recoverability of certain of the Company's mineral property carrying values are developed using management's projections for long-term average copper, gold and molybdenum prices, recoverable reserves, operating costs, capital expenditures, reclamation costs, and applicable foreign currency exchange rates. Management makes estimates relating to current and future market conditions. There are inherent uncertainties related to these factors and management's judgment when using them to assess mineral property recoverability.

The Company believes that the estimates applied in the impairment assessment are reasonable; however such estimates are subject to significant uncertainties and judgments. Although management has made its best estimate of these factors based on current conditions, it is possible that the underlying assumptions can change significantly and impairment charges may be required in future periods. Such charges could be material.

### **Asset retirement obligation**

The fair value of a liability for an asset retirement obligation ("ARO's"), such as site closure and reclamation costs, is recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The Company is required to record the estimated present value of future cash flows associated with site closure and reclamation as a long-term liability and increase the carrying value of the related assets for that amount. Subsequently, these asset retirement costs will be amortized to expense over the life of the related assets. At the end of each period, the liability is revised to reflect the passage of time and changes in the estimated future cash flows underlying any initial fair value measurements.

Minimum standards for site reclamation have been established by various governmental agencies that affect certain operations of the Company. The determination of reclamation costs requires assumptions with respect to future expected costs and legislation in effect at that time. Changes in these assumptions can materially affect the recognized amount of the liability.

The Company has determined that it has no material ARO's to record in the consolidated financial statements.

### **Income taxes**

Income taxes are calculated using the liability method of accounting. Temporary differences arising from the difference between the tax basis of an asset or liability and its carrying amount on the balance sheet are used to calculate future income tax liabilities or assets. Future income tax assets and liabilities are measured using enacted or substantively enacted tax rates and laws that are expected to apply when the temporary differences are expected to reverse. A valuation allowance is applied to the extent that it is not more likely than not that the future income tax assets will be realized.

### **Stock-based compensation and warrant valuation**

The fair value of stock-based compensation awards and warrant issuances is calculated using the Black-Scholes option pricing model. Option pricing models require the input of highly subjective assumptions including the expected price volatility. Changes in the subjective input assumptions can materially affect the fair value estimate, and therefore the existing models do not necessarily provide a reliable single measure of the fair value of stock options granted and warrants issued by the Company.

## **CHANGE IN ACCOUNTING POLICIES**

The Company has elected to adopt the following standards effective January 1, 2010 so that its accounting policies are more closely aligned with International Financial Reporting Standards during the year ending December 31, 2010.

### **Business combinations**

Section 1582, Business Combinations, replaces Section 1581, Business Combinations and establishes standards for the accounting for business combinations. It provides the Canadian equivalent to International Financial Reporting Standard IFRS 3, Business Combinations. The section applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period after adoption. The adoption of this standard had no effect on the Company's financial statements.

### **Consolidated financial statements and non-controlling interests**

Section 1601, Consolidated Financial Statements, and Section 1602, Non-Controlling Interests, replace Section 1600, Consolidated Financial Statements. Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. It is equivalent to the corresponding provisions of International Financial Reporting Standard IAS27, Consolidated and Separate Financial Statements. The adoption of this standard had no effect on the Company's financial statements.

## **INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS")**

Western Copper expects to adopt IFRS effective January 1, 2011. In 2011, the Company will have to present 2010 comparative figures restated using IFRS for each comparative period after the transition date. As a result, the Company began to execute its IFRS implementation plan in 2009.

During 2009, Western Copper compared its current accounting policies under Canadian Generally Accepted Accounting Principles ("GAAP") to IFRS and identified differences between the two standards. Based on its review of historical transactions and its current and expected business activities, the Company identified the treatment of Exploration and Evaluation ("E&E") costs, income taxes, and asset impairment as areas with the greatest potential to create significant differences in the Company's financial statements as a result of adopting IFRS.

Western Copper performed a comprehensive analysis of these areas to determine the potential impact that adopting IFRS will have on the Company's financial statements.

The International Accounting Standards Board ("IASB") has still not made a definitive determination as to whether E&E costs should be capitalized or expensed. IFRS 6 allows companies to choose a policy that capitalizes these costs. The policy must be disclosed in the notes to the financial statements. The Company expects to continue capitalizing its E&E costs in a manner consistent with its current accounting policy.

The method of accounting for income taxes under IFRS is similar to Canadian GAAP, but one of the exemptions under IFRS may have a significant impact on the Company's financial reporting. Under current IFRS guidelines, the recognition of future income tax ("FIT") assets or liabilities that arise from the initial recognition of assets or liabilities that do not impact profit or loss and other than in a business combination is prohibited. The majority of the Company's FIT liability balance is due to the difference between the carrying value and the tax value of the properties that Western Copper acquired as a result of its acquisition of Lumina Resources Corp. in 2006. Western Copper accounted for the transaction as an acquisition of assets, not as a business combination. As a result, the exemption under IFRS would apply and would eliminate the Company's FIT liability balance recognized under Canadian GAAP. It would also decrease the carrying value of mineral properties by a similar amount because when the FIT liability was recognized, the carrying values of the related mineral properties were grossed up by the same amount. The IASB has recently issued an exposure draft suggesting changes to its income tax standard. The exposure draft has received a significant number of comments and it is uncertain what changes, if any, will be made before Western Copper's adoption date.

Under Canadian GAAP, mineral property impairment testing is performed using a two-step test. The first step is to determine if there is an impairment loss by using an undiscounted cash flow analysis. If that analysis identifies an impairment loss, the loss is measured as the amount by which carrying value exceeds fair value. The fair value is often based on discounted cash flows. Under IFRS, assets are tested for impairment using a one-step process based on discounted cash flows. IFRS also allows the reversal of impairment charges from previous years if the fair value exceeds the carrying value of long-lived assets.

Other IFRS that apply to the Company's operations, but that are not expected to have a significant effect on 2010 financial results based on the Company's current and expected activities are functional currency, business combinations, share based payments, and decommissioning and retirement obligations.

The Company is still considering the impact that the adoption of IFRS will have on its financial statements.

Western Copper has performed its review of IFRS based on standards applicable as of the date of this report. The IASB is still developing IFRS and may propose changes to the standards between the date of this report and the date the Company adopts IFRS. Western Copper's assessment of differences between Canadian GAAP and IFRS is based on its historical, current, and expected business activities. Changes in business activities could also lead to unexpected differences to the Company's financial statements, notes, and other disclosures as reported under Canadian GAAP and IFRS. Changes to business activities or transactions and/or IFRS could have material effects on Western Copper's analysis discussed above.

Western Copper will track the difference between Canadian GAAP and IFRS on individual transactions throughout 2010. It will also analyze the effect of changes in IFRS as they occur. At the end of 2010, the Company will prepare two sets of financial statements. One set will comply with Canadian GAAP for reporting purposes. The other set will comply with IFRS for use as comparative figures once Western Copper adopts IFRS on January 1, 2011.

## **DISCLOSURE CONTROLS AND INTERNAL CONTROLS OVER FINANCIAL REPORTING**

Management is responsible for designing, establishing, and maintaining a system of internal controls over financial reporting to provide reasonable assurance that the financial information prepared by the Company for external purposes is reliable and has been recorded, processed, and reported in an accurate and timely manner in accordance with generally accepted accounting principles.

Management is also responsible for designing, establishing, and maintaining a system of disclosure controls and procedures. Disclosure controls and procedures are designed to provide reasonable assurance that material items requiring disclosure by the Company are identified and reported in a timely manner.

## **MANAGEMENT'S REPORT ON INTERNAL CONTROLS OVER FINANCIAL REPORTING AND DISCLOSURE CONTROLS**

The Chief Executive Officer and the Chief Financial Officer evaluated the effectiveness of the Company's disclosure controls and procedures and assessed the design and the operating effectiveness of the Company's internal control over financial reporting as of December 31, 2009.

Based on that assessment, management concluded that, as at December 31, 2009, the Company's internal control over financial reporting was not effective due to the existence of a material weakness. A material weakness existed in the design of internal control over financial reporting caused by a lack of adequate segregation of duties in the financial close process. The Chief Financial Officer is responsible for preparing, authorizing, and reviewing information that is key to the preparation of financial reports. He is also responsible for preparing and reviewing the resulting financial reports. This weakness has the potential to result in material misstatements in the Company's financial statements, and should also be considered a material weakness in its disclosure controls and procedures. As a result, management has also concluded that its disclosure controls and procedures were not effective as at December 31, 2009.

Management has concluded, and the audit committee has agreed that taking into account the present stage of Western Copper's development, the Company does not have sufficient size and scale to warrant the hiring of additional staff to correct the weakness at this time.

There has been no significant change in disclosure controls or in internal controls over financial reporting from July 1 to September 30, 2010 that has materially affected, or is reasonably likely to affect, the Company's disclosure controls or its internal controls over financial reporting.

## **FINANCIAL INSTRUMENT RISK**

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Company has exposure to credit, liquidity, currency, interest rate and market risks from the use of financial instruments. Financial instruments consist of cash and cash equivalents, short-term investments, other receivables, reclamation bonds, and accounts payable and accrued liabilities.

### **Market risk**

The Company has no regular cash inflow from its operating activities. Its principal source of funds is the issuance of common shares. It uses the capital raised from the issuance of its common shares to explore and develop its mineral properties. The Company's common shares are publicly traded. As such, the price of its common shares is susceptible to factors beyond management's control including, but not limited to, fluctuations in commodity prices and foreign exchange rates and changes in the general market outlook. Should Western Copper require funds during a time when the price of its common shares is depressed, it may be required to accept significant dilution to maintain enough liquidity to continue operations.

### **Liquidity risk**

Liquidity risk is the risk that the Company will be unable to meet its financial obligations as they come due. The Company uses cash forecasts to ensure as far as possible that there is sufficient cash on hand to meet short term business requirements. Cash is invested in highly liquid investments which are available to discharge obligations when they come due. The Company does not maintain a line of credit.

### **Credit risk**

Financial instruments that potentially subject the Company to credit risk consist primarily of cash and cash equivalents and short-term investments. To limit its credit risk, the Company uses a restrictive investment policy. It deposits cash and cash equivalents in Canadian chartered banks and purchases short-term investments that are guaranteed by the Canadian government or by Canadian chartered banks. Credit risk exposure on cash and cash equivalents is considered negligible.

### **Currency risk**

Western Copper raises funds in Canadian dollars. The majority of the Company's expenditures are incurred in Canadian dollars. To limit its exposure to currency risk, the Company maintains the majority of its cash and cash equivalents in Canadian dollars. The Company did not have a material amount of financial instruments denominated in foreign currencies as at September 30, 2010 or December 31, 2009.

### **Interest rate risk**

The Company is exposed to interest rate risk on its cash and cash equivalents and its short-term investments. Generally, the Company's interest income will be reduced during sustained periods of lower interest rates as higher yielding cash equivalents and short-term investments mature and the proceeds are invested at lower interest rates. Changes in interest rates do not have a material effect on the Company's results of operations or on the fair value of the investments.

## **RISKS AND UNCERTAINTIES**

The following is a list of the most significant risks and uncertainties that affect the Company. This list is not exhaustive. More information on risks and uncertainties is available in Western Copper's Annual Information Form which is available on the Company's website and at [www.sedar.com](http://www.sedar.com).

### **Mineral property development**

Based both on exploration results to date and reports of independent consultants, the Company's management believes that the pursuit of additional exploration programs on its mineral properties is justified. The recoverability of amounts shown for mineral rights and the related deferred costs for any property is dependent on the development of economically recoverable ore reserves, the Company's ability to obtain necessary permits, financing, and expertise to successfully place the property into production, and upon future profitable production.

The Company complies with National Instrument 43-101 when reporting mineral resources.

### **Metal prices**

The value of the Company's properties and the prospects for their successful development are subject to favourable prices for the metals involved, such as copper, gold, silver, and molybdenum. Metal prices fluctuate widely and are affected by numerous factors beyond the Company's control. These prices may not remain at levels required to make development of any given property feasible.

### **Project financing**

The Company's projects will require substantial financing, including a possible combination of debt and equity financing. Although some of the expenditures required to develop its projects in the future may be met by third parties, the Company will need to raise substantial additional funds to finance the development of its properties.

There can be no assurance that debt and/or equity financing will be available, or available on acceptable terms.

Failure to obtain, or difficulty or delay in obtaining, requisite financing could result in delay of certain projects or postponement of further exploration, assessment or development of certain properties or projects. Financing through the issuance of equity will result in dilution of existing shareholders.

### **Statutory and regulatory compliance is complex and may result in delay or curtailment of our operations**

Mineral claims or current and future operations will be governed by laws and regulations governing mineral concession acquisition, prospecting, development, mining, production, exports, taxes, labour standards, occupational health, waste disposal, toxic substances, land use, environmental protection, mine safety and other matters. Companies such as ours that engage in exploration and development activities often experience increased costs and delays in production and other schedules as a result of the need to comply with applicable laws, regulations and permits. Issuance of permits for our exploration and/or development activities is subject to the discretion of government authorities, and we may be unable to obtain or maintain such permits. Permits required for future exploration or development may not be obtainable on reasonable terms or on a timely basis.

Failure to comply with applicable laws, regulations and permits may result in enforcement actions thereunder, including the forfeiture of claims, orders issued by regulatory or judicial authorities requiring operations to cease or be curtailed and may include corrective measures requiring capital expenditures, installation of additional equipment or costly remedial actions. We may be required to compensate those suffering loss or damage by reason of its mineral exploration or development activities and may have civil or criminal fines or penalties imposed for violations of such laws, regulations and permits. We are not currently covered by any form of environmental liability insurance.

Existing and possible future laws, regulations and permits governing operations and activities of exploration and development companies, or more stringent implementation thereof, could have a material adverse impact on us and cause increases in capital expenditures or require abandonment or delays in exploration and/or development.

### **Title to mineral properties**

The Company's mining claims and rights thereto have generally been acquired from other private parties and government agencies. Other parties may dispute the Company's title to these claims and rights. The determination of rightful title to mineral properties is a time-consuming process. Such title may be challenged. At present, Western Copper is unaware of any dispute relating to its mineral properties.

### **Site closure and reclamation costs**

Minimum standards for site closure and reclamation have been established by various governmental agencies that affect certain operations of the Company. Western Copper accounts for reclamation liabilities by recognizing any statutory, contractual or other legal obligation related to reclamation when such obligation is incurred, if a reasonable estimate of fair value can be made. The determination of site closure and reclamation costs requires assumptions with respect to future expected costs and legislation in effect at that time. Changes in these assumptions can materially affect the recognized amount of the liability.

### **Forward-looking statements**

This Management's Discussion and Analysis contains certain forward-looking statements concerning anticipated developments in Western Copper's operations in future periods. Forward looking statements are frequently, but not always, identified by words such as "expects", "anticipates", "believes", "intends", "estimates", "potential", "possible" and similar expressions, or statements that events, conditions or results "will", "may", "could" or "should" occur or be achieved. These forward looking statements are set forth principally under the heading "Property Overview", "Quarterly Summary of Activities" and elsewhere in Management's Discussion and Analysis and may include statements regarding perceived merit of properties; mineral reserve and resource estimates; capital expenditures; feasibility study results, ability to obtain required permits for the construction and operation of the Carmacks Copper Project; exploration results at the Company's properties; budgets; work programs; timelines; strategic plans; market price of precious and base metals; or other statements that are not statement of fact. Forward-looking statements are statements about the future and are inherently uncertain, and actual achievements of Western Copper and its subsidiaries may differ materially from those reflected in the forward-looking statements due to a variety of risks, uncertainties and other factors. Western Copper's forward-looking statements are based on the beliefs, expectations and opinions of management on the date the statements are made, and Western Copper does not assume any obligation to update forward-looking statements if circumstances or management's beliefs, expectations or opinions should change except as required by law. For the reasons set forth above, investors should not place undue reliance on forward-looking statements. Important factors that could cause actual results to differ materially from Western Copper's expectations include uncertainties involved in fluctuations in gold, copper and other commodity prices and currency exchange rates; uncertainties relating to interpretation of drill results and the geology, continuity and grade of mineral deposits; uncertainty of estimates of capital and operating costs, recovery rates, production estimates and estimated economic return; the need for cooperation of government agencies and First Nations in the exploration and development of properties and the issuance of required permits; the need to obtain additional financing to develop properties and uncertainty as to the availability and terms of future financing; the possibility of delay in exploration or development programs or in construction projects and uncertainty of meeting anticipated program milestones; uncertainty as to timely availability of permits and other governmental approvals; and other risks and uncertainties disclosed in Western Copper's Annual Information Form, Western Copper's annual report on Form 20-F, and other information released by Western Copper and filed with the appropriate regulatory agencies.

**Cautionary note regarding forward-looking statements:** Statements contained in this management discussion and analysis that are not historical fact, such as statements regarding the economic prospects of the Company's projects, the Company's future plans or future revenues, timing of development or potential expansion or improvements, are forward-looking statements as that term is defined in the Private Securities Litigation Reform Act of 1995. Such forward-looking statements are subject to risks and uncertainties which could cause actual results to differ materially from estimated results. Such risks and uncertainties include, but are not limited to, the Company's ability to raise sufficient capital to fund development, changes in general economic conditions or financial markets, changes in prices for the Company's mineral products or increases in input costs, litigation, legislative, environmental and other judicial, regulatory, political and competitive developments in Canada, technological and operational difficulties or inability to obtain permits encountered in connection with our exploration and development activities, labour relations matters, and changing foreign exchange rates, all of which are described more fully in the Company's filings with the Securities and Exchange Commission.

**Cautionary note to U.S. investors:** The terms "measured mineral resource", "indicated mineral resource", and "inferred mineral resource" used in this management discussion and analysis are Canadian geological and mining terms as defined in accordance with National Instrument 43-101, Standards of Disclosure for Mineral Projects ("NI 43-101") under the guidelines set out in the Canadian Institute of Mining, Metallurgy and Petroleum (the CIM) Standards on Mineral Resources and Mineral Reserves. We advise U.S. investors that while such terms are recognized and required under Canadian regulations, the U.S. Securities and Exchange Commission ("SEC") does not recognize them. "Inferred mineral resources" in particular have a great amount of uncertainty as to their existence, and great uncertainty as to their feasibility. It cannot be assumed that all or any part of an inferred mineral resource will ever be upgraded to a higher category. Under Canadian rules estimates of inferred mineral resources may not generally form the basis of feasibility or other economic studies. U.S. investors are cautioned not to assume that any part of an inferred mineral resource exists, or is economically or legally mineable. Disclosure of contained metal expressed is in compliance with NI 43-101, but does not meet the requirements of Industry Guide 7 of the SEC, which will only accept the disclosure of tonnage and grade estimates for non-reserve mineralization.