



Canada Lithium Corp.

**INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE THREE AND NINE MONTH PERIODS ENDED SEPTEMBER 30, 2011 AND 2010**

**(Unaudited)**

**(presented in Canadian dollars unless otherwise noted)**

**INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

<b>As at</b>		<b>September 30</b>	December 31	January 1
(in Canadian dollars) (Unaudited)	<b>Note</b>	<b>2011</b>	2010	2010
		<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>Assets</b>				
Current assets				
Cash and cash equivalents		<b>112,876,141</b>	17,270,593	16,965,277
Trade and other receivables		<b>2,196,444</b>	713,123	104,535
Prepaid expenses and other assets		<b>1,389,402</b>	78,556	425,826
Restricted cash	10	<b>4,192,800</b>	-	-
		<b>120,654,787</b>	18,062,272	17,495,638
Non-current assets				
Investments	5	<b>471,000</b>	763,500	-
Restricted cash	10	<b>3,170,213</b>	295,213	25,000
Property, plant and equipment	6	<b>217,243</b>	62,200	42,023
Mineral properties	7	<b>26,248,841</b>	13,807,319	4,215,034
<b>Total Assets</b>		<b>150,762,084</b>	32,990,504	21,777,695
<b>Liabilities</b>				
Current liabilities				
Trade and other payables		<b>3,552,182</b>	2,637,205	1,426,360
Lease obligations		<b>24,356</b>	-	-
		<b>3,576,538</b>	2,637,205	1,426,360
Non-current liabilities				
Lease obligations		<b>68,640</b>	-	-
<b>Total Liabilities</b>		<b>3,645,178</b>	2,637,205	1,426,360
<b>Shareholders' Equity</b>				
Common shares	8(a)	<b>165,853,778</b>	47,223,249	34,022,711
Warrants	8(b)	-	3,502,239	4,098,101
Contributed surplus	8(c)	<b>8,624,650</b>	3,447,516	2,687,204
Accumulated other comprehensive income (loss)		<b>(196,500)</b>	96,000	-
Accumulated deficit		<b>(27,165,022)</b>	(23,915,705)	(20,456,681)
<b>Total Shareholders' Equity</b>		<b>147,116,906</b>	30,353,299	20,351,335
<b>Total Liabilities and Shareholders' Equity</b>		<b>150,762,084</b>	32,990,504	21,777,695

Contingencies (note 14) and effects of adoption of IFRS (note 4).

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

**INTERIM CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS**

(in Canadian dollars) (Unaudited)	Note	Three Months Ended September 30 2011 \$	Three Months Ended September 30 2010 \$	Nine Months Ended September 30 2011 \$	Nine Months Ended September 30 2010 \$
<b>Expenses</b>					
General and administrative		691,975	494,162	3,005,684	2,046,957
Share-based payment	8(d)	-	393,000	1,566,847	1,328,000
Depreciation	6	13,703	2,174	24,380	6,521
		705,678	889,336	4,596,911	3,381,478
Foreign exchange gain		(323,752)	-	(321,474)	-
Gain on sale of assets	9	-	-	(147,768)	-
Interest and other income	9	(356,808)	(28,308)	(878,352)	(128,967)
<b>Loss for the period</b>		<b>(25,118)</b>	<b>(861,028)</b>	<b>(3,249,317)</b>	<b>(3,252,511)</b>
<b>Other comprehensive loss</b>					
Changes in fair value of available-for-sale investments, net of tax	5	(210,000)	-	(292,500)	-
<b>Comprehensive loss for the period</b>		<b>(235,118)</b>	<b>(861,028)</b>	<b>(3,541,817)</b>	<b>(3,252,511)</b>
<b>Loss per share</b>					
Basic and diluted	11	nil	(0.01)	(0.01)	(0.02)

*Effects of adoption of IFRS (note 4).*

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

**INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**

(in Canadian dollars) (Unaudited)		Common Shares	Warrants	Contributed surplus	Accumulated other comprehensive income (loss)	Accumulated deficit	Total
	Note	\$	\$	\$	\$	\$	\$
<b>Balance - December 31, 2010</b>		47,223,249	3,502,239	3,447,516	96,000	(23,915,705)	<b>30,353,299</b>
Other comprehensive loss		-	-	-	(292,500)	(3,249,317)	<b>(3,541,817)</b>
Bought deal – January 31, 2011	8(a)	118,044,667	-	-	-	-	<b>118,044,667</b>
Warrants exercises	8(a)(b)	507,688	(120,362)	-	-	-	<b>387,326</b>
Warrants expiry	8(b)(c)	-	(3,381,877)	3,381,877	-	-	-
Equity-settled share-based payment	8(a)(c)	78,174	-	1,795,257	-	-	<b>1,873,431</b>
<b>Balance - September 30, 2011</b>		<b>165,853,778</b>	-	<b>8,624,650</b>	<b>(196,500)</b>	<b>(27,165,022)</b>	<b>147,116,906</b>
<b>Balance - January 1, 2010</b>		34,022,711	4,098,101	2,687,204	-	(20,456,681)	<b>20,351,335</b>
Other comprehensive loss		-	-	-	-	(3,252,511)	<b>(3,252,511)</b>
Warrant exercises	8(a)(b)	1,864,065	(516,503)	-	-	-	<b>1,347,562</b>
Equity-settled share-based payment	8(a)(c)	258,984	-	1,319,516	-	-	<b>1,578,500</b>
<b>Balance - September 30, 2010</b>		<b>36,145,760</b>	<b>3,581,598</b>	<b>4,006,720</b>	-	<b>(23,709,192)</b>	<b>20,024,886</b>

*Effects of adoption of IFRS (note 4).*

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

**INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS**

(in Canadian dollars) (Unaudited)	<b>Note</b>	<b>Three Months Ended September 30 2011 \$</b>	Three Months Ended September 30 2010 \$	<b>Nine Months Ended September 30 2011 \$</b>	Nine Months Ended September 30 2010 \$
Cash provided by (used in)					
<b>Operating activities</b>					
Loss for the period		<b>(25,118)</b>	(861,028)	<b>(3,249,317)</b>	(3,252,511)
Non-cash items:					
Depreciation		<b>13,703</b>	2,174	<b>24,380</b>	6,521
Share-based payment		-	393,000	<b>1,566,847</b>	1,328,000
Gain on sale of property, plant and equipment		-	-	<b>(147,768)</b>	-
		<b>(11,415)</b>	(465,854)	<b>(1,805,858)</b>	(1,917,990)
Net change in non-cash working capital	15	<b>(1,054,403)</b>	(599,465)	<b>(2,734,838)</b>	(995,545)
Total operating cash outflows		<b>(1,065,818)</b>	(1,065,319)	<b>(4,540,696)</b>	(2,913,535)
<b>Investing activities</b>					
Change in restricted cash		<b>(7,067,800)</b>	(215,213)	<b>(7,067,800)</b>	(215,213)
Purchase of property, plant and equipment		<b>(43,580)</b>	-	<b>(82,000)</b>	-
Proceeds from sale of property, plant and equipment		-	-	<b>147,768</b>	-
Expenditures on mineral properties		<b>(6,353,728)</b>	(2,885,031)	<b>(11,337,790)</b>	(5,601,197)
Total investing cash outflows		<b>(13,465,108)</b>	(3,100,244)	<b>(18,339,822)</b>	(5,816,410)
<b>Financing activities</b>					
Issuance of common shares for cash, net		-	-	<b>118,044,667</b>	-
Exercise of options for cash		-	75,000	<b>58,500</b>	133,500
Exercise of warrants for cash		<b>14,400</b>	809,787	<b>387,327</b>	1,374,562
Repayment of lease obligations		<b>(4,428)</b>	-	<b>(4,428)</b>	-
Total financing cash inflows		<b>9,972</b>	884,787	<b>118,486,066</b>	1,508,062
<b>Increase (decrease) in cash and cash equivalents during the period</b>		<b>(14,520,954)</b>	(3,280,776)	<b>95,605,548</b>	(7,221,883)
<b>Cash and cash equivalents, beginning of period</b>		<b>127,397,095</b>	13,024,170	<b>17,270,593</b>	16,965,277
<b>Cash and cash equivalents, end of period</b>		<b>112,876,141</b>	9,743,394	<b>112,876,141</b>	9,743,394

*Effects of adoption of IFRS (note 4).*

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



## NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three and nine month periods ended September 30, 2011 and 2010 (Unaudited)

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### 1. NATURE OF OPERATIONS

Canada Lithium Corp. and its subsidiary (“**Canada Lithium**” or the “**Company**”) are engaged in the business of exploration and development of mineral properties with lithium deposits and is currently focused on the Quebec Lithium Project near Val d’Or, Quebec. Canada Lithium’s registered head office is located at 401 Bay Street, Toronto, Ontario, Canada and shares of the Company are traded on the Toronto Stock Exchange.

### 2. STATEMENT OF COMPLIANCE

These condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“**IFRS**”) applicable to the preparation of interim financial statements, including *IAS 34, Interim Financial Reporting* and *IFRS 1, First-time Adoption of IFRS (“IFRS 1”)*. The Company has consistently applied the same accounting policies in its opening IFRS consolidated statement of financial position at January 1, 2010 and throughout all periods presented, as if these policies had always been in effect. Note 4 discloses the impact of the transition to IFRS on the Company’s reported financial position, financial performance and cash flows, including the nature and effect of significant changes in accounting policies from those used in the Company’s consolidated financial statements for the year ended December 31, 2010.

The policies applied in these condensed interim consolidated financial statements are based on IFRS issued and outstanding as of November 8, 2011, the date the Board of Directors approved the statements. Any subsequent changes to IFRS that are given effect in the Company’s annual consolidated financial statements for the year ending December 31, 2011 could result in restatement of these interim consolidated financial statements, including the transition adjustments recognized on changeover to IFRS.

### 3. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

The basis of presentation, and accounting policies and methods of their application in these interim consolidated financial statements are consistent with those used in the Company’s first IFRS financial statements, for the three months ended March 31, 2011, and should be read in conjunction with those statements. The interim consolidated financial statements should also be read in conjunction with the Company’s pre-changeover Canadian generally accepted accounting principles (“**GAAP**”) annual financial statements for the year ended December 31, 2010. Note 4 discloses IFRS information for the year ended December 31, 2010 not provided in the 2010 annual financial statements.

#### New accounting pronouncements

##### a) *IFRS 7, Financial Instruments: Disclosures*

In October 2010, the IASB issued amendments to *IFRS 7 - Financial Instruments: Disclosures* that enhance the disclosure requirements in relation to transferred financial assets. The amendments are effective for annual periods beginning on or after July 1, 2011, with earlier application permitted. The Company does not anticipate this amendment will have a significant impact on its consolidated financial statements.

##### b) *IFRS 9, Financial Instruments*

In November 2009, *IFRS 9 – Financial Instruments (“IFRS 9”)* was issued and contained requirements for financial assets. This standard addresses classification and measurement of financial assets and replaces the multiple category and measurement models in *IAS 39 – Financial Instruments, Recognition and Measurement (“IAS 39”)* for debt instruments with a new mixed measurement model having only two categories: amortized cost and fair value through profit or loss. *IFRS 9* also replaces the models for measuring equity instruments, and such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income. Where such equity instruments are measured at fair value through other comprehensive income, dividends are recognized in profit or loss to the extent not clearly representing a return of investment, are recognized in profit or loss; however, other gains and losses (including impairments) associated with such



## NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

**For the three and nine month periods ended September 30, 2011 and 2010 (Unaudited)**

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instruments remain in accumulated comprehensive income indefinitely. Requirements for financial liabilities were added in October 2010 and they largely carried forward existing requirements in *IAS 39*, except that fair value changes due to credit risk for liabilities designated at fair value through profit and loss would generally be recorded in other comprehensive income. This standard is required to be applied for accounting periods beginning on or after January 1, 2013, with earlier adoption permitted. The Company has not yet assessed the impact of the standard or determined whether it will adopt the standard early.

### **c) IFRS 10, Consolidated Financial Statements**

In May 2011, the IASB issued *IFRS 10 - Consolidated Financial Statements ("IFRS 10")*, which supersedes SIC 12 and the requirements relating to consolidated financial statements in *IAS 27 - Consolidated and Separate Financial Statements*. *IFRS 10* is effective for annual periods beginning on or after January 1, 2013, with earlier application permitted under certain circumstances. *IFRS 10* establishes control as the basis for an investor to consolidate its investees; and defines control as an investor's power over an investee with exposure, or rights, to variable returns from the investee and the ability to affect the investor's returns through its power over the investee. The Company has not yet assessed the impact of the standard or determined whether it will adopt the standard early.

### **d) IFRS 11, Joint Arrangements**

*IFRS 11 - Joint Arrangements ("IFRS 11")* introduces a principle-based approach where a party to a joint arrangement recognizes its own rights and obligations arising from the arrangement. Joint arrangements not structured through a separate vehicle are classified as a "joint operation" and the accounting for transactions is in accordance with the contractual arrangement. Joint arrangements structured through a separate vehicle must be evaluated based on their legal form and the terms of the contractual arrangement; these arrangements are classified as either a joint operation or a joint venture based on this evaluation. Joint ventures are accounted for using the equity method. The most significant impact of this standard is therefore the elimination of proportionate consolidation as a method to account for joint arrangements. *IFRS 11* is effective for annual periods beginning on or after January 1, 2013. The adoption of this standard will not have an impact on the Company.

### **e) IFRS 12, Disclosure of Interests in Other Entities**

*IFRS 12 - Disclosure of Interests in Other Entities ("IFRS 12")* enhances, and replaces the disclosure requirements for subsidiaries, joint arrangements, associates and unconsolidated structured entities. The standard requires a reporting entity to disclose information that helps users assess the nature and financial effects of the reporting entity's relationship with other entities. Disclosure requirements include information that helps users in understanding the judgments and assumptions made by a reporting entity when deciding how to classify its involvement with another entity, understand the interest that non-controlling interests have in consolidated entities, and assess the nature of the risks associated with interests in other entities. *IFRS 12* is effective for annual periods beginning on or after January 1, 2013. The adoption of this standard will not have an impact on the Company.

### **f) IFRS 13, Fair Value Measurement**

In May 2011, as a result of the convergence project undertaken by the IASB and the US Financial Accounting Standards Board, to develop common requirements for measuring fair value and for disclosing information about fair value measurements, the IASB issued *IFRS 13 - Fair Value Measurement ("IFRS 13")*. *IFRS 13* is effective for annual periods beginning on or after January 1, 2013, with earlier application permitted. *IFRS 13* defines fair value and sets out a single framework for measuring fair value which is applicable to all IFRSs that require or permit fair value measurements or disclosures about fair value measurements. *IFRS 13* requires that when using a valuation technique to measure fair value, the use of relevant observable inputs should be maximized while unobservable inputs should be minimized. The Company does not anticipate the application of *IFRS 13* to have a material impact on its consolidated financial statements.



## NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three and nine month periods ended September 30, 2011 and 2010 (Unaudited)

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### g) *IAS 1, Presentation of Financial Statements*

In June 2011, the IASB issued amendments to *IAS 1 - Presentation of Financial Statements ("IAS 1")* that require an entity to group items presented in the Statement of Comprehensive Income on the basis of whether they may be reclassified to earnings subsequent to initial recognition. For those items presented before taxes, the amendments to *IAS 1* also require that the taxes related to the two separate groups be presented separately. The amendments are effective for annual periods beginning on or after July 1, 2012, with earlier adoption permitted. The Company does not anticipate the application of the amendments to *IAS 1* to have a material impact on its consolidated financial statements.

### h) *IAS 12, Income Taxes*

In December 2010, the IASB issued an amendment to *IAS 12 - Income Taxes* that provides a practical solution to determining the recovery of investment properties as it relates to the accounting for deferred income taxes. This amendment is effective for annual periods beginning on or after January 1, 2012, with earlier application permitted. The Company does not anticipate this amendment to have a significant impact on its consolidated financial statements.

### i) *IAS 19, Employee Benefits*

In June 2011, the IASB issued amendments to *IAS 19 - Employee Benefits* that introduced changes to the accounting for defined benefit plans and other employee benefits. The amendments include elimination of the options to defer, or recognize in full in earnings, actuarial gains and losses and instead mandates the immediate recognition of all actuarial gains and losses in other comprehensive income and requires use of the same discount rate for both the defined benefit obligation and expected asset return when calculating interest cost. Other changes include modification of the accounting for termination benefits and classification of other employee benefits. The adoption of this standard will not have an impact on the Company. This standard is effective for annual periods beginning on or after January 1, 2013, with earlier application permitted. The adoption of this standard will not have an impact on the Company.

### j) *IFRIC 20, Stripping costs in the production phase of a mine*

In October 2011, the IASB issued *IFRIC 20 - Stripping Costs in the Production Phase of a Mine ("IFRIC 20")*. *IFRIC 20* clarifies the requirements for accounting for the costs of stripping activity in the production phase when two benefits accrue: (i) usable ore that can be used to produce inventory and (ii) improved access to further quantities of material that will be mined in future periods. *IFRIC 20* is effective for annual periods beginning on or after January 1, 2013 with earlier application permitted and includes guidance on transition for pre-existing stripping assets. The Company is currently evaluating the impact the new guidance is expected to have on its consolidated financial statements.

## 4. TRANSITION TO IFRS

IFRS had been adopted as at January 1, 2011, as required for publicly accountable enterprises in Canada. The effective transition date was January 1, 2010, and 2010 comparative information has been adjusted from what was previously reported under GAAP to conform to IFRS.

The effect of the Company's transition to IFRS is summarized in this note as follows:

- a) Transition elections
- b) Reconciliation of equity and comprehensive income as previously reported under GAAP to IFRS
- c) Adjustments to the statement of cash flows
- d) Additional IFRS information for the year ended December 31, 2010

**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

For the three and nine month periods ended September 30, 2011 and 2010 (Unaudited)

**a) Transition elections**

Under *IFRS 1*, IFRS must be applied retrospectively at the transition date, changing retained earnings to incorporate all adjustments to assets and liabilities as stated previously under GAAP, except where exemptions are applied. The Company has assessed all available transition exceptions and exemptions and has chosen not to apply any elections.

**b) Reconciliations**

The following table illustrates the reconciliation of the Company's statements of financial position from GAAP to IFRS.

As at	Notes	December 31, 2010			September 30, 2010			January 1, 2010		
		GAAP \$	Adj. \$	IFRS \$	GAAP \$	Adj. \$	IFRS \$	GAAP \$	Adj. \$	IFRS \$
Cash and cash equivalents		17,270,593	-	17,270,593	9,743,394	-	9,743,394	16,965,277	-	16,965,277
Trade and other receivables		713,123	-	713,123	549,818	-	549,818	104,535	-	104,535
Prepaid expenses and other assets		78,556	-	78,556	527,237	-	527,237	425,826	-	425,826
		18,062,272	-	18,062,272	10,820,449	-	10,820,449	17,495,638	-	17,495,638
Investments		763,500	-	763,500	-	-	-	-	-	-
Restricted cash		295,213	-	295,213	240,213	-	240,213	25,000	-	25,000
Property, plant and equipment	4(c)(i)	62,599	(399)	62,200	35,502	-	35,502	42,023	-	42,023
Exploration and evaluation assets		13,807,319	-	13,807,319	9,557,963	-	9,557,963	4,215,034	-	4,215,034
		32,990,903	(399)	32,990,504	20,654,127	-	20,654,127	21,777,695	-	21,777,695
Trade and other payables		2,637,205	-	2,637,205	629,241	-	629,241	1,426,360	-	1,426,360
Common shares	4(c)(ii)	48,178,374	(955,125)	47,223,249	37,100,885	(955,125)	36,145,760	34,977,836	(955,125)	34,022,711
Warrants		3,502,239	-	3,502,239	3,581,598	-	3,581,598	4,098,101	-	4,098,101
Contributed surplus		3,447,516	-	3,447,516	4,006,720	-	4,006,720	2,687,204	-	2,687,204
Accumulated other comprehensive income		96,000	-	96,000	-	-	-	-	-	-
Accumulated deficit	4(c)	(24,870,431)	954,726	(23,915,705)	(24,664,317)	955,125	(23,709,192)	(21,411,806)	955,125	(20,456,681)
		30,353,698	(399)	30,353,299	20,024,886	-	20,024,886	20,351,335	-	20,351,335
		32,990,903	(399)	32,990,504	20,654,127	-	20,654,127	21,777,695	-	21,777,695

The following table illustrates the reconciliation of the Company's comprehensive income from GAAP to IFRS as at September 30, 2010.

Notes	Three month period ended September 30, 2010			Nine month period ended September 30, 2010			Year ended December 31, 2010		
	GAAP \$	Adj. \$	IFRS \$	GAAP \$	Adj. \$	IFRS \$	GAAP \$	Adj. \$	IFRS \$
General and administration	494,162	-	494,162	2,046,957	-	2,046,957	3,140,211	-	3,140,211
Share-based payment	393,000	-	393,000	1,328,000	-	1,328,000	1,328,000	-	1,328,000
Depreciation	2,174	-	2,174	6,521	-	6,521	8,295	399	8,694
	889,336	-	889,336	3,381,478	-	3,381,478	4,476,506	399	4,476,905
Gain on sale of property, plant and equipment	-	-	-	-	-	-	(866,716)	-	(866,716)
Interest and other income	(28,308)	-	(28,308)	(128,967)	-	(128,967)	(151,165)	-	(151,165)
Loss for the period	(861,028)	-	(861,028)	(3,252,511)	-	(3,252,511)	(3,458,625)	(399)	(3,459,024)
Changes in fair value of available-for-sale investments	-	-	-	-	-	-	96,000	-	96,000
Comprehensive loss for the period	(861,028)	-	(861,028)	(3,252,511)	-	(3,252,511)	(3,362,625)	(399)	(3,363,024)

**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS****For the three and nine month periods ended September 30, 2011 and 2010 (Unaudited)**

The following table is a summary of transition adjustments to the Company's deficit from GAAP to IFRS.

	Notes	2010		
		December 31 \$	September 30 \$	January 1 \$
Deficit as reported under GAAP		(24,870,431)	(24,664,317)	(21,411,806)
IFRS adjustments:				
Property, plant and equipment	4(c)(i)	(399)	-	-
Flow-through share issuances	4(c)(ii)	955,125	955,125	955,125
Deficit as reported under IFRS		(23,915,705)	(23,709,192)	(20,456,681)

**c) Adjustments**

**(i) Property, plant and equipment.** At December 31, 2010, property, plant and equipment was decreased by \$399 as a result of the change in depreciation method from declining-balance to straight-line, under *IAS 16, Property, plant and equipment*.

**(ii) Flow-through share issuances.** At January 1, 2010, the balance of common shares was decreased and retained earnings increased by \$955,125 as a result of the application of IFRS treatment of flow-through shares, whereby proceeds from flow-through share issuances are allocated between the offering of shares and the taxable benefits based on the difference between the quoted price of the existing shares and the amount the investor pays. A liability related to flow-through share issuances is recognized for this difference and is extinguished by recognizing an income tax recovery when the tax deductions are renounced. This resulted in the Company reducing the proceeds of flow-through share issuances by the future tax benefits resulting from the renunciation of the E&E expenditures in favour of the flow-through share subscribers.

**d) Additional IFRS information for the year ended December 31, 2010****(i) Loss per share**

	December 31 2010
<b>For the year ended</b>	
Loss for the period (\$)	(3,459,024)
Basic and diluted weighted-average number of shares outstanding	151,228,451
Loss per share	
Basic and diluted (\$)	(0.02)

**(ii) Cash flow statement.** The IFRS transition adjustments above did not have an impact on the Company's cash and cash equivalents. Differences in the Company's cash flow statements between GAAP and IFRS are the result of non-cash adjustments to items in the statements of loss outlined above.

**(iii) Compensation awarded to key management.<sup>(1)</sup>**

	Year ended December 31, 2010 \$
Salaries and fees	1,032,873
Short-term employment benefits	-
Share-based payments	1,242,101
	2,274,974

<sup>(1)</sup>Key management is defined as the Chief Executive Officer, Chief Financial Officer, Chief Operating Officer and the Board of Directors.

**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

For the three and nine month periods ended September 30, 2011 and 2010 (Unaudited)

**5. INVESTMENTS**

	September 30 2011		December 31 2010		January 1 2010	
	Shares #	Amount \$	Shares #	Amount \$	Shares #	Amount \$
San Gold Corporation ("San Gold")	150,000	327,000	150,000	595,500	-	-
SGX Resources Inc. ("SGX")	600,000	144,000	600,000	168,000	-	-
		<b>471,000</b>		<b>763,500</b>		<b>-</b>

Upon the closing of the sale of the Tully Nickel Offsets property, the Company received 150,000 shares of San Gold and 600,000 shares of SGX (note 7). At the date of closing (October 20, 2010), the San Gold shares had a fair market value of \$487,500 and the SGX shares had a fair market value of \$180,000.

The available-for-sale investments were marked-to-market, which resulted in a revaluation loss of \$210,000 and \$292,500, respectively for the three and nine month periods ended September 30, 2011, recognized in accumulated other comprehensive income.

At December 31, 2010, the available-for-sale investments were marked-to-market which resulted in a revaluation gain of \$96,000 recognized in accumulated other comprehensive income.

**6. PROPERTY, PLANT AND EQUIPMENT**

	Vehicles \$	Computer equipment \$	Total \$
At January 1, 2010			
Cost	43,472	-	<b>43,472</b>
Accumulated depreciation	(1,449)	-	<b>(1,449)</b>
Net book value	42,023	-	<b>42,023</b>
<b>Year ended December 31, 2010</b>			
Opening net book value	42,023	-	<b>42,023</b>
Additions	-	28,872	<b>28,872</b>
Depreciation for the period	(8,695)	-	<b>(8,695)</b>
Closing net book value	33,328	28,872	<b>62,200</b>
At December 31, 2010			
Cost	43,472	28,872	<b>72,344</b>
Accumulated depreciation	(10,144)	-	<b>(10,144)</b>
Net book value	33,328	28,872	<b>62,200</b>
<b>Nine months ended September 30, 2011</b>			
Opening net book value	33,328	28,872	<b>62,200</b>
Additions	111,909	67,514	<b>179,423</b>
Depreciation for the period	(10,885)	(13,495)	<b>(24,380)</b>
Closing net book value	134,352	82,891	<b>217,243</b>
At September 30, 2011			
Cost	155,381	96,386	<b>251,767</b>
Accumulated depreciation	(21,029)	(13,495)	<b>(34,524)</b>
Net book value	134,352	82,891	<b>217,243</b>

**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS****For the three and nine month periods ended September 30, 2011 and 2010 (Unaudited)****7. MINERAL PROPERTIES**

The following table summarizes the exploration and evaluation expenditures and development expenditures on the Company's mineral properties.

	Development assets		Exploration and evaluation assets		Total \$
	Quebec Lithium \$	Quebec Lithium \$	Tully Township \$		
<b>January 1, 2010</b>		4,214,250	784		<b>4,215,034</b>
Expenditures capitalized	-	9,593,069	-		<b>9,593,069</b>
Disposals in the year	-	-	(784)		<b>(784)</b>
<b>December 31, 2010</b>	-	13,807,319	-		<b>13,807,319</b>
Expenditures capitalized	-	5,891,570	-		<b>5,891,570</b>
<b>June 30, 2011</b>	-	19,698,889	-		<b>19,698,889</b>
Transfer from exploration to development assets	19,698,889	(19,698,889)	-		-
Expenditures capitalized	6,549,952	-	-		<b>6,549,952</b>
<b>September 30, 2011</b>	<b>26,248,841</b>	-	-		<b>26,248,841</b>

**a) Quebec Lithium Project**

The Company's wholly-owned Quebec Lithium Project was acquired on May 20, 2008 at a total cost of \$1,250,000. The consideration of \$1,250,000 was paid through the issuance of 6,000,000 common shares of Canada Lithium valued at \$0.15 per share and \$350,000 paid in cash.

In the third quarter of 2011, the Company commenced the site construction for the Quebec Lithium Project, following the technical and economic feasibility study on the Project completed in June 2011. Accordingly, all previously capitalized exploration and evaluation assets related to the Project totaling \$19,698,889 were transferred to and classified as mineral property development assets at September 30, 2011. There was no impairment in the exploration and evaluation assets based on the impairment assessment performed by the Company immediately before the reclassification.

During the three and nine months ended September 30, 2011, the Company capitalized development costs related to the Project totaling \$6,549,952 and \$12,441,522, respectively, bringing the total carrying value of the Project to \$26,248,841 at September 30, 2011.

The development assets are not amortized during the development period. Upon commencement of commercial production, the costs are reclassified to the appropriate categories of property, plant and equipment and are depreciated according to the Company's accounting policy.

During the year ended December 31, 2010, the Company capitalized certain exploration costs related to the Project totaling \$9,593,069, bringing the total carrying value of the Project to \$13,807,319 at December 31, 2010.

**b) Tully Township (Nickel Offsets)**

The Company held a 100% interest, subject to a 1.5% net smelter royalty and a 5% net profit interest, in certain contiguous claim units in Tully Township, Porcupine Mining Division, District of Cochrane, Ontario (the "**Nickel Offsets**" property).

On August 10, 2010, the Company announced that it had entered into an agreement to sell the Nickel Offsets property to San Gold and SGX for a consideration of \$200,000 in cash, 600,000 common shares of SGX and

**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS****For the three and nine month periods ended September 30, 2011 and 2010 (Unaudited)**

150,000 common shares of San Gold for total proceeds of \$867,500. The sale closed on October 20, 2010, and consequently, the carrying value of the property was written down to \$nil and a gain of \$866,716, net of a write-down of \$784, was recognized in the consolidated statement of operations at December 31, 2010.

**8. SHAREHOLDERS EQUITY****a) Common shares**

The authorized share capital of the Company is comprised of an unlimited number of voting common shares.

The following table summarizes the common share transactions for the period from January 1, 2010 to September 30, 2010.

	Number of shares #	Amount \$
<b>Balance – January 1, 2010</b>	<b>147,015,702</b>	<b>34,022,711</b>
Share cancellation	(11,827)	-
Option exercises	1,040,000	258,984
Warrant exercises	3,623,840	1,864,065
<b>Balance – September 30, 2010</b>	<b>151,667,715</b>	<b>36,145,760</b>
Private placement – November 26, 2010	12,500,000	10,000,000
Less: Share issue costs	-	(553,650)
Option exercises	1,520,000	1,138,315
Warrant exercises	1,727,907	492,824
<b>Balance – December 31, 2010</b>	<b>167,415,622</b>	<b>47,223,249</b>
Bought deal financing – January 31, 2011	84,352,500	118,044,667
Option exercises	280,000	78,174
Warrant exercises	484,159	507,688
<b>Balance – September 30, 2011</b>	<b>252,532,281</b>	<b>165,853,778</b>

During the three and nine months ended September 30, 2011, 18,000 and 484,159 common shares were issued, respectively upon the exercise of warrants. Cash proceeds of \$14,400 and \$387,327 were received, respectively and the fair value of the exercised warrants of \$4,475 and \$120,361, respectively, was transferred from warrants to share capital.

During the nine months ended September 30, 2011, 280,000 common shares were issued upon the exercise of stock options. Cash proceeds of \$58,500 were received and the fair value of the exercised options of \$19,674 was transferred from contributed surplus to share capital. There were no option exercises in the three month period ended September 30, 2011.

On January 31, 2011, the Company closed a bought deal financing for 73,350,000 common shares at a price of \$1.50 per common share, for gross proceeds of \$110,025,000. Costs of the issue totaled \$8,484,083. On February 4, 2011, the underwriters of the bought deal financing exercised the overallotment option, resulting in the issue of 11,002,500 additional common shares for gross proceeds of \$16,503,750.

On November 26, 2010, the Company closed a private placement of 12,500,000 common shares at a price of \$0.80 per common share, for gross proceeds of \$10,000,000. Costs of the issue totaled \$553,650.

On July 20, 2010, the Company announced that it had completed the cancellation of all outstanding shareholdings of less than 100 shares, the implementation of which resulted in the elimination of 11,827 common shares in the year ended December 31, 2010.

**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS****For the three and nine month periods ended September 30, 2011 and 2010 (Unaudited)****b) Share purchase warrants**

The following table provides a summary of common share purchase warrants activities from January 1, 2010 to September 30, 2011.

	Warrants outstanding <sup>(1)</sup> #	Amount \$
<b>Balance – January 1, 2010</b>	<b>19,072,705</b>	<b>4,098,101</b>
Warrants exercised	(3,623,840)	(516,503)
<b>Balance – September 30, 2010</b>	<b>15,448,865</b>	<b>3,581,598</b>
Warrants exercised	(1,727,908)	(79,248)
Warrants expired	(465)	(111)
<b>Balance – December 31, 2010</b>	<b>13,720,492</b>	<b>3,502,239</b>
Warrants exercised	(484,159)	(120,362)
Warrants expired	(13,236,333)	(3,381,877)
<b>Balance – September 30, 2011</b>	<b>-</b>	<b>-</b>

<sup>(1)</sup> Each warrant entitles the holder to acquire one common share of the Company.

The following table summarizes the assumptions used with the Black-Scholes valuation model for the determination of costs for warrants issued during the year ended December 31, 2009 which expired on September 30, 2011.

	September 30, 2009
Fair value per warrant	\$0.25
Expected life in years	2
Share price	\$0.50
Exercise price	\$0.80
Volatility	116.79%
Expected dividends	-
Risk free interest rate	1.28%

**c) Contributed surplus**

The following table summarizes the contributed surplus transactions from January 1, 2010 to September 30, 2011.

	Amount \$
<b>Balance – January 1, 2010</b>	<b>2,687,204</b>
Options granted	1,418,000
Options exercised	(98,484)
<b>Balance – September 30, 2010</b>	<b>4,006,720</b>
Options exercised	(559,315)
Warrants expired	111
<b>Balance – December 31, 2010</b>	<b>3,447,516</b>
Options granted	1,814,931
Options exercised	(19,674)
Warrants expired	3,381,877
<b>Balance – September 30, 2011</b>	<b>8,624,650</b>

**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS****For the three and nine month periods ended September 30, 2011 and 2010 (Unaudited)****d) Stock option plan**

The Company has a common share purchase option plan (the "Plan") for directors, officers, consultants and employees. The maximum number of shares available under the Plan is 10% of the outstanding common shares at the end of the period. Options granted under the Plan have a five-year term and vest immediately. Options are granted at a price no lower than the market price of the common shares at the date of grant.

The Company uses the fair value method of accounting for share-based payments and recognized a share-based payment expense for the nine months ended September 30, 2011 of \$1,566,847. Capitalized to the Quebec Lithium Project in the nine months ended September 30, 2011 was \$248,084. There were no share-based payments in the 3 month period ended September 30, 2011.

For the year ended December 31, 2010, the Company recognized a share-based payment expense of \$1,328,000. In addition, capitalized to the Quebec Lithium Project in the year ended December 31, 2010 was \$90,000.

A summary of the Company's outstanding options at January 1, 2010, December 31, 2010 and September 30, 2011 is presented below.

	Options outstanding #	Weighted average exercise price \$
<b>Balance – January 1, 2010</b>	<b>8,165,000</b>	<b>0.35</b>
Granted	3,210,000	0.43
Exercised	(2,560,000)	0.29
<b>Balance – December 31, 2010</b>	<b>8,815,000</b>	<b>0.44</b>
Granted	3,475,000	0.65
Cancelled	(235,000)	0.56
Exercised	(280,000)	0.21
<b>Balance – September 30, 2011</b>	<b>11,775,000</b>	<b>0.50</b>

On June 22, 2011, the Company issued 3,475,000 stock options to employees and directors of the Company at a strike price of \$0.65.

The following table summarizes the assumptions used with the Black-Scholes valuation model for the determination of the cost of stock options issued during the nine months ended September 30, 2011.

	June 22 2011
Fair value per option	\$0.52
Expected life in years	3
Share price	\$0.65
Exercise price	\$0.65
Volatility	147.36%
Expected dividends	-
Forfeiture rate	0%
Risk free interest rate	1.80%

**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS****For the three and nine month periods ended September 30, 2011 and 2010 (Unaudited)**

The following table summarizes the assumptions used with the Black-Scholes valuation model for the determination of the cost of stock options issued during the year ended December 31, 2010.

	<b>April 30 2010</b>	<b>May 20 2010</b>	<b>August 10 2010</b>
Fair value per option	\$0.52	\$0.42	\$0.40
Expected life in years	5	5	3
Share price	\$0.61	\$0.52	\$0.61
Exercise price	\$0.50	\$0.52	\$0.61
Volatility	111.21%	110.31%	106.36%
Expected dividends	-	-	-
Forfeiture rate	0%	0%	0%
Risk free interest rate	3.08%	2.69%	2.25%

The following table summarizes information about the options outstanding and exercisable at September 30, 2011.

<b>Exercise price \$</b>	<b>Options #</b>	<b>Weighted average years remaining #</b>	<b>Weighted average exercise price \$</b>
0.15	675,000	2.60	0.15
0.16	200,000	0.36	0.16
0.20	750,000	1.76	0.20
0.23	1,000,000	3.00	0.23
0.52	1,000,000	3.89	0.52
0.55	3,500,000	4.18	0.55
0.61	1,175,000	4.11	0.61
0.65	3,475,000	4.75	0.65
	<b>11,775,000</b>		

**9. INTEREST AND OTHER INCOME**

Interest income for the three and nine month periods ended September 30, 2011 was \$356,808 and \$878,352, respectively, which related to the interest earned on GICs and cash on deposit at a major Canadian bank. For the three and nine month periods ended September 30, 2010, interest income was \$28,308 and \$81,665, respectively.

The Company recorded a gain on sale of assets of \$147,768 in the nine months ended September 30, 2011, related to the sale of miscellaneous equipment used on properties that were written off in prior periods.

Other income for the nine months ended September 30, 2010 was \$47,302, which related to a reimbursement of expenditures on a property with a value of \$nil in the current period.

**10. RESTRICTED CASH**

On August 10, 2011, the Company issued a \$2,875,000 cash-backed standby letter of credit to Hydro-Quebec for the construction of a high voltage power infrastructure at the Quebec Lithium Project, which will be released within the first three years of operations at its Quebec Lithium Project mine based on projected power consumption rates.

On July 14, 2011, pursuant to a purchase agreement between Metso Inc. and the Company, a US\$4,000,000 cash-backed standby letter of credit was issued to Metso Inc. for the purchase of a ball mill, rod mill and kiln, representing the amount of the final two payments, to be drawn down upon final shipment, which is expected in



## NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

### For the three and nine month periods ended September 30, 2011 and 2010 (Unaudited)

the second quarter of 2012. Accordingly, it has been classified under current assets in the interim consolidated statements of financial position.

The Company issued a Letter of Guarantee to the Ontario Government in the amount of \$25,000 relating to a resource property formerly held by the Company in 2010. This letter is secured by a guaranteed investment certificate for \$25,000 and will only be released when the interest in these properties is assumed by another party, or when the Ministry of Northern Development, Mines and Forestry is able to confirm that reclamation is not required on the property.

On July 28, 2010, the Company lodged a cash bond in the amount of \$215,213 to cover the cost of a legal claim made against the Company.

The Company also has a \$55,000 GIC with a major Canadian bank to secure charges made against a corporate credit card.

#### 11. LOSS PER SHARE

For the three and nine month periods ended September 30, 2011 and 2010, stock options and common share purchase warrants outstanding have been excluded from the computation of diluted securities as these would be considered to be anti-dilutive.

	<b>Three Months Ended September 30 2011</b>	Three Months Ended September 30 2010	<b>Nine Months Ended September 30 2011</b>	Nine Months Ended September 30 2010
Loss for the period (\$)	<b>(25,118)</b>	(861,028)	<b>(3,249,317)</b>	(3,252,511)
Basic and diluted weighted-average number of shares outstanding	<b>252,530,129</b>	150,187,247	<b>243,059,578</b>	149,122,085
Loss per share				
Basic and diluted (\$)	<b>nil</b>	(0.01)	<b>(0.01)</b>	(0.02)

#### 12. RELATED PARTY TRANSACTIONS

Included in general and administrative expenses for the three and nine month periods ended September 30, 2011 are consulting fees in the amount of \$nil and \$18,000, respectively (three and nine months ended September 30, 2010 – \$18,471 and \$170,136, respectively), charged by officers and directors of the Company.

Capitalized to mineral properties during the three and nine months ended September 30, 2010 are geological consulting fees in the amount of \$32,750 and \$184,750, \$nil in the three and nine month periods ended September 30, 2011, paid to a director and to a company controlled by an officer of the Company.

Included in trade and other payables at September 30, 2011 is \$nil (December 31, 2010 - \$111,173) owing to directors and officers of the Company.

In addition, included in trade and other payables at September 30, 2011 is an amount totaling \$57,065 (December 31, 2010 - \$97,429) due to another corporation, related in that it has officers in common with Canada Lithium. During the three and nine month periods ended September 30, 2011, the related company charged Canada Lithium for certain management services, office space, and third-party purchases on behalf of the Company aggregating \$85,913 and \$187,724, respectively.

These transactions are in the normal course of operations and are measured at the exchange amount of consideration established and agreed to by the parties involved, having regard to prevailing market rates.

**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

For the three and nine month periods ended September 30, 2011 and 2010 (Unaudited)

**Compensation awarded to key management:**

	<b>Three Months Ended September 30 2011 \$</b>	Three Months Ended September 30 2010 \$	<b>Nine Months Ended September 30 2011 \$</b>	Nine Months Ended September 30 2010 \$
Salaries and fees	<b>222,500</b>	125,111	<b>686,250</b>	473,361
Short-term employment benefits	-	-	<b>75,000</b>	-
Share-based payment	-	339,575	<b>1,410,162</b>	754,275
	<b>222,500</b>	464,686	<b>2,171,412</b>	1,227,636

**13. COMMITMENTS**

- a) The Company's activities are subject to environmental regulation (including regular environmental impact assessments and permitting) in each of the jurisdictions in which its properties are located. Such regulations cover a wide variety of matters including, without limitation, prevention of waste, pollution and protection of the environment, labour relations and worker safety. The Company may also be subject under such regulations to clean-up costs and liability for toxic or hazardous substances which may exist on or under any of its properties or which may be produced as a result of its operations. It is likely that environmental legislation and permitting will evolve in a manner which will require stricter standards and enforcement. This may include increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects and a higher degree of responsibility for companies, their directors and employees.
- b) In addition to the cash-backed standby letter of credit issued pursuant to a purchase agreement for the ball mill, rod mill and kiln as disclosed in note 10, the Company has also committed funds in 2012 to complete the purchase of this equipment and other long-lead mobile mining equipment.
- c) The Company is required to pay certain fees every two years to the Quebec government in order to maintain the mineral rights that the Company holds. The Company also has lease payments for rented office space and a services agreement for shared office space and certain employee costs.

The following table outlines the estimated aggregate annual payments.

For the years ending December 31, 2012	10,448,500
2013	1,149,800
2014	1,149,300
2015	1,149,800
2016	1,149,300
2017	423,500
Thereafter	357,500

**14. CONTINGENCIES & LITIGATION**

On April 11, 2011, the Company announced a proposed class action lawsuit that has been commenced in the Ontario Superior Court of Justice against the Company, its directors and certain officers relating to a mineral resource estimate for the Quebec Lithium Project that was announced by the Company on October 28, 2010 and incorporated into various disclosure documents from October 28, 2010 to February 28, 2011. It is not possible at this time to assess the Company's potential liability, if any.

On November 18, 2008, a statement of claim was filed in the Manitoba Court of Queen's Bench between 1984 Enterprises Inc. ("1984"), as plaintiff, and Strider Resources Limited, Canada Lithium and its directors, Cuprus Mining Corporation ("Cuprus"), as defendants, with respect to \$215,213 plus interest and costs owing under a



## NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

**For the three and nine month periods ended September 30, 2011 and 2010 (Unaudited)**

contract dated May 26, 2008, between Cuprus and 1984. 1984 has claimed the amounts owing against Cuprus and has alleged any amounts Canada Lithium received from Cuprus are trust funds under the Builders' Lien Act (Manitoba) and Canada Lithium wrongfully appropriated and converted any amounts paid to it. Due to the inherent uncertainties of litigation, the final outcome of the case is uncertain and it is not possible to determine the amount of any possible losses. Canada Lithium will continue to defend its position in this litigation that the claims against Canada Lithium, and its directors and officers, are without merit.

On July 28, 2010, the Company lodged a cash bond in the amount of \$215,213 to cover the cost of the claim. The bond was lodged with the Court in Manitoba to facilitate any potential sale of the Company's plant and equipment located at the Wekusko site in Manitoba.

### 15. SUPPLEMENTARY CASH FLOW INFORMATION

	<b>Three Months Ended September 30 2011 \$</b>	Three Months Ended September 30 2010 \$	<b>Nine Months Ended September 30 2011 \$</b>	Nine Months Ended September 30 2010 \$
<b>Cash paid during the year for:</b>				
Taxes	-	-	-	-
Interest	-	-	-	-
<b>Net change in non-cash working capital</b>				
Trade and other receivables	<b>(740,978)</b>	(232,789)	<b>(1,483,321)</b>	(445,283)
Prepaid expenses and other assets	<b>(35,081)</b>	(78,304)	<b>(1,310,846)</b>	(101,411)
Trade and other payables	<b>(278,344)</b>	(288,372)	<b>59,329</b>	(448,851)
	<b>(1,054,403)</b>	(599,465)	<b>(2,734,838)</b>	(995,545)