



Canada Lithium Corp.

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010
(presented in Canadian dollars unless otherwise noted)



Canada Lithium Corp.

Management's Responsibility for Financial Reporting

The accompanying consolidated financial statements have been prepared by management and are in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board. Other information contained in this document has also been prepared by management and is consistent with the data contained in the consolidated financial statements. A system of internal control has been developed and is maintained by management to provide reasonable assurance that assets are safeguarded and financial information is accurate and reliable.

The Board of Directors approves the consolidated financial statements and ensures that management discharges its financial reporting responsibilities. The Board's review is accomplished principally through the Audit Committee, which is composed of nonexecutive directors. The Audit Committee meets periodically with management and the auditors to review financial reporting and control matters.

The consolidated financial statements have been audited by PricewaterhouseCoopers LLP, Chartered Accountants. Their report outlines the scope of their examination and opinion on the consolidated financial statements.

"Peter Secker"

Peter Secker
President and Chief Executive Officer

"Germaine Coombs"

Germaine Coombs
Chief Financial Officer

March 23, 2012



March 23, 2012

Independent Auditor's Report

To the Shareholders of Canada Lithium Corp.

We have audited the accompanying consolidated financial statements of Canada Lithium Corp. and its subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2011, December 31, 2010 and January 1, 2010 and the consolidated statements of loss and comprehensive loss, changes in equity and cash flows for the years ended December 31, 2011 and December 31, 2010, and the related notes, which comprise a summary of significant accounting policies.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

*PricewaterhouseCoopers LLP, Chartered Accountants
PwC Tower, 18 York Street, Suite 2600, Toronto, Ontario, Canada M5J 0B2
T: +1 416 863 1133, F: +1 416 365 8215, www.pwc.com/ca*

PwC refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.



Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Canada Lithium Corp. and its subsidiaries as at December 31, 2011, December 31, 2010 and January 1, 2010 and their financial performance and their cash flows for the years ended December 31, 2011 and December 31, 2010 in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP

Chartered Accountants, Licensed Public Accountants



Canada Lithium Corp.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As at (Stated in Canadian dollars)	Note	December 31 2011 \$	December 31 2010 \$	January 1 2010 \$
Assets				
Current assets				
Cash and cash equivalents		101,986,983	17,270,593	16,965,277
Other receivables		2,842,349	713,123	104,535
Prepaid expenses and other assets		1,447,380	78,556	425,826
Restricted cash	13	4,068,000	-	-
		110,344,712	18,062,272	17,495,638
Non-current assets				
Investments	5	475,500	763,500	-
Restricted cash	13	3,420,212	295,213	25,000
Property, plant and equipment	6	326,324	62,200	42,023
Mineral properties	7	43,376,792	13,807,319	4,215,034
Total Assets		157,943,540	32,990,504	21,777,695
Liabilities				
Current liabilities				
Trade and other payables	8,16	11,681,901	2,637,205	1,426,360
Lease obligations	9	54,773	-	-
		11,736,674	2,637,205	1,426,360
Non-current liabilities				
Lease obligations	9	138,899	-	-
Total Liabilities		11,875,573	2,637,205	1,426,360
Shareholders' Equity				
Common shares	10(a)	165,885,778	47,223,249	34,022,711
Warrants	10(b)	-	3,502,239	4,098,101
Contributed surplus	10(c)	8,799,664	3,447,516	2,687,204
Accumulated other comprehensive income		12,000	96,000	-
Deficit		(28,629,475)	(23,915,705)	(20,456,681)
Total Shareholders' Equity		146,067,967	30,353,299	20,351,335
Total Liabilities and Shareholders' Equity		157,943,540	32,990,504	21,777,695

Commitments (note 17), Contingencies (note 18), Effects of adoption of IFRS (note 4) and Subsequent event (note 24). The accompanying notes are an integral part of these consolidated financial statements.

On behalf of the Board of Directors

"Kerry Knoll"
Kerry Knoll
Chairman

"James Fairbairn"
James Fairbairn
Director

**CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS**

(Stated in Canadian dollars)	Note	Year ended December 31 2011 \$	Year Ended December 31 2010 \$
Expenses			
General and administrative	11	4,272,829	3,140,211
Share-based payment	10(d)	1,689,356	1,328,000
Depreciation	6	45,712	8,694
		6,007,897	4,476,905
Impairment of investments	5	204,000	-
Foreign exchange gain		(152,687)	-
Gain on sale of assets	12	(147,768)	(866,716)
Interest and other income	12	(1,197,672)	(151,165)
Loss for the year		(4,713,770)	(3,459,024)
Other comprehensive loss			
Changes in fair value of available-for-sale investments, net of tax	5	(84,000)	96,000
Comprehensive loss		(4,797,770)	(3,363,024)
Loss per share			
Basic and diluted	15	(0.02)	(0.02)

Effects of adoption of IFRS (note 4).

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

**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**

(Stated in Canadian dollars)	Note	Common Shares \$	Warrants \$	Contributed surplus \$	Accumulated other comprehensive income (loss) \$	Deficit \$	Total \$
Balance - January 1, 2011		47,223,249	3,502,239	3,447,516	96,000	(23,915,705)	30,353,299
Comprehensive loss		-	-	-	(84,000)	(4,713,770)	(4,797,770)
Bought deal – January 31, 2011	10(a)	118,044,667	-	-	-	-	118,044,667
Warrants exercises	10(a)(b)	507,688	(120,362)	-	-	-	387,326
Warrants expiry	10(b)(c)	-	(3,381,877)	3,381,877	-	-	-
Equity-settled share-based payment	10(a)(c)	110,174	-	1,970,271	-	-	2,080,445
Balance - December 31, 2011		165,885,778	-	8,799,664	12,000	(28,629,475)	146,067,967
Balance - January 1, 2010		34,022,711	4,098,101	2,687,204	-	(20,456,681)	20,351,335
Comprehensive income (loss)		-	-	-	96,000	(3,459,024)	(3,363,024)
Private placement	10(a)	9,446,350	-	-	-	-	9,446,350
Warrants exercises	10(a)(b)	2,356,889	(595,751)	-	-	-	1,761,138
Warrants expired	10(b)	-	(111)	111	-	-	-
Equity-settled share-based payment	10(a)(c)	1,397,299	-	760,201	-	-	2,157,500
Balance - December 31, 2010		47,223,249	3,502,239	3,447,516	96,000	(23,915,705)	30,353,299

Effects of adoption of IFRS (note 4).

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

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

(Stated in Canadian dollars)	Note	Year Ended December 31 2011 \$	Year Ended December 31 2010 \$
Cash provided by (used in)			
Operating activities			
Loss for the year		(4,713,770)	(3,459,024)
Non-cash items:			
Depreciation		45,712	8,694
Share-based payment		1,689,356	1,328,000
Impairment of investments		204,000	-
Unrealized foreign exchange gain		(238,094)	-
Gain on sale of property, plant and equipment		(147,768)	(866,716)
		(3,160,564)	(2,989,046)
Net change in non-cash working capital	23	(2,924,172)	(151,150)
		(6,084,736)	(3,140,196)
Investing activities			
Change in restricted cash		(7,192,999)	(270,213)
Purchase of property, plant and equipment		(100,087)	(28,871)
Proceeds from sale of property, plant and equipment		147,768	200,000
Expenditures on mineral properties		(20,798,066)	(8,402,392)
		(27,943,384)	(8,501,476)
Financing activities			
Issuance of common shares for cash, net		118,044,667	9,446,350
Exercise of options for cash		90,500	739,500
Exercise of warrants for cash		387,326	1,761,138
Repayment of lease obligations		(16,078)	-
		118,506,415	11,946,988
Effect of changes in foreign exchange rates on cash and cash equivalents		238,095	-
Increase (decrease) in cash and cash equivalents during the year		84,716,390	305,316
Cash and cash equivalents, beginning of year		17,270,593	16,965,277
Cash and cash equivalents, end of year		101,986,983	17,270,593

Effects of adoption of IFRS (note 4).

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



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2011 and 2010

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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 are currently focused on the Québec Lithium Project near Val d’Or, Québec. 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 consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“**IFRS**”). Note 4 discloses the impact of the transition to IFRS on the Company’s reported consolidated 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 Company’s Board of Directors approved these consolidated financial statements on March 23, 2012.

3. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements of the Company reflect the following significant accounting policies.

a) Basis of measurement

The consolidated financial statements have been prepared under the historical cost convention, except for certain financial assets and financial liabilities that are measured at fair value.

b) Basis of consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, Québec Lithium Inc. All intercompany transactions and balances have been eliminated.

c) Critical accounting judgments and estimation uncertainties

The Company makes estimates and assumptions concerning the future that may differ from the actual results. The following are the estimates and judgments applied by management that most significantly affect the Company’s consolidated financial statements. These estimates and judgments have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

(i) Property, plant and equipment – estimated useful lives. Management estimates the useful lives of property, plant and equipment based on the period during which the assets are expected to be available for use. The amounts and timing of recorded expenses for amortization of property, plant and equipment for any period are affected by these estimated useful lives. The estimates are reviewed at least annually and are updated if expectations change as a result of physical wear and tear, technical or commercial obsolescence and legal or other limits to use. It is possible that changes in these factors may cause significant changes in the estimated useful lives of the Company’s property, plant and equipment in the future.

(ii) Recoverability of mineral properties. The Company assesses all exploration and evaluation assets, development assets and mineral property, plant and equipment at each reporting date to determine whether any indication of impairment exists. Where an indicator of impairment exists, a formal estimate of the recoverable amount is made, which is considered to be the higher of the fair value less costs to sell and value in use. These assessments require the use of estimates and assumptions such as long-term commodity prices, discount rates, foreign exchange rates, future capital requirements, exploration potential and operating performance.



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(iii) Determination of reserve and resource estimates. Mineral reserves and resources are estimates of the amount of ore that can be economically and legally extracted from the Company's exploration properties. The estimation of recoverable reserves is based upon factors such as estimates of commodity prices, production costs, production techniques, future capital requirements and foreign exchange rates, along with geological assumptions and judgments made in estimating the size and grade of the ore body. Changes in the reserve or resource estimates may impact the carrying value of exploration and evaluation assets, mineral property, plant and equipment, decommissioning liabilities and amortization expense.

(iv) Fair value of share-based payment. The fair value of share-based payment is calculated based on assumptions input into an option pricing model. The main assumptions include the stock options life, the expected volatility of the Company's share price (using historical volatility of the Company's share price as a reference), the expected dividends and the risk-free rate of interest. The resulting value calculated is not necessarily the value that the holder of the option could receive in an arm's length transaction, given that there is no market for the options and they are not transferable.

d) Functional and presentation currency and foreign currency transactions

Items included in the consolidated financial statements of each consolidated entity in the Canada Lithium group are measured using the currency of the primary economic environment in which the entity operates (the "**functional currency**"). The consolidated financial statements are presented in Canadian dollars (the "**presentation currency**").

The functional currency of both the corporate office and Québec Lithium Inc. is the Canadian dollar.

Foreign currency transactions are recorded at the foreign exchange rate in effect on the date of the transaction and gains and losses resulting from the settlement of such transactions are recorded in the statement of loss and comprehensive loss.

e) Cash and cash equivalents

Cash and cash equivalents include cash and highly liquid investments in the form of Government of Canada treasury bills and Guaranteed Investment Certificates ("**GIC's**") with investment terms that are less than 90 days at the time of acquisition. These investments are stated at cost plus accrued interest, which approximate their fair value.

f) Financial instruments

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership.

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

Initial recognition

At initial recognition, the Company classifies its financial instruments in the following categories depending on the purpose for which the instruments were acquired.



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(i) Financial assets and liabilities at fair value through profit or loss. A financial asset or liability is classified in this category if acquired principally for the purpose of selling or repurchasing in the short-term. Derivatives are also included in this category unless they are designated as hedges.

Financial instruments in this category are recognized initially and subsequently at fair value. Transaction costs are expensed in the statement of loss. Gains and losses arising from changes in fair value are presented in the statement of loss and comprehensive loss within other gains and losses in the period in which they arise. Financial assets and liabilities at fair value through profit or loss are classified as current except for the portion expected to be realized or paid beyond twelve months of the date of the statement of financial position, which is classified as non-current.

The Company does not currently have any financial instruments in this category.

(ii) Available-for-sale investments. Available-for-sale investments are non-derivatives that are either designated in this category or not classified in any of the other categories.

Available-for-sale investments are recognized initially at fair value plus transaction costs and are subsequently carried at fair value. Gains or losses arising from changes in fair value are recognized in other comprehensive income (loss). Available-for-sale investments are classified as non-current, unless the investment matures within twelve months, or management expects to dispose of them within twelve months.

When an available-for-sale investment is sold or impaired, the accumulated gains or losses are moved from accumulated other comprehensive income/loss to the statement of loss and are included in other gains and losses.

The Company estimates the fair value of investments in common shares at the date of the statement of financial position using quoted market prices for available-for-sale securities.

(iii) Loans and receivables. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Company's loans and receivables comprise receivables and cash and cash equivalents, and are included in current assets due to their short-term nature.

Loans and receivables are initially recognized at the amount expected to be received, less, when material, a discount to reduce the loans and receivables to fair value. Subsequently, loans and receivables are measured at amortized cost using effective interest method, less any impairment losses.

(iv) Financial liabilities at amortized cost. Financial liabilities at amortized cost include trade and other payables. Trade and other payables are initially recognized at the amount required to be paid, less, when material, a discount to reduce the payables to fair value. The carrying value of the Company's trade and other payables approximates their fair value due to their short term nature.

Financial liabilities are classified as current liabilities if payment is due within twelve months. Otherwise, they are presented as non-current liabilities.

Impairment of financial assets

The Company assesses, at each date of the statement of financial position, whether there is objective evidence that a financial asset is impaired. If such evidence exists, the Company recognizes an impairment loss as follows:

i) Financial assets carried at amortized cost. The loss is the difference between the amortized cost of the asset and the present value of the estimated future cash flows, discounted using the instrument's original effective interest rate.



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ii) Available-for-sale financial assets. The loss is the amount comprising the difference between its original cost and its current fair value, less any impairment loss previously recognized in the statement of loss. This amount represents the cumulative loss in accumulated other comprehensive income that is reclassified to net income.

Reversals of impairment losses on financial assets carried at amortized cost are recorded through the statement of loss if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognized.

Impairment losses on available-for-sale equity instruments are not reversed.

g) Property, plant and equipment

Property, plant and equipment are stated at cost, less accumulated depreciation and any impairments. Cost includes expenditures that are directly attributable to the acquisition of the asset. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost can be measured reliably. The carrying amount of a replaced asset is derecognized when replaced. Repairs and maintenance costs are charged to the statement of loss during the period in which they are incurred.

Property, plant and equipment are depreciated using the straight-line method over their expected useful lives.

Vehicles	5 years
Computer Equipment	3 years

Residual values, method of amortization and useful lives of the assets are reviewed annually and adjusted if appropriate. Gains and losses on disposals of property, plant and equipment are determined by comparing the proceeds with the carrying amount of the asset and are included as part of other gains and losses in the statement of loss.

Amortization of exploration and evaluation expenditures/development expenditures which have been transferred to property, plant and equipment upon commencement of commercial production will be recognized using the unit-of-production method over the estimated useful lives of the mineral properties, or impaired and charged to earnings if the properties are sold or abandoned.

h) Mineral properties

(i) Exploration and evaluation expenditures. Direct and indirect acquisition and exploration expenditures associated with mineral exploration properties are capitalized when incurred. During the exploration period, exploration and evaluation expenditures are not amortized.

Upon completion of a technical feasibility study and when commercial viability is demonstrated, capitalized exploration and evaluation assets are transferred to and classified as mineral property development expenditures. Exploration and evaluation assets shall be assessed for impairment before such reclassification.

(ii) Development expenditures. Once technical and economic feasibility have been proven and the decision has been made to develop a mineral exploration property, expenditures relating to development are capitalized as incurred. These costs include accessing the ore body, designing and constructing the production infrastructure, interest and financing relating to construction, and costs that can be directly attributed to bringing the assets to the condition necessary for their intended use. This includes costs during the commissioning period before the asset can operate at normal levels.



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During the development period, development expenditures are not amortized. Upon commencement of commercial production, costs are reclassified to the appropriate category of property, plant and equipment and are depreciated according to the Company's accounting policy. Assets are assessed for impairment at the end of each reporting period.

i) Impairment of non-financial assets

Property, plant and equipment, development assets and exploration and evaluation expenditures are tested for impairment at each reporting period date. For the purpose of measuring recoverable amounts, assets, including exploration and evaluation expenditures, are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units or "CGUs"), which, for Canada Lithium, is the Québec Lithium mineral exploration property. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use (being the present value of the expected future cash flows of the relevant asset or CGU). An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount.

The Company evaluates impairment losses for potential reversals at each reporting date and when events or circumstances warrant such consideration.

Items considered to be causes for impairment testing, include but are not limited to the following: exploration activities have ceased, exploration results are not promising such that exploration will not be planned for the foreseeable future, lease ownership rights expire, sufficient funding is not expected to be available to complete the exploration program, or an exploration property has no material economic value to the Company's business plan.

j) Provisions

Provisions for restructuring costs, warranties and legal claims, where applicable, are recognized in other liabilities when the Company has a present legal or constructive obligation as a result of past events, and it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated.

Provisions are measured at management's best estimate of the expenditure required to settle the obligation at the end of the reporting period, and are discounted to present value where the effect is material. The Company does not have provisions at December 31, 2011.

k) Income taxes

Income tax expense is comprised of current and deferred tax. Income tax expense is recognized in the statement of income/loss, except to the extent it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable or receivable in respect of previous years.

Deferred tax assets and liabilities are recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences do not result in deferred tax assets or liabilities:

- the initial recognition of assets or liabilities, not arising in a business combination, that does not affect accounting or taxable profit;
- the initial recognition of goodwill; and



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- taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled by the parent and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets and liabilities are measured using the enacted or substantively enacted tax rates expected to apply when the asset is realized or the liability settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that substantive enactment occurs except to the extent it relates to items recognized directly in equity or in other comprehensive income.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. To the extent that the Company does not consider it probable that a deferred tax asset will be recovered, the deferred tax asset is reduced to its recoverable amount.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

l) Share capital

Common shares are classified as equity. Incremental costs directly attributable to the issuance of shares are recognized as a deduction from equity.

m) Share-based payment

According to Canada Lithium's Stock Option Plan, options vest immediately and expire after five years. Fair value of each award is measured at the date of grant using the Black-Scholes option pricing model, which incorporates certain input assumptions including the share price, risk-free interest rate, expected option life, expected share price volatility and expected forfeiture rate.

Share-based payment expense is recognized on the date of grant in the statement of loss and by increasing contributed surplus.

Any consideration received upon the exercise of a stock option is credited to share capital. Canada Lithium's Stock Option Plan is described in note 8(d).

n) Warrants

Proceeds on the issuance of warrants are recorded in a separate component of equity as the warrants give right to a fixed number of the Company's common shares. Costs incurred on the issuance of warrants are netted against the proceeds.

Warrants issued with common shares are measured at fair value at the date of grant using the Black-Scholes pricing model, which incorporates certain input assumptions including the Company's share price, risk-free interest rate, expected warrant life and expected share price volatility. The fair value is included as a component of equity and is transferred from warrants to share capital on exercise.

o) Loss per share

Loss per share is calculated by dividing the loss for the period by the weighted average number of shares outstanding during the period. Once earnings are achieved, diluted loss per share is determined using the treasury stock method. Under this method, the dilutive effect of loss per share is recognized on the use of proceeds that could be obtained from exercise of options, warrants and similar instruments. It assumes that proceeds would be used to purchase common shares at the average market price during the period.



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p) New accounting pronouncements

i) *IFRS 7, Financial Instruments: Disclosures*

In October 2010, the International Accounting Standards Board (“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.

ii) *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 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, 2015, with earlier adoption permitted. The Company has not yet assessed the impact of the standard or determined whether it will adopt the standard early.

iii) *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.

iv) *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.



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v) *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.

vi) *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.

vii) *Amendment to 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.

viii) *Amendment to 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.

ix) *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.

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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 Canadian Generally Accepted Accounting Principles (“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) Description of adjustments
- d) Additional IFRS information for the year ended December 31, 2010

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			January 1, 2010		
		GAAP \$	Adjustments \$	IFRS \$	GAAP \$	Adjustments \$	IFRS \$
Cash and cash equivalents		17,270,593	-	17,270,593	16,965,277	-	16,965,277
Other receivables		713,123	-	713,123	104,535	-	104,535
Prepaid expenses and other assets		78,556	-	78,556	425,826	-	425,826
		18,062,272	-	18,062,272	17,495,638	-	17,495,638
Investments		763,500	-	763,500	-	-	-
Restricted cash		295,213	-	295,213	25,000	-	25,000
Property, plant and equipment	4(c)(i)	62,599	(399)	62,200	42,023	-	42,023
Exploration and evaluation assets		13,807,319	-	13,807,319	4,215,034	-	4,215,034
		32,990,903	(399)	32,990,504	21,777,695	-	21,777,695
Trade and other payables		2,637,205	-	2,637,205	1,426,360	-	1,426,360
Common shares	4(c)(ii)	48,178,374	(955,125)	47,223,249	34,977,836	(955,125)	34,022,711
Warrants		3,502,239	-	3,502,239	4,098,101	-	4,098,101
Contributed surplus		3,447,516	-	3,447,516	2,687,204	-	2,687,204
Accumulated other comprehensive income		96,000	-	96,000	-	-	-
Deficit	4(c)	(24,870,431)	954,726	(23,915,705)	(21,411,806)	955,125	(20,456,681)
		30,353,698	(399)	30,353,299	20,351,335	-	20,351,335
		32,990,903	(399)	32,990,504	21,777,695	-	21,777,695

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The following table illustrates the reconciliation of the Company's comprehensive income from GAAP to IFRS as at December 31, 2010.

	Notes	Year ended December 31, 2010		IFRS \$
		GAAP \$	Adjustments \$	
General and administration		3,140,211	-	3,140,211
Share-based payment		1,328,000	-	1,328,000
Depreciation	4(c)(i)	8,295	399	8,694
		4,476,506	399	4,476,905
Gain on sale of property, plant and equipment		(866,716)	-	(866,716)
Interest and other income		(151,165)	-	(151,165)
Loss for the year		(3,458,625)	(399)	(3,459,024)
Changes in fair value of available-for-sale investments		96,000	-	96,000
Comprehensive loss		(3,362,625)	(399)	(3,363,024)

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

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

(ii) Flow-through share issuances. At January 1, 2010, the adjustment of \$955,125 was made to common shares and deficit 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**

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



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FOR THE YEARS ENDED DECEMBER 31, 2011 and 2010

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(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.**⁽¹⁾

	Year ended December 31, 2010
	\$
Salaries and fees	1,032,873
Share-based payments	754,275
	1,787,148

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

5. INVESTMENTS

	December 31 2011		December 31 2010		January 1 2010	
	Shares	Amount	Shares	Amount	Shares	Amount
	#	\$	#	\$	#	\$
San Gold Corporation ("San Gold")	150,000	283,500	150,000	595,500	-	-
SGX Resources Inc. ("SGX")	600,000	192,000	600,000	168,000	-	-
		475,500		763,500		-

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

These shares were classified as available-for-sale investments and recorded at their respective fair value at December 31, 2011. The cumulative revaluation gain on the SGX investment of \$12,000 was recognized in accumulated other comprehensive income at December 31, 2011. In the year ended December 31, 2011, the Company recorded an impairment loss of \$204,000 representing the cumulative revaluation loss on the investment in San Gold.

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6. PROPERTY, PLANT AND EQUIPMENT

	Vehicles \$	Computer equipment \$	Total \$
At January 1, 2010			
Cost	43,472	-	43,472
Accumulated depreciation	(1,449)	-	(1,449)
Net book value	42,023	-	42,023
Year ended December 31, 2010			
Opening net book value	42,023	-	42,023
Additions	-	28,872	28,872
Depreciation for the period	(8,695)	-	(8,695)
Closing net book value	33,328	28,872	62,200
At December 31, 2010			
Cost	43,472	28,872	72,344
Accumulated depreciation	(10,144)	-	(10,144)
Net book value	33,328	28,872	62,200
Year ended December 31, 2011			
Opening net book value	33,328	28,872	62,200
Additions	240,842	68,994	309,836
Depreciation for the period	(24,185)	(21,527)	(45,712)
Closing net book value	249,985	76,339	326,324
At December 31, 2011			
Cost	284,314	97,866	382,180
Accumulated depreciation	(34,329)	(21,527)	(55,856)
Net book value	249,985	76,339	326,324

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 \$
	Québec Lithium \$	Québec Lithium \$	Tully Township \$	
January 1, 2010		4,214,250	784	4,215,034
Expenditures capitalized	-	9,593,069	-	9,593,069
Disposals in the year	-	-	(784)	(784)
December 31, 2010	-	13,807,319	-	13,807,319
Expenditures capitalized	-	5,891,570	-	5,891,570
Transfer from exploration to development assets	19,698,889	(19,698,889)	-	-
Expenditures capitalized	23,677,903	-	-	23,677,903
December 31, 2011	43,376,792	-	-	43,376,792



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FOR THE YEARS ENDED DECEMBER 31, 2011 and 2010

(Stated in Canadian Dollars)

a) Québec Lithium Project

The Company's wholly-owned Québec Lithium Project ("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 July 2011, the Company commenced the site construction for the Québec 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. 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 remainder of the year ended December 31, 2011 subsequent to the transfer of the assets of the Project to development assets, the Company capitalized development costs related to the Project totaling \$23,677,903 (2010 - \$nil), bringing the total carrying value of the Project to \$43,376,792 at December 31, 2011 (2010 - \$13,807,319).

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.

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 150,000 common shares of San Gold for total proceeds of \$867,500. The sale closed on October 20, 2010, resulting in a gain of \$866,716 (net of a write-down of the property of \$784) that was recognized in the consolidated statement of operations at December 31, 2010.

8. TRADE AND OTHER PAYABLES

	December 31, 2011	December 31, 2010	January 1, 2010
	\$	\$	\$
Trade payables	3,760,386	2,046,683	1,089,248
Other payables	6,329	-	-
Accrued liabilities	7,915,186	590,522	337,112
	11,681,901	2,637,205	1,426,360

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9. FINANCE LEASES

The Company acquired, through finance leases, a fleet of vehicles for travelling on site at the Québec Lithium Project during the year ended December 31, 2011. As at December 31, 2011, the finance lease obligations are as follows:

	Future payments \$	Interest \$	Present value \$
Within 1 year	68,147	13,374	54,773
2 – 5 years	153,003	14,104	138,899
Over 5 years	-	-	-
	221,150	27,478	193,672

There were no finance leases at December 31, 2010 or January 1, 2010.

10. 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 December 31, 2011.

	Number of shares #	Amount \$
Balance – January 1, 2010	147,015,702	34,022,711
Share cancellation	(11,827)	-
Option exercises	2,560,000	1,397,299
Warrant exercises	5,351,747	2,356,889
Private placement – November 26, 2010	12,500,000	10,000,000
Less: Share issue costs	-	(553,650)
Balance – December 31, 2010	167,415,622	47,223,249
Bought deal financing – January 31, 2011	84,352,500	118,044,667
Option exercises	480,000	110,174
Warrant exercises	484,159	507,688
Balance – December 31, 2011	252,732,281	165,885,778

484,159 (2010 – 5,351,747) common shares were issued upon the exercise of warrants. Cash proceeds of \$387,326 (2010 – \$1,761,138) were received and the fair value of the exercised warrants of \$120,362 (2010 – \$595,751) was transferred from warrants to share capital during the year ended December 31, 2011.

480,000 (2010 – 2,560,000) common shares were issued upon the exercise of stock options. Cash proceeds of \$90,500 (2010 – \$739,500) were received and the fair value of the exercised options of \$19,674 (2010 – \$657,799) was transferred from contributed surplus to share capital during the year ended December 31, 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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****FOR THE YEARS ENDED DECEMBER 31, 2011 and 2010**

(Stated in Canadian Dollars)

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.

b) Share purchase warrants

The following table provides a summary of common share purchase warrants activities from January 1, 2010 to December 31, 2011.

	Warrants⁽¹⁾ outstanding #	Amount \$
Balance – January 1, 2010	19,072,705	4,098,101
Warrants exercised	(5,351,748)	(595,751)
Warrants expired	(465)	(111)
Balance – December 31, 2010	13,720,492	3,502,239
Warrants exercised	(484,159)	(120,362)
Warrants expired	(13,236,333)	(3,381,877)
Balance – December 31, 2011	-	-

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

The Company uses the Black-Scholes valuation model to determine the costs of the share purchase warrants. The warrants that expired on September 30, 2011 were issued on September 30, 2009 at a fair value of \$0.25 per warrant.

c) Contributed surplus

The following table summarizes the contributed surplus transactions from January 1, 2010 to December 31, 2011.

	Amount \$
Balance – January 1, 2010	2,687,204
Options granted	1,418,000
Options exercised	(657,799)
Warrants expired	111
Balance – December 31, 2010	3,447,516
Options granted	1,989,945
Options exercised	(19,674)
Warrants expired	3,381,877
Balance – December 31, 2011	8,799,664

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.

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The Company uses the fair value method of accounting for share-based payments. For the year ended December 31, 2011, the Company recognized a share-based payment expense of \$1,689,356 (2010 – 1,328,000) for stock options granted to the Company's directors, officers, consultants and employees. In addition, the Company capitalized share-based payment of \$300,589 (2010 – \$90,000) to the Québec Lithium Project in the year ended December 31, 2011.

A summary of the Company's stock options activities from January 1, 2010 to December 31, 2011 is presented below.

	Options outstanding #	Weighted average exercise price \$
Balance – January 1, 2010	8,165,000	0.35
Granted	3,210,000	0.55
Exercised	(2,560,000)	0.29
Balance – December 31, 2010	8,815,000	0.44
Granted	3,975,000	0.64
Cancelled	(235,000)	0.56
Exercised	(480,000)	0.19
Balance – December 31, 2011	12,075,000	0.51

The weighted-average grant date fair value of stock options granted during the fiscal year ended December 31, 2011 was \$0.50 (2010 – \$0.44) per option. The following table summarizes the weighted average assumptions used in the Black-Scholes valuation model for the determination of the cost of stock options issued during the year ended December 31, 2011.

	2011	2010
Risk free interest rate	1.69%	2.65%
Expected life in years	3	5
Volatility	144.19%	109.10%
Expected dividends	0%	0%
Forfeiture rate	0%	0%

The following is a summary of the options outstanding, all of which are exercisable, at December 31, 2011.

Exercise price \$	Options #	Weighted average years remaining #
0.15	675,000	2.10
0.20	750,000	1.25
0.23	1,000,000	2.49
0.52	1,000,000	3.39
0.55	4,000,000	3.03
0.61	1,175,000	3.61
0.65	3,475,000	4.48
	12,075,000	



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11. GENERAL AND ADMINISTRATIVE EXPENSES

	2011	2010
	\$	\$
Salaries and directors' fees	1,122,245	972,016
Professional fees	1,563,283	409,619
General office expenses	1,313,260	1,476,065
Listing and filing expenses	274,041	282,511
	4,272,829	3,140,211

12. INTEREST AND OTHER INCOME

Interest income for the year ended December 31, 2011 was \$1,197,672 (2010 - \$103,863), respectively, which related to the interest earned on GICs and cash on deposit at a major Canadian bank. Other income for the year ended December 31, 2010 was \$47,302, which related to a reimbursement of expenditures on a property with a value of \$nil in the current period.

The Company recorded a gain on sale of assets of \$147,768 (2010 - \$nil) during the year ended December 31, 2011, related to the sale of miscellaneous equipment used on properties that were written off in prior periods.

13. RESTRICTED CASH

On August 10, 2011, the Company issued a \$2,875,000 cash-backed standby letter of credit to Hydro-Québec for the construction of a high voltage power infrastructure at the Québec Lithium Project, which will be released within the first three years of operations at its Québec 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 the second quarter of 2012. Accordingly, it has been classified under current assets in the 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 \$250,000 restricted cash deposit and a \$55,000 GIC with major Canadian banks to secure charges made against its corporate credit cards.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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14. INCOME TAXES

The Company's effective tax rate differs from the Canadian statutory rate of 28% (2010 - 29%) as follows:

	2011	2010
Loss before taxes	(4,713,770)	(3,459,024)
Tax recovery at statutory rate	(1,331,640)	(1,003,117)
Non-deductible expenses	534,873	387,696
Losses not recognized	796,767	615,421
Net tax recovery	-	-

The Canadian statutory rate dropped 1% in 2011 due to enacted tax rate changes. The Company has tax losses carried forward totaling approximately \$13,373,000 (2010 - \$7,991,000) and other deductible temporary differences totaling approximately \$8,622,000 (2010 - \$1,819,000), the benefits of which have not been recognized in these consolidated financial statements. The losses expire over the period between 2025 and 2031.

15. LOSS PER SHARE

For the years ended December 31, 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.

	2011	2010
Loss for the period (\$)	(4,713,770)	(3,459,024)
Basic and diluted weighted-average number of shares outstanding	245,485,027	151,228,451
Loss per share, basic and diluted (\$)	(0.02)	(0.02)

16. RELATED PARTY TRANSACTIONS

Included in general and administrative expenses for the year ended December 31, 2011 are consulting fees in the amount of \$79,500 (2010 - \$150,169) charged by officers and directors of the Company.

Included in trade and other payables at December 31, 2011 is \$70,659 (2010 - \$111,173) owing to directors and officers of the Company.

In addition, included in trade and other payables at December 31, 2011 is an amount totaling \$113,959 (2010 - \$107,784) due to another corporation, related in that it has officers in common with Canada Lithium. During the year ended December 31, 2011, the related company charged Canada Lithium for certain management services, office space, and third-party purchases on behalf of the Company aggregating \$342,788 (2010 - \$278,897).

Capitalized to mineral properties during the year ended December 31, 2010 are geological consulting fees in the amount of \$197,356, \$nil in the year ended December 31, 2011, paid to a director and to a company controlled by an officer of the Company.

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.



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Compensation awarded to key management⁽¹⁾:

	Year Ended December 31 2011 \$	Year Ended December 31 2010 \$
Salaries and fees	1,099,750	1,032,873
Short-term employment benefits	9,252	-
Share-based payment	1,462,663	754,275
	2,571,665	1,787,148

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

17. 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 of an immaterial amount, every two years to the Québec 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	10,183,000
2013	1,149,800
2014	1,149,300
2015	1,149,800
2016	1,149,300
2017	423,500
Thereafter	357,500

18. 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 Québec 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.



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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 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.

19. CAPITAL MANAGEMENT

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and to maintain a flexible capital structure which optimizes the costs of capital as an acceptable risk.

In the management of capital, the Company includes cash and cash equivalents and the components of shareholders' equity.

The Company manages the capital structure and makes adjustments thereto in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust capital structure, the Company may attempt to issue new shares, repurchase for cancellation outstanding shares, acquire or dispose of assets, attempt to obtain debt financing, or adjust the amount of cash and cash equivalents and investments. The Company has no debt.

There were no changes in the Company's capital management strategy during the period ended December 31, 2011 compared to the previous year. The Company is not subject to any capital requirements. The Company does not pay out dividends.

The Company's cash management policy is to invest its cash in government of Canada GICs and treasury bills with maturities of less than 90 days.

20. FINANCIAL RISK FACTORS

The Company's risk exposures and the impact on the Company's consolidated financial statements are summarized below:

a) Credit risk

Credit risk is the risk that a customer or third party to a financial instrument fails to meet its commercial obligations.

The Company's cash is held primarily with Canadian financial institutions and management believes the risk of loss to be remote. Cash equivalents consist of Government of Canada GICs and treasury bills with a major Canadian financial institution, which have original maturity of less than 90 days from the date of purchase and are readily convertible into a known amount of cash.

At December 31, 2011, other receivables consist of refundable sales taxes paid by the Company for purchases of goods and services within Canada. The Company has no customers or trade receivables at December 31, 2011.



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b) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they come due.

The Company manages liquidity risk by maintaining sufficient cash and cash equivalents balances to meet liabilities as they come due. As at December 31, 2011, the Company had cash and cash equivalents totalling \$102,236,983 (2010 - \$17,270,593) to settle current liabilities of \$11,736,674 (2010 - \$2,637,205).

As at December 31, 2011 and 2010, the Company's trade and other payables have contractual maturities of less than 30 days and are subject to normal trade terms.

c) Market risk

Market risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all instruments traded in the market. The Company has available-for-sale investments as at December 31, 2011.

The Company is exposed to price risk with respect to lithium prices. A significant decrease in the price of lithium could cause the continued exploration and future development of the Company's properties to be uneconomical.

d) Currency risk

The Company's functional currency is the Canadian dollar with major transactions denominated in Canadian dollars. As at December 31, 2011 the Company did not have foreign operations. Management believes the foreign exchange risk derived from currency conversions is not significant and therefore does not hedge its foreign exchange risk.

As at December 31, 2011, the Company's cash and cash equivalents balance includes a cash balance of US\$4,960,300 (2010 - \$nil). A 1% change in Canadian and US foreign exchange rate would not have a material impact to the financial position of the Company.

e) Interest rate risk

The Company's interest bearing assets are cash and cash equivalents. As at December 31, 2011, the Company's cash equivalents of \$9,186,664 (2010 - \$15,568,538) consist of Government of Canada treasury bills of 90 days or less. They earn interest at prevailing short-term interest rates and are reinvested as they mature. A plus or minus 1% change in interest rates will not have a material impact on the Company's statement of comprehensive loss.

The Company's accounts payable and accrued liabilities are non-interest bearing and have contractual maturities of less than 30 days. The Company has no debt at December 31, 2011.

21. FINANCIAL INSTRUMENTS – HIERARCHY

The three levels of the fair value hierarchy with respect to required disclosures about the inputs to fair value measurements are:

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

As at December 31, 2011, the Company's available-for-sale investments are classified as Level 1 financial instruments.



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As at December 31, 2011, other financial instruments include other receivables and trade and other payables. Due to their short-term nature, the carrying value of other financial instruments approximates fair value.

22. SEGMENTED INFORMATION

The Company currently has only one operating segment and its mineral properties and equipment are all located in Canada. The Company's chief operating decision-maker reviews the operating results of the Company on a consolidated basis.

23. SUPPLEMENTARY CASH FLOW INFORMATION

	Year Ended December 31 2011 \$	Year Ended December 31 2010 \$
Cash paid during the year for:		
Taxes	-	-
Interest	-	-
Net change in non-cash working capital		
Other receivables	(2,129,226)	(608,558)
Prepaid expenses and other assets	(1,368,824)	347,270
Trade and other payables	573,878	110,168
	(2,924,172)	(151,150)

24. SUBSEQUENT EVENT

Subsequent to year end, the Bank of Nova Scotia and Caterpillar Financial Services ("Cat Financial") gave credit-approved commitments to the Company to provide a \$75,000,000, five-year debt facility to finance the development of the Québec Lithium Project. The debt facility will be supported by a financial guarantee from Investissement Québec. In addition to the debt facility, Cat Financial will provide up to US\$17,000,000 in lease financing for the mobile mining equipment. The equipment lease is subject to fulfillment of standard conditions precedent to funding. The debt facility will be secured by the assets of the Québec Lithium Project and contains normal commercial terms including a fee for the Investissement Québec guarantee. The facility is credit-approved subject to standard project financing conditions, including permitting requirements, legal documentation and completion of the remaining final project funding requirement of approximately \$25,000,000.