

CONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS

(UNAUDITED)



SIX-MONTH PERIOD ENDED
DECEMBER 31, 2016

NEMASKA LITHIUM INC.

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Six-month period ended December 31, 2016

CONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS

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NEMASKA LITHIUM INC.

MANAGEMENT'S REPORT

Management's responsibility for financial reporting

The accompanying unaudited consolidated condensed interim financial statements have been prepared by management and are in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board. The management is responsible for the preparation, integrity and objectivity of the unaudited consolidated condensed interim financial statements and other financial information presented in this Report. Other information included in these unaudited consolidated condensed interim financial statements are based on estimates and judgments. Management has determined such amounts on a reasonable basis in order to ensure that the unaudited consolidated condensed interim financial statements are presented fairly in all material respects.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the financial statements. The Board of Directors carries out this responsibility principally through its Audit Committee. The Audit Committee is appointed by the Board of Directors and is mainly composed of independent directors. The Audit Committee meets periodically with management and the independent auditors to review accounting, auditing and internal control matters. These unaudited consolidated condensed interim financial statements have been reviewed and approved by the Board of Directors on the recommendation of the Audit Committee.

Internal control over financial reporting

The Management is responsible for establishing and maintaining adequate internal control over financial reporting. The Company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

The Company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of assets; (ii) are designed to provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with IFRS, and that receipts and expenditures of the issuer are being made only in accordance with authorizations of management and directors of the issuer; and (iii) are designed to provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the financial statements. The Company's management refers the reader to consult the Form 52-109F2 certification of interim filings deposited on SEDAR along with these unaudited consolidated condensed interim financial statements.

/s/ Guy Bourassa
Guy Bourassa, President and CEO

/s/ Steve Nadeau
Steve Nadeau, Chief Financial Officer

CONSOLIDATED CONDENSED INTERIM STATEMENTS OF FINANCIAL POSITION
(UNAUDITED)

DECEMBER 31, 2016 AND JUNE 2016

| | Note | December 31 2016 | June 30 2016 |
|---|------|---------------------|-------------------|
| ASSETS | | \$ | \$ |
| CURRENT ASSETS: | | | |
| Cash and cash equivalents | | 56,110,141 | 19,563,445 |
| Sales tax receivable | | 5,987,280 | 836,472 |
| Grants receivables and other receivables | 16 | 2,053,997 | 112,602 |
| Mining rights and tax credits receivable related to resources | | 350,379 | 287,944 |
| Prepaid expenses | | 322,451 | 434,745 |
| | | 64,824,248 | 21,235,208 |
| NON-CURRENT ASSETS: | | | |
| Deposits to suppliers for exploration and evaluation expenses | | - | 142,589 |
| Investments | 4 | 6,181,288 | 5,468,062 |
| Property, plant and equipment | 5 | 65,155,637 | 6,749,431 |
| Intangible assets | 6 | 8,016,463 | - |
| Mining properties | 7 | 439,981 | 2,833,826 |
| Exploration and evaluation assets | 8 | 1,447,689 | 27,086,266 |
| | | 81,241,058 | 42,280,174 |
| TOTAL ASSETS | | 146,065,306 | 63,515,382 |
| LIABILITIES AND EQUITY | | | |
| CURRENT LIABILITIES: | | | |
| Accounts payable and accrued liabilities | | 26,084,417 | 2,116,068 |
| Loan payable | 17 | 2,000,000 | 2,000,000 |
| | | 28,084,417 | 4,116,068 |
| NON-CURRENT LIABILITIES: | | | |
| Deferred income and mining taxes | 12 | 2,219,284 | 2,156,849 |
| Deferred grants | 16 | - | 3,535,771 |
| Advanced Payment | 18 | 6,000,000 | 6,000,000 |
| | | 8,219,284 | 11,692,620 |
| TOTAL LIABILITIES | | 36,303,701 | 15,808,688 |
| EQUITY: | | | |
| Share capital and warrants | 9 | 138,159,860 | 68,944,971 |
| Contributed surplus | | 9,587,157 | 6,794,690 |
| Accumulated other comprehensive income | | 617,297 | - |
| Deficit | | (38,602,709) | (28,032,967) |
| TOTAL EQUITY | | 109,761,605 | 47,706,694 |
| TOTAL LIABILITIES AND EQUITY | | 146,065,306 | 63,515,382 |

Reporting entity and nature of operations (Note 1); Contingencies (Note 10); Commitments (Note 11); Subsequent events (Note 21)

The notes on pages 6 to 27 are an integral part of these consolidated condensed interim financial statements.

On behalf of the Board:

'Guy Bourassa', Director

'Michel Baril', Director

CONSOLIDATED CONDENSED INTERIM STATEMENTS OF LOSS AND COMPREHENSIVE INCOME (LOSS)
(UNAUDITED)

SIX-MONTH PERIODS ENDED DECEMBER 31, 2016 AND 2015

| | | Three-month periods ended December 31, | | Six-month periods ended December 31, | |
|--|------|---|--------------------|---|--------------------|
| | NOTE | 2016 | 2015 | 2016 | 2015 |
| | | \$ | \$ | \$ | \$ |
| EXPENSES: | | | | | |
| Compensation | 15 | 1,228,162 | 194,151 | 1,647,702 | 363,674 |
| Share-based payments | | 651,243 | 641,359 | 1,035,356 | 660,179 |
| Rent, office expense and other expenses | | 67,300 | 37,745 | 115,889 | 71,989 |
| Depreciation and amortization expense and loss on disposals | | 19,645 | 2,610 | 21,598 | 5,220 |
| Registration, listing fees and shareholders' information | | 152,154 | 77,963 | 325,581 | 91,970 |
| Promotion and advertising | | 62,715 | 13,312 | 104,627 | 40,383 |
| Representation, missions and trade shows | | 213,948 | 78,482 | 397,765 | 135,919 |
| Consultants fees | | 94,602 | 38,341 | 136,136 | 128,940 |
| Professional fees | | 323,145 | 24,117 | 362,658 | 42,075 |
| | | 2,812,914 | 1,108,080 | 4,147,312 | 1,540,349 |
| NET FINANCE (INCOME) EXPENSE: | | | | | |
| Finance income | | (131,978) | (2,996) | (221,266) | (6,305) |
| Finance expense | | 4,022 | 1,776 | 6,395 | 3,186 |
| Gain on foreign exchange | | (54,081) | - | (52,396) | - |
| | | (182,037) | (1,220) | (267,267) | (3,119) |
| Operating loss and loss before income taxes | | 2,630,877 | 1,106,860 | 3,880,045 | 1,537,230 |
| Current income taxes and mining taxes recovery | | (16,867) | (26,190) | (62,435) | (38,415) |
| Deferred income taxes and mining taxes recovery | | 134,113 | 26,190 | 99,865 | 38,415 |
| | | 117,246 | - | 37,430 | - |
| Net loss for the period | | 2,748,123 | 1,106,860 | 3,917,475 | 1,537,230 |
| OTHER COMPREHENSIVE LOSS (INCOME): | | | | | |
| Decrease (Increase) in fair value of the investments | | 871,720 | - | (713,226) | - |
| Deferred income taxes | | (117,246) | - | 95,929 | - |
| | | 754,474 | - | (617,297) | - |
| Comprehensive Loss for the period | | 3,502,597 | 1,106,860 | 3,300,178 | 1,537,230 |
| Basic and diluted loss per share | | 0.011 | 0.005 | 0.011 | 0.008 |
| Basic and diluted weighted average number of shares outstanding | | 312,909,942 | 202,908,843 | 310,197,165 | 197,722,136 |

The notes on pages 6 to 27 are an integral part of these consolidated condensed interim financial statements.

CONSOLIDATED CONDENSED INTERIM STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (UNAUDITED)

SIX-MONTH PERIODS ENDED DECEMBER 31, 2016 AND 2015

| | Share capital and warrants | Contributed surplus | Deficit | Accumulated other comprehensive income | Total |
|---|-------------------------------|------------------------|---------------------|--|--------------------|
| | \$ | \$ | \$ | | \$ |
| BALANCE, JUNE 30, 2016 | 68,944,971 | 6,794,690 | (28,032,967) | - | 47,706,694 |
| EQUITY FINANCING: | | | | | |
| Issuance of shares | 69,000,115 | - | - | - | 69,000,115 |
| Exercise of options | 203,774 | (66,774) | | | 137,000 |
| Exercise of warrants | 11,000 | - | - | - | 11,000 |
| Share issuance costs, net of \$133,359 of taxes | - | - | (4,828,382) | - | (4,828,382) |
| OPTIONS AND WARRANTS: | | | | | |
| Granted to employees, officers, directors, consultants or I.R. representatives | - | 1,035,356 | - | - | 1,035,356 |
| Granted to brokers | - | 1,823,885 | (1,823,885) | - | - |
| | 138,159,860 | 9,587,157 | (34,685,234) | - | 113,061,783 |
| LOSS FOR THE PERIOD | - | - | (3,917,475) | - | (3,917,475) |
| OTHER COMPREHENSIVE INCOME: | | | | | |
| Increase in fair value of the investments, net of \$95,929 of taxes | - | - | - | 617,297 | 617,297 |
| Balance, December 31, 2016 | 138,159,860 | 9,587,157 | (38,602,709) | 617,297 | 109,761,605 |

| | Share capital and warrants | Contributed surplus | Deficit | Total |
|---|-------------------------------|------------------------|---------------------|--------------------|
| | \$ | \$ | \$ | \$ |
| BALANCE, JUNE 30, 2015 | 49,962,586 | 3,373,232 | (26,836,744) | 26,499,074 |
| EQUITY FINANCING: | | | | |
| Exercise of options | 44,900 | (13,650) | - | 31,250 |
| Exercise of broker compensation options | 16,320 | - | | 16,320 |
| Exercise of warrants | 3,233,839 | - | - | 3,233,839 |
| Share issuance costs | - | - | (33,065) | (33,065) |
| OPTIONS AND WARRANTS: | | | | |
| Granted to employees, officers, directors, consultants or I.R. representatives | - | 660,179 | - | 660,179 |
| | 53,257,645 | 4,019,761 | (26,869,809) | 30,407,597 |
| LOSS FOR THE PERIOD | - | - | (1,537,230) | (1,537,230) |
| Balance, December 31, 2015 | 53,257,645 | 4,019,761 | (28,407,039) | 28,870,367 |

The notes on pages 6 to 27 are an integral part of these consolidated condensed interim financial statements.

CONSOLIDATED CONDENSED INTERIM STATEMENTS OF CASH FLOWS
(UNAUDITED)

SIX-MONTH PERIODS ENDED DECEMBER 31, 2016 AND 2015

| | Three-month periods ended December 31, | | Six-month periods ended December 31, | |
|---|---|------------------|---|------------------|
| | 2016 | 2015 | 2016 | 2015 |
| | \$ | \$ | \$ | \$ |
| CASH FLOWS USED IN OPERATING ACTIVITIES: | | | | |
| Net loss for the period | (2,748,123) | (1,106,860) | (3,917,475) | (1,537,230) |
| Adjustments for: | | | | |
| Share-based payments | 651,243 | 641,359 | 1,035,356 | 660,179 |
| Depreciation, amortization expense and loss on disposal | 19,645 | 2,610 | 21,598 | 5,220 |
| Deferred income and mining taxes | 134,113 | 26,190 | 99,865 | 38,415 |
| Current income tax recovery | (16,867) | (26,190) | (62,435) | (38,415) |
| Net change in non-cash operating working capital | (463,476) | 211,139 | 189,906 | 238,727 |
| | (2,423,465) | (251,752) | (2,633,185) | (633,104) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | | | |
| Proceeds from issuance of shares | 17,000 | 1,849,958 | 69,148,115 | 3,281,409 |
| Share issuance expenses | (72,398) | (19,813) | (4,975,028) | (40,232) |
| | (55,398) | 1,830,145 | 64,173,087 | 3,241,177 |
| CASH FLOWS USED IN INVESTING ACTIVITIES: | | | | |
| Deposits to suppliers for exploration and evaluation expenses | - | - | 142,589 | - |
| Addition to property, plant and equipment | (19,651,052) | - | (24,562,213) | - |
| Addition to intangible assets | (12,019) | - | (573,582) | - |
| Increase in exploration and evaluation assets | - | (1,014,636) | - | (1,510,110) |
| Additions to mining properties | - | - | - | (2,670) |
| | (19,663,071) | (1,014,636) | (24,993,206) | (1,512,780) |
| Net (decrease) increase in cash and cash equivalents | (22,141,934) | 563,757 | 36,546,696 | 1,095,293 |
| Cash and cash equivalents, beginning of the period | 78,252,075 | 2,157,202 | 19,563,445 | 1,625,666 |
| Cash and cash equivalents, end of the period | 56,110,141 | 2,720,959 | 56,110,141 | 2,720,959 |

Items not affecting cash flows (see Note 14).

The notes on pages 6 to 27 are an integral part of these consolidated condensed interim financial statements.

NOTES TO CONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

SIX-MONTH PERIODS ENDED DECEMBER 31, 2016 AND 2015

1. REPORTING ENTITY AND NATURE OF OPERATIONS :

Nemaska Lithium Inc. (the “Company”) is a company domiciled in Canada and incorporated under the *Canada Business Corporations Act*. Its shares were listed on the TSX Venture Stock Exchange up until July 7, 2016 and are now listed on the Toronto Stock Exchange under the symbol NMX since July 8, 2016 and on the American stock exchange Over-the-Counter QX (“OTCQX”) under the symbol NMKEF. The Company has incorporated 2 wholly-owned subsidiaries on March 16, 2016, which are Nemaska Lithium Shawinigan Transformation Inc. and Nemaska Lithium P1P Inc. The Company also incorporated Nemaska Lithium Whabouchi Mine Inc. in July 2016. All subsidiaries are domiciled in Canada and are incorporated under the *Canada Business Corporations Act*.

The address of the head office of the Company is 450, rue de la Gare-du-Palais, 1st floor, Québec (Québec), Canada G1K 3X2 and its web site is www.nemaskalithium.com.

The Company has determined that its mining properties, namely Whabouchi, has economically recoverable ore reserves, pursuant to a NI-43-101 feasibility study update with an effective date of April 4, 2016 and deposited on SEDAR on May 19, 2016 and as amended on June 8, 2016 (the “Updated Feasibility Study”) prepared by Met-Chem Canada Inc. (a member of the DRA group). The Company determined that it is in the development stage in respect of its Whabouchi mine property and Shawinigan site (the “Whabouchi Project”) because it has obtained the initial financing required to start the development and the construction phase of the Whabouchi Project. The Company has not yet determined whether its Sirmac mining property has economically recoverable ore reserves. Accordingly, this property is still in the exploration stage.

The recoverability of amounts shown for mining properties and related exploration and evaluation assets is dependent upon the discovery of economically recoverable ore reserves, the ability of the Company to obtain necessary financing to complete the development, and future profitable production or proceeds from the disposition thereof.

The unaudited consolidated condensed interim financial statements have been prepared on a going concern basis, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business as they come due into the foreseeable futures.

A substantial amount of additional financing is required to complete the construction of the Whabouchi lithium mine and the Hydromet Plant in Shawinigan. The estimated capital cost for the project is in excess of \$500 million, including contingencies. In addition, financing costs and general working capital needs will increase the Company’s cash requirements during the construction period, until positive cash-flow from operations commences. Although the Company has general working capital of \$36.7 million as at December 31, 2016, the Company may be required to delay discretionary expenditures if additional financing cannot be obtained to continue construction of the Whabouchi mine and Hydromet Plant.

2. BASIS OF PREPARATION:

(A) STATEMENT OF COMPLIANCE:

These unaudited consolidated condensed interim financial statements have been prepared in accordance with IFRS, as issued by the International Accounting Standards Board ("IASB") on a basis consistent with those accounting policies followed by the Company in the most recent audited annual financial statements. These unaudited consolidated condensed interim financial statements have been prepared under IFRS in accordance with IAS 34, *Interim Financial Reporting*. Certain information, in particular the accompanying notes, normally included in the audited annual financial statements prepared in accordance with IFRS has been omitted or condensed. Accordingly, these unaudited consolidated condensed interim financial statements do not include all the information required for full annual financial statements, and, therefore, should be read in conjunction with the audited annual financial statements and the notes thereto for the year ended June 30, 2016. On February 13, 2017, the Board of Directors approved, for issuance, these consolidated condensed interim financial statements.

(B) BASIS OF MEASUREMENT:

The consolidated condensed interim financial statements have been prepared on the historical cost basis, except for investment which are recorded at fair value.

The consolidated condensed interim financial statements have been prepared on a going concern basis, meaning the Company will be able to realize its assets and discharge its liabilities in the normal course of operations.

(C) FUNCTIONAL AND PRESENTATION CURRENCY:

These consolidated condensed interim financial statements are presented in Canadian dollars, which is the Company's functional currency.

(D) USE OF ESTIMATES AND JUDGMENTS:

The preparation of the consolidated condensed interim financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future years affected.

In preparing these consolidated condensed interim financial statements, the significant judgments made by management applying the Company accounting policies and the key sources of estimation uncertainty include those described in the Company's audited annual consolidated financial statements for the year ended June 30, 2016, plus the recoverability of property, plant and equipment and intangible assets (refer to Note 5).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) (UNAUDITED)

SIX-MONTH PERIODS ENDED DECEMBER 31, 2016 AND 2015

3. SIGNIFICANT ACCOUNTING POLICIES:

These consolidated condensed interim financial statements have been prepared following the same accounting policies used in the consolidated audited financial statements for the year ended June 30, 2016, unless otherwise specified hereunder.

PROPERTY, PLANT AND EQUIPMENT

Mineral Properties

As management determined, as at July 8, 2016, that the Company has now reached the development stage in respect of its Whabouchi Project, the Company reclassified capitalized costs associated with the Whabouchi property from the Exploration and Evaluation Assets to Mineral Property within Property, Plant and Equipment (see Note 5). Capitalized Mineral Property costs will be carried at cost until the Whabouchi Project is placed into commercial production, sold, abandoned or determined by management to be impaired in value.

INTANGIBLE ASSETS

Intellectual Property

As management determined, as at July 8, 2016, that the Company has now reached the development stage in respect of its Whabouchi Project, the Company reclassified capitalized costs associated with the Lithium Chemical Complex from the Exploration and Evaluation Assets to intangible asset under Intellectual Property (see Note 6). Capitalized Intellectual Property costs will be carried at cost and the amortization will start when the Whabouchi Project is placed into commercial production, sold, abandoned or determined by management to be impaired in value.

NEW STANDARDS AND INTERPRETATIONS

Reference is made to the consolidated audited financial statements for the year ended June 30, 2016, as there has been no changes.

4. INVESTMENTS:

As at December 31, 2016, the Company owns 15,849,455 shares in Monarques Gold Corporation ("MQR"), representing 12.32% (13.87% as at June 30, 2016) of the share capital of MQR. The closing price of MQR's shares on the TSX Venture Stock Exchange as at December 31, 2016 was \$0.39 (\$0.345 as at June 30, 2016), representing a total fair value of \$6,181,288 (\$5,468,062 as at June, 2016).

During the fourth quarter of the fiscal year 2016, the Company has made the assessment that it had lost its significant influence on its investment in MQR, as such it has reclassified the investment as a financial assets and measured the interest at fair value. Therefore, the Company recorded during the three-month and six-month periods ended December 31, 2016, a decrease variation of \$754,474 net of tax recovery of \$117,246 and an increase variation of \$617,297 net of tax expense of \$95,929, respectively, in such investment in the other comprehensive income section of the consolidated condensed interim statements of loss and comprehensive loss with the counterpart recorded in the consolidated condensed interim statements of changes in shareholders' equity.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(UNAUDITED)

SIX-MONTH PERIODS ENDED DECEMBER 31, 2016 AND 2015

5. PROPERTY, PLANT AND EQUIPMENT:

| | Land | Vehicle | Office and Computer equipment | Phase 1 Plant in progress | Equipment in progress | Buildings and Sites Preparation in progress | Mineral Properties | Total |
|--|----------------|---------------|-------------------------------------|------------------------------|--------------------------|---|-----------------------|--------------------|
| | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ |
| COST | | | | | | | | |
| Balance at June 30, 2015 | 57,000 | 38,810 | 86,670 | - | - | - | - | 182,480 |
| Additions | 100,000 | - | 1,095 | 3,241,276 | 2,251,200 | 2,279,198 | - | 7,872,769 |
| Grants applied to work in progress | - | - | - | (1,150,168) | - | - | - | (1,150,168) |
| (Disposition) | (57,000) | - | - | - | - | - | - | (57,000) |
| Balance at June 30, 2016 | 100,000 | 38,810 | 87,765 | 2,091,108 | 2,251,200 | 2,279,198 | - | 6,848,081 |
| Additions | - | 20,000 | 165,024 | 13,012,402 | 2,439,418 | 24,716,144 | 3,038,028 | 43,391,016 |
| Grants applied to work in progress | - | - | - | (5,552,753) | - | - | - | (5,552,753) |
| Transfer from mining properties and exploration and evaluation assets (see Note 1 below) | - | - | - | - | - | - | 20,589,541 | 20,589,541 |
| Additions during the period | - | 20,000 | 165,024 | 7,459,649 | 2,439,418 | 24,716,144 | 23,627,569 | 58,427,804 |
| Balance at December 31, 2016 | 100,000 | 58,810 | 252,789 | 9,550,757 | 4,690,618 | 26,995,342 | 23,627,569 | 65,275,885 |
| DEPRECIATION | | | | | | | | |
| Balance at June 30, 2015 | - | 23,800 | 64,384 | - | - | - | - | 88,184 |
| Depreciation for the year | - | 3,753 | 6,713 | - | - | - | - | 10,466 |
| Balance at June 30, 2016 | - | 27,553 | 71,097 | - | - | - | - | 98,650 |
| Depreciation for the period | - | 1,407 | 4,956 | 15,235 | - | - | - | 21,598 |
| Balance at December 31, 2016 | - | 28,960 | 76,053 | 15,235 | - | - | - | 120,248 |
| CARRYING AMOUNTS | | | | | | | | |
| At June 30, 2016 | 100,000 | 11,257 | 16,668 | 2,091,108 | 2,251,200 | 2,279,198 | - | 6,749,431 |
| At December 31, 2016 | 100,000 | 29,850 | 176,736 | 9,535,522 | 4,690,618 | 26,995,342 | 23,627,569 | 65,155,637 |

5. PROPERTY, PLANT AND EQUIPMENT (CONTINUED):

Note 1: Mineral Properties

At the time of transfer, the carrying value of the cash generating units identified as “Whabouchi” in the Mining Properties (see Note 7) and as “Whabouchi” and “Lithium Chemicals Complex” in the Exploration and Evaluation Assets (see Note 8) was \$28.0 million. Also as at September 30, 2016, the Company’s market capitalization significantly exceed the Entity’s equity value of \$112.7 million. IFRS 6 requires management to make an assessment of impairment before exploration and evaluation assets are reclassified to either tangible or intangible assets. In making such an assessment of the potential impairment of the Company’s exploration and evaluation assets, management has used the fair value less costs to sell model to estimate fair value based on a discounted cash flow technique generated from a detailed life of mine financial model from the Updated Feasibility Study. As part of the impairment testing undertaken as of September 30, 2016, management considered a “base case” calculation of the net present value (“NPV”) using the different data parameters and results of the Updated Feasibility Study and also as part of the impairment analysis, management used as a base case the discount rate of 8% scenario of the Updated Feasibility Study for the project. Following this analysis, management concluded that the exploration and evaluation assets of the Whabouchi Project was not impaired as at September 30, 2016 and consequently reclassified \$20.6 million to property, plant and equipment and \$7.4 million to intangible assets (see note 6).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(UNAUDITED)

SIX-MONTH PERIODS ENDED DECEMBER 31, 2016 AND 2015

6. INTANGIBLE ASSETS:

| | Balance as at June 30, 2016 | Addition | Reclassification from Exploration and Evaluation assets | Balance as at December 31, 2016 |
|-----------------------|-----------------------------------|----------|---|---------------------------------------|
| | \$ | \$ | \$ | \$ |
| Intellectual property | - | 573,582 | 7,442,881 | 8,016,463 |
| | - | 573,582 | 7,442,881 | 8,016,463 |

7. MINING PROPERTIES:

Mining properties can be detailed as follows:

| Québec | Localisation | Royalties | Balance as at June 30, 2016 | Reclassification to Property, Plant and Equipment | Balance as at December 31, 2016 |
|---------------------|--------------|-----------|--------------------------------|---|------------------------------------|
| | | | \$ | \$ | \$ |
| Whabouchi (100%) | SNRC 32O12 | % or % | 2,393,845 | (2,393,845) | - |
| Sirmac (100%) | SNRC 32J11 | % | 439,981 | - | 439,981 |
| | | | 2,833,826 | (2,393,845) | 439,981 |

| Québec | Localisation | Royalties | Balance as at June 30, 2015 | Acquisition | Balance as at June 30, 2016 |
|---------------------|--------------|-----------|--------------------------------|-------------|--------------------------------|
| | | | \$ | \$ | \$ |
| Whabouchi (100%) | SNRC 32O12 | 2% or 3% | 2,192,258 | 201,587 | 2,393,845 |
| Sirmac (100%) | SNRC 32J11 | 1% | 438,898 | 1,083 | 439,981 |
| | | | 2,631,156 | 202,670 | 2,833,826 |

Some properties are subject to royalties in the event they are brought into commercial production.

Whabouchi: See Note 11 A) and B); *Sirmac*: See Note 11 C).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(UNAUDITED)

SIX-MONTH PERIODS ENDED DECEMBER 31, 2016 AND 2015

8. EXPLORATION AND EVALUATION ASSETS:

Exploration and evaluation assets by properties can be detailed as follows:

| | Balance as at June 30, 2016 | Reclassification to Property, Plant and Equipment | Reclassification to Intangible assets | Balance as at December 31, 2016 |
|---------------------------|-----------------------------------|---|--|---------------------------------------|
| | \$ | \$ | \$ | \$ |
| Whabouchi | 18,195,696 | (18,195,696) | - | - |
| Sirmac | 1,447,689 | - | - | 1,447,689 |
| Lithium Chemicals Complex | 7,442,881 | - | (7,442,881) | - |
| | 27,086,266 | (18,195,696) | (7,442,881) | 1,447,689 |

| | Balance as at June 30, 2015 | Exploration and evaluation costs | Balance as at June 30, 2016 |
|--|-----------------------------------|--|-----------------------------------|
| | \$ | \$ | \$ |
| Whabouchi | 17,063,037 | 1,132,659 | 18,195,696 |
| Sirmac | 1,447,689 | - | 1,447,689 |
| Lithium Chemicals Complex ⁽¹⁾ | 5,943,227 | 1,499,654 | 7,442,881 |
| | 24,453,953 | 2,632,313 | 27,086,266 |

- ⁽¹⁾ The Company has identified specific markets of interest for lithium compounds produced from the transformation of spodumene concentrate and has completed, among other things, numerous metallurgical bench scale and pilot plant scale tests in order to develop different processes to produce lithium hydroxide from spodumene concentrate and to produce lithium carbonate from lithium hydroxide. The Company has obtained issuance of Canadian Patent No. 2,874,917, United States Patent No. US 9,382,126 and Australian Patent No. 2013270412 that describes its proprietary process of preparing lithium hydroxide and lithium carbonate from spodumene sources using membrane electrolysis. The Company also obtained issuance of Canadian Patent No. 2,905,197 that specifically protects improvements of the electrolysis membrane process for preparing lithium hydroxide. The Company has also received confirmation of other patent applications and patent cooperation treaty ("PCT") covering such processes that have been published and have received PCT numbers. The Company also filed additional patents which cover optimization and evolution of the technology as a result of the Company's ongoing optimization programs. In order to properly reflect this specific work within the assets of the Company, it was decided to record this "Lithium Chemicals Complex" as exploration and evaluation asset until its reclassification to intangible assets.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(UNAUDITED)

SIX-MONTH PERIODS ENDED DECEMBER 31, 2016 AND 2015

9. SHARE CAPITAL, WARRANTS AND SHARE-BASED PAYMENTS:

(A) COMMON SHARES AND WARRANTS:

Authorized:

Unlimited number of common shares without par value

Changes in the Company's share capital and warrants were as follows:

| | Number of warrants | Number of shares | Amount |
|--|-----------------------|---------------------|--------------------|
| | | | \$ |
| Balance at June 30, 2015 | 33,868,431 | 191,596,104 | 49,962,586 |
| Issuance of warrants and shares | 19,117,648 | 38,235,295 | 13,000,000 |
| Asset acquisition | - | 3,000,000 | 1,500,000 |
| Exercise of options | - | 1,055,575 | 344,526 |
| Exercise of brokers compensation options | - | 136,000 | 16,320 |
| Exercise of warrants | (18,410,781) | 18,410,781 | 4,121,539 |
| Balance at June 30, 2016 | 34,575,298 | 252,433,755 | 68,944,971 |
| Issuance of warrants and shares | 30,000,050 | 60,000,100 | 69,000,115 |
| Exercise of options | - | 450,000 | 203,774 |
| Exercise of warrants | (50,000) | 50,000 | 11,000 |
| Balance at December 31, 2016 | 64,525,348 | 312,933,855 | 138,159,860 |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(UNAUDITED)

SIX-MONTH PERIODS ENDED DECEMBER 31, 2016 AND 2015

9. SHARE CAPITAL, WARRANTS AND SHARE-BASED PAYMENTS (CONTINUED):

(A) COMMON SHARES AND WARRANTS (CONTINUED):

Period ended December 31, 2016:

On July 8, 2016, the Company completed a brokered short form prospectus offering for gross proceeds of \$69,000,115 by the issuance of 60,000,100 units, which includes the exercise of the over-allotment option in full, at a price of \$1.15 per unit in connection with the short form prospectus of the Company dated July 4, 2016. Each unit is comprised of one common share of the Company and one-half of one common share purchase warrant. Each whole common share purchase warrant entitles its holder to purchase one common share of the Company, at a price of \$1.50 per common share, up to July 8, 2019. The Company may accelerate the Warrant Expiry Date if, before the Warrant Expiry Date and at any time following the Closing Date, the closing price of the common shares listed on the Toronto Stock Exchange, as applicable, is equal to or above \$2.25 for a period of 20 consecutive trading days.

Between July 1, 2016 and December 31, 2016, 450,000 options were exercised by officers and directors at prices varying between \$0.10 and \$0.40 and shareholders exercised 50,000 warrants at a price of \$0.22 for an aggregate total value of \$148,000; this resulted in the Company issuing 500,000 common shares. As a result of the options exercises, an amount of \$66,774 was reclassified from contributed surplus to the share capital and warrants.

Year ended June 30, 2016:

On March 24, 2016, the Company completed a non-brokered private placement amounting to \$13,000,000, for which the Company issued between March 24, 2016 and June 13, 2016 a total of 38,235,295 units at a price of \$0.34 per unit. Each unit is comprised of one common share of the Company and one-half of one common share purchase warrant. Each whole common share purchase warrant entitles its holder to purchase one common share of the Company, at a price of \$0.48 per common share for a period of 24 months following their issuance.

Between July 1, 2015 and June 30, 2016, 136,000 compensation options were exercised by a broker at an exercise price of \$0.12 per share, while during the same period, shareholders exercised 3,911,516 warrants at an exercise price of \$0.18 per share, 5,537,500 warrants at an exercise price of \$0.20 per share, 1,150,000 warrants at an exercise price of \$0.22 per share, 4,344,265 warrants at an exercise price of \$0.25 per share and finally 3,467,500 warrants at an exercise price of \$0.28. Following these exercises, the Company received an aggregate value of \$4,137,859 and issued a total of 18,546,781 common shares of the Company.

Between July 1, 2015 and June 30, 2016, consultants, members of the Board of Directors and Management of the Company exercised 1,055,575 options at an average exercise price of \$0.22 per share, the Company received an aggregate value of \$232,219 and issued a total of 1,055,575 common shares of the Company in relation to such exercise. As a result of these exercises, an amount of \$112,307 was reclassified from contributed surplus to the share capital and warrants.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(UNAUDITED)

SIX-MONTH PERIODS ENDED DECEMBER 31, 2016 AND 2015

9. SHARE CAPITAL, WARRANTS AND SHARE-BASED PAYMENTS (CONTINUED):

(B) COMMON SHARES PURCHASE OPTIONS:

The shareholders of the Company approved a share option plan (the "Plan") whereby the Board of Directors may grant to employees, officers, directors and suppliers of the Company share purchase options to acquire common shares in such numbers, for such terms and at such exercise prices as may be determined by the Board of Directors. The exercise price may not be lower than the market price of the common shares at the time of grant. The acquisition conditions of share purchase options are without restriction, except for grant of share purchase options to some suppliers, namely investors' relation representatives, which are acquired at 25% each quarter.

The Plan provides that the maximum number of common shares of the Company that may be reserved for issuance under the Plan shall not be greater than 10% of the issued shares of the Company being outstanding from time to time. The aggregate number of share options granted to any one individual cannot exceed 5% of the outstanding common shares at the time of vesting and may not exceed 2% of the outstanding common shares for suppliers, namely consultants and investors relation representatives. These options are non-assignable and non-transferable unless by legacy or inheritance and will expire no later than five years after being granted. In the case an optionee leaves the Company, his options normally expire no later than one year following his departure, subject to the conditions established under the common share purchase option plan. The vesting period of the share purchase options varies from immediate up to 36 months, and the life of such options varies from two to five years.

Share-based payments to employees, officers, directors, consultants and investors relation ("I.R.") representatives

The status of the Company's share purchase option plan for employees, officers, directors, consultants and I.R. representatives as at December 31, 2016 and June 30, 2016, and changes during the periods then ended were as follows:

| | Six-month period ended December 31, 2016 | | Year ended June 30, 2016 | |
|---|---|---------------------------------------|------------------------------|---------------------------------------|
| | Number of options | Weighted average exercise price | Number of options | Weighted average exercise price |
| | | \$ | | \$ |
| Outstanding, beginning of period | 14,506,150 | 0.53 | 8,722,075 | 0.29 |
| Granted | 3,625,000 | 1.23 | 8,616,150 | 0.73 |
| Exercised | (450,000) ⁽ⁱ⁾ | 0.31 | (1,055,575) ⁽ⁱⁱⁱ⁾ | 0.22 |
| Expired | - | - | (1,776,500) | 0.51 |
| Outstanding, end of period | 17,681,150 | 0.68 | 14,506,150 | 0.53 |
| Options exercisable at the end of period | 12,856,150 | 0.50 | 12,881,150 | 0.48 |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(UNAUDITED)

SIX-MONTH PERIODS ENDED DECEMBER 31, 2016 AND 2015

9. SHARE CAPITAL, WARRANTS AND SHARE-BASED PAYMENTS (CONTINUED):

(B) COMMON SHARES PURCHASE OPTIONS (CONTINUED):

Share-based payments to employees, officers, directors, consultants and investors relation ("I.R.") representatives (continued)

- (i) The closing market prices of the shares when the options were exercised on July 21, 2016, August 5, 2016 and November 10, 2016 were \$0.96, \$1.17 and \$1.32, respectively, per share.
- (ii) The closing market prices of the shares when the options were exercised on September 15, 2015, March 16, 2016, April 11, 2016, April 26, 2016, May 19, 2016 and May 26, 2016 were \$0.28, \$0.61, \$1.18, \$1.16, \$1.45 and \$1.68, respectively, per share.

| | Six-month period ended December 31, 2016 | Year ended June 30, 2016 |
|--|---|-----------------------------|
| | \$ | \$ |
| The weighted average fair value of options granted during the period | 0.69 | 0.49 |

The following table summarizes information about share purchase options granted and outstanding as at December 31, 2016:

| Number of outstanding options | Number of vested options | Weighted average exercise price (\$) | Expiry date |
|-------------------------------------|--------------------------------|--|----------------|
| 50,000 | 50,000 | 0.100 | February 2017 |
| 50,000 | 50,000 | 0.120 | February 2017 |
| 50,000 | 50,000 | 0.200 | February 2017 |
| 50,000 | 50,000 | 0.400 | February 2017 |
| 200,000 | 200,000 | 0.205 | March 2017 |
| 200,000 | 200,000 | 0.400 | May 2017 |
| 500,000 | 500,000 | 0.425 | September 2017 |
| 375,000 | 375,000 | 0.500 | January 2018 |
| 390,000 | 390,000 | 0.125 | October 2018 |
| 250,000 | 250,000 | 0.120 | October 2018 |
| 125,000 | 125,000 | 0.120 | November 2018 |
| 500,000 | 500,000 | 0.125 | November 2018 |
| 250,000 | 250,000 | 0.100 | May 2019 |
| 2,950,000 | 2,950,000 | 0.200 | March 2020 |
| 100,000 | 100,000 | 0.200 | July 2020 |
| 2,425,000 | 2,425,000 | 0.400 | December 2020 |
| 5,491,150 | 4,366,150 | 0.920 | April 2021 |
| 100,000 | 25,000 | 1.110 | April 2021 |
| 200,000 | - | 1.100 | July 2021 |
| 1,200,000 | - | 1.200 | August 2021 |
| 1,275,000 | - | 1.295 | September 2021 |
| 650,000 | - | 1.276 | October 2021 |
| 300,000 | - | 1.150 | December 2021 |
| 17,681,150 | 12,856,150 | 0.68 | |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(UNAUDITED)

SIX-MONTH PERIODS ENDED DECEMBER 31, 2016 AND 2015

9. SHARE CAPITAL, WARRANTS AND SHARE-BASED PAYMENTS (CONTINUED):

(B) COMMON SHARES PURCHASE OPTIONS (CONTINUED):

Share-based payments to employees, officers, directors, consultants and investors relation ("I.R.") representatives (continued)

The fair value of options granted in accordance with the plan to employees, officers, directors, consultants and I.R. representatives was estimated using the Black-Scholes option pricing model with the following weighted average assumptions:

| | Six-month period ended December 31, 2016 | Year ended June 30, 2016 |
|-------------------------------|---|-----------------------------|
| Expected life of options | 5 years | 4.9 years |
| Expected volatility rate | 67% | 73% |
| Risk-free interest rate | 0.62% | 0.66% |
| Expected annual dividend rate | - | - |

Compensation options to brokers

The status of the Company's share purchase option plan for brokers and intermediaries as at December 31, 2016 and June 30, 2016, and changes during the periods then ended were respectively as follows:

| | Six-month period ended December 31, 2016 | | Year ended June 30, 2016 | |
|---|---|---------------------------------------|-----------------------------|---------------------------------------|
| | Number of units | Weighted average exercise price | Number of options | Weighted average exercise price |
| | | \$ | | \$ |
| Outstanding, beginning of period | - | - | 136,000 | 0.12 |
| Granted | 3,600,006 | 1.15 | - | - |
| Exercised | - | - | (136,000) | 0.12 |
| Outstanding and exercisable, end of period | 3,600,006 | 1.15 | - | - |

Between July 1, 2016 and December 31, 2016, an aggregate number of 3,600,006 broker warrants were issued, collectively entitling the holders thereof to purchase an aggregate of up to 3,600,006 units of the Company, at a price of \$1.15 per unit, each being comprised of one common share of the Company and one-half of one common share purchase warrant. Subject to acceleration provisions as described in the July warrant indenture, each whole common share purchase warrant is exercisable up to July 8, 2019 to purchase one common share of the Company at a price of \$1.50 per common share. Total issuance costs relating to options granted to brokers amount to \$1,823,885 and were recorded in contributed surplus.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(UNAUDITED)

SIX-MONTH PERIODS ENDED DECEMBER 31, 2016 AND 2015

9. SHARE CAPITAL, WARRANTS AND SHARE-BASED PAYMENTS (CONTINUED):

(B) COMMON SHARES PURCHASE OPTIONS (CONTINUED):

Compensation options to brokers (continued)

The fair value of compensation options to brokers granted was estimated using the Black-Scholes option pricing model with the following weighted average assumptions:

| | Six-month period ended December 31, 2016 | Year ended June 30, 2016 |
|-------------------------------|---|-----------------------------|
| Expected life of options | 3 years | Nil |
| Expected volatility rate | 57% | Nil |
| Risk-free interest rate | 0.54% | Nil |
| Expected annual dividend rate | - | Nil |

(C) WARRANTS:

The status of the warrants as at December 31, 2016 and June 30, 2016, and changes during the periods then ended were as follows. Each warrant can be converted into one common share of the Company:

| | Six-month period ended December 31, 2016 | | Year ended June 30, 2016 | |
|-----------------------------------|---|---------------------------------------|-----------------------------|---------------------------------------|
| | Number of warrants | Weighted average exercise price | Number of warrants | Weighted average exercise price |
| | | \$ | | \$ |
| Outstanding, beginning of period | 34,575,298 | 0.36 | 33,868,431 | 0.22 |
| Granted | 30,000,050 | 1.50 | 19,117,648 | 0.48 |
| Exercised | (50,000) ⁽ⁱⁱ⁾ | 0.22 | (18,410,781) ⁽ⁱ⁾ | 0.22 |
| Outstanding, end of period | 64,525,348 | 0.76 | 34,575,298 | 0.36 |

(i) Between August 24, 2015 and June 30, 2016, a total of 18,410,781 warrants were exercised at exercise prices varying from \$0.18 to \$0.28 per common share, while the closing market prices of the shares during the same period was varying between \$0.21 and \$1.85.

(ii) Between July 1, 2016 and December 31, 2016, a total of 50,000 warrants were exercised at an exercise price of \$0.22 per common share, while the closing market prices of the shares when exercised was \$1.40.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(UNAUDITED)

SIX-MONTH PERIODS ENDED DECEMBER 31, 2016 AND 2015

9. SHARE CAPITAL, WARRANTS AND SHARE-BASED PAYMENTS (CONTINUED):

(C) WARRANTS (CONTINUED):

The following table summarizes the information relating to the outstanding warrants as at December 31, 2016:

| Number of outstanding warrants | Weighted average exercise price | Expiry date |
|--------------------------------------|---------------------------------------|----------------|
| | \$ | |
| 2,532,500 | 0.28 | February 2017 |
| 2,927,650 | 0.20 | April 2017 |
| 9,755,000 | 0.22 | April 2017 |
| 192,500 | 0.27 | April 2017 |
| 4,411,765 | 0.48 | March 2018 |
| 7,352,942 | 0.48 | May 2018 |
| 7,352,941 | 0.48 | June 2018 |
| 30,000,050 | 1.50 | July 2019 |
| 64,525,348 | 0.76 | |

10. CONTINGENCIES:

- (A) The Company's operations are governed by governmental laws and regulations regarding environmental protection. Environmental consequences are hardly identifiable, their impact and their duration are difficult to determine. At the present time and to the best knowledge of management, the Company is in conformity with the laws and regulations. Restoration costs will be accrued in the financial statements only when it can be determined that a present obligation exists, resulting from the environmental consequences of the exploration activities performed on the lands, and when it can be reliably estimated. Such obligation will be capitalized to the cost of the related assets at that time.
- (B) The Company is partly financed by the issuance of flow-through shares. However, there is no guarantee that the funds spent by the Company will qualify as Canadian exploration expenses, even if the Company has committed to take all the necessary measures for this purpose. Refusals of certain expenses by tax authorities could have negative tax consequences for investors. In such an event, the Company will indemnify each flow-through share subscriber for the additional taxes payable by such subscriber as a result of the Company's failure to renounce the qualifying expenditures as agreed.

11. COMMITMENTS:

- (A) In September 2009, the Company acquired a 100% interest in 16 mining claims included in the Whabouchi property. The vendors kept a 3% Net Smelter Return ("NSR") royalty on the 16 claims and on 4 of the 7 claims acquired by map designation by the Company. For an amount of \$1,000,000, 1% of this royalty may be purchased.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(UNAUDITED)

SIX-MONTH PERIODS ENDED DECEMBER 31, 2016 AND 2015

11. COMMITMENTS (CONTINUED):

- (B) In case of commercial production on any of the 10 claims acquired from Golden Goose Resources Inc. in January 2010 related to the Whabouchi property, the Company has to pay a 2% NSR royalty on all metals. The Company has the option to purchase 1% of this NSR royalty for an amount of \$1,000,000.
- (C) The Sirmac property is composed of 24 claims, covering approximately 1,101 hectares, located in SNRC sheet 32J11 in the Province of Québec, Canada. The property is subject to a 1% NSR royalty, on 15 of the 24 claims forming the property, which can be purchased by the Company for \$1,000,000.
- (D) The Company leases office space and the lease was renewed in December 2016 for a period of four years, from February 1, 2017 to January 31, 2021, with the option to terminate the lease after the first year of this renewal. The monthly amount of the lease for the first two years of the renewal is \$6,062 and will be \$6,142 for the remaining term. As at December 31, 2016, the total contractual payments remaining until then, assuming the lease will not be terminated before the end of the term, will amount to \$294,679.

12. INCOME AND MINING TAXES:

The income tax expense (recovery) differs from the amounts computed by applying the combined federal and provincial income tax rate of 26.90% (2015 - 26.90%) to the loss before taxes for the following reasons:

| | Three-month periods ended December 31, | | Six-month periods ended December 31, | |
|--|---|-------------|---|-------------|
| | 2016 | 2015 | 2016 | 2015 |
| | \$ | \$ | \$ | \$ |
| Loss before income taxes | (2,630,877) | (1,106,859) | (3,880,045) | (1,537,230) |
| Computed expected tax recovery | (707,706) | (297,745) | (1,043,732) | (413,515) |
| Increase (decrease) in income taxes resulting from: | | | | |
| Non-deductible share-based payment | 175,184 | 172,526 | 278,511 | 177,589 |
| Change in unrecognized deferred income tax assets | 654,305 | 132,264 | 819,446 | 246,260 |
| Mining tax recovery related to current period exploration expenses | (4,537) | (7,045) | (16,795) | (10,334) |
| Deferred income tax recovery | 117,246 | - | 37,430 | - |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(UNAUDITED)

SIX-MONTH PERIODS ENDED DECEMBER 31, 2016 AND 2015

12. INCOME AND MINING TAXES (CONTINUED):

Movement in temporary differences during the six-month period ended December 31, 2016 and the year ended June 30, 2016 are detailed as follows:

| | Balance June 30, 2016 | Recognized in profit or loss | Recognized in equity | Recognized in OCI ⁽¹⁾ | Balance December 31, 2016 |
|-----------------------------------|-----------------------------|------------------------------------|-------------------------|-------------------------------------|---------------------------------|
| | \$ | \$ | \$ | \$ | \$ |
| Deferred tax assets: | | | | | |
| Non-capital losses | 2,156,021 | (27,553) | - | - | 2,128,468 |
| Share issuance costs | - | (26,672) | 133,359 | - | 106,687 |
| Equipment | 15,505 | - | - | - | 15,505 |
| Mining properties | 1,012,977 | - | - | - | 1,012,977 |
| Deferred tax liabilities: | | | | | |
| Deferred mining duties | (2,156,849) | (62,435) | - | - | (2,219,284) |
| Exploration and evaluation assets | (2,464,467) | 16,795 | - | - | (2,447,672) |
| Other unrealized gain | (720,036) | - | - | (95,929) | (815,965) |
| | (2,156,849) | (99,865) | 133,359 | (95,929) | (2,219,284) |

(1) OCI means "Other Comprehensive Income"

Movement in temporary differences during the year ended June 30, 2016 are detailed as follows (continued):

| | Balance June 30, 2015 | Recognized in profit or loss | Balance June 30, 2016 |
|-----------------------------------|-----------------------------|------------------------------------|-----------------------------|
| | \$ | \$ | \$ |
| Deferred tax assets: | | | |
| Non-capital losses | 767,095 | 1,388,926 | 2,156,021 |
| Share issuance costs | - | - | - |
| Equipment | 14,132 | 1,373 | 15,505 |
| Mining properties | 1,010,307 | 2,670 | 1,012,977 |
| Deferred tax liabilities: | | | |
| Deferred mining duties | (2,076,498) | (80,351) | (2,156,849) |
| Exploration and evaluation assets | (1,791,534) | (672,933) | (2,464,467) |
| Other unrealized gain | - | (720,036) | (720,036) |
| | (2,076,498) | (80,351) | (2,156,849) |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(UNAUDITED)

SIX-MONTH PERIODS ENDED DECEMBER 31, 2016 AND 2015

12. INCOME AND MINING TAXES (CONTINUED):

Deferred tax assets have not been recognized in respect of the following items:

| | Six-month period ended December 31, 2016 | Year ended June 30, 2016 |
|-----------------------------------|---|-----------------------------|
| | \$ | \$ |
| Non-capital losses carry forwards | 3,754,322 | 2,703,919 |
| Share issuance costs | 1,421,799 | 367,132 |
| | 5,176,121 | 3,071,051 |

Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable profit will be available against which the Company can utilize benefits therefrom.

As at December 31, 2016, the Company has the following non-capital tax losses, available to reduce future years income for tax purposes:

| Year incurred | Federal | Provincial | Year of expiry |
|-----------------|-------------------|-------------------|----------------|
| | \$ | \$ | |
| 2009 | 179,411 | - | 2029 |
| 2010 | 923,620 | 894,556 | 2030 |
| 2011 | 1,759,862 | 1,756,479 | 2031 |
| 2012 | 2,280,742 | 2,274,511 | 2032 |
| 2013 | 4,058,264 | 4,042,274 | 2033 |
| 2014 | 2,599,917 | 2,584,890 | 2034 |
| 2015 | 3,010,341 | 2,996,939 | 2035 |
| 2016 | 3,414,901 | 3,414,901 | 2036 |
| 2017 (6 months) | 2,844,689 | 2,844,689 | 2037 |
| | 21,071,747 | 20,809,239 | |

13. EARNINGS PER SHARE:

The warrants and share purchase options were excluded from the diluted weighted average number of common shares calculation since the Company incurred loss and that their effect would have been antidilutive.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(UNAUDITED)
SIX-MONTH PERIODS ENDED DECEMBER 31, 2016 AND 2015

14. ITEMS NOT AFFECTING CASH FLOWS:

| | Three-month periods ended | | Six-month periods ended | |
|--|----------------------------------|-------------|--------------------------------|-------------|
| | December 31, | | December 31, | |
| | 2016 | 2015 | 2016 | 2015 |
| | \$ | \$ | \$ | \$ |
| <u>Non-cash items:</u> | | | | |
| Changes in accounts payable and accrued liabilities related to share issuance expenses | - | - | (13,287) | (7,166) |
| Changes in accounts payable and accrued liabilities related to exploration and evaluation assets | - | 76,611 | - | 103,836 |
| Changes in deposits to suppliers for exploration and evaluation expenses | - | (23,856) | - | (21,171) |
| Changes in accounts payable and accrued liabilities related to property, plant and equipment | 14,428,896 | - | 18,828,803 | - |
| Changes in accounts payable and accrued liabilities related to intangible assets | (15,593) | - | - | - |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(UNAUDITED)

SIX-MONTH PERIODS ENDED DECEMBER 31, 2016 AND 2015

15. COMPENSATION:

| | Three-month periods ended December 31, | | Six-month periods ended December 31, | |
|--|---|----------------|---|----------------|
| | 2016 | 2015 | 2016 | 2015 |
| | \$ | \$ | \$ | \$ |
| Wages and fringe benefits paid to key management personnel | 845,314 | 124,234 | 1,153,691 | 227,273 |
| Wages and fringe benefits paid to other staff employees | 328,554 | 49,813 | 399,736 | 97,047 |
| Fees paid to the members of the Board of Directors | 54,294 | 20,104 | 94,275 | 39,354 |
| | 1,228,162 | 194,151 | 1,647,702 | 363,674 |

During the three-month and six-month periods ended December 31, 2016, the Company incurred \$651,243 (\$641,359 in 2015) and \$1,035,356 (\$660,179 in 2015), respectively, of share-based payments expenses, of which \$301,442 (\$181,685 in 2015) and \$394,231 (\$181,685 in 2015), respectively, were attributed to key management personnel and \$nil (\$397,367 in 2015) and \$nil (\$397,367 in 2015), respectively, were attributed to the members of the Board of Directors in relation with the share purchase options granted.

16. GRANTS:

On February 16, 2015, the Company entered into an agreement with the federally-funded Sustainable Development Technology Canada for a \$12,870,000 non-repayable grant for construction and operation of its Phase 1 Plant. The Company received in two tranches a total amount of \$4,235,939, the first one was received in January 2016 and the second in June 2016. The next tranche of \$4,614,863 is expected to be received during the 2016-2017 fiscal year, following the achievements of certain milestones. The remaining balance of \$2,732,198 should be received during the fiscal year 2017-2018 while the 10% retention on amounts disbursed amounting to \$1,287,000 should be received during the fiscal year 2018-2019.

On March 11, 2015, the Company signed an agreement with the *Ministère des Ressources Naturelles*, which entitles the Company to receive a total of \$3,000,000 non-repayable grant as part of the Technoclimat program. The Company received the first tranche of \$300,000 in May 2015 and a second tranche of \$450,000 in March 2016. The next tranche of \$1,800,000 is expected to be received during the 2016-2017 fiscal year, following the achievements of certain milestones. The remaining portion of \$450,000 should be received during the fiscal year 2017-2018.

These grants will cover approximately 41% of costs related to the Phase 1 Plant.

As at December 31, 2016, an amount of \$2,016,982 was recorded as grants receivable (\$3,535,771 as at June 30, 2016 was recorded as deferred grants).

17. LOAN PAYABLE:

The Company has contracted a loan payable towards the Société de Développement de Shawinigan Inc. in the amount of \$2,000,000 in relation to the acquisition of the land and selected buildings located in Shawinigan, Québec, Canada. The payment of this note will be released upon the completion of certain milestones, such as the reception of certain permits from the city of Shawinigan, which are expected to occur during the fiscal year 2016-2017. As such, this amount has been classified as a current liability.

18. ADVANCED PAYMENT:

The Company has contracted an advanced payment by a customer in the amount of \$12,000,000 in exchange for services and products of the same value from the Company Phase 1 Plant. As at the date of the approval of these financial statements by the Board of Directors, a total amount of \$9,000,000 was received (\$6,000,000 was received as at December 31, 2016), while the remaining balance of \$3,000,000 (\$6,000,000 as at December 31, 2016) is expected to be released during the last quarter of the fiscal year 2016-2017 upon the completion of certain milestones.

19. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT:

FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amounts of short-term financial assets and liabilities which include cash and cash equivalents, other receivables, accounts payable and accrued liabilities and loan payable, approximate their fair value due to the immediate or short-term maturity of these financial instruments.

RISK EXPOSURE AND MANAGEMENT

The Company is exposed to a certain amount of risks at different levels. The type of risk and the way the exposure is managed are described hereafter.

(i) MARKET RISK:

Market risk is the risk that changes in market prices, such as interest rates, foreign exchange rates and equity prices will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

Interest rate risk:

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Cash equivalents bear interest at variable rates that can range during the year anywhere between 0.70% up to 1.25% per year, depending on the Bank of Canada overnight rate fluctuations. In relation with those items, there is limited exposure to fair value variation due to the fact that they are redeemable at any time. The other financial assets and liabilities of the Company as at the consolidated financial statement date do not represent interest risk because they are without interest. The Company does not use financial derivatives to decrease its exposure to interest risk.

19. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (CONTINUED):

RISK EXPOSURE AND MANAGEMENT (CONTINUED)

(ii) MARKET RISK (CONTINUED):

Currency risk:

The Company makes certain transactions in foreign currencies mainly in US dollars, euros and Great Britain pound. The balances in the accounts payable and accrued liabilities in these foreign currencies were \$72,299 (US \$46,770 and £8,950) as at December 31, 2016 and \$18,391 (US \$11,176 and £2,250) as at June 30, 2016. Consequently, the Company is slightly exposed to foreign exchange fluctuation.

(iii) CREDIT RISK:

Credit risk is the risk of a financial loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligations. Credit risk arises principally from the Company's cash and cash equivalents and other receivables and the carrying amount of these financial assets represents the Company's maximum exposure to credit risk as at the date of the financial statements. The credit risk on cash and cash equivalents is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

(iv) LIQUIDITY RISK:

Liquidity risk is the risk that the Company will not be able to meet its financial obligations associated with its financial liabilities as they fall due.

The Company manages liquidity risk through the management of its capital structure as outlined in Note 20. It also manages liquidity risk by continuously monitoring actual and projected cash flows.

As at December 31, 2016, all of the Company's financial liabilities had contractual maturities of less than one year and the Company had enough funds available to meet its current financial liabilities. At the same date, the Company had \$56,110,141 in cash and cash equivalents (\$19,563,445 as at June 30, 2016), \$5,987,280 in sales tax receivables (\$836,472 as at June 30, 2016), \$2,053,997 in other receivables (\$112,602 as at June 30, 2016) and \$350,379 in mining rights and tax credits receivable (\$287,944 as at June 30, 2016) in order to meet its financial liabilities and future financial liabilities from its commitments.

20. CAPITAL MANAGEMENT:

There were no significant changes in the Company's approach to capital management during the current year compared with the prior year.

As at December 31, 2016, the Company's capital consists of shareholders' equity amounting to \$109,761,605 (\$47,706,694 as at June 30, 2016).

The Company's capital management objective is to have sufficient capital to be able to pursue its activities in order to ensure the growth of its assets. It has also the objective to have sufficient liquidity to finance the investing activities and its working capital requirements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(UNAUDITED)

SIX-MONTH PERIODS ENDED DECEMBER 31, 2016 AND 2015

20. CAPITAL MANAGEMENT (CONTINUED):

In order to maintain or adjust the capital structure, the Company may issue new capital instruments, obtain debt financing and acquire or sell mining properties or other assets, to improve its financial performance and flexibility.

The access to financing depends on the economic situation and state of the equity and credit markets.

The Company is subject to regulatory requirements related to the use of funds obtained by flow-through shares financing. These funds have to be incurred for eligible exploration expenses in accordance with the Canada *Income Tax Act* and Québec *Taxation Act*. During the year, the Company complied with all of its regulatory requirements. The Company has no dividend policy.

21. SUBSEQUENT EVENTS:

- A) On February 13, 2017, the Company announced that it has received a \$3M installment payment from Johnson Matthey Battery Materials Ltd ("JMBM") of Candiac, Québec, a wholly owned subsidiary of Johnson Matthey Plc (LSE: JMAT). The installment payment was made after JMBM's review and acceptance of the Operation Manuals for the Phase 1 Plant and receipt by the Company of the certificate of authorization to operate the Phase 1 Plant. The existing agreement between JMBM and the Company, announced on May 11, 2016, provides for an aggregate \$12M advance payment for goods and services. The final \$3M milestone installment will be payable by JMBM following receipt of battery grade lithium hydroxide from the Company.
- B) From January 1, 2017 to February 13, 2017, 400,000 options were exercised at prices varying between \$0.10 and \$0.425 for an aggregate value of \$126,000 and 3,892,000 warrants were exercised by shareholders at a price varying between \$0.20 and \$0.28 for an aggregate value of \$992,960; this resulted in the Company issuing 4,292,000 common shares.