



Unaudited Condensed Interim Financial Statements of

NEMASKA LITHIUM INC.

(Formerly Nemaska Exploration Inc.)

Periods ended September 30, 2011 and 2010

(Amended)

NEMASKA LITHIUM INC.

(Formerly Nemaska Exploration Inc.)

Condensed Interim Financial Statements (Amended)
(Unaudited)

Periods ended September 30, 2011 and 2010

Condensed Interim Financial Statements

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NEMASKA LITHIUM INC.

(Formerly Nemaska Exploration Inc.)

Condensed Interim Statements of Financial Position (Amended, Note 2)
(Unaudited)

September 30, 2011, June 30, 2011 and July 1, 2010

	Note	September 30, 2011	June 30, 2011	July 1, 2010
Assets				
		\$	\$	\$
Current assets:				
Cash and cash equivalents		1,209,472	3,065,329	2,003,675
Term deposit		-	-	10,000
Sales taxes receivable		374,629	553,372	205,375
Other receivables		3,184	35,559	24,700
Advance to an equity accounted investee		539,870	158,228	-
Subscriptions receivable		-	-	500,000
Mining rights and tax credits related to resources receivable		802,428	-	46,137
Prepaid expenses		90,864	27,315	56,871
Total current assets		3,020,447	3,839,803	2,846,758
Non-current asset:				
Advances for exploration and evaluation expenses		50,000	-	112,100
Investment in an equity accounted investee	4	5,757,606	6,008,893	-
Equipment	5	47,547	30,413	8,643
Mining properties	6	1,260,500	1,120,500	4,542,288
Exploration and evaluation assets	7	8,044,758	6,928,843	4,180,448
Total non-current assets		15,160,411	14,088,649	8,843,479
Total assets		18,180,858	17,928,452	11,690,237
Liabilities and Equity				
Current liabilities:				
Accounts payable and accrued liabilities		1,454,981	688,976	540,474
Liability related to flow-through shares		-	-	93,334
Total current liabilities		1,454,981	688,976	633,808
Non-current liabilities:				
Debt component of the convertible debenture	8	-	-	800,272
Deferred income and mining taxes	15	1,268,746	1,108,614	1,689,132
Total non-current liabilities		1,268,746	1,108,614	2,489,404
Total liabilities		2,723,727	1,797,590	3,123,212
Equity:				
Share capital and warrants	10	23,498,663	23,458,663	11,358,929
Equity component of the convertible debenture	8	-	-	236,111
Contributed surplus		2,418,516	2,334,958	653,270
Deficit		(10,460,048)	(9,662,759)	(3,681,285)
Total equity		15,457,131	16,130,862	8,567,025
Contingencies	12			
Commitments	13			
Subsequent events	14			
Total liabilities and equity		18,180,858	17,928,452	11,690,237

The notes on pages 6 to 53 are an integral part of these unaudited condensed interim financial statements.

NEMASKA LITHIUM INC

(Formerly Nemaska Exploration Inc.)

Condensed Interim Statements of Comprehensive Loss (Amended, Note 2)
(Unaudited)

Periods ended September 30, 2011 and 2010

	Note	2011	2010
		\$	\$
Expenses:			
Salaries and fringe benefits		54,171	40,887
Share-based payments		83,558	145,647
Rent, office expense and other expenses		26,017	21,470
Depreciation and amortization expense		3,525	893
Registration, listing fees and shareholders' information		55,342	59,594
Promotion and publicity		28,155	35,771
Representation, missions and trade shows		48,165	65,737
Fees and expenses to external directors		9,333	7,086
Consultant fees		43,898	221,400
Professional fees		84,776	44,219
Total expenses		436,940	642,704
Net finance expense (income):			
Finance income	16	(14,770)	(1,912)
Finance expense		267	20,164
		(14,503)	18,252
Loss before the undernoted		422,437	660,956
Others:			
Other income related to flow-through shares		-	(93,334)
Share of loss in an equity accounted investee		251,287	-
		251,287	(93,334)
Loss before income taxes		673,724	567,622
Income taxes recovery		(36,567)	-
Deferred income and mining taxes		160,132	441,817
		123,565	441,817
Net loss and comprehensive loss for the period		797,289	1,009,439
Basic and diluted loss per share		0.012	0.020

The notes on pages 6 to 53 are an integral part of these unaudited condensed interim financial statements.

NEMASKA LITHIUM INC.

(Formerly Nemaska Exploration Inc.)

Condensed Interim Statements of Changes in Shareholders' Equity (Amended, Note 2)
(Unaudited)

Periods ended September 30, 2010, June 30, 2011 and September 30, 2011

	Share capital and warrants	Convertible debenture equity	Contributed surplus	Deficit	Total
	\$	\$	\$	\$	\$
Balance, July 1, 2010	11,358,929	236,111	653,270	(3,681,285)	8,567,025
Net loss	-	-	-	(4,082,422)	(4,082,422)
Equity financing:					
Paid in cash	3,458,197	-	-	-	3,458,197
Flow-through shares	2,869,631	-	-	-	2,869,631
Mining properties	258,135	-	-	-	258,135
Shares to be issued for the acquisition of mining properties	67,434	-	-	-	67,434
Share issuance costs	-	-	-	(1,477,762)	(1,477,762)
Recognition of deferred tax assets related to share issuance costs	-	-	-	684,403	684,403
Warrants:					
Granted	5,401,271	-	-	-	5,401,271
Granted and to be issued in relation with the shares to be issued	45,066	-	-	-	45,066
Options:					
Granted to employees, officers, directors, consultants or I.R. representatives	-	-	1,199,693	-	1,199,693
Granted to brokers or intermediaries	-	-	391,121	-	391,121
Adjustments of options	-	-	66,438	-	66,438
Gain on settlement of equity component of the convertible debenture	-	-	24,436	-	24,436
Settlement of equity component of the convertible debenture	-	(236,111)	-	-	(236,111)
Dividend	-	-	-	(1,105,693)	(1,105,693)
Balance, June 30, 2011	23,458,663	-	2,334,958	(9,662,759)	16,130,862

The notes on pages 6 to 53 are an integral part of these unaudited condensed interim financial statements.

NEMASKA LITHIUM INC.

(Formerly Nemaska Exploration Inc.)

Condensed Interim Statements of Changes in Shareholders' Equity, (continued) (Amended, Note 2)
(Unaudited)

Periods ended September 30, 2010, June 30, 2011 and September 30, 2011

	Share capital and warrants	Convertible debenture equity	Contributed surplus	Deficit	Total
	\$	\$	\$	\$	\$
Balance, July 1, 2010	11,358,929	236,111	653,270	(3,681,285)	8,567,025
Net loss	-	-	-	(1,009,439)	(1,009,439)
Equity financing:					
Mining properties	118,000	-	-	-	118,000
Share issuance costs				(12,464)	(12,464)
Options:					
Granted to employees, officers, directors, consultants or I.R. representatives	-	-	145,647	-	145,647
Balance, September 30, 2010	11,476,929	236,111	798,917	(4,703,188)	7,808,769

	Share capital and warrants	Convertible debenture equity	Contributed surplus	Deficit	Total
	\$	\$	\$	\$	\$
Balance, June 30, 2011	23,458,663	-	2,334,958	(9,662,759)	16,130,862
Net loss	-	-	-	(797,289)	(797,289)
Equity financing:					
Shares to be issued for the acquisition of mining properties	40,000	-	-	-	40,000
Options:					
Granted to employees, officers, directors, consultants or I.R. representatives	-	-	23,186	-	23,186
Granted to brokers or intermediaries	-	-	60,372	-	60,372
Balance, September 30, 2011	23,498,663	-	2,418,516	(10,460,048)	15,457,131

The notes on pages 6 to 53 are an integral part of these unaudited condensed interim financial statements.

NEMASKA LITHIUM INC.

(Formerly Nemaska Exploration Inc.)

Condensed Interim Statements of Cash Flows (Amended, Note 2)
(Unaudited)

Periods ended September 30, 2011 and 2010

	Three months ended September 30,	
	2011	2010
	\$	\$
Cash flows from operating activities:		
Net loss for the period	(797,289)	(1,009,439)
Adjustments for:		
Share-based payments	83,558	145,647
Depreciation and amortization expense	3,525	893
Finance expense	267	20,164
Other income related to flow-through shares	-	(93,334)
Share of loss of an equity accounted investee	251,287	-
Deferred income and mining taxes	160,132	441,817
Net change in non-cash operating working capital	(268,998)	488,992
Interests paid	(267)	-
	(567,785)	(5,260)
Cash flows from financing activities:		
Share issuance expenses	-	(12,464)
	-	(12,464)
Cash flows from investing activities:		
Advances on exploration and evaluation expenses	(50,000)	(35,784)
Addition to equipment	(20,659)	-
Addition to mining properties	-	(123,500)
Increase in exploration and evaluation assets	(1,217,413)	(923,903)
	(1,288,072)	(1,083,187)
Net decrease in cash and cash equivalents	(1,855,857)	(1,100,911)
Cash and cash equivalents, beginning of the period	3,065,329	2,003,675
Cash and cash equivalents, end of the period	1,209,472	902,764

Items not affecting cash flows: See note 17

The notes on pages 6 to 53 are an integral part of these unaudited condensed interim financial statements.

NEMASKA LITHIUM INC.

(Formerly Nemaska Exploration Inc.)

Notes to Condensed Interim Financial Statements
(Unaudited)

Periods ended September 30, 2011 and 2010

1. Reporting entity and going concern:

Nemaska Exploration Inc. (the "Company"), is a company domiciled in Canada, incorporated under the *Canada Business Corporations Act*. Its stock is trading on TSX Venture Stock Exchange under the symbol NMX, on Frankfurt exchange under the symbol NOT and on the American stock exchange Over-the Counter QX (OTCQX) under symbol NMKEF.

The Company is engaged in the acquisition and exploration of mining properties. Its activities are in Canada and the Company has not yet determined whether mining properties have economically recoverable ore reserves.

Although the Company has taken steps to verify and confirm title to mineral properties in which it has an interest, property title might be subject to unregistered prior agreements or non-compliance with regulatory requirements.

The recoverability of amounts shown for mining properties and related exploration and evaluation assets is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain necessary financing to complete the development, and future profitable production or proceeds from the disposition thereof. As at the date of the financial statements, management determined that the net carrying value of mining properties represents the best estimate of their net recoverable value. This value may nonetheless be reduced in the future.

The address of the head office of the Company is 450, rue de la Gare du Palais, 1st floor, Québec (Québec), Canada, G1K 3X2.

2. Basis of preparation:

Amendment: The Company amended and re-filed its unaudited condensed interim financial statements for the periods ended September 30, 2011 and 2010 to properly reflect the Company's opening IFRS liability related to flow-through shares as at July 1, 2010 which amounted to \$93,334 (note 20d), as opposed to \$309,921 as previously disclosed. Consequently, the opening IFRS deficit as at July 1, 2010 was reduced by \$216,587 and other income related to flow-through shares was reduced by \$85,367, \$120,091 and \$96,496 for the three-month period ended September 30, 2010, the year ended June 30, 2011 and the three-month period ended September 30, 2011 respectively, compared to amounts previously disclosed. This amendment also resulted in the liability related to flow-through shares and deficit previously disclosed being reduced by \$131,220 and \$96,496 as at September 30, 2010 and June 30, 2011, respectively.

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Notes to Condensed Interim Financial Statements
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Periods ended September 30, 2011 and 2010

2. Basis of preparation (continued):

(a) Statement of compliance:

The Company prepares its financial statements in accordance with Canadian generally accepted accounting principles as set out in the Handbook of the Canadian Institute of Chartered Accountants ("CICA Handbook"). In 2010, the CICA Handbook was revised to incorporate International Financial Reporting Standards ("IFRS"), which require publicly accountable enterprises to apply such standards effective for years beginning on or after January 1, 2011.

Accordingly, the Company has begun reporting on the IFRS basis in these interim financial statements. In the financial statements the term "previous Canadian GAAP" refers to Canadian GAAP before the adoption of IFRS.

These condensed interim financial statements have been prepared in accordance with IFRS applicable to the preparation of interim financial statements as published by the International Accounting Standards Board ("IASB"), including IAS 34, *Interim Financial Reporting* and IFRS 1, *First Time Adoption of International Financial Reporting Standards*. The Company has consistently applied the same accounting policies in its opening IFRS statement of financial position at July 1, 2010 and throughout all periods presented, as if these policies had always been in effect. Note 20 discloses the impact of the transition to IFRS on the Company's reported financial position, financial performance and cash flows, including the nature and effect of significant changes in accounting policies, from those used in the Company's audited financial statements for the year ended June 30, 2011.

The accounting policies applied in these condensed interim financial statements are based on IFRS issued and outstanding as of December 23, 2011, the date on which the Board of Directors approved the condensed interim financial statements. Any subsequent changes to IFRS that are given effect in the Company's annual financial statements for the year ending June 30, 2012 could result in restatement of these condensed interim financial statements, including the transition adjustments recognized on transition to IFRS.

The condensed interim financial statements should be read in conjunction with the Company's previous Canadian GAAP annual financial statements for the year ended June 30, 2011. The notes to the condensed interim financial statements disclose IFRS information for the year ended June 30, 2011, which were not provided in the 2011 annual financial statements.

(b) Basis of measurement:

The condensed interim financial statements have been prepared on the historical cost basis.

NEMASKA LITHIUM INC.

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Notes to Condensed Interim Financial Statements

(Unaudited)

Periods ended September 30, 2011 and 2010

2. Basis of preparation (continued):

(c) Functional and presentation currency:

These 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 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 periods affected.

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the condensed interim financial statements is included in note 3 and consists in the determination of capitalizable costs as exploration and evaluation assets.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year are included in the following notes:

- Note 3 - assessment of refundable tax credits related to resources and credit on mining duties;
- Notes 6 and 7 - recoverability of mining properties and exploration and evaluation assets;
- Note 15 - recoverability of deferred income tax assets;

3. Significant accounting policies:

The accounting policies set out below have been applied consistently to all periods presented in these condensed interim financial statements and in preparing the opening IFRS statement of financial position at July 1, 2010 for the purpose of the transition to IFRS, unless otherwise indicated.

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Notes to Condensed Interim Financial Statements
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Periods ended September 30, 2011 and 2010

3. Significant accounting policies (continued):

(a) Basis of consolidation:

Subsidiary and investment in an equity accounted investee

Subsidiaries are entities controlled by the Company. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Company.

Associates are those entities in which the Company has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20 and 50 percent of the voting power of another entity.

Investments in associates are accounted for using the equity method and are recognized initially at cost. The condensed interim financial statements include the Company's share of the income and expenses and equity movements of equity accounted investees, after adjustments to align the accounting policies with those of the Company, from the date that significant influence commences until the date that significant influence ceases. When the Company's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest, including any long-term investments, is reduced to nil, and the recognition of further losses is discontinued except to the extent that the Company has an obligation or has made payments on behalf of the investee.

These condensed interim financial statements include the accounts of the Company and the accounts of its former subsidiary, Monarques Resources Inc. ("MQR"), from the date MQR was created and wholly-owned on March 27, 2011, to the date when control over MQR ceased on June 9, 2011. Since that date, the Company recorded its investment at equity method since the Company considers that it has a significant influence with a 47.2% holding of the voting shares of MQR.

Transactions eliminated between associates

Unrealized gains arising from transactions with an equity accounted investee are eliminated against the investment to the extent of the Company's interest in the investee. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

NEMASKA LITHIUM INC.

(Formerly Nemaska Exploration Inc.)

Notes to Condensed Interim Financial Statements

(Unaudited)

Periods ended September 30, 2011 and 2010

3. Significant accounting policies (continued):

(b) Foreign currency:

Foreign currency transactions

Transactions in foreign currencies are translated to the functional currencies of the Company at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortized cost in foreign currency translated at the exchange rate at the end of the reporting period.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognized in profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

(c) Financial instruments:

(i) Non-derivative financial assets

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses.

Loans and receivables comprise cash and cash equivalents, term deposit, other receivables, advances to an equity accounted investee and subscriptions receivable.

Cash and cash equivalents comprise cash balances and short-term investments with original maturities of three months or less from the acquisition date or that can be cashed at any time.

Cash and term deposits include proceeds of flow-through financing not yet expensed. The Company must use these funds for exploration of mining properties in accordance with restrictions imposed by those financing.

NEMASKA LITHIUM INC.

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Notes to Condensed Interim Financial Statements

(Unaudited)

Periods ended September 30, 2011 and 2010

3. Significant accounting policies (continued):

(c) Financial instruments (continued):

(ii) Non-derivative financial liabilities:

The Company classifies its accounts payable and accrued liabilities and debt component of the convertible debenture as financial liabilities, which are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortized cost using the effective interest method.

(iii) Fair value of financial instruments:

In establishing fair value, the Company uses a fair value hierarchy based on levels as defined below:

- Level 1: defined as observable inputs such as quoted prices (unadjusted) in active markets.
- Level 2: defined as inputs other than quoted prices included in Level 1, that are either directly or indirectly observable.
- Level 3: defined as inputs that are based on little or no observable market data, therefore requiring entities to develop its own assumptions.

(d) Mining properties and exploration and evaluation assets:

Mining properties correspond to acquired interests in mining exploration permits / claims which include the rights to explore for mine, extract and sell all minerals from such claims.

All pre-exploration costs, i.e. costs incurred prior to obtaining the legal right to undertake exploration and evaluation activities on an area of interest, are expensed as incurred.

Once the legal right to explore has been acquired, exploration and evaluation expenditures are capitalized on the basis of specific claim blocks or areas of geological interest until the mining properties to which they relate are placed into production, sold or abandoned.

Costs incurred include appropriate technical and administrative overheads as well as borrowing costs related to the financing of exploration activities. Mining properties and exploration and evaluation assets are carried at historical cost less any impairment losses recognized.

When technical feasibility and commercial viability of extracting a mineral resource are demonstrable for an area of interest, the Company stops capitalizing mining properties and exploration and evaluation costs for that area, tests recognized exploration and evaluation assets for impairment and reclassifies any unimpaired exploration and evaluation assets either as tangible or intangible mine development assets according to the nature of the assets.

NEMASKA LITHIUM INC.

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Notes to Condensed Interim Financial Statements

(Unaudited)

Periods ended September 30, 2011 and 2010

3. Significant accounting policies (continued):

(e) Equipment:

Items of equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment. The costs of the day to day servicing of equipment are recognized in profit or loss as incurred.

Depreciation is calculated over the depreciable amount, which is the cost of an asset, or other amount substituted for cost, less its residual value.

The estimated useful lives, depreciation methods and rates for the current and comparative periods are as follows:

Asset	Basis	Rate
Office and Computer Equipment	Declining balance	30%

Depreciation methods, useful lives and residual values are reviewed at each financial year-end and adjusted, if appropriate.

(f) Impairment:

(i) Financial assets:

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in profit or loss and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognized through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

NEMASKA LITHIUM INC.

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Notes to Condensed Interim Financial Statements

(Unaudited)

Periods ended September 30, 2011 and 2010

3. Significant accounting policies (continued):

(f) Impairment (continued):

(ii) Non-financial assets:

The carrying amounts of equipment are reviewed at each reporting date to determine whether there is any indication of impairment.

The carrying amounts of mining properties and exploration and evaluation assets are assessed for impairment only when indicators of impairment exist, typically when one of the following circumstances apply:

- Exploration rights have or will expire in the near future;
- No future substantive exploration expenditures are budgeted;
- No commercially viable quantities are discovered and exploration and evaluation activities will be discontinued;
- Exploration and evaluation assets are unlikely to be fully recovered from successful development or sale.

If any such indication exists, then the asset's recoverable amount is estimated.

Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists.

Mining properties and exploration and evaluation assets are also assessed for impairment upon the transfer of exploration and evaluation assets to development assets regardless of whether facts and circumstances indicate that the carrying amount of the exploration and evaluation assets is in excess of their recoverable amount.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit", or "CGU"). The level identified by the Company for the purposes of testing exploration and evaluation assets for impairment corresponds to each mining property.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of CGUs are allocated to the assets in the unit (group of units) on a pro rata basis.

NEMASKA LITHIUM INC.

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Notes to Condensed Interim Financial Statements

(Unaudited)

Periods ended September 30, 2011 and 2010

3. Significant accounting policies (continued):

(f) Impairment (continued):

(ii) Non-financial assets (continued):

Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

(g) Provision:

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as finance cost.

(h) Revenue and other income:

Services

Revenue from services rendered is recognized in profit or loss in proportion to the stage of completion of the transaction at the reporting date. The stage of completion is assessed by reference to surveys of work performed.

(i) Finance income and finance costs:

Finance income comprises interest income on funds invested. Interest income is recognized as it accrues in profit or loss, using the effective interest method.

Finance costs comprise interest expense on borrowings, unwinding of the discount on provisions, changes in the fair value of financial assets at fair value through profit or loss, and impairment losses recognized on financial assets. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognized in profit or loss using the effective interest method.

Foreign currency gains and losses are reported on a net basis.

Interests received and interests paid are classified under operating activities in the condensed interim statements of cash flows.

NEMASKA LITHIUM INC.

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Notes to Condensed Interim Financial Statements
(Unaudited)

Periods ended September 30, 2011 and 2010

3. Significant accounting policies (continued):

(j) Share capital and warrants:

Common shares

Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares and share options are recognized as an increase to deficit, net of any tax effects.

Flow-through shares

The Canadian tax legislation permits an entity to issue securities to investors whereby the deductions for tax purposes relating to resource expenditures may be claimed by the investors and not by the entity. These securities are referred to as flow-through shares. The Company finances a portion of its exploration programs with flow-through share issues.

At the time of the share issuance, the Company allocates the proceeds between share capital and an obligation to deliver the tax deductions, which is recorded as a liability for flow-through shares obligation. The Company estimates the fair value of the obligation using the residual method, i.e. by comparing the price of the flow-through share to the quoted price of common share at the date of the financing announcement.

A company may renounce the deductions for tax purposes under either what is referred to as the "general" method or the "look-back" method.

When tax deductions are renounced under the general method, and the Company has the expectation of renouncing and has capitalized the expenditures during the current year, then the entity records a deferred tax liability with the corresponding charge to income tax expense. The obligation is reduced to zero, with a corresponding income recorded.

When tax deductions are renounced under the look-back method, the Company records a deferred tax liability with a corresponding charge to income tax expense when expenditures are made and capitalized. At that time, the obligation would be reduced to zero, with a corresponding income recorded.

Warrants

Warrants are classified as equity when they are derivatives over the Company's own equity that will be settled only by the Company exchanging a fixed amount of cash for a fixed number of the Company's own equity instruments; otherwise they are classified as liabilities.

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3. Significant accounting policies (continued):

(k) Share-based payments:

The grant date fair value of share-based payment awards granted to employees, directors, consultants and brokers is recognized as an expense, with a corresponding increase in contributed surplus, over the period during which the participants unconditionally become entitled to the awards. The amount recognized as an expense is adjusted to reflect the number of awards for which the related service vesting conditions are expected to be met, such that the amount ultimately recognized as an expense is based on the number of awards that do meet the related service conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

Share-based payment arrangements in which the Company receives goods or services as consideration for its own equity instruments are accounted for as equity-settled share-based payment transactions, regardless of how the equity instruments are obtained by the Company. The Company measures the goods or services received, and the corresponding increase in equity, directly, at the fair value of the goods or services received, except when that fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted.

(l) Leases:

All leases are classified as operating leases and, as such, the leased assets are not recognized in the Company's statement of financial position.

Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease.

(m) Income tax:

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss, except to the extent that 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 in respect of previous years.

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3. Significant accounting policies (continued):

(m) Income tax (continued):

Deferred tax is 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. Deferred tax is not recognized for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future.

Deferred taxes are recognized as income or expense in profit or loss, except to the extent that tax arises from business combinations and transactions recognized in equity. Therefore, when deferred taxes relate to equity items, a backwards tracing is necessary to determine the adjustment to taxes (e.g. change in tax rates and change in unrecognized tax assets) that should be recorded in equity. For this purpose, the accounting policy of the Company is to first allocate changes in the recognition of deferred tax assets based on their expected maturity date.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. 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.

A deferred tax asset is recognized for unused tax losses and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(n) Refundable credit on mining duties and refundable tax credit related to resources:

The Company is eligible for a refundable credit on mining duties under the Quebec *Mining Duties Act*. This refundable credit on mining duties is equal to 7.5% (12% before March 30, 2010) of expenses incurred for mining activities in Quebec. The accounting treatment for refundable credit on mining duties depends on management's intention to go into production in the future or rather to sell its mining properties to another mining producer once the technical feasibility and the economic viability of the properties have been demonstrated. This assessment is made at the level of each mining property.

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3. Significant accounting policies (continued):

(n) Refundable credit on mining duties and refundable tax credit related to resources (continued):

In the first case, the credit on mining duties is recorded as an income tax recovery under IAS 12, *Income Taxes*, which generates at the same time a deferred tax liability and deferred tax expense since the exploration and evaluation assets have no more tax basis following the Company's election to claim the refundable credit. In the second case, it is expected that no mining duties will be paid in the future and, accordingly, the credit on mining duties is recorded as a government grant under IAS 20, *Accounting for Government Grants and Disclosure of Government Assistance*, which is recorded against exploration and evaluation assets. Currently, it is management's intention to have the Company become a producer in the future, as such, credit on mining duties are recorded in compliance with IAS 12, *Income Taxes*.

The Company is also eligible for a refundable tax credit related to resources for mining industry companies in relation to eligible expenses incurred. The refundable tax credit related to resources can represent up to 38.75% of the amount of eligible expenses incurred and is recorded as a government grant against exploration and evaluation assets.

Credits related to resources and credits for mining duties recognized against exploration and evaluation expenditures are recorded at fair value when there is reasonable assurance that they will be received and the Company will comply with the conditions associated with the grant. They are recognized in profit or loss on a systematic basis over the useful life of the related assets.

(o) Earnings per share:

The Company presents basic and diluted earnings per share ("EPS") data for its common shares issued, which includes flow-through shares. Basic EPS is calculated by dividing the profit or loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to common shareholders and the weighted average number of common shares outstanding, for the effects of all dilutive potential common shares, which comprise warrants and share options granted.

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3. Significant accounting policies (continued):

(p) New standards, interpretations and amendments issued but not yet effective:

Annual improvements to IFRS:

The improvements to IFRS 2010 are the result of the IASB's annual improvements project. This project has involved the IASB accumulating, throughout 2010, those improvements believed to be non-urgent, but necessary, and processing the amendments collectively. Effective dates, early application and transitional provisions are dealt with on a standard-by-standard basis with the majority of the amendments effective for periods beginning on or after January 1, 2011, with early adoption permitted. The Company has adopted and reflected applicable amendments in these condensed interim financial statements.

The following new standards, interpretations and amendments have been issued but are not yet effective and therefore have not been applied in preparing these financial statements:

(i) IFRS 7, *Financial Instruments: disclosures*:

In October 2010, the IASB issued amendments to IFRS 7, *Disclosures – Transfers of Financial Assets* which will be effective for annual periods beginning on or after January 1, 2012.

These amendments clarify the disclosures in regards to the transfer of financial assets not derecognized in their entirety and for which there is continuing involvement. The extent of the impact of adoption of this new standard has not yet been determined

(ii) IFRS 9, *Financial instruments*:

Effective for annual periods beginning on or after January 1, 2013, with earlier adoption permitted.

As part of the project to replace IAS 39, *Financial Instruments: Recognition and Measurement*, this standard retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets. More specifically, the standard:

- deals with classification and measurement of financial assets;
- establishes two primary measurement categories for financial assets: amortized cost and fair value;
- prescribes that classification depends on entity's business model and the contractual cash flow characteristics of the financial asset;
- eliminates the existing categories: held to maturity, available for sale, and loans and receivables.

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3. Significant accounting policies (continued):

(p) New standards, interpretations and amendments issued but not yet effective (continued):

(ii) IFRS 9, *Financial instruments* (continued):

Certain changes were also made regarding the fair value option for financial liabilities and accounting for certain derivatives linked to unquoted equity instruments.

The extent of the impact of adoption of this new standard has not yet been determined.

(iii) IFRS 11, *Joint Arrangements*:

In May 2011, the IASB issued IFRS 11, *Joint Arrangements*, which is effective for annual periods beginning on or after January 1, 2013, with early adoption permitted. If an entity applies this standard earlier, it shall also apply IFRS 10, IFRS 12, IAS 27 (2011) and IAS 28 (2011) at the same time.

IFRS 11 replaces the guidance in IAS 31 *Interests in Joint Ventures*.

Under IFRS 11, joint arrangements are classified as either joint operations or joint ventures. IFRS 11 essentially carves out of previous jointly controlled entities, those arrangements which although structured through a separate vehicle, such separation is ineffective and the parties to the arrangement have rights to the assets and obligations for the liabilities and are accounted for as joint operations in a fashion consistent with jointly controlled assets/operations under IAS 31. In addition, under IFRS 11 joint ventures are stripped of the free choice of equity accounting or proportionate consolidation; these entities must now use the equity method.

The Company intends to adopt IFRS 11 in its financial statements for the annual period beginning on July 1, 2013. The extent of the impact of adoption of IFRS 11 has not yet been determined.

(iv) IFRS 12, *Disclosure of Interests in Other Entities*:

In May 2011, the IASB issued IFRS 12, *Disclosure of Interests in Other Entities*, which is effective for annual periods beginning on or after January 1, 2013, with early adoption permitted. If an entity applies this standard earlier, it needs not to apply IFRS 10, IFRS 11, IAS 27 (2011) and IAS 28 (2011) at the same time.

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3. Significant accounting policies (continued):

(p) New standards, interpretations and amendments issued but not yet effective (continued):

(iv) IFRS 12, *Disclosure of Interests in Other Entities (continued)*:

IFRS 12 contains the disclosure requirements for entities that have interests in subsidiaries, joint arrangements (i.e. joint operations or joint ventures), associates and/or unconsolidated structured entities. Interests are widely defined as contractual and non-contractual involvement that exposes an entity to variability of returns from the performance of the other entity. The required disclosures aim to provide information in order to enable users to evaluate the nature of, and the risks associated with, an entity's interest in other entities, and the effects of those interests on the entity's financial position, financial performance and cash flows.

The Company intends to adopt IFRS 12 in its financial statements for the annual period beginning on July 1, 2013. The extent of the impact of adoption of IFRS 12 has not yet been determined

(v) IFRS 13, *Fair Value Measurement*

In May 2011, the IASB published IFRS 13 *Fair Value Measurement*, which is effective prospectively for annual periods beginning on or after January 1, 2013. The disclosure requirements of IFRS 13 need not be applied in comparative information for periods before initial application.

IFRS 13 replaces the fair value measurement guidance contained in individual IFRS with a single source of fair value measurement guidance. It defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, i.e. an exit price.

The standard also establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements to provide information that enables financial statement users to assess the methods and inputs used to develop fair value measurements and, for recurring fair value measurements that use significant unobservable inputs (Level 3), the effect of the measurements on profit or loss or other comprehensive income.

IFRS 13 explains how to measure fair value when it is required or permitted by other IFRS. IFRS 13 does not introduce new requirements to measure assets or liabilities at fair value, nor does it eliminate the practicability exceptions to fair value measurements that currently exist in certain standards.

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3. Significant accounting policies (continued):

(p) New standards, interpretations and amendments issued but not yet effective (continued):

(v) IFRS 13, *Fair Value Measurement* (continued):

The Company intends to adopt IFRS 13 prospectively in its financial statements for the annual period beginning on July 1, 2013. The Company does not believe the amendments to have a material impact on the financial statements, because of the nature of the Company's interests in other entities.

(vi) Amendments to IAS 28, *Investments in Associates and Joint Ventures*:

In May 2011, the IASB issued Amendments to IAS 28, *Investments in Associates and Joint Ventures*, which is effective for annual periods beginning on or after January 1, 2013, with early adoption permitted. If an entity applies this standard earlier, it shall also apply IFRS 10, IFRS 11, IFRS 12 and IAS 27 (2011) at the same time.

IAS 28 (2011) carries forward the requirements of IAS 28 (2008) with several limited amendments.

The Company intends to adopt the amendments in its financial statements for the annual period beginning on July 1, 2013. The extent of the impact of adoption of the amendments has not yet been determined.

4. Investment in an equity accounted investee:

On March 29, 2011, the Company was the sole owner of its newly incorporated subsidiary, Monarques Resources Inc. ("MQR"). MQR was created with the purpose of separating the Company's lithium and non-lithium assets. From that date up to June 9, 2011, MQR was 100% consolidated with the operations of the Company.

On June 9, 2011, following the completion of an IPO by MQR, the Company lost its control over MQR and ceased consolidating the investment. Since then, with its 47.2% ownership of MQR, the Company has a significant influence over the financial and operating policies of MQR and therefore, its investment in this company is accounted for using the equity accounted investee method.

The Company's share of loss in its equity accounted investee for the three-month period ended September 30, 2011 was \$251,287. It did not receive dividends from its investment in the equity accounted investee.

Summary financial information for the equity accounted investee, not adjusted for the percentage ownership held by the Company is as follows:

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4. Investment in an equity accounted investee (continued):

	September 30, 2011	June 30, 2011
Ownership	47.2%	47.4%
Total assets	13,398,635	12,988,762
Total liabilities	1,678,828	1,371,447
Profit or (loss)	(532,118)	(76,416)

The Company owns 15,064,455 shares in MQR as at September 30, 2011 and June 30, 2011. The market price of MQR's shares on the TSX Venture Stock Exchange as at September 30, 2011 was \$0.24, for a total market value of \$3,615,469.

Reconciliation of the investment is as follows:

	September 30, 2011	June 30, 2011
	\$	\$
Opening balance	6,008,893	-
Equity investment	-	7,500,040
Share in equity loss	(251,287)	(16,889)
Dividend in kind	-	(1,474,258)
Balance, end of period	5,757,606	6,008,893

5. Equipment:

	Office and computer equipment
	\$
Cost	
Balance at July 1, 2010	11,913
Additions	-
Disposals	-
Balance at September 30, 2010	11,913
Additions	27,990
Disposals	-
Balance at June 30, 2011	39,903

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5. Equipment (continued):

	Office and computer equipment
	\$
Cost	
Reported balance at June 30, 2011	39,903
Additions	20,659
Disposals	-
Balance at September 30, 2011	60,562
Depreciation	
Balance at July 1, 2010	3,270
Depreciation of the period	893
Balance at September 30, 2010	4,163
Depreciation of the period	5,327
Balance at June 30, 2011	9,490
Depreciation of the period	3,525
Balance at September 30, 2011	13,015
Carrying amounts	
At July 1, 2010	8,643
At September 30, 2010	7,749
At June 30, 2011	30,413
At September 30, 2011	47,547

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6. Mining properties:

Mining properties can be detailed as follows:

Quebec	Localisation	Royalties	Balance as at June 30, 2011	Acquisition	Disposition	Impairment	Balance as at September 30, 2011
			\$	\$	\$	\$	\$
Whabouchi (100%)	SNRC 32O12	2% or 3%	703,000	140,000	-	-	843,000
Sirmac (100%)	SNRC 32J11	1%	417,500	-	-	-	417,500
			1,120,500	140,000	-	-	1,260,500

Quebec	Localisation	Royalties	Balance as at July 1, 2010	Acquisition	Disposition	Impairment	Balance as at June 30, 2011
			\$	\$	\$	\$	\$
Arques (100%)	SNRC 32O11 32O12, 32O13 32O14	3%	672,288	-	(672,288)	-	-
Whabouchi (100%)	SNRC 32O12	2% or 3%	420,000	283,000	-	-	703,000
Lac Levac (100%)	SNRC 32O11 32O12, 32O14	2%	3,000,000	-	(3,000,000)	-	-
Lac des Montagnes	SNRC 32N07 32N08, 32N09	2%	150,000	13,500	(163,500)	-	-
Sirmac (100%)	SNRC 32J11	1%	-	417,500	-	-	417,500
Kativik			300,000	80,000	-	(380,000)	-
			4,542,288	794,000	(3,835,788)	(380,000)	1,120,500

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6. Mining properties (continued):

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

The Company impaired abandoned properties, on which no exploration activities took place for more than three years or on which no further exploration works are planned in the future.

Arques: Sold to MQR in June 2011

Lac Levac: Sold to MQR in June 2011

Lac des Montagnes: Sold to MQR in June 2011

Whabouchi: See note 13 a)

Kativik: Abandoned

7. Exploration and evaluation assets:

The Company impaired exploration and evaluation assets relating to abandoned mining properties, on which no exploration activities took place for more than three years or on which no further exploration works are planned in the future.

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

	Balance as at June 30, 2011	Exploration & evaluation costs	Disposition or Impairment	Tax credits for resources	Balance as at September 30, 2011
	\$	\$	\$	\$	\$
Whabouchi	6,778,127	1,863,363	-	(765,862)	7,875,628
Sirmac	150,716	18,414	-	-	169,130
	6,928,843	1,881,777	-	(765,862)	8,044,758

	Balance as at July 1, 2010	Exploration & evaluation costs	Disposition or Impairment	Tax credits for resources	Balance as at June 30, 2011
	\$	\$	\$	\$	\$
Arques	698,815	1,128,897	(1,827,712) ⁽¹⁾	-	-
Lac Levac	501,260	344,877	(846,137) ⁽¹⁾	-	-
Lac des Montagnes	284,561	751,939	(1,036,500) ⁽¹⁾	-	-
Whabouchi	2,685,641	4,088,912	-	3,574	6,778,127
Sirmac	-	150,716	-	-	150,716
Kativik	10,171	-	(10,171) ⁽²⁾	-	-
	4,180,448	6,465,341	(3,720,520)	3,574	6,928,843

⁽¹⁾ Disposition

⁽²⁾ Impairment

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7. Exploration and evaluation assets (continued):

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

	September 30, 2011	June 30, 2011
	\$	\$
Salaries and fringe benefits	29,820	773,318
Consultants and supervisions	676,672	49,480
Geology and geophysics	40,542	472,091
Test, sampling and prospecting	826,469	1,342,145
Drilling, equipment rental and other material	236,926	3,031,045
Lodging and meals	50,648	543,045
General exploration expenses	20,700	254,217
	1,881,777	6,465,341
Other items:		
Exploration and evaluation expenses related to properties sold to an equity accounted investee	-	(3,710,349)
Write-off of deferred exploration expenses	-	(10,171)
Tax credits for resources	(765,862)	-
Mining rights adjustment	-	3,574
	(765,862)	(3,716,946)
	1,115,915	2,748,395
Balance, beginning of period	6,928,843	4,180,448
Balance, end of period	8,044,758	6,928,843

8. Convertible debenture:

	July 1, 2010
Convertible debenture, 8% interest bearing	1,000,000
Debt component	763,889
Equity component	236,111
	1,000,000
Debt component	763,889
Accrued interest	36,383
	800,272

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8. Convertible debenture (continued):

On May 25, 2011, the Company settled the convertible debenture and on August 9, 2011 obtained the release of the first rank mortgage that was guarantying this debenture.

9. Credit facility:

The Company has a credit line by credit cards for a maximum amount of \$30,000. The credit line bears interest at 19.99%. This credit is available as long as the Company respects its commitments. As at September 30, 2011, the unused amount was \$22,810 (\$6,833 as at June 30, 2011). The balance of the credit line is presented with accounts payable and accrued liabilities.

10. Share capital, warrants and share-based payments:

(a) Capital management:

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

As at September 30, 2011, the Company's capital consists of shareholders' equity amounting to \$15,457,131 (\$16,130,862 as at June 30, 2011).

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

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 to improve its financial performance and flexibility.

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

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. During the year, the Company has respected all of its regulatory requirements. The Company has no dividend policy. Exceptionally, during the year ended June 30, 2011, the Company declared a dividend in kind to its shareholders for an amount of \$1,474,258 (see note 11).

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10. Share capital, warrants and share-based payments (continued):

(b) 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 ⁽ⁱ⁾	Amount
			\$
Balance, at July 1, 2010	14,235,439	48,839,706	11,358,929
Paid in cash	9,995,550	12,402,968	5,698,234
Flow-through shares	11,702,000	11,702,000	5,851,000
Modification of warrants ⁽ⁱⁱ⁾	1,398,150	-	-
Mining properties	500,000	860,000	438,000
Mining properties – shares to be issued	250,000	250,000	112,500
Balance, at June 30, 2011	38,081,139	74,054,674	23,458,663
Mining properties – shares to be issued	-	100,000	40,000
Balance, at September 30, 2011	38,081,139	74,154,674	23,498,663

(i) 2,927,573 (3,903,430 as at June 30, 2011) common shares are escrowed and cannot be transferred, mortgaged, pledged or otherwise disposed of without the consent of the appropriate regulatory authorities.

(ii) During the year ended June 30, 2011, the Company paid a dividend to its shareholders (see note 11), which triggered adjustments to the number and the exercise price of the outstanding warrants. No dividend was declared nor paid during the current period.

Three-month period ended September 30, 2011:

During the three-month period ended September 30, 2011, the Company recorded 100,000 common shares to be issued for an amount of \$40,000 in accordance with the terms of the purchase agreement of the Whabouchi property since the Company has reach the trigger amount of \$7,500,000 in exploration expenses on the property.

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10. Share capital, warrants and share-based payments (continued):

(b) Common shares and warrants (continued):

Changes in the Company's share capital were as follows (continued):

Year ended June 30, 2011:

In July 2010, the Company issued 160,000 common shares for an amount of \$80,000 in relation with the agreement with the public company Azimut Exploration inc. to acquire the Kativik property. The Company also issued 100,000 common shares for an amount of \$38,000 in accordance with the terms of the purchase agreement of the Whabouchi property.

On November 2, 2010, the Company completed a private placement totalling \$7,864,000, composed of 5,032,500 common share units ("Units") at a price of \$0.40 per Unit, for a gross proceed of \$2,013,000 and 11,702,000 flow-through units ("FT Units") at a price of \$0.50 per FT Unit for a gross proceed of \$5,851,000. Each Unit is comprised of one common share of the Company and one warrant (a "Warrant"). Each FT Unit is comprised of one flow-through common share of the Company and one Warrant. Each full Warrant is exercisable for 24 months from the closing of the offering, at an exercise price of \$0.55. In relation with that private placement, the Company has also issued to the agents, a total of 1,138,760 compensation options, allowing them to subscribe to common shares of the Company at a price of \$0.50 (936,160 shares) and at a price of \$0.40 (202,600 shares) per share, for a period of 24 months from the closing date of the offering.

On January 7, 2011, the Company signed a purchase agreement for a block of 15 mining claims, covering approximately 645 hectares, located in SNRC sheet 32J11, province of Quebec (Sirmac property). The consideration was \$30,000 cash and the issuance of 500,000 shares at a price of \$0.55 per share, and 500,000 warrants allowing the holder to acquire one share at a price of \$0.60 per share for a 24-month period from signature. The agreement provides for the issuance of 250,000 additional units of the Company if the Company has not distributed on or before June 30, 2011, as a dividend in kind, at least 35% of the shares received from Monarques Resources Inc. during the spin-off. In relation with that, the Company recorded 250,000 shares to be issued and 250,000 warrants. The property is subject to a 1% net smelter return (NSR) royalty that can be purchased for \$1,000,000.

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10. Share capital, warrants and share-based payments (continued):

(b) Common shares and warrants (continued):

Changes in the Company's share capital were as follows (continued):

Year ended June 30, 2011 (continued):

On March 4, 2011, the Company closed a private placement with an absolute controlled subsidiary of Chengdu Tianqi Industry Group Co., Ltd. for an amount of \$3,685,234. According to that placement, the Company issued 7,370,468 common shares at a price of \$0.50 per share and 4,963,050 warrants. Each warrant allows the holder to buy one share at a price of \$0.61 for a 12 month period. In relation with this private placement, the Company has also issued to the agent a total of 331,671 compensation options, allowing him to subscribe to one common shares of the Company at a price of \$0.50 for a period of 12 months from the closing date of the private placement.

On June 29, 2011, the Company issued 100,000 common shares for an amount of \$45,000 in accordance with the terms of the purchase agreement of the Whabouchi property.

(c) Common share purchase options:

The shareholders of the Company approved a stock 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 grant of share purchase options to some suppliers, namely investors' relation representative, which are acquired 25% each quarter.

The plan provides that the maximum number of common shares in the capital of the Company that may be reserved for issuance under the plan shall be equal to 6,400,000 common shares (3,570,000 shares as at July 1, 2010). The aggregate number of share options granted to any one individual cannot exceed 5% of the outstanding common shares at the time of vest and may not exceed 2% of the outstanding common shares for suppliers, namely consultants and investors relation representative. These options will expire no later than five years after being granted.

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10. Share capital, warrants and share-based payments (continued):

(c) Common share purchase options (continued):

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, officer, directors, consultants and I.R. representatives as at September 30, 2011 and June 30, 2011, and changes during respectively the three-month and twelve-month periods then ended were as follows:

	September 30, 2011		June 30, 2011	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding, beginning of period	5,575,075	\$ 0.39	3,200,000	\$ 0.33
Granted – employees, officers, directors, consultants and I.R. representatives	600,000	0.50	2,635,000	0.52
Adjustment following the dividend in kind	-	-	262,575	0.40
Expired options	(600,875)	0.44	(522,500)	0.48
Outstanding, end of period	5,574,200	0.40	5,575,075	0.39
Options exercisable at the end of period	4,999,885	0.38	5,068,888	0.39

	September 30, 2011	June 30, 2011
	\$	\$
The weighted average fair value of options granted during the period	0.14	0.37

No options were exercised during these periods.

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10. Share capital, warrants and share-based payments (continued):

(c) Common share purchase options (continued):

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

The following table summarizes information about the share purchase options granted and outstanding as at September 30, 2011:

Number of outstanding options	Number of vested options	Weighted average remaining contractual life (years)	Weighted average exercise price \$
297,825	297,825	4.7	0.46
2,194,500	1,920,185	4.2	0.51
261,250	261,250	3.5	0.45
1,436,875	1,436,875	3.0	0.14
261,250	261,250	2.1	0.43
600,000	300,000	1.8	0.50
522,500	522,500	0.7	0.43
5,574,200	4,999,885		

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

	September 30, 2011	June 30, 2011
Expected life of options	2 years	4.8 years
Expected volatility rate	74%	136%
Risk-free interest rate	1.47%	2.17%
Expected annual dividend rate	0%	0%

During the year ended June 30, 2011, the Company paid a dividend to its shareholders (see note 11), which triggered adjustments to the number and the exercise price of the outstanding share purchase options.

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10. Share capital, warrants and share-based payments (continued):

(c) Common share purchase options (continued):

Share-based payments to brokers and intermediaries:

The status of the Company's share purchase option plan for brokers and intermediaries as at September 30, 2011 and June 30, 2011, and changes during respectively the three-month and twelve-month periods then ended were as follows:

	September 30, 2011		June 30, 2011	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding, beginning of period	2,796,424	\$ 0.50	1,208,670	\$ 0.55
Granted – brokers and intermediaries	-	-	1,470,431	0.49
Adjustment following the dividend in kind	-	-	117,323	0.33
Outstanding, end of period	2,796,424	0.50	2,796,424	0.50
Options exercisable at the end of period	2,796,424	0.50	2,796,424	0.50

The following table summarizes information about the share purchase options granted and outstanding as at September 30, 2011:

Number of outstanding options	Number of vested options	Expiry date	Weighted average exercise price
			\$
366,711	366,711	December 2011	0.48
566,939	566,939	December 2011	0.61
344,938	344,938	March 2012	0.48
120,508	120,508	June 2012	0.38
207,324	207,324	June 2012	0.48
211,717	211,717	November 2012	0.38
978,287	978,287	November 2012	0.48
2,796,424	2,796,424		

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10. Share capital, warrants and share-based payments (continued):

(c) Common share purchase options (continued):

Share-based payments to brokers and intermediaries (continued):

	September 30, 2011	June 30, 2011
The weighted average fair value of options granted during the period	-	0.26

No options were exercised during these periods.

The fair value of options granted in accordance with the plan was estimated using the Black-Scholes option pricing model with the following weighted average assumptions:

	September 30, 2011	June 30, 2011
Expected life of options	-	1.8 years
Expected volatility rate	-	130%
Risk-free interest rate	-	1.48%
Expected annual dividend rate	-	0%

During the year ended June 30, 2011, the Company paid a dividend to its shareholders (see note 11), which triggered adjustments to the number and the exercise price of the outstanding share purchase options.

The application of the fair value method resulted in a charge to share-based payments expense and in an increase in the exploration and evaluation assets with a corresponding credit to contributed surplus.

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10. Share capital, warrants and share-based payments (continued):

(d) Warrants:

The status of the warrants as at September 30, 2011 and June 30, 2011, and changes during respectively the three-month and twelve-month periods then ended were as follows:

	September 30, 2011		June 30, 2011	
	Number of warrants	Weighted average exercise price	Number of warrants	Weighted average exercise price
Outstanding, beginning of period	38,081,139	\$ 0.57	14,235,439	\$ 0.65
Granted	-	-	22,197,550	0.56
Adjustment following the dividend in kind	-	-	1,398,150	0.59
To be issued in relation with shares to be issued	-	-	250,000	0.60
Outstanding, end of period	38,081,139	0.57	38,081,139	0.57

The following table summarizes the information relating to the outstanding warrants as at September 30, 2011:

Number of outstanding warrants	Expiry date	Weighted average exercise price
		\$
4,285,714	December 2011	0.50
5,974,500 ⁽¹⁾	December 2011 ⁽²⁾	0.77
5,161,572	March 2012 ⁽²⁾	0.59
4,401,800 ⁽¹⁾	June 2012	0.58
17,487,553	November 2012	0.53
520,000	January 2013	0.58
250,000	August 2013	0.60
38,081,139		

⁽¹⁾ The Company may accelerate the warrant expiry date if, before the warrant expiry date and at any time commencing on the 20th trading day following the closing date, the trading price of the common shares listed on the TSX Exchange Venture is equal to or above \$1.20 for a period of 20 consecutive trading days.

⁽²⁾ note 14 (b)

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10. Share capital, warrants and share-based payments (continued):

(d) Warrants (continued):

	September 30, 2011	June 30, 2011
The weighted average fair value of options granted during the period	-	0.24

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

	September 30, 2011	June 30, 2011
Expected life of options	-	1.8 years
Expected volatility rate	-	130%
Risk-free interest rate	-	1.48%
Expected annual dividend rate	-	0%

During the year ended June 30, 2011, the Company paid a dividend to its shareholders (see note 11), which triggered adjustments to the number and the exercise price of the outstanding warrants.

11. Dividend in kind:

On June 9, 2011, the Company declared a dividend in kind of 3,685,645 shares held by the Company in MQR, which was distributed to the shareholders on June 27, 2011. The value of this dividend on the date it was declared was based on the price of the shares in the IPO of MQR on June 9, 2011 and totaled \$1,474,258. The dividend payable and underlying assets distributed were re-measured on the date of the distribution based on the market price of MQR's shares on the TSX Venture Stock Exchange as at June 27, 2011, and the difference of \$368,565 was recorded in profit or loss with the counterpart in reduction of the dividend in equity on that date (refer to note 20 (b)). In accordance with the respective warrant indentures, this dividend had an effect on the outstanding number and the exercise prices of certain warrants, certain share purchase options and certain brokers and intermediaries options.

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12. Contingencies:

- (a) The Company's operations are governed by governmental laws and regulations regarding environmental protection. Environmental consequences are hardly identifiable, in terms of level impact or deadline. At the present time and to the best knowledge of its management, the Company is in conformity with the laws and regulations. Restoration costs will be accrued in the financial statements only when they will be reasonably estimated and will be charged to the earnings 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 would have negative tax consequences for investors.

13. Commitments:

- (a) In September 2009, the Company acquired a 100% interest in 16 mining claims included in the Whabouchi property. At the date of the condensed interim financial statements, in relation with the agreement, the Company paid an amount of \$410,000 in cash and, as recorded, an accrued liability for \$100,000. Also, the Company issued 2,300,000 common shares and, as recorded, 100,000 shares to be issued for a total amount of \$333,000 since the signing of the agreement. The vendors keep a 3% royalty and 1% of this royalty may be purchased for an amount of \$1,000,000. The Company is also committed to pay to the vendors a maximum of \$1,200,000 in cash and to issue a maximum of 1,200,000 common shares according to the achievement of certain stages of works and results on the property, which are defined as follows:
 - \$100,000 and 100,000 common shares if and when the Company will have completed a minimum of \$10,000,000 in exploration expenses on the property;
 - \$100,000 and 100,000 common shares if and when the Company will have completed a minimum of \$12,500,000 in exploration expenses on the property;
 - \$100,000 and 100,000 common shares if and when the Company will have completed a minimum of \$15,000,000 in exploration expenses on the property;
 - \$300,000 and 300,000 common shares if an independent pre-feasibility study is obtained; and
 - \$500,000 and 500,000 common shares if an independent feasibility study confirming the feasibility of production stage of the property is obtained.

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13. Commitments (continued):

- (b) In October 2009, the Company signed a lease agreement, which was amended in January 2011 to reflect the new monthly rent for its office space for a monthly amount of \$2,616. That lease will terminate in January 2014 and the total contractual payments remaining until then will amount to \$73,248. At the end of the lease, there is an option to renew for two additional periods of one year.

14. Subsequent events

- (a) On November 22, 2011, a new stock option plan was adopted by the shareholders thus replacing the former one. The new plan set forth is a rolling stock option plan reserving a maximum of 10% of the issued common shares of the Company at the time of the option grant.
- (b) On November 22, 2011, the shareholders adopted the resolution that the Company name be changed from Nemaska Exploration Inc. to Nemaska Lithium Inc.
- (c) On December 16, 2011, the Company announced that it has filed an application with the TSX Venture Exchange to extend the term of certain share purchase warrants of the Company until June 29, 2012. An aggregate of 5,717,225 share purchase warrants (the "IPO Warrants") were issued on December 31, 2009 pursuant to the Corporation's initial public offering, each of which initially entitled the warrant holder to purchase one common share in the capital of the Corporation at a price of \$0.80 until December 31, 2011. An aggregate of 4,963,050 share purchase warrants (the "Tianqi Warrants") were also issued on March 4, 2011 pursuant to a private placement in favour of an absolute controlled subsidiary of Chengdu Tianqi Industry Group Co., Ltd., each of which initially entitled the warrant holder to purchase one common share in the capital of the Corporation at a price of \$0.61 until March 5, 2012. Following the distribution of a dividend in-kind to the Corporation's shareholders on June 27, 2011, the exercise price of the IPO Warrants was then adjusted to \$0.766 and the aggregate number of common shares purchasable upon exercise of all outstanding IPO Warrants was adjusted to 5,974,500. On June 27, 2011, the exercise price of the Tianqi Warrants was also adjusted to \$0.586 and the aggregate number of common shares purchasable upon exercise of all outstanding Tianqi Warrants was adjusted to 5,161,572.
- (d) On December 22, 2011, the Company closed a brokered private placement of \$8,000,000 by the issuance of 20,000,000 common shares in the capital of the Company at a price \$0.40 per common share. The Company also issued 906,375 compensation options to the agents. Each compensation option allows the holder to purchase one (1) common share of the Company at a price of \$0.40 for a period of 18 months following the closing of the Offering.

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15. Income and mining taxes:

Total income tax (expense) recovery is allocated as follows:

	<u>Three months ended September 30,</u>	
	2011	2010
	\$	\$
Current	(36,567)	-
Deferred	160,132	441,817
	123,565	441,817

The income tax expense (recovery) differs from the amounts computed by applying the combined federal and provincial income tax rate of 27.65% (2010 – 29.15%) to the loss before taxes for the following reasons:

	<u>Three months ended September 30,</u>	
	2011	2010
	\$	\$
Loss before income taxes	(673,724)	(567,622)
Computed (expected) tax recovery	(186,284)	(165,462)
Increase (decrease) in income taxes resulting from the following items:		
Non-deductible share-based payment	23,104	22,570
Income tax at future tax rate	3,484	4,377
Change in unrecognized deferred income tax assets	(14,649)	210,939
Net mining duty	96,425	159,213
Deferred tax arising from exploration and evaluation assets financed through flow-through shares	166,745	237,387
Permanent difference arising from non-taxable income related to flow-through shares	-	(27,207)
Share of loss of a company subject to significant influence	34,740	-
Total income tax expense (recovery)	123,565	441,817

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15. Income and mining taxes (continued):

Movement in temporary differences during the periods ended September 30, 2011, June 30, 2011 and September 30, 2010 are detailed as follows:

	Balance July 1, 2010	Recognized in profit or loss	Recognized directly in equity	Balance September 30, 2010
Deferred tax liabilities:	\$	\$	\$	\$
Mining properties	(134,090)	-	-	(134,090)
Exploration and evaluation assets	(1,555,042)	(441,817)	-	(1,996,859)
	(1,689,132)	(441,817)	-	(2,130,949)
	Balance July 1, 2010	Recognized in profit or loss	Recognized directly in equity	Balance June 30, 2011
	\$	\$		
Deferred tax assets:				
Operating losses	-	558,718	214,273	772,991
Share issuance costs	-	-	470,130	470,130
Equipment	-	2,695	-	2,695
Mining properties	-	1,066,645	-	1,066,645
Deferred tax liabilities:				
Other – unrealized gain	-	(808,196)	-	(808,196)
Mining properties	(134,090)	134,090	-	-
Exploration and evaluation assets	(1,555,042)	(1,057,837)	-	(2,612,879)
	(1,689,132)	(103,885)	684,403	(1,108,614)
	Balance June 30, 2011	Recognized in profit or loss	Recognized directly in equity	Balance September 30, 2011
	\$	\$	\$	\$
Deferred tax assets:				
Operating losses	772,991	138,220	-	911,211
Share issuance costs	470,130	(32,413)	-	437,717
Equipment	2,695	-	-	2,695
Mining properties	1,066,645	-	-	1,066,645
Deferred tax liabilities:				
Other – Unrealized gain	(808,196)	33,798	-	(774,398)
Exploration and evaluation assets	(2,612,879)	(299,737)	-	(2,912,616)
	(1,108,614)	(160,132)	-	(1,268,746)

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15. Income and mining taxes (continued):

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

	September 30, 2011	June 30, 2011	July 1, 2010
	\$	\$	\$
Operating losses	-	14,649	326,895
Share issuance costs	-	-	306,285
Equipment	-	-	955
Exploration and evaluation assets	-	-	133,455
	-	14,649	767,590

As at September 30, 2011, 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 (for 3 months)	459,372	459,372	2032

16. Finance income and finance expenses:

Net finance (income) expense recognized in profit or loss for the three-month periods ended September 30 is detailed as follows:

	Three months ended September 30,	
	2011	2010
	\$	\$
Interest income	(14,770)	(1,912)
Finance income	(14,770)	(1,912)
Interest expense on convertible debenture	-	20,164
Bank charges	267	(1,042)
Finance expense	267	19,122
Net finance (income) expense recognized in profit or loss	(14,503)	17,210

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17. Items not affecting cash flows:

	September 30, 2011	September 30, 2010
	\$	\$
Items not affecting the cash flows:		
Acquisition of mining properties by issuance of share capital and warrants	40,000	38,000
Issuance of share capital as per the agreement with the public company Azimut Exploration Inc.	-	80,000
Accounts payable and accrued liabilities related to the acquisition of mining properties	100,000	-
Changes in accounts payable and accrued liabilities related to exploration and evaluation assets	664,364	71,182

18. Related party transactions:

The Company has no ultimate parent.

Key management personnel and director transactions:

During the period ended September 30, 2011, the Company incurred \$9,333 (\$7,086 in 2010) as compensation to the members of the Board of Directors and also incurred \$15,536 (\$20,244 in 2010) of share-based payments expenses in relation with the share purchase options granted to key management personnel and to members of the Board of Directors.

Other related party transactions:

During the period ended September 30, 2011, inter-company transactions carried out between the Company and its equity accounted investee, MQR, have totalled \$404,850 (excluding sales tax), including \$277,215 for exploration expenses, \$54,171 of compensation, of which \$40,625 represents wages paid to the president and the chief financial officer, \$24,150 paid for consultants and professionals, \$14,583 as representation / promotion / missions / expositions and \$19,660 as general administrative and office expenses charged to MQR. These amounts paid by the Company on behalf of MQR have been recharged at cost to MQR.

The transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed by the parties. The inter-company balance between the Company and MQR as at September 30, 2011 is \$539,870 (\$199,109 as at June 30, 2011) and is included in the advance to an equity accounted investee.

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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, term deposit, other receivables, advance to an equity accounted investee, subscription receivable and accounts payable and accrued liabilities approximate their fair values due to the immediate or short-term maturities 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.

All financial assets and liabilities of the Company as at the condensed interim 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.

Currency risk:

The Company makes certain transactions in US dollars and in euros. The balances in the accounts payable and accrued liabilities were amounting to USD\$12,850 (nil in 2010) and to €7,000 (nil in 2010) as at the date of these condensed interim financial statements. Consequently, the Company is exposed to foreign exchange fluctuation but the risk is minimal due to the low balances.

(ii) Credit risk:

Credit risk is the risk of financial loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's cash and cash equivalents, other receivables and advance to an equity accounted investee. The credit risk on cash and term deposit is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

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19. Financial instruments and financial risk management (continued):

Risk exposure and management (continued)

(iii) 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 10 (a). It also manages liquidity risk by continuously monitoring actual and projected cash flows.

All accounts payable and accrued liabilities are due within the next year.

At the end of September 30, 2011, the Company had enough funds available to meet its current financial liabilities. However, the funds were not sufficient to cover the operating expenses until the end of the fiscal year and the Company's future financial liabilities from its commitments. This situation was resolved with the closing of a brokered private placement of \$8,000,000 on December 22, 2011.

20. Explanation of transition to IFRS:

The accounting policies set out in note 3 have been applied in preparing the financial statements for the period ended September 30, 2011, the comparative information presented in these financial statements for the year ended June 30, 2011, and the three-month period ended September 30, 2010 and in preparation of an opening IFRS balance sheet at July 1, 2010 (the Company's date of transition).

In preparing its opening IFRS statement balance sheet, the Company has adjusted amounts reported previously in financial statements prepared in accordance with previous Canadian GAAP. An explanation of how the transition from previous Canadian GAAP to IFRS has affected the Company's financial position, financial performance and cash flows is set out in the following tables and the notes that accompany the tables.

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20. Explanation of transition to IFRS (continued):

Reconciliation of financial position:

	Note	July 1, 2010			September 30, 2010			June 30, 2011		
		Previous Canadian GAAP	Effect of transition to IFRS	IFRS	Previous Canadian GAAP	Effect of transition to IFRS	IFRS	Previous Canadian GAAP	Effect of transition to IFRS	IFRS
		\$	\$	\$	\$	\$	\$	\$	\$	\$
Assets:										
Current assets:										
Cash and cash equivalents	(g)	277,901	1,725,774	2,003,675	172,079	730,685	902,764	1,953,929	1,111,400	3,065,329
Term deposit		10,000	-	10,000	10,000	-	10,000	-	-	-
Taxes receivable		205,375	-	205,375	154,312	-	154,312	553,372	-	553,372
Other receivable		24,700	-	24,700	16,729	-	16,729	35,559	-	35,559
Advance to an equity accounted investee		-	-	-	-	-	-	158,228	-	158,228
Subscriptions receivable		500,000	-	500,000	-	-	-	-	-	-
Mining rights receivable		46,137	-	46,137	46,137	-	46,137	-	-	-
Prepaid expenses		56,871	-	56,871	49,186	-	49,186	27,315	-	27,315
Total current assets		1,120,984	1,725,774	2,846,758	448,443	730,685	1,179,128	2,728,403	1,111,400	3,839,803
Non-current assets:										
Cash and term deposits reserved for exploration	(g)	1,725,774	(1,725,774)	-	730,685	(730,685)	-	1,111,400	(1,111,400)	-
Advances for exploration and evaluation expenses		112,100	-	112,100	147,884	-	147,884	30,413	-	30,413
Investment in an equity accounted investee		-	-	-	-	-	-	6,008,893	-	6,008,893
Equipment		8,643	-	8,643	7,749	-	7,749	-	-	-
Mining properties		4,542,288	-	4,542,288	4,783,788	-	4,783,788	1,120,500	-	1,120,500
Exploration and evaluation assets	(d)	4,134,311	46,137	4,180,448	5,129,396	46,137	5,175,533	6,928,843	-	6,928,843
Total non-current assets		10,523,116	(1,679,637)	8,843,479	10,799,502	(684,548)	10,114,954	15,200,049	(1,111,400)	14,088,649
Total assets		11,644,100	46,137	11,690,237	11,247,945	46,137	11,294,082	17,928,452	-	17,928,452

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20. Explanation of transition to IFRS (continued):

Reconciliation of financial position (continued) (amended):

	Note	July 1, 2010			September 30, 2010			June 30, 2011		
		Previous Canadian GAAP	Effect of transition to IFRS	IFRS	Previous Canadian GAAP	Effect of transition to IFRS	IFRS	Previous Canadian GAAP	Effect of transition to IFRS	IFRS
		\$	\$	\$	\$	\$	\$	\$	\$	\$
Liabilities:										
Current liabilities:										
Accounts payable and accrued liabilities		540,474	-	540,474	533,930	-	533,930	688,976	-	688,976
Debt component of the convertible debenture		-	-	-	438,492	-	438,492	-	-	-
Liability related to flow-through shares	(d)	-	93,334	93,334	-	-	-	-	-	-
Total current liabilities		540,474	93,334	633,808	972,422	-	972,422	688,976	-	688,976
Non-current liabilities:										
Debt component of the convertible debenture		800,272	-	800,272	381,945	-	381,945	-	-	-
Deferred income and mining taxes	(d)	1,193,015	496,117	1,689,132	1,193,015	937,934	2,130,949	-	1,108,614	1,108,614
Total non-current liabilities		1,993,287	496,117	2,489,404	1,574,960	937,934	2,512,894	-	1,108,614	1,108,614
Total liabilities		2,533,761	589,451	3,123,212	2,547,382	937,934	3,485,316	688,976	1,108,614	1,797,590
Equity										
Share capital and warrants	(d)	12,342,431	(983,502)	11,358,929	12,460,431	(983,502)	11,476,929	24,442,165	(983,502)	23,458,663
Equity component of the convertible debenture		236,111	-	236,111	236,111	-	236,111	-	-	-
Contributed surplus	(a)	443,344	209,926	653,270	520,773	278,144	798,917	2,240,549	94,409	2,334,958
Deficit	(e)	(3,911,547)	230,262	(3,681,285)	(4,516,752)	(186,439)	(4,703,191)	(9,443,238)	(219,521)	(9,662,759)
Total equity		9,110,339	(543,314)	8,567,025	8,700,563	(891,797)	7,808,766	17,239,476	(1,108,614)	16,130,862
Total liabilities and equity		11,644,100	46,137	11,690,237	11,247,945	46,137	11,294,082	17,928,452	-	17,928,452

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20. Explanation of transition to IFRS (continued):

Reconciliation of comprehensive income (amended)

	Three months ended September 30, 2010			Year ended June 30, 2011			
	Note	Previous Canadian GAAP	Effect to transition to IFRS	IFRS	Previous Canadian GAAP	Effect to transition to IFRS	IFRS
		\$	\$	\$	\$	\$	\$
Income:							
Other income		-	-	-	96,499	-	96,499
Expenses:							
Salaries and fringe benefits		40,887	-	40,887	334,344	-	334,344
Share-based payments	(a)	77,429	68,218	145,647	1,381,648	(115,517)	1,266,131
Rent, office expense and other expenses		21,470	-	21,470	144,684	-	144,684
Depreciation and amortization expense		893	-	893	6,221	-	6,221
Promotion and advertising		35,771	-	35,771	204,472	-	204,472
Representation, missions and trade shows		65,737	-	65,737	328,374	-	328,374
Fees and expense of external directors		7,086	-	7,086	60,002	-	60,002
Subcontract		-	-	-	62,577	-	62,577
Registration, listing fees and shareholders' information		59,594	-	59,594	328,361	-	328,361
Professional and consultants' fees		265,622	-	265,622	621,259	-	621,259
		574,489	68,218	642,707	3,471,942	(115,517)	3,356,425
Others:							
Impairment of a mining property		-	-	-	380,000	-	380,000
Impairment of exploration and evaluation assets		-	-	-	10,171	-	10,171
Gain on debt settlement		-	-	-	(79,057)	-	(79,057)
Loss incurred by loss of control of a subsidiary		-	-	-	16,889	46,137	63,026
Share of loss in an equity accounted investee		-	-	-	24,884	-	24,884
Change in fair value of the dividend in kind on settlement	(b)	-	-	-	-	368,565	368,565
Other income related to flow-through shares	(d)	-	(93,334)	(93,334)	-	(93,334)	(93,334)
		-	(93,334)	(93,334)	352,887	321,368	674,255
Net finance expense:							
Finance income		(1,912)	-	(1,912)	(27,754)	-	(27,754)
Finance expense		20,164	-	20,164	72,110	-	72,110
		18,252	-	18,252	44,356	-	44,356
Loss before income taxes		592,741	(25,116)	567,625	3,772,686	205,851	3,978,537
Income tax expenses (recovery)							
Deferred income and mining taxes	(d)	-	441,817	441,817	(3,120,015)	3,223,900	103,885
Net loss and comprehensive loss for the period		592,741	416,701	1,009,442	652,671	3,429,751	4,082,422
Basic and diluted loss per share		0.014	0.008	0.020	0.010	0.055	0.065

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20. Explanation of transition to IFRS (continued):

Notes to the reconciliation

(a) Share-based payments:

Under previous Canadian GAAP, the Company elected to treat share purchase options that vest in installments over the vesting period (graded vesting) as a pool, and to determine fair value using the average life of the instruments, recognizing compensation on a straight-line basis, subject to at least the value of the vested portion of the award being recognized at each reporting date.

Under IFRS, in accordance with IFRS 2, *Share-based Payment*, when a share-based payment award vests in installments over the vesting period, each installment needs to be accounted for as a separate arrangement. In accordance with IFRS 2, the Company elected to apply IFRS 2 only to share-based award vested after the date of transition to IFRS.

The change resulted in the reclassification of \$209,926 from deficit to contributed surplus as at July 1, 2010, the increase of \$68,218 of the share-based payments expense for the three-month period ended September 30, 2010 and the decrease of \$115,517 of the share-based payments expense for the year ended June 30, 2011, with the counterpart as contributed surplus.

(b) Dividend in kind:

Under previous Canadian GAAP, the dividend in kind for the distribution to its shareholders on a pro rata basis of 3,685,645 shares of Monarques held by the Company was accounted for on the basis of book values of \$1,474,258 on June 10, 2011, the date the distribution was authorized.

Under IFRS, in accordance with IFRIC 17, *Distributions of Non-cash Assets to Owners*, a distribution of non-cash assets to owners on a pro rata basis is accounted for on a fair value basis with a gain or loss recognized in profit or loss. As such, the Company had to measure a liability to distribute the 3,685,645 shares of MQR as a dividend to its owners at the fair value of the assets to be distributed on June 10, 2011, the date the distribution was authorized, which was established at \$1,474,258. Then, when the dividend payable was settled on June 27, 2011, the Company had to recognize an IFRS adjustment for the difference between the carrying amount of the assets distributed and the fair value of the assets to be distributed on the date of settlement of \$368,565 in profit or loss, with the counterpart in deficit (dividend).

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20. Explanation of transition to IFRS (continued):

Notes to the reconciliation (continued)

(c) Borrowing costs:

Under previous Canadian GAAP, the Company expensed borrowing costs as incurred. Under IFRS, in accordance with IAS 23, *Borrowing Costs*, borrowing costs incurred in respect of qualifying assets, such as mining properties, must be capitalized. In addition, in accordance with IFRS 6, *Exploration for and Evaluation of Mineral Resources*, the Company chose to capitalize costs directly attributable to exploration activities, which include borrowing costs and other financing costs related to the financing of exploration activities.

At the date of transition, in accordance with IFRS 1, the Company elected to capitalize borrowing costs only in respect of qualifying assets for which the commencement date for capitalization was on or after the date of transition. On this basis, under IFRS, the interest expense on the convertible debenture related to the acquisition of the Lac Levac property was not retroactively capitalized as part of the mining property assets since the property was acquired prior to the date of transition.

(d) Income taxes:

Flow-through shares (amended)

Under previous Canadian GAAP, common shares issued pursuant to flow-through share financings were recorded at their issue price and related income taxes were recorded under the liability method of accounting. According to this method, the temporary differences were recorded on the date on which the Company renounced the deductions to investors together with a corresponding charge in the deficit.

The accounting treatment under IFRS, described in note 3 of the financial statements, differs from previous Canadian GAAP in several areas, and resulted in the following impacts:

- Under IFRS, at the time of share issuance, the Company allocates the proceeds between share capital and an obligation to deliver the tax deductions, which is recorded as a liability related to flow-through shares obligation. Then, as expenditures are incurred, the obligation is reversed with the counterpart as other income. Therefore, as at July 1, 2010, IFRS adjustments were recorded in relation with flow-through shares issued prior to the transition date, to account for a liability of \$93,334, based on the residual method of valuation, and a decrease in share capital of \$983,502, with the residual in deficit. During the three-month period ended September 30, 2010, an income of \$93,334 was recorded to reduce the liability to nil, as related expenditures were incurred in this period.

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20. Explanation of transition to IFRS (continued):

Notes to the reconciliation (continued)

(d) Income taxes:

Flow-through shares (continued)

- Under IFRS, deferred tax liabilities are recorded as expenditures are incurred, rather than at the date of renunciation under previous Canadian GAAP, with the counterpart as deferred income tax expense in profit or loss, rather than deficit under previous Canadian GAAP.

Tax deductions related to some financing occurred during the year ended June 30, 2010 and were renounced during the same year while certain exploration expenditures were incurred in the year ended June 30, 2011. Therefore, under IFRS, deferred tax liabilities of \$81,654 recorded in the year ended on June 30, 2010 under previous Canadian GAAP were reversed and deficit decreased by the same amount as at July 1, 2010.

For the year ended June 30, 2011, with regards to 2010 and 2011 financing renounced during that year ended, IFRS adjustments are recorded to reverse the deferred tax expense recorded in deficit under previous Canadian GAAP of \$1,927,000, resulting in a decrease in the deferred tax recovery recorded in the loss of the year for the same amount. Then, \$20,054 of deferred tax liabilities were reversed for the year ended June 30, 2011 in relation with the portion of the financing not yet spent as at June 30, 2011, with the counterpart in deferred tax recovery. These adjustments resulted in a net increase in the deferred tax expense of \$282,604 for the three-month period ended September 30, 2010.

Other income tax adjustments

Under IFRS, deferred taxes are recognized in profit or loss, except to the extent that tax arises from business combinations and transactions recognized in equity.

Therefore, when deferred taxes relate to equity items, a backwards tracing is necessary under IFRS to determine the amount of tax (e.g. due to a change in tax rates or a change in recognized deferred tax assets) that should be recorded in equity, while under previous Canadian GAAP they are charged in profit or loss. During the year ended June 30, 2011, all deferred tax assets related to share issuance costs are recognized, and as such the deferred tax recovery of \$375,797 recorded in the loss of the period under previous Canadian GAAP is reclassified to deficit under IFRS.

In addition, since it is currently management's intention to have the Company become a producer in the future, deferred taxes for mining duties were recognized in compliance with IAS 12, *Income Taxes*, in the amount of \$496,117 as at July 1, 2010, with the counterpart in deficit for \$449,980 and \$46,137 in exploration and evaluation assets. An additional deferred taxes liability and deferred taxes expense in the amount of \$159,213 and \$612,497 was recognized for the three-month period ended September 30, 2010 and for the year ended June 30, 2011, respectively. These amounts were partly offset by the recognition of deferred tax assets and deferred tax recovery of \$283,569 during the year ended June 30, 2011.

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Periods ended September 30, 2011 and 2010

20. Explanation of transition to IFRS (continued):

Notes to the reconciliation (continued)

(d) Income taxes (continued):

The above differences resulted in the following impacts:

	July 1, 2010			September 30, 2010			June 30, 2011		
	Previous Canadian GAAP	Effect of transition to IFRS	IFRS	Previous Canadian GAAP	Effect of transition to IFRS	IFRS	Previous Canadian GAAP	Effect of transition to IFRS	IFRS
	\$	\$	\$	\$	\$	\$	\$	\$	\$
Deferred tax assets (liability):	(1,193,015)	-	(1,193,015)	(1,193,015)	-	(1,193,015)	-	-	-
Mining duties tax	-	(496,117)	(496,117)	-	(655,330)	(655,330)	-	(825,045)	(825,045)
Flow-through shares	-	81,654	81,654	-	(200,950)	(200,950)	-	101,708	101,708
Correction of an error under previous GAAP	-	(81,654)	(81,654)	-	(81,654)	(81,654)	-	(385,277)	(385,277)
	(1,193,015)	(496,117)	(1,689,132)	(1,193,015)	(937,934)	(2,130,949)	-	(1,108,614)	(1,108,614)
Deferred tax expenses (recovery):	-	-	-	-	-	-	(3,120,015)	-	(3,120,015)
Flow-through shares	-	-	-	-	282,604	282,604	-	1,906,946	1,906,946
Share issuance costs	-	-	-	-	-	-	-	375,797	375,797
Mining duties	-	-	-	-	159,213	159,213	-	328,928	328,928
Correction of an error under previous GAAP	-	-	-	-	-	-	-	612,229	612,229
	-	-	-	-	441,817	441,817	(3,120,015)	3,223,900	103,885
Exploration and evaluation assets:	4,134,311	46,137	4,180,448	5,129,396	46,137	5,175,533	6,928,843	-	6,928,843
Loss incurred by the loss of control of a subsidiary	-	-	-	-	-	-	16,889	46,137	63,026
Deficit:									
Deferred taxes arising from flow-through shares	-	(81,654)	(81,654)	-	200,950	200,950	-	(101,708)	(101,708)
Deferred taxes arising from share issuance costs	-	-	-	-	-	-	-	-	-
Deferred taxes arising from mining duties	-	449,980	449,980	-	609,193	609,193	-	825,045	825,045
Correction of an error under previous GAAP	-	81,654	81,654	-	81,654	81,654	-	385,277	385,277
	-	449,980	449,980	-	891,797	891,797	-	1,108,614	1,108,614

Note: Under previous Canadian GAAP, the deferred tax liability balance as at July 1, 2010, September 30, 2010 and June 30, 2011 were understated by \$81,654, \$81,654 and \$385,277 respectively due to an error in accounting for the tax impact on the investment in an equity accounted investee, as well as an error in accounting for the tax impact relating to flow-through shares financing. Those errors had also the effect of overstating deferred income tax recovery by \$612,229 and understating comprehensive loss by the same amount.

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20. Explanation of transition to IFRS (continued):

Notes to the reconciliation (continued)

(e) Deficit (amended):

The above changes increased (decreased) deficit as follows:

	July 1, 2010	September 30, 2010	June 30, 2011
	\$	\$	\$
Share-based payments	209,926	278,144	94,409
Deferred income and mining taxes	449,980	891,797	1,108,614
Obligation related to flow-through shares	(890,168)	(983,502)	(983,502)
Increase (decrease) in deficit	(230,262)	186,439	219,521

(f) Classification of financial instruments:

Contrary to previous Canadian GAAP, cash and cash equivalents do not meet the criteria for fair value through profit and loss designation under IFRS.

As a result, cash and cash equivalents are classified as loans and receivables under IFRS. This change in classification does not have a financial impact on the financial statements as the fair value of those instruments approximates their cost.

(g) Reclassification within the income statement and the balance sheet:

Interest income and interest expense were reclassified within the finance income and expense line items under IFRS while they were presented under interest income and debenture interest expense under previous Canadian GAAP.

Cash and term deposits reserved for exploration were reclassified within the Cash and cash equivalents line item presented in the current assets under IFRS while they were presented under "Cash and term deposits reserved for exploration" as non-current assets under Canadian GAAP.

Certain comparative information has been reclassified to conform with the presentation used in the current year.