



**EUROPEAN LITHIUM LIMITED**  
**ABN 45 141 450 624**

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## **Interim Financial Report**

**For the Half Year Ended**  
**31 December 2017**

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## DIRECTORS' REPORT

### DIRECTORS' REPORT

Your Directors submit the Interim Financial Report of the Group, comprising European Lithium Limited and its subsidiaries, for the half-year ended 31 December 2017. In order to comply with the provisions of the Corporations Act 2001, the Directors report as follows:

#### Directors

The names of Directors who held office during or since the end of the interim period and until the date of this report are noted below. Directors were in office for the entire period unless otherwise stated.

Antony Sage	Non-Executive Chairman
Malcolm Day	Non-Executive Director
Stefan Muller	Non-Executive Director (Appointed 20 October 2017)
Paul Lloyd	Non-Executive Director (Resigned 20 October 2017)

#### Review of Operations

##### Corporate

##### *Change in Directors*

On 20 October 2017, the Company announced the appointment of Stefan Muller and the resignation of Paul Lloyd as Non-Executive Director of the Company with effect from 20 October 2017.

##### *Capital Raisings and Movements*

On 11 August 2017, the Company issued 3,722,222 unlisted options with an exercise price of \$0.05 expiring on 31 March 2020 to investors and creditors pursuant to the placement of shares on 8 June 2017, 15 June 2017 and 3 July 2017.

On 9 September 2017, the Company released 172,406,363 fully paid ordinary shares from voluntary escrow.

On 13 October 2017 and 17 October 2017, the Company completed placements of 45,980,000 fully paid ordinary shares at \$0.05 per share to raise cash funds of \$2,132,500 (before costs) and settle certain creditors of the company of approximately \$166,500.

On 20 October 2017, the Company issued 20,000 shares to raise funds of \$1,000 pursuant to a cleansing prospectus.

On 29 November 2017, the Company issued 1,711,111 fully paid ordinary shares and 855,555 options with an exercise price of \$0.05 per share expiring on 31 March 2020 in lieu of outstanding director's fees as approved at the annual general meeting of shareholders held on 29 November 2017.

On 29 November 2017, 1 December 2017, 4 December 2017 and 11 December 2017, the Company issued 12,376,184 fully paid ordinary shares following the conversion of options with an exercise price of \$0.05 expiring on 31 March 2020.

On 1 December 2017, 4 December 2017 and 15 December 2017, the Company issued 5,000,000 fully paid ordinary shares following the conversion of options with an exercise price of \$0.125 expiring on 27 February 2020.

On 11 December 2017, the Company completed a placement of 22,222,220 fully paid ordinary shares at \$0.225 per share to raise cash funds of \$5,000,000 (before costs). On the same day, the Company issued 5,555,556 options to shareholders who participated in the placement and 3,150,000 options to facilitators of the placement which are exercisable at \$0.25 on or before 31 May 2019. A further 11,250,000 facilitator options pursuant to the placement will be issued to Directors Tony Sage (2,500,000), Stefan Muller (6,250,000) and Malcolm Day (2,500,000) upon receipt of shareholder approval, at which time the options will be valued and recorded as a capital raising costs.

##### *Dual Listing*

On 5 October 2017, the Company announced that it had been admitted to the Vienna Stock Exchange (VSE). Trading on the VSE commenced on 9 October 2017.

##### *Change in Constitution*

On 29 November 2017, the Company adopted a new constitution following the passing of a special resolution at the annual general meeting of shareholders held on 29 November 2017.

### ***Suspension and Reinstatement of Trading***

On 7 July 2017, the Company's securities were suspended from official quotation in relation to cleansing notices issued on 8 June 2017, 15 June 2017 and 3 July 2017 relating to the issue of ordinary shares on 8, 15 and 30 June 2017 (**Shares**) which did not exempt the sellers of the Shares from their obligation to make disclosure pursuant to s707(3) of the Corporations Act 2001 because the Shares were not in a class of securities that was trading on the ASX and not suspended for more than a total of 5 days during the previous 12 month period.

The Company prepared a short form cleansing prospectus which was lodged with ASIC on 10 July 2017. In addition, the Company lodged an application with the Federal Court of Australia seeking urgent declaratory relief and ancillary orders relating to the issue of securities and the subsequent offer for sale, or sale, by some of the subscribers to those securities. The Company sought orders declaring that any offer for sale or sale of the securities from the date of issue of the securities until 10 July 2017 was not invalid by reason of the seller's failure to comply with s707(3) of the Corporations Act 2001. On 26 July 2017, the Company was granted the relevant court orders and was reinstated to trading on ASX at the open of market on 27 July 2017.

### **Wolfsberg Lithium Project – Austria**

#### ***Exploration***

The deep drilling programme was completed and reported to the ASX on 3 July 2017 "European Lithium increases resources at Wolfsberg adding 4.7 million tonnes at 0.78% Li<sub>2</sub>O in Zone 1" with an explanatory amendment on 7 July 2017. The Zone 2 drilling programme that was suspended in June 2017 after completing 3 of 9 planned drill holes was resumed in December 2017. Contracts for the Exploration Manager, GeoUnterweissacher, and drilling contractor were issued for mobilization and start of drilling mid-January 2018. The programme is scheduled for completion mid-March 2018.

GeoUnterweissacher and Mine-it, the mining information consultant are developing a lithological model using all drill hole and trenching information in Zones 1 and 2. SRK will then assist the Company in using the lithological model to develop a further exploration programme to increase the measured and indicated resources. Increased resources are required to support a lithium production rate higher than currently considered in the PFS.

A report on exploration activities in 2017 has been prepared for the Mining Authority. This work will allow the extension of all exploration licences for another 5 years from their current expiry date of 31 December 2019.

The terms of the mining licences require that mining be carried out for at least 4 months each year. A suspension of this requirement had been obtained until 31 December 2017 to allow further technical studies to optimize the project. Following presentation of these technical studies to the Mining Authority, which were considered satisfactory, an application has been made to extend this suspension for another 2 years to allow completion of the PFS, DFS and construction.

#### ***Land Access***

The arbitration on the validity of the agreement reached on 15 April 2011 granting ECM lithium AT GmbH access to and use of Glock Gut property ruled in June 2017 that the agreement remained in full force. Environmental consultants undertaking base line studies were then permitted to enter the property to continue work that had been interrupted since April 2017. This base line work into flora and fauna continued until October 2017.

The agreement of 15 April 2011 provides for arbitration costs to be shared by the two parties. Glock Gut have denied liability for their share of costs which were paid by ECM Lithium AT GmbH. An arbitration claim for recovery of the €160,881 owed has been initiated.

#### ***Metallurgy***

Dorfner Anzaplan completed test work into the conversion of spodumene concentrate into lithium battery grade materials. This was reported to the ASX on 27 July 2017 "Battery grade lithium carbonate and hydroxide made from Wolfsberg spodumene concentrate".

#### ***PFS***

A contract was signed on 6 October 2017 with DRA Global (DRA) to undertake the PFS engineering and integrate the work of third party consultants into the PFS. A project kick off meeting was held with the Company, DRA and third party consultants in Wolfsberg on 12-13 October 2017. Engineering work is being conducted between the Johannesburg and Montreal offices of DRA. DRA and consultants have committed to complete the PFS by the end of February 2018 for review by the Company in March 2018.

The base line project has been defined as an underground mine with crushing, screening, ore sorting underground and a concentrator on surface to produce a spodumene concentrate and by-products of feldspar and quartz. The spodumene concentrate will be transported to a conversion plant situated south of Wolfsberg for conversion to lithium carbonate and hydroxide. Alternative locations will be considered as options.

## DIRECTORS' REPORT

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Third party consultants contributing to the PFS include:

- SRK – mine design
- Dorfner Anzaplan – support metallurgical test work for engineering design
- Paterson & Cooke – tailings disposal
- Benchmark Minerals Intelligence – marketing study for battery grade lithium products
- Orykton Consulting – marketing study for spodumene concentrate and by-products from the concentrator and conversion plants.

### **Environmental and Permitting**

Base line studies into flora and fauna at the mine site were continued until October 2017. Spring monitoring that was interrupted because of land access issues will resume in Spring 2018. Additional studies into traffic, noise and air quality at both the mine site and conversion plant are to be undertaken. SRK have been requested to propose for the hydrogeological study.

### **Marketing**

The spodumene concentrate offtake agreement with Shandong Ruifu is on hold. The Company is in discussion with a number of parties to deliver battery grade lithium products to the coming lithium battery plants in Europe. The Company has an opportunity to establish itself as a key contributor to an integrated lithium supply chain in Europe. Preliminary evaluation indicates sale of battery grade products in Europe to be of considerably higher project value than concentrate sales to China.

### **Paynes Find Gold Project – Australia**

Exploration activities on the Paynes Find Gold project during the half year were restricted to minimum amounts to maintain the landholdings due to the difficulty with raising funds in a continuing depressed capital market for gold exploration companies.

As previously announced on 22 December 2016 a Binding Terms Sheet (**Terms Sheet**) was entered into with Cervantes Gold Pty Ltd (Purchaser), a wholly owned subsidiary of Cervantes Corporation Limited (ASX:CVS) (**CVS**), to sell 100% of the right, title and interest in the tenements known as the Paynes Find Gold Project (**Tenements**), located in Western Australia (the **Transaction**).

Consideration for the Transaction consists of \$500,000 cash and \$500,000 share capital in CVS.

The Company has received cash funds of \$220,000 to date with the remaining cash payments due as follows:

- \$25,000 on or before 15 January 2018
- \$25,000 on or before 28 February 2018
- \$230,000 on or before 31 March 2018

On 27 December 2017, the Company was issued 25,000,000 consideration shares in CVS at a deemed issue price of 2 cents each. On the same date, the Company released a notice of initial substantial holder confirming its 7% ownership in CVS as a result of the Transaction.

### **Auditor's Independence Declaration**

Section 307C of the Corporations Act 2001 requires our auditors, HLB Mann Judd, to provide the Directors of the Company with an Independence Declaration in relation to the review of the half-year financial report. This Independence Declaration is set out on page 5 and forms part of this Directors' report for the half-year ended 31 December 2017.

This report is signed in accordance with a resolution of the Board of Directors made pursuant to s.306(3) of the Corporations Act 2001.



Antony Sage  
Non-Executive Chairman  
30 January 2018

**AUDITOR'S INDEPENDENCE DECLARATION**

As lead auditor for the review of the consolidated financial report of European Lithium Limited for the half-year ended 31 December 2017, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- a) the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- b) any applicable code of professional conduct in relation to the review.

**Perth, Western Australia  
30 January 2018**




**L Di Giallonardo  
Partner**

**HLB Mann Judd (WA Partnership) ABN 22 193 232 714**

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HLB Mann Judd (WA Partnership) is a member of  International, a world-wide organisation of accounting firms and business advisers

**CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME  
FOR THE HALF YEAR ENDED 31 DECEMBER 2017**

	Note	31 December 2017 \$	31 December 2016 \$
<b>Continuing operations</b>			
Revenue and other income	2	659,252	723,671
Employee benefits expense	3	(117,548)	(133,768)
Depreciation and amortisation expense		(1,181)	-
Finance costs	3	(4,232)	(5,423)
Impairment of deferred exploration and evaluation expenditure	5	(29,333)	(70,782)
Consulting fees		(267,778)	(187,021)
Travel expenses		(121,866)	(126,488)
Regulatory and compliance costs		(126,030)	(127,017)
Transaction cost relating to the reverse acquisition by the accounting acquirer, European Lithium AT (Investments) Ltd of the Company	7	-	(4,925,229)
Other expenses	3	(169,241)	(2,085,845)
<b>(Loss) before income tax</b>		<b>(177,957)</b>	<b>(6,937,902)</b>
Income tax expense		-	(5,996)
<b>(Loss) after tax from continuing operations</b>		<b>(177,957)</b>	<b>(6,943,898)</b>
Other comprehensive income, net of income tax			
<i>Items that may be reclassified to profit or loss</i>			
Exchange differences on translation of foreign operations		569,662	664,287
<b>Other comprehensive income for the period, net of income tax</b>		<b>569,662</b>	<b>664,287</b>
<b>Total comprehensive (loss)/profit for the period</b>		<b>391,705</b>	<b>(6,279,611)</b>
<b>(Loss) per share for the period</b>			
Basic (loss) per share (cents per share)	8	(0.04)	(1.94)
Diluted (loss) per share (cents per share)	8	(0.04)	(1.94)

*The above Condensed Consolidated Statement of Comprehensive Income is to be read in conjunction with the  
Notes to the Financial Statements*

**CONSENSSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**AS AT 31 DECEMBER 2017**

	Note	31 December 2017 \$	30 June 2017 \$
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and cash equivalents		6,767,676	549,855
Trade and other receivables		669,010	330,765
Restricted cash and other deposits		-	199,233
<b>Total Current Assets</b>		<b>7,436,686</b>	<b>1,079,853</b>
<b>Non-Current Assets</b>			
Property, plant and equipment		5,296	6,150
Deferred exploration and evaluation expenditure	5	23,596,443	21,532,875
Other financial assets		225,000	-
Restricted cash and other deposits		30,114	252,298
<b>Total Non-Current Assets</b>		<b>23,856,853</b>	<b>21,791,323</b>
<b>TOTAL ASSETS</b>		<b>31,293,539</b>	<b>22,871,176</b>
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Trade and other payables		395,525	523,484
Provisions		14,182	-
<b>Total Current Liabilities</b>		<b>409,707</b>	<b>523,484</b>
<b>TOTAL LIABILITIES</b>		<b>409,707</b>	<b>523,484</b>
<b>NET ASSETS</b>		<b>30,883,832</b>	<b>22,347,692</b>
<b>EQUITY</b>			
Issued capital	6	16,586,098	8,771,321
Reserves		5,533,973	4,634,653
Retained earnings		8,763,761	8,941,718
<b>TOTAL EQUITY</b>		<b>30,883,832</b>	<b>22,347,692</b>

*The above Condensed Consolidated Statement of Financial Position is to be read in conjunction with the  
Notes to the Financial Statements*



**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
FOR THE HALF YEAR ENDED 31 DECEMBER 2017**

	Attributable to equity holders				Total Equity
	Issued Capital \$	Retained Earnings \$	Share Based Payments Reserve \$	Foreign Currency Translation Reserve \$	\$
<b>At 1 July 2016</b>	<b>46,834</b>	<b>16,950,081</b>	<b>-</b>	<b>(477,961)</b>	<b>16,518,954</b>
Loss for the period	-	(6,943,898)	-	-	(6,943,898)
Foreign currency exchange differences arising on translation from functional currency to presentation currency	-	-	-	664,287	664,287
<b>Total comprehensive income/(loss) for the period</b>	<b>-</b>	<b>(6,943,898)</b>	<b>-</b>	<b>664,287</b>	<b>(6,279,611)</b>
Shares issued pursuant to prospectus	6,232,200	-	-	-	6,232,200
Shares and options issued to corporate advisor as share issue costs	2,500,000	-	4,210,106	-	6,710,106
Share issue costs – shares and options issued to corporate advisor	(6,710,106)	-	-	-	(6,710,106)
Shares issued to historic creditors	95,257	-	-	-	95,257
Deemed consideration of reverse acquisition	5,843,580	-	-	-	5,843,580
Share issue costs – cash	(276,333)	-	-	-	(276,333)
<b>At 31 December 2016</b>	<b>7,731,432</b>	<b>10,006,183</b>	<b>4,210,106</b>	<b>186,326</b>	<b>22,134,047</b>
<b>At 1 July 2017</b>	<b>8,771,321</b>	<b>8,941,718</b>	<b>4,210,106</b>	<b>424,547</b>	<b>22,347,692</b>
Loss for the period	-	(177,957)	-	-	(177,957)
Foreign currency exchange differences arising on translation from functional currency to presentation currency	-	-	-	569,662	569,662
<b>Total comprehensive income/(loss) for the period</b>	<b>-</b>	<b>(177,957)</b>	<b>-</b>	<b>569,662</b>	<b>391,705</b>
Shares issued pursuant to prospectus – October placement	2,132,500	-	-	-	2,132,500
Shares issued to settle amounts payable to creditors – October placement	166,500	-	-	-	166,500
Shares issued pursuant to prospectus	1,000	-	-	-	1,000
Shares issued to Directors in lieu of fees	77,000	-	-	-	77,000
Shares issued pursuant to prospectus – December placement	5,000,000	-	-	-	5,000,000
Shares issued upon exercise of options	1,243,809	-	-	-	1,243,809
Shares and options issued to corporate advisor as share issue costs	-	-	329,658	-	329,658
Share issue costs	(806,032)	-	-	-	(806,032)
<b>At 31 December 2017</b>	<b>16,586,098</b>	<b>8,763,761</b>	<b>4,539,764</b>	<b>994,209</b>	<b>30,883,832</b>

*The above Condensed Consolidated Statement of Changes in Equity is to be read in conjunction with the Notes to the Financial Statements*

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS**  
**FOR THE HALF YEAR ENDED 31 DECEMBER 2017**

	Note	31 December 2017 \$	31 December 2016 \$
<b>Cash flows from operating activities</b>			
Payments to suppliers and employees		(951,580)	(1,914,138)
Payments for exploration		(1,362,857)	(1,812,380)
Finance costs		(4,232)	(5,423)
Decrease/(increase) in restricted cash balances		222,184	(425,761)
Interest received		363	7,256
VAT Refund		233,138	(84,683)
<b>Net cash (used in) operating activities</b>		<b>(1,862,984)</b>	<b>(4,235,129)</b>
<b>Cash flows from investing activities</b>			
Proceeds from the sale of exploration tenements		150,000	5,000
Payment for property, plant and equipment		-	12,375
Cash acquired on acquisition of accounting subsidiary	7	-	343,642
<b>Net cash provided by investing activities</b>		<b>150,000</b>	<b>361,017</b>
<b>Cash flows from financing activities</b>			
Proceeds from capital raisings		8,377,309	6,232,200
Payment for share issue costs		(451,375)	(276,333)
<b>Net cash provided by financing activities</b>		<b>7,925,934</b>	<b>5,955,867</b>
Net increase in cash and cash equivalents		6,212,950	2,081,755
Cash and cash equivalents at beginning of year		549,855	344,286
Effects on exchange rate fluctuations on cash held		4,871	(7,361)
<b>Cash and cash equivalents at end of year</b>		<b>6,767,676</b>	<b>2,418,680</b>

*The above Condensed Consolidated Statement of Cash Flows is to be read in conjunction with the  
Notes to the Financial Statements*

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Statement of compliance**

These half-year condensed consolidated financial statements are general purpose interim financial statements prepared in accordance with the requirements of the Corporations Act 2001, applicable accounting standards including AASB 134 'Interim Financial Reporting', Accounting Interpretations and other authoritative pronouncements of the Australian Accounting Standards Board (**AASB**). Compliance with AASB 134 ensures compliance with IAS 34 'Interim Financial Reporting'.

The half-year financial report does not include full disclosures of the type normally included in an annual financial report. Therefore, it cannot be expected to provide as full an understanding of the financial performance, financial position and cash flows of the Group as in the full financial report.

It is recommended that this half-year financial report be read in conjunction with the annual financial report for the year ended 30 June 2017 and any public announcements made by European Lithium Limited and its subsidiaries during the half-year in accordance with continuous disclosure requirements arising under the Corporations Act 2001 and the ASX Listing Rules.

**Basis of preparation**

The half-year financial report has been prepared on a historical cost basis, except for the revaluation of certain financial instruments to fair value. Cost is based on the fair value of the consideration given in exchange for assets. The Company is domiciled in Australia and all amounts are presented in Australian dollars, unless otherwise noted.

For the purpose of preparing the half-year financial report, the half-year has been treated as a discrete reporting period.

**Accounting policies and methods of computation**

The accounting policies and methods of computation adopted are consistent with those of the previous financial year and corresponding half-year. These accounting policies are consistent with Australian Accounting Standards and with International Financial Reporting Standards.

**Adoption of new and revised standards**

*Standards and Interpretations applicable to 31 December 2017*

In the half-year ended 31 December 2017, the Directors have reviewed all of the new and revised Standards and Interpretations issued by the AASB that are relevant to the Company and effective for the half-year reporting periods beginning on or after 1 July 2017. As a result of this review, the Directors have determined that there is no material impact of the new and revised Standards and Interpretations on the Company and therefore no material change is necessary to Group accounting policies.

*Standards and Interpretations in issue not yet adopted*

The Directors have also reviewed all of the new and revised Standards and Interpretations in issue not yet adopted that are relevant to the Company and effective for the half-year reporting periods beginning on or after 1 January 2018. As a result of this review, the Directors have determined that there is no material impact of the new and revised Standards and Interpretations in issue not yet adopted on the Company and therefore no material change is necessary to Group accounting policies.

**Reverse Acquisition Accounting**

The acquisition of European Lithium AT (Investments) Ltd by the Company on 9 September 2016 is considered to be a reverse acquisition under Australian Accounting Standards, notwithstanding the Company being the legal parent of the Group. Consequently, the financial information presented in this Report for the previous half years comparative is the financial information of European Lithium AT (Investments) Ltd for the period 1 July 2016 up to 31 December 2016, and the financial information of Paynes Find Gold Limited (renamed European Lithium Limited) for the period 9 September 2016 up to 31 December 2016.

Where considered relevant, some historical financial information of Paynes Find Gold Limited (renamed European Lithium Limited) for the half-year ended 31 December 2016 has been disclosed.

The legal structure of the Group subsequent to the acquisition of European Lithium AT (Investments) Ltd will be that the Company will remain as the legal parent entity. However, the principles of reverse acquisition accounting are applicable where the owners of the acquired entity (in this case, European Lithium AT (Investments) Ltd) obtain control of the acquiring entity (in this case, the Company) as a result of the businesses' combination.

Under reverse acquisition accounting, the consolidated financial statements are issued under the name of the legal parent (the Company) but are a continuation of the financial statements of the legal subsidiary (European Lithium AT (Investments) Ltd, with the

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

assets and liabilities of the legal subsidiary being recognised and measured at their pre-combination carrying amounts rather than their fair values.

### Significant accounting judgments and key estimates

The preparation of half-year financial report requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expense. Actual results may differ from these estimates.

In preparing this half-year financial report, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial report for the year ended 30 June 2017.

### 2. REVENUE AND OTHER INCOME FROM CONTINUING OPERATIONS

	31 December 2017	31 December 2016
	\$	\$
Interest revenue	363	7,256
Realised foreign exchange	-	21,558
Forgiveness of related party loans	-	677,482 <sup>1</sup>
Proceeds from the sale of Paynes Find Gold Project	655,000	5,000
Profit on sale of motor vehicle	-	12,375
Other income	3,889	-
	<u>659,252</u>	<u>723,671</u>

<sup>1</sup> A loan payable by European Lithium AT (Investments) Ltd to European Lithium Ltd, BVI of €450,000 (A\$677,482) was forgiven during the period ended 31 December 2016.

### 3. EXPENSES FROM CONTINUING OPERATIONS

	31 December 2017	31 December 2016
	\$	\$
<b>Employee benefits expenses</b>		
Directors' remuneration & consulting	117,548	77,333
Employee costs	-	56,435
	<u>117,548</u>	<u>133,768</u>
<b>Finance expenses</b>		
Bank fees	4,232	5,423
	<u>4,232</u>	<u>5,423</u>
<b>Other expenses</b>		
Assignment of historic project costs to European Lithium AT (Investments) Ltd <sup>1</sup>	-	1,131,203
Pre-acquisition advances <sup>2</sup>	-	750,000
Other administrative expenses	169,241	204,642
	<u>169,241</u>	<u>2,085,845</u>

<sup>1</sup> As part of the terms of the acquisition, European Lithium AT (Investments) Ltd (EL AT) assumed approximately \$1,500,000 of historic creditors, related to expenditure in developing the Wolfsberg Project, from European Lithium Ltd, BVI. Management have since been able to negotiate repayment terms with certain creditors agreeing to a reduced settlement amount paid in either cash or a combination of cash and shares in the Company. As at 30 June 2017, the balance of historic creditors has been reduced by \$1,123,386, which was paid during the current half year.

<sup>2</sup> As per the terms of the acquisition, advances of \$200,000 and \$550,000 were made by the Company, pre-acquisition.

### 4. SEGMENT REPORTING

AASB 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the Board of Directors in order to allocate resources to the segment and to assess its performance.

The Company operates in the mineral exploration industry. For 2017, and as disclosed in the 2017 Annual Report this consisted of mineral exploration in Austria and Australia. For the current period, this consists of mineral exploration in Austria. For management purposes, the Company is still organised into one main operating segment which now involves the exploration of minerals in Austria. All

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

of the Company's activities are interrelated and discrete financial information is reported to the Board (Chief Operating Decision Maker) as a single segment. Accordingly, all significant operating decisions are based upon analysis of the Company as one segment. The financial results from this segment are equivalent to the financial statements of the Company as a whole.

### 5. DEFERRED EXPLORATION AND EVALUATION EXPENDITURE

	Six months to 31 December 2017	Year to 30 June 2017
	\$	\$
Exploration and evaluation phase:		
Balance at beginning of period	21,532,875	17,072,463
Expenditure incurred	1,373,206	3,575,108
Foreign exchange movement	719,695	1,012,436
Impairment	(29,333)	(127,132)
Balance at end of period	23,596,443	21,532,875

The recoupment of costs carried forward in relation to areas of interest in the exploration and evaluation phases is dependent upon the successful development and commercial exploitation or sale of the respective areas.

### 6. ISSUED CAPITAL

#### a) Ordinary shares

	Six months to 31 December 2017		Year to 30 June 2017	
	No of Shares	\$	No of Shares	\$
Balance at beginning of period	457,415,010	8,771,321	100 <sup>1</sup>	46,834
Shares acquired on acquisition of legal parent	-	-	73,044,750	-
Shares eliminated in legal subsidiary on acquisition	-	-	(100)	-
Deemed consideration of reverse takeover	-	-	-	5,843,580
Shares issued:				
- Capital raising – prospectus	-	-	77,902,500	6,232,200
- Shares issued to corporate advisor	-	-	31,250,000 <sup>2</sup>	2,500,000
- To acquire European Lithium AT (Investments) Ltd (Tranche 1)	-	-	187,500,000	-
- To acquire European Lithium AT (Investments) Ltd (Tranche 2)	-	-	62,500,000	-
- Historical creditors	-	-	1,587,614	95,257
- Capital raising - placement	-	-	17,433,109	784,490
- Capital raising – conversion of creditors	-	-	6,197,037	278,867
- Capital raising costs – shares and options issued to corporate advisor	-	-	-	(6,710,106)
- Shares issued pursuant to prospectus – October placement	42,650,000	2,132,500	-	-
- Shares issued to settle amounts payable to creditors – October placement	3,330,000	166,500	-	-
- Shares issued pursuant to prospectus	20,000	1,000	-	-
- Shares issued to Directors in lieu of fees	1,711,111	77,000	-	-
- Shares issued pursuant to prospectus – December placement	22,222,221	5,000,000	-	-
- Shares issued upon exercise of options	17,376,184	1,243,809	-	-
Capital raising costs – cash	-	(806,032)	-	(299,801)
Balance at end of period	544,724,526	16,586,098	457,415,010	8,771,321

<sup>1</sup> The issued capital of European Lithium AT (Investments) Ltd is 100 ordinary shares with a carrying value of €35,000.

<sup>2</sup> Includes 7,812,500 fully paid ordinary shares that were issued to the Company's corporate advisor (or nominees) in respect of fees payable upon issue of the Tranche 2 Consideration Shares in respect of the European Lithium AT (Investment) Ltd acquisition. These shares are escrowed until 20 September 2018.

#### b) Options

On 11 August 2017, the Company issued 3,722,222 unlisted options with an exercise price of \$0.05 expiring on 31 March 2020 to investors and creditors pursuant to the placement of shares on 8 June 2017, 15 June 2017 and 3 July 2017.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

On 29 November 2017 855,555 unlisted options with an exercise price of \$0.05 per share expiring on 31 March 2020 in lieu of outstanding directors fees as approved at the annual general meeting of shareholders held on 29 November 2017.

On 29 November 2017 6,554,888 unlisted options were exercised by shareholders at \$0.05 per share. On 1 December 2017 941,667 unlisted options were exercised by shareholders at \$0.05 per share. On 4 December 2017 462,963 unlisted options were exercised by shareholders at \$0.05 per share.

On 1 December 2017 1,000,000 unlisted options were exercised by shareholders at \$0.125 per share. On 4 December 2017 2,000,000 unlisted options were exercised by shareholders at \$0.125 per share.

At 31 December 2017, the unissued ordinary shares of the Company under option are as follows:

Date of Expiry	Status	Exercise Price	Number of Options
27/02/2020	Unlisted	12.5 cents	3,000,000
30/06/2020	Unlisted	10.0 cents	200,000,000
31/03/2020	Unlisted	5.0 cents	2,394,444
31/05/2019	Unlisted	25.0 cents	8,705,556
			<u>214,100,000</u>

### c) Share based payments

The following options were issued as share-based payments arrangements during the period:

	Number of Options	Grant date	Expiry Date	Exercise Price	Fair value at grant date	Vesting date
Options issued to corporate advisor	2,000,000	11 August 2017	31 March 2020	\$0.05	\$0.0198	11 August 2017
Options issued to corporate advisor <sup>1</sup>	3,150,000	14 December 2017	31 May 2019	\$0.25	\$0.0921	14 December 2017

The fair value of the equity-settled share options granted is estimated as at the date of grant using the Black and Scholes model taking into account the terms and conditions upon which the options were granted.

<sup>1</sup> A further 11,250,000 facilitator options pursuant to the December placement will be issued to Directors Tony Sage (2,500,000), Stefan Muller (6,250,000) and Malcolm Day (2,500,000) upon receipt of shareholder approval, at which time the options will be valued and recorded as a capital raising cost.

	Assumptions	
Number options issued to corporate advisor	2,000,000	3,150,000
Dividend yield	0.00%	0.00%
Expected volatility	81%	98%
Risk-free interest rate	1.77%	1.90%
Expected life of options	2.64 years	1.46 years
Exercise price	\$0.05	\$0.25
Grant date share price	\$0.043	\$0.22

The expected life of the options is based on historical data and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome. No other features of options granted were incorporated into the measurement of fair value.

## 7. REVERSE ACQUISITION ACCOUNTING

On 9 September 2016, the Company completed the legal acquisition of European Lithium AT (Investments) Limited. Under the terms of AASB 3 "Business Combinations", European Lithium AT (Investments) Ltd was deemed to be the accounting acquirer in the business combination. The transaction has therefore been accounted for as a reverse acquisition.

The reverse acquisition is treated as an acquisition of assets and liabilities of Paynes Find Gold Limited (renamed European Lithium Limited) as at 9 September 2016.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

	31 December 2016
Net assets acquired	\$
Cash and cash equivalents	343,642
Trade and other receivables	35,000
Advances to related companies	750,000
Trade and other payables	(210,291)
Value of asset acquisition as at 9 September 2016	<u>918,351</u>
Loss on acquisition of European Lithium AT (Investments) Ltd	
Deemed acquisition consideration	5,843,580
Less net assets acquired	(918,351)
Transaction cost of reverse acquisition on 9 September 2016	<u>4,925,229</u>

The consideration for the acquisition comprised the issue of 187,500,000 ordinary shares to the vendors, plus a further amount of deferred consideration in the form of the issue of 62,500,000 ordinary shares to the vendors upon upgrading the JORC resource for the Wolfsberg Lithium Project to a minimum of 4.5m tonnes inferred resource at 1.3% Li<sub>2</sub>O (these shares were issued on 23 December 2016).

### Impact of acquisition on the results of the Group

If the combination had taken place at the beginning of the 2016 half year, the loss of the Group for the 2016 half year would have been \$7,171,881 and revenue from continuing operations would have remained unchanged.

### 8. BASIC AND DILUTED LOSS PER SHARE

	<b>31 December 2017</b>	<b>31 December 2016</b>
	<b>\$</b>	<b>\$</b>
Loss used in the calculation of basic and dilutive (loss) per share	(177,957)	(6,943,898)
	<b>Six months to 31 December 2017</b>	<b>Six months to 31 December 2016</b>
	<b>Cents per share</b>	<b>Cents per share</b>
<i>Loss per share:</i>		
Basic loss per share (cents per share)	(0.04)	(1.94)
Diluted loss per share (cents per share)	(0.04)	(1.94)

There are dilutive potential ordinary share on issue at balance date. However, given the Company has made a loss, there is no dilution of earnings hence the diluted loss per share is the same as for basic loss per share.

	<b>Six months to 31 December 2017</b>	<b>Six months to 31 December 2016</b>
	<b>Number</b>	<b>Number</b>
Weighted average number of shares:	482,148,394	358,442,115

Under the principles of reverse acquisition accounting, the weighted average number of shares used in the calculation of basic and diluted earnings per share for the comparative period is the number of shares issued by the legal parent to acquire the results of the legal subsidiary for that period, even though the issue of the shares did not occur until the time of the reverse acquisition in the current period.

### 9. RELATED PARTY TRANSACTIONS

During the half year ended 31 December 2017, Frankfurt Capital Market Consulting received fees in relation to the Vienna Stock Exchange listing and finder fees and commission totaling \$239,859 in respect to the October and December placements. Frankfurt Capital Market Consulting is a subsidiary of Deutsche Gesellschaft Fur Wertpapieranalyse GmbH (**DGWA**) which is controlled by Stefan Muller.

During the half year ended 31 December 2017, Okewood Pty Ltd (**Okewood**) received fees totaling \$66,000 (including GST) in relation to the December placement. Okewood is an entity controlled by Tony Sage.

**10. CONTINGENT LIABILITIES**

During the period, bank guarantees to the value of €150,000 in respect of any unrepaired damage to property at the Wolfsberg property were released.

There has been no other change in contingent liabilities since the last annual reporting date.

**11. EVENTS SUBSEQUENT TO REPORTING DATE**

No matters or circumstances have arisen since the end of the half-year which significantly affected or may significantly affect the operations of the Group, the results of those operations, or the state of affairs in future financial years.

**12. FINANCIAL INSTRUMENTS**

**Fair Value Measurement**

The Group's "other financial assets" comprise shares in Cervantes Corporation Limited, an ASX listed company. This investment is a Level 1 investment in the fair value hierarchy.



## DIRECTORS' DECLARATION

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In the opinion of the Directors of European Lithium Limited ('the company'):

1. The attached interim financial statements and notes thereto are in accordance with the Corporations Act 2001 including:
  - a. complying with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and
  - b. giving a true and fair view of the Group's financial position as at 31 December 2017 and of its performance for the half-year then ended; and
2. There are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

This declaration is signed in accordance with a resolution of the Board of Directors made pursuant to s.303(5) of the Corporations Act 2001.



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**Antony Sage**  
**Non-Executive Chairman**

**30 January 2018**

**INDEPENDENT AUDITOR'S REVIEW REPORT**

To the members of European Lithium Limited

**Report on the Condensed Half-Year Financial Report***Conclusion*

We have reviewed the accompanying half-year financial report of European Lithium Limited ("the company") which comprises the condensed consolidated statement of financial position as at 31 December 2017, the condensed consolidated statement of comprehensive income, the condensed consolidated statement of changes in equity and the condensed consolidated statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory notes, and the directors' declaration, for the consolidated entity comprising the company and the entities it controlled at the half-year end or from time to time during the half-year.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of European Lithium Limited is not in accordance with the *Corporations Act 2001* including:

- (a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2017 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

*Directors' responsibility for the half-year financial report*

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

*Auditor's responsibility*

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity* in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2017 and its performance for the half-year ended on that date; and complying with Accounting

**HLB Mann Judd (WA Partnership) ABN 22 193 232 714**

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Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of the company, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

*Independence*

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.



**HLB Mann Judd**  
**Chartered Accountants**

**Perth, Western Australia**  
**30 January 2018**



**L Di Giallonardo**  
**Partner**