EUROPEAN LITHIUM LIMITED
ABN 45 141 450 624

Interim Financial Report

For the Half Year Ended 31 December 2018

CONTENTS

DIRECTORS' REPORT

Your Directors submit the Interim Financial Report of European Lithium Limited (**European Lithium** or the **Company**) and its controlled entities (together the **Group**) for the half-year ended 31 December 2018. 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

Review of Operations

Corporate

Project Director Appointment

On 6 August 2018, the Company announced the appointment of Christian Heili as Project Director of the Company. Mr Heili is a highly experienced mining engineer with more than 30 years' experience in business, project management and wide-ranging operations including underground and beneficiation processes within the mining industry. Mr Heili has an M.Sc. (Eng) from Montan-University of Leoben, Austria, and an MBA from Henley Management College, UK. Mr Heili commenced his position as Project Director in November 2018.

Financing Facility

On 7 September 2018, the Company entered into a convertible note agreement with MEF I, L.P. (**Magna**) to fast-track the completion of a DFS at the Wolfsberg Lithium Project in Austria. As at 31 December 2018, the Company has drawn down A$2.5 million (**Tranche A**) from the A$10 million facility and a further A$7.5 million is available in tranches upon the Company meeting key milestones relating to the DFS process and standard conditions precedent.

Capital Raisings and Movements

On 7 September 2018, the Company issued 600,672 fully paid ordinary shares to Magna representing the Tranche A commitment fee of 4% of the investment amount payable in shares.

On 20 September 2018, the Company released 101,978,820 fully paid ordinary shares and 200,000,000 options with an exercise price of $0.10 exercisable on or before 30 June 2020 from ASX imposed escrow.

On 1 November 2018, the Company issued 1,550,824 fully paid ordinary shares to Magna following their election to convert some of the funds borrowed under the convertible loan agreement into fully paid ordinary shares of the Company.

On 6 December 2018, the Company issued 350,000 fully paid ordinary shares to the Company's Project Director Mr Christian Heili as a sign-on bonus pursuant to a contracting agreement.

On 11 December 2018, the Company issued 11,250,000 unlisted options to Directors as approved at the Company's 2018 AGM. The options are exercisable at $0.15 each on or before 31 May 2019 and were issued in consideration for the Company completing its Pre-Feasibility Study (**PFS**).

On 11 December 2018, the Company issued 2,500,000 unlisted options to Empire Capital as approved at the Company's 2018 AGM. The options are exercisable at $0.20 each on or before 11 December 2021 and were issued for services provided in establishing the Magna financing facility.

On 14 December 2018, the Company issued 1,695,515 fully paid ordinary shares to Magna following their election to convert some of the funds borrowed under the convertible loan agreement into fully paid ordinary shares of the Company.

NEX Listing

On 26 November 2018, the Company announced that it had been admitted to the NEX Exchange Growth Market (**NEX**). Trading on the NEX commenced on 26 November 2018.

Vienna Listing

On 10 September 2018, the Company announced that it is investigating listing on the Prime Market of the Vienna Stock Exchange (**VSE**). Brandl & Talos Rechtsanwälte GmbH, one of the leading law firms in Austria has been engaged to support the Company with the listing process, as well as Metrum Communications GmbH, a leading strategic communications consulting company in the fields of financial and corporate communications in Austria, on the communication side.

The Company will remain listed on the ASX for the foreseeable future. Any changes that the Board approves will be subject to all the required regulatory approvals in both countries, including shareholder approval.

Sale of Paynes Find Gold Project

The Company previously entered into a binding terms sheet with Cervantes Gold Pty Ltd, a wholly owned subsidiary of Cervantes Corporation Limited (ASX: CVS) (**CVS**) for the sale of its 100% owned Paynes Find Gold Project located in Western Australia (the **Transaction**).

Consideration for the Transaction consisted of $500,000 cash (of which $420,000 had been received as at 30 June 2018) and $500,000 share capital in CVS.

On 5 July 2018, the Company announced that it had agreed to settle the remaining cash consideration of $80,000 through the issue of 7,000,000 shares in CVS shares as well as the issue of one free attaching unquoted option for every two shares issued which are exercisable at 1.5 cents each on or before 30 June 2020.

Wolfsberg Lithium Project – Austria

Drilling

Mobilisation of equipment onto site has been completed for the drilling program to convert the Zone 1 10.98mt JORC resource into Measured and Indicated category. Applications for the drilling have been lodged with the relevant authorities and drilling collar locations and pads for the 31-drill hole programme totalling 11,330 metres have been surveyed by a licensed surveyor. Approval from the authorities is expected to be received in Q2 2019 following which drilling will commence immediately.

Definitive-Feasibility Study (DFS)

During the period, The Mineral Corporation (**TMC**) completed the definition of the scope of work for the DFS, based on the results of the PFS being published in April 2018.

The PFS had identified areas in geology, hydrogeology, mining, metallurgy, land access and environmental to be investigated for the DFS so that design changes during the DFS will be minimised.

As outlined above, a drilling program is underway to convert the 10.98mt JORC resource into Measured and Indicated category. The Zone 1 drilling programme to increase the Measured and Indicated Resource would allow the DFS to be undertaken at the envisaged higher mining rate of max. 800,000tpa.

During the period, TMC together with DRA Global (**DRA**) completed the scope of works for the DFS project engineering design and integration of third-party studies into the DFS. SRK Consulting (**SRK**) has also prepared the scope of work for the optimised mine design and increased declaration of mineral reserves, based on the PFS and current drilling program results when completed.

In December 2018, the Company awarded to Dorfner/Anzaplan the contract for complex metallurgical test work and pilot processing with work commenced immediately. The awarding of this contract is a key milestone in order to complete the DFS in a timely manner.

The Company has sent a 300t sample with 150 t each for Amphiboltite Hosted Pegmatite (**AHP**) and Micaschist Hosted Pegmatite (**MHP**) to Dorfner Anzaplan's German testing facilities to commence the detailed metallurgical process studies through the pilot plant. This testing is to ensure a high-quality final product (LithiumHydroxide) is produced using the most efficient and competitive metallurgical processes from the beginning of the production cycle.

Land Access

As previously announced, 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. On 5 December 2018 another arbitration hearing was held in Vienna to determine the further procedural steps of the proceeding. It is expected that a follow up and final arbitration hearing will be held in June 2019 with the outcome of these hearings to be awarded in October 2019.

Environmental

During the half-year Umweltbüro conducted and completed additional Biotope mapping and presented the final reports covering possible sensitive flora and fauna species. Also during the period, Umweltbüro completed a base line study for the road transport including the quality and impact along the different routes from the mine site to the expected logistical discharge points. Monitoring of water flows and quality from the mine continue.

Hydrogeology

The Company continues to monitor hydrogeological baseline activities as follows:

- Weekly: measuring the water level in surface and underground measuring sides including drill holes and creeks
- Monthly: measuring specific chemical and physical parameters (e.g., temperature, pH-value, conductivity, redox potential) at the surface and underground measuring sides
- Quarterly: taking samples from the mine and surface water measuring sides and sending them to Agrolab, an Austrian lab specialized in water analysis. Agrolab is analyzing the samples based on the criteria of the Austrian drinking water ordinance

Data from the above activities is fed into a water measuring database from which an annual report is produced.

Marketing

The marketing study undertaken by Benchmark Minerals Intelligence as part of the PFS projected that lithium hydroxide prices in Europe would continue to increase from the present level to a peak in 2022 and then decline to stabilise. Taking recent global lithium industry developments into account, the strategy for the Company remains unchanged and focuses on the supply of lithium hydroxide to the nascent lithium battery plants of Europe. The Company is in discussion with a number of these regarding future off-take contracts and good progress has already been made in the advanced discussions with potential off-take partners.

Horizon 2020

The Company's 100% owned subsidiary ECM Lithium AT GmbH (**ECM**) has been invited to participate in the European Union funded Horizon 2020 - GREENPEG programme. The Horizon 2020 - GREENPEG project aims to develop innovative exploration toolsets and proprietary technologies in order to secure the sustainable supply of lithium and other critical raw materials to Europe by increasing their resources and reducing the import dependency of these raw materials. ECM is currently preparing to submit the first of the two-stage submission process which will outline suggested and planned works.

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 2018.

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*.

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Antony Sage
Non-Executive Chairman
15 March 2019

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 2018, 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	**L Di Giallonardo**
15 March 2019	**Partner**

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HLB Mann Judd (WA Partnership) is a member of HLB International, the global advisory and accounting network.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE HALF YEAR ENDED 31 DECEMBER 2018

	Note	For the six months ended 31 December 2018 $	For the six months ended 31 December 2017 $
Continuing operations			
Revenue and other income	3	23,817	659,252
Employee benefits expense	4	(98,000)	(117,548)
Loss on fair value of financial assets through profit or loss	6	(81,000)	-
Depreciation and amortisation expense		(1,440)	(1,181)
Finance costs	4	(27,715)	(4,232)
Transaction costs relating to the issue of convertible note facility	7	(100,000)	-
Difference between transaction price of convertible note and fair value at initial recognition	7	(318,115)	-
Fair value loss on remeasurement of convertible note	7	(46,754)	-
Impairment of deferred exploration and evaluation expenditure	5	(330)	(29,333)
Consulting fees		(327,212)	(267,778)
Travel expenses		(251,250)	(121,866)
Regulatory and compliance costs	4	(584,492)	(126,030)
Share based payments	8	(435,258)	-
Other expenses	4	(21,589)	(169,241)
Loss before income tax		**(2,269,338)**	**(177,957)**
Income tax expense		-	-
Loss after tax from continuing operations		**(2,269,338)**	**(177,957)**
Other comprehensive income, net of income tax			
Items that may be reclassified to profit or loss			
Exchange differences on translation of foreign operations		529,387	569,662
Other comprehensive income for the period, net of income tax		**529,387**	**569,662**
Total comprehensive loss for the period		**(1,739,951)**	**391,705**
Loss per share for the period			
Basic loss per share (cents per share)	9	(0.41)	(0.04)
Diluted loss per share (cents per share)	9	(0.41)	(0.04)

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

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2018

	Note	31 December 2018 $	30 June 2018 $
ASSETS			
Current Assets			
Cash and cash equivalents		3,044,331	3,258,892
Trade and other receivables		483,154	599,840
Total Current Assets		**3,527,485**	**3,858,732**
Non-Current Assets			
Property, plant and equipment		6,270	4,880
Deferred exploration and evaluation expenditure	5	29,285,916	27,465,305
Restricted cash and other deposits		31,593	30,935
Financial assets	6	224,000	225,000
Total Non-Current Assets		**29,547,779**	**27,726,120**
TOTAL ASSETS		**33,075,264**	**31,584,852**
LIABILITIES			
Current Liabilities			
Trade and other payables		487,025	656,789
Convertible note	7	2,557,453	-
Total Current Liabilities		**3,044,478**	**656,789**
TOTAL LIABILITIES		**3,044,478**	**656,789**
NET ASSETS		**30,030,786**	**30,928,063**
EQUITY			
Issued capital	8	17,160,514	16,711,098
Reserves		6,947,690	6,025,045
Retained earnings		5,922,582	8,191,920
TOTAL EQUITY		**30,030,786**	**30,928,063**

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 2018

	Attributable to equity holders				
	Issued Capital	**Retained Earnings**	**Share Based Payments Reserve**	**Foreign Currency Translation Reserve**	**Total Equity**
	$	**$**	**$**	**$**	**$**
At 1 July 2017	8,771,321	8,941,718	4,210,106	424,547	22,347,692
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
Total comprehensive income/(loss) for the period	**-**	**(177,957)**	**-**	**569,662**	**391,705**
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 – cash	(806,032)	-	-	-	(806,032)
At 31 December 2017	**16,586,098**	**8,763,761**	**4,539,764**	**994,209**	**30,883,832**
At 1 July 2018	16,711,098	8,191,920	4,539,764	1,485,281	30,928,063
Loss for the period	-	(2,269,338)	-	-	(2,269,338)
Foreign currency exchange differences arising on translation from functional currency to presentation currency	-	-	-	529,387	529,387
Total comprehensive income/(loss) for the period	**-**	**(2,269,338)**	**-**	**529,387**	**(1,739,951)**
Shares issued to Magna (conversion)	307,416	-	-	-	307,416
Shares issued to Magna (commitment shares)	100,000	-	-	-	100,000
Shares issued to Project Director	42,000	-	-	-	42,000
Options issued to corporate advisor as share issue costs	-	-	151,570	-	151,570
Options issued to directors as share issue costs	-	-	241,688	-	241,688
At 31 December 2018	**17,160,514**	**5,922,582**	**4,933,022**	**2,014,668**	**30,030,786**

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 2018

	Note	31 December 2018 $	31 December 2017 $
Cash flows from operating activities			
Payments to suppliers and employees		(1,478,111)	(951,580)
Payments for exploration		(1,149,251)	(1,362,857)
Finance costs		(27,715)	(4,232)
Increase in restricted cash balances		-	222,184
Interest received		23,817	363
VAT Refund		(6,752)	233,138
Net cash used in operating activities		**(2,638,012)**	**(1,862,984)**
Cash flows from investing activities			
Proceeds from the sale of exploration tenements		-	150,000
Payment for property, plant and equipment		(2,716)	-
Net cash provided by/(used in) investing activities		**(2,716)**	**150,000**
Cash flows from financing activities			
Proceeds from capital raisings		-	8,377,309
Payment for share issue costs		-	(451,375)
Proceeds from convertible note facility		2,500,000	-
Transaction costs related convertible note facility	7	(75,000)	-
Net cash provided by financing activities		**2,425,000**	**7,925,934**
Net increase/(decrease) in cash and cash equivalents		(215,728)	6,212,950
Cash and cash equivalents at beginning of year		3,258,892	549,855
Effects on exchange rate fluctuations on cash held		1,167	4,871
Cash and cash equivalents at end of year		**3,044,331**	**6,767,676**

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 consolidated financial statements are general purpose 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 2018 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.

Going concern

The interim financial statements have been prepared on a going concern basis which contemplates the continuity of normal business activities and the realisation of assets and the settlement of liabilities in the ordinary course of business.

The Company incurred an operating loss for the period ended 31 December 2018 of $2,269,338 (31 December 2017: $177,957 loss), had cash and cash equivalents of $3,044,331 at 31 December 2018 (30 June 2018: $3,258,892), had a net working capital surplus of $483,007 at 31 December 2018 (30 June 2018: $3,201,943) and a net cash outflow from operating activities amounting to $2,638,012 (31 December 2017: $1,862,984).

The Group's ability to continue as a going concern and to continue to fund its planned expanded activities is dependent on raising further capital and/or drawing down on the convertible note facility and/or generating additional revenues from its operations and/or reducing or deferring exploration expenditure or operational costs.

The Directors believe the Group will continue as a going concern, after consideration of the following factors:

- The Group has recent successful experience in raising capital having raised cash of $7.1 million through share placements in the financial year ended 30 June 2018, and has the ability through its 15% placement facility to raise the required capital;
- The Group has successfully completed its pre-feasibility study and work is underway on the Definitive-Feasibility Study (**DFS**). The Company has established the Magna convertible loan note facility of A$10 million allowing access to funds for the purposes of the DFS. The Company has drawn down A$2.5 million of this facility prior to balance date with the balance of the facility available to be drawn down on the achievement of certain milestones. The Directors are confident that these milestones will be achieved thus enabling the funds from the facility to be released;
- The Group is able to defer certain exploration-related expenditures in order to retain a positive cash balance, without compromising the ability of the Group to draw down on the convertible note facility;
- The Group is able to realise its financial assets if required; and
- The Group is in discussions with a number of entities regarding future off-take contracts and is continuing efforts to secure key customers in key markets and is confident of generating additional sales revenue within the next 12 months.

Adoption of new and revised standards

Standards and Interpretations applicable to 31 December 2018
In the half-year ended 31 December 2018, 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 2018. As a result of this review, the Directors have applied all new and amended Standards and Interpretations that were effective as at 1 July 2018 including:

AASB 9 Financial Instruments (AASB 9)

The Group has adopted AASB 9 as issued in July 2014 with the date of initial application being 1 July 2018. In accordance with the transitional provisions in AASB 9, comparative figures have not been restated. AASB 9 replaces AASB 139 *Financial Instruments: Recognition and Measurement* (**AASB 139**), bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting. The accounting policies have been updated to reflect the application of AASB 9 for the period from 1 July 2018 (see note below for details of the new accounting policy for receivables).

Measurement and classification
Under AASB 9, debt instruments are subsequently measured at fair value through profit or loss (**FVPL**), amortised cost, or fair value through other comprehensive income (**FVOCI**). The classification is based on two criteria: the Group's business model for managing the assets; and whether the instruments' contractual cash flows represent 'solely payments of principal and interest' on the principal amount outstanding (the 'SPPI criterion'). The SPPI test is applied to the entire financial asset, even if it contains an embedded derivative. Consequently, a derivative embedded in a debt instrument is not accounted for separately.

At the date of initial application, existing financial assets and liabilities of the Group were assessed in terms of the requirements of AASB 9. The assessment was conducted on instruments that had not been recognised as at 1 July 2018. In this regard, the Group has determined that the adoption of AASB 9 has impacted the classification of financial instruments at 1 July 2018 as follows:

Class of financial instrument presented in the statement of financial position	Original measurement category under AASB139 (prior to 1 July 2018)	New measurement category under AASB 9 (from 1 July 2018)
Cash and cash equivalents	Loans and receivables	Financial assets at amortised cost
Trade and other receivables	Loans and receivables	Financial assets at amortised cost
Listed investments	Financial assets at Fair Value through profit or loss	Financial assets at Fair Value through profit or loss
Convertible note	Loans and payables	Financial liabilities at Fair Value through profit or loss
Trade and other payables	Financial liability at amortised cost	Financial liabilities at amortised cost

The Magna convertible note (see note 7) failed the SPPI test due to the contractual terms which give rise to equity risk. Accordingly, on adoption of AASB 9, the loan has been classified as a financial liability at FVPL.

The change in classification of financial instruments has not resulted in any re-measurement adjustments at 1 July 2018.

Impairment of financial assets
In relation to the financial assets carried at amortised cost, AASB 9 requires an expected credit loss model to be applied as opposed to an incurred credit loss model under AASB 139. The expected credit loss model requires the Group to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition of the financial asset. In particular, AASB 9 requires the Group to measure the loss allowance at an amount equal to lifetime expected credit loss (**ECL**) if the credit risk on the instrument has increased significantly since initial recognition. On the other hand, if the credit risk on the financial instrument has not increased significantly since initial recognition, the Group is required to measure the loss allowance for that financial instrument at an amount equal to the ECL within the next 12 months.

As at 1 July 2018, the directors of the Company reviewed and assessed the Group's existing financial assets for impairment using reasonable and supportable information. In accordance with AASB 9, where the directors concluded that it would require undue cost and effort to determine the credit risk of a financial asset on initial recognition, the Group recognises lifetime ECL. The result of the assessment is as follows:

Items existing as at 1 July 2018 that are subject to the impairment provisions of AASB 9	Credit risk attributes	Cumulative additional loss allowance recognised on 1 July 2018 ($)
Cash and cash equivalents and deposits	All bank balances are assessed to have low credit risk as they are held with a reputable financial institution with a Moody's Credit Rating of AA3 (stable).	-
Security Bond	The security is assessed to have low credit risk as it is held with a reputable institution.	-
Receivables at amortised cost	The Group applied the simplified approach and concluded that the lifetime ECL for these assets would be negligible and therefore no loss allowance was required at 1 July 2018.	-

Hedge accounting
The Group has not applied hedge accounting.

AASB 15 Revenue from Contracts with Customers (AASB 15)

The Group has adopted AASB 15 as issued in May 2014 with the date of initial application being 1 July 2018. In accordance with the transitional provisions in AASB 15 the standard has been applied using the full retrospective approach.

AASB 15 supersedes AASB 18 Revenue, AASB 111 Construction Contracts and related Interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard establishes a five-step model to account for revenue arising from contracts with customers. Under AASB 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

At 1 July 2017 and at 1 July 2018 it was determined that the adoption of AASB 15 had no impact on the Group.

Standards and Interpretations in issue not yet adopted applicable to 31 December 2018
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 2019. 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.

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 with the exception of the following:

Trade and other receivables (new policy applied from 1 July 2018 due to adoption of AASB 9)

Trade receivables are initially recognised at their transaction price and other receivables at fair value. Receivables that are held to collect contractual cash flows and are expected to give rise to cash flows representing solely payments of principal and interest are classified and subsequently measured at amortised cost. Receivables that do not meet the criteria for amortised cost are measured at fair value through profit or loss.

The Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument. The Group always recognises the lifetime expected credit loss for trade receivables carried at amortised cost. The expected credit losses on these financial assets are estimated based on the Group's historic credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as forecast conditions at the reporting date.

For all other receivables measured at amortised cost, the Group recognises lifetime expected credit losses when there has been a significant increase in credit risk since initial recognition. If the credit risk on the financial instrument has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to expected credit losses within the next 12 months.

The Group considers an event of default has occurred when a financial asset is more than 120 days past due or external sources indicate that the debtor is unlikely to pay its creditors, including the Group. A financial asset is credit impaired when there is evidence that the counterparty is in significant financial difficulty or a breach of contract, such as a default or past due event has occurred. The Group writes off a financial asset when there is information indicating the counterparty is in severe financial difficulty and there is no realistic prospect of recovery.

Convertible notes

Convertible notes that do not contain an equity component are accounted for as a financial liability through profit or loss with a value equating to the total proceed/face value with no day one gain or loss and subsequently value will change depending on the changes in the share price/ redemption event and or accretion of the value of the discount on the note. If the convertible note is converted, the carrying amounts of the derivative and liability components are transferred to share capital as consideration for the shares issued. If the note is redeemed, any difference between the amount paid and the carrying amounts of both components is recognised in the statement of profit or loss.

Significant accounting judgments and key estimates

The preparation of the 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 2018.

2. 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 2018, and as disclosed in the 2018 Annual Report this consisted of mineral exploration in Australia and Austria. For the current period, this consists of mineral exploration in Australia and Austria. For management purposes, the Company is still organised into one main operating segment which now involves the exploration of minerals in Australia and Austria. All 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.

3. REVENUE AND OTHER INCOME FROM CONTINUING OPERATIONS

	Six months ended 31 December 2018 $	Six months ended 31 December 2017 $
Interest revenue	23,817	363
Proceeds from the sale of Paynes Find Gold Project	-	655,000
Other income	-	3,889
	23,817	659,252

4. EXPENSES FROM CONTINUING OPERATIONS

	Six months ended 31 December 2018 $	Six months ended 31 December 2017 $
Employee benefits expenses		
Directors' remuneration & consulting	98,000	117,548
	98,000	117,548
Finance expenses		
Bank fees	4,707	4,232
Financing legal expenses	23,008	-
	27,715	4,232
Regulatory and compliance costs		
ASX listing fees	74,795	97,697
NEX listing expenses	123,801	-
Vienna listing expenses	72,563	-
Legal expenses	259,551	-
Other regulatory and compliance expenses	53,782	28,333
	584,492	126,030
Other expenses		
Other administrative expenses	21,589	169,241
	21,589	169,241

5. DEFERRED EXPLORATION AND EVALUATION EXPENDITURE

	Six months to 31 December 2018 $	Year to 30 June 2018 $
Balance at beginning of period	27,465,305	21,532,875
Expenditure incurred	1,012,198	4,557,838
Foreign exchange movement	808,743	1,408,264
Impairment	(330)	(33,672)
Balance at end of period	29,285,916	27,465,305

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. FINANCIAL ASSETS

	Six months to 31 December 2018 $	Year to 30 June 2018 $
Balance at beginning of period	225,000	-
Acquisition of equity securities (listed) (i)	80,000	225,000
Gain/(loss) in fair value from revaluation	(81,000)	-
Balance at end of period	224,000	225,000

(i) The Company previously entered into a binding terms sheet with Cervantes Gold Pty Ltd, a wholly owned subsidiary of Cervantes Corporation Limited (ASX: CVS) (**CVS**) for the sale of its 100% owned Paynes Find Gold Project located in Western Australia. On 5 July 2018, the Company announced that it had agreed to settle the remaining cash consideration of $80,000 through the issue of 7,000,000 shares in CVS shares as well as the issue of one free attaching unquoted option for every two shares issued which are exercisable at 1.5 cents each on or before 30 June 2020. No value was attributed to the free attaching options.

7. CONVERTIBLE NOTE

	Six months to 31 December 2018 $	Year to 30 June 2018 $
Balance at beginning of period	-	-
Funds borrowed under convertible loan agreement	2,500,000	-
Difference between transaction price of convertible note and fair value at initial recognition	318,115	-
Fair value loss on remeasurement of convertible note	46,754	-
Amounts repaid through issue of shares	(307,416)	-
Balance at end of period	2,557,453	-

On 7 September 2018, the Company entered into a Convertible Note Agreement with MEF I, L.P. (**Magna**) through the issue of 1,840,500 convertible notes. As at 31 December 2018, the Company has drawn down A$2.5 million (**Tranche A**) from the A$10 million facility and a further A$7.5 million is available in 3 tranches upon the Company meeting key milestones relating to the DFS process and standard conditions precedent. Magna will receive a commitment fee of 4% of the investment amount at the funding of each tranche payable in shares, and in relation to the A$2.5 million drawn down during the period, 600,672 ordinary shares were issued valued at A$100,000.

The face value of each convertible note is US$1.10 and are non-interest bearing. The notes are convertible to a variable number of ordinary shares at the option of the holder of the notes any time after issue. If not converted the notes mature and are repayable twelve (12) months after the issue date. The conversion price for each convertible note is the lower of $0.30 or a 15% discount from the lowest VWAP over ten (10) days prior to the conversion date, provided that the conversion price shall not in any case be lower than $0.08 (floor price).

At the time of issuance, the difference between the fair value of the convertible notes of $2,818,115 and the proceeds received of A$2,500,000 being $318,115 was recorded in the statement of comprehensive income.

On 1 November 2018 and 14 December 2018, Magna exercised its option to convert some of the funds borrowed under the convertible loan agreement into fully paid ordinary shares of the Company.

At reporting date, the fair value of the convertible notes (following conversion of 100,000 notes on 1 November 2018 and 100,000 notes on 14 December 2018) was $2,557,453 with the difference of $46,754 recorded in the statement of comprehensive income.

As at 31 December 2018, Magna had converted 200,000 convertible notes to shares, with 1,640,500 convertible notes remaining.

8. ISSUED CAPITAL

a) Ordinary shares

	Six months to 31 December 2018		Year to 30 June 2018	
	No of Shares	$	No of Shares	$
Balance at beginning of financial year	545,724,526	16,711,098	457,415,010	8,771,321
Shares issued:				
Issue of shares – Placement – Cash	-	-	64,872,221	7,132,500
Issue of shares – Placement – Settlement of Creditors	-	-	3,330,000	166,500
Issue of shares – Cleansing Prospectus	-	-	20,000	1,000
Issue of shares – Directors in lieu of fees (as resolved at 2017 AGM)	-	-	1,711,111	77,000
Issue of shares – Conversion of Options	-	-	18,376,184	1,368,809
Capital raising costs – shares and options issued to corporate advisor		-	-	(329,658)
Capital raising costs – cash	-	-	-	(476,374)
Shares issued to Magna (conversion)	3,246,339	307,416	-	-
Shares issued to Magna (commitment shares)	600,672	100,000	-	-
Shares issued to Project Director	350,000	42,000	-	-
Balance at end of period	549,921,537	17,160,514	545,724,526	16,711,098

b) Options

On 11 December 2018, the Company issued 11,250,000 unlisted options to Directors as approved at the Company's 2018 AGM. The options are exercisable at $0.15 each on or before 31 May 2019 and were issued in consideration for the Company completing its Pre-Feasibility Study (**PFS**).

On 11 December 2018, the Company issued 2,500,000 unlisted options to Empire Capital as approved at the Company's 2018 AGM. The options are exercisable at $0.20 each on or before 11 December 2021 and were issued for services provided in establishing the Magna financing facility.

At 31 December 2018, 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	2,000,000
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
31/05/2019	Unlisted	15.0 cents	11,250,000
11/12/2021	Unlisted	20.0 cents	2,500,000
			226,850,000

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 Directors	11,250,000	28 November 2018	31 May 2019	$0.15	$0.0215	28 November 2018
Options issued to corporate advisor	2,500,000	28 November 2018	11 December 2021	$0.20	$0.0606	28 November 2018

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.

	Assumption	
Number options issued	11,250,000	2,500,000
Dividend yield	0.00%	0.00%
Expected volatility	114%	114%
Risk-free interest rate	2.04%	2.04%
Expected life of options	0.50 years	3.0 years
Exercise price	$0.15	$0.20
Grant date share price	$0.105	$0.105

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.

d) Share based payments expense

	Six months to 31 December 2018 $	**Six months to 31 December 2017 $**
Shares issued to Project Director	42,000	-
Options issued to Directors	241,688	-
Options issued to corporate advisor	151,570	-
Balance at end of period	435,258	-

9. BASIC AND DILUTED LOSS PER SHARE

	Six months ended 31 December 2018 $	**Six months ended 31 December 2017 $**
Loss used in the calculation of basic and dilutive loss per share	(**2,269,338**)	(177,957)

	Six months to 31 December 2018 Cents per share	**Six months to 31 December 2017 Cents per share**
Earnings per share:		
Basic loss per share (cents per share)	(0.41)	(0.04)
Diluted loss per share (cents per share)	(0.41)	(0.04)

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 basic loss per share.

	Six months to 31 December 2018 Number	**Six months to 31 December 2017 Number**
Weighted average number of shares:	546,832,665	482,148,394

10. RELATED PARTY TRANSACTIONS

On 11 December 2018, the Company issued unlisted options to Directors Tony Sage (2,500,000), Malcolm Day (2,500,000) and Stefan Muller (6,250,000) as approved at the Company's 2018 AGM. The options are exercisable at $0.15 each on or before 31 May 2019 and were issued in consideration for the Company completing its Pre-Feasibility Study (**PFS**).

On 31 December 2018, the Company entered into a sub-lease agreement with Okewood Pty Ltd, a company owned by Tony Sage, for the lease of 32 Harrogate Street, West Leederville, WA, 6007 (**Lease Agreement**). The term of the Lease Agreement is 1 January 2019 to 30 September 2019 at a rent of $2,400 per month with outgoings and parking charged separately at market rates.

As at 31 December 2018, there is an amount of $1,041 included in trade and other receivables which is a receivable from Tony Sage.

11. CONTINGENT LIABILITIES

There have been no changes in contingent liabilities since the last annual reporting date.

12. COMMITMENTS

There have been no changes in commitments since the last annual reporting date.

13. EVENTS SUBSEQUENT TO REPORTING DATE

In December 2018, the Company awarded to Dorfner/Anzaplan the contract for complex metallurgical test work and pilot processing with work commenced immediately. The contract with Dorfner was executed on 8 January 2019 for a combined value of €1.498m.

On 6 March 2019 and 13 March 2019, the Company issued 1,938,531 shares and 2,000,000 shares respectively upon Magna exercising its option to convert some of the funds borrowed under the convertible loan agreement into fully paid ordinary shares of the Company. As the date of issuing this report, Magna had 1,438,042 convertible notes remaining.

On 15 March 2019, the Company provided a market update on its Wolfsberg project. The update confirmed that the Company is part of a syndicate applying for funds under a €1,000,000,000 grants programme launched by the German Federal Ministry of Economy (BMWi) to ramp up battery production in Germany. The announcement also included an update on the Company's offtake agreement discussions, the pilot plant and metallurgical testwork currently being undertaken by Dorfner Anzaplan as well as confirming that the Company is in discussions with several European banks to secure project financing.

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.

14. FINANCIAL INSTRUMENTS

Set out below is an overview of financial instruments, other than cash and short-term deposits, held by the Group as at 31 December 2018:

		Fair value	
	At amortised cost	**Through profit or loss**	**Through other comprehensive income**
	$	**$**	**$**
Financial assets			
Trade and other receivables	483,154	-	-
Total current	483,154	-	-
Financial assets	-	224,000	-
Total non-current	-	224,000	-
Total assets	483,154	224,000	-
Financial liabilities			
Trade and other payables	487,025	-	-
Convertible note	-	2,557,453	-
Total current	487,025	2,557,453	-
Total liabilities	487,025	2,557,453	-

Set out below is a comparison of the carrying amount and fair values of financial instruments as at 31 December 2018:

	Carrying amount $	Fair value $
Financial assets		
Trade and other receivables	483,154	483,154
Total current	483,154	483,154
Financial assets	224,000	224,000
Total non-current	224,000	224,000
Total assets	707,154	707,154
Financial liabilities		
Trade and other payables	487,025	487,025
Convertible note	2,557,453	2,557,453
Total current	3,044,478	3,044,478
Total liabilities	3,044,478	3,044,478

The Directors consider that the carrying amounts of current receivables, current payables and current borrowings are a reasonable approximation of their fair values. The Group's convertible note liability falls into Level 2 of the fair value hierarchy, in that the measurement of the valuation of the liability includes inputs other than quoted prices.

DIRECTORS' DECLARATION

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

1. The attached 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 2018 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

15 March 2019

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 2018, 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 Group 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 Group's financial position as at 31 December 2018 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 Group's financial position as at 31 December 2018 and its performance for the half-year ended on that date; and complying with Accounting 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.

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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

HLB Mann Judd
Chartered Accountants

L Di Giallonardo
Partner

Perth, Western Australia
15 March 2019