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**ABN 45 141 450 624**

**Interim Financial Report  
31 December 2016**

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## DIRECTORS' REPORT

Your Directors submit the Interim Financial Report of the Group, comprising European Lithium Limited (formerly Paynes Find Gold Limited) and its subsidiaries, for the half-year ended 31 December 2016. 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 (Appointed 9 September 2016)
Paul Lloyd	Non-Executive Director (Resigned as Non-Executive Chairman 9 September 2016, appointed Non-Executive Director 9 September 2016)
Malcolm Day	Non-Executive Director
David Holden	Non-Executive Director (Resigned 9 September 2016)

### Review of Operations

#### Corporate

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.

Accordingly, the consolidated financial statements have been prepared as a continuation of the business and operations of European Lithium AT (Investments) Ltd, as the deemed acquirer, and has accounted for the acquisition of European Lithium Limited (formerly Paynes Find Gold Limited) from 9 September 2016. The comparative information for the Consolidated Entity presented in the financial statements is that of European Lithium AT (Investments) Ltd. Refer to Note 8 for further details of the business combination.

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

On 9 September 2016, all conditions precedent to the acquisition of 100% of the issued capital of European Lithium AT (Investments) Ltd (Company number 1629395) (the Acquisition or Transaction) were satisfied and the Company completed the Acquisition.

In accordance with the binding Term Sheet, the Company issued 187,500,000 fully paid ordinary shares (Shares) pro-rata to the shareholders of European Lithium Limited (Company number 1629378) (ELL Shareholders) by way of part consideration for the Acquisition (Tranche 1 Consideration Shares). Of these Shares 129,304,772 Shares are escrowed until 20 September 2017 and 53,046,615 are escrowed until 20 September 2018.

On 9 September 2016, the Company completed a capital raising, with \$6.232m received before associated costs. The funds will be utilised to further develop the Wolfsberg Lithium Project, previously incurred project expenditure, transaction related costs and general working capital. 77,902,500 Shares were issued in respect of the capital raising, with a further 23,437,500 Shares issued to the Company's Corporate Advisor. The Shares issued to the Corporate Advisor are escrowed until 20 September 2018.

Following the upgraded resource announcement in November 2016, and in line with the terms of the sale, the Company issued a further 62,500,000 Shares pro-rata to the ELL Shareholders on 23 December 2016 (Tranche 2 Consideration Shares). Of these Shares 43,101,591 Shares are escrowed till 20 September 2017 and 17,682,205 are escrowed till 20 September 2018. A further 7,812,500 Shares were issued to the Company's Corporate Advisor (or nominees) in respect of fees payable upon issue of the Tranche 2 Consideration Shares. The Shares issued to the Corporate Advisor are escrowed until 20 September 2018.

On 9 September 2016, Mr David Holden resigned as Non-Executive Director and Mr Antony Sage was appointed Non-Executive Chairman. On the same date, Mr Steve Kesler was appointed as Chief Executive Officer (CEO). On 19 September 2016, Mr Paul Lloyd resigned as Company Secretary/Chief Financial Officer and Ms Amy Fink was appointed.

On 20 September 2016, the Company changed its name from Paynes Find Gold Limited to European Lithium Limited and was readmitted to quotation on the ASX with its shares now trading under the ASX ticker code "EUR".

On 21 October 2016, the Company dual listed on the Frankfurt Stock Exchange to increase exposure to European investors. European investors can trade the Company's ordinary shares in Euros in their own time zone under the stock ticker "PF8" (ISIN: AU000000EUR7).

## **Wolfsberg Lithium Project – Austria**

### **Exploration**

The previously declared measured, indicated and inferred resource for the Wolfsberg Lithium Project was not compliant to JORC Code (2012) because the original drill core from the 1980's work of Minerex no longer existed and primary data was not available to the Competent Person for the re-listing prospectus. The previous JORC measured resource of 3.7 million tonnes at 1.5% Li<sub>2</sub>O at a cut-off of 0.75% Li<sub>2</sub>O was reclassified as 'inferred' whilst the other categories were considered to be exploration targets.

The Company discovered that the original primary data had been archived with the Mining Authority in Vienna. This was recovered and catalogued for use in a primary resource model. Before the data could be used it was necessary to verify its accuracy. A data verification exercise was undertaken which comprised drilling 7 twin holes from underground totalling 828m designed to intersect numerous pegmatite veins and taking channel samples along tunnels following 3 exposed pegmatite veins to as far as possible replicate channel sampling carried out by Minerex when the tunnels were driven. The drilling and channel sampling commenced mid-July and was completed on 1 September 2016. The data obtained for positions of pegmatite intersections, intersection widths and Li<sub>2</sub>O grades were compared to that obtained by Minerex. A thorough analysis showed that there was no statistical difference between the two sets of data and the independent qualified person supported the use of all Minerex data in a new JORC Code (2012) compliant resource model. The results of the verification report were comprehensively reported in a release to the ASX on 16 November 2016.

The resource was re-modelled using the primary Minerex data and a JORC Code (2012) compliant measured and indicated resource of 6.3 million tonnes at 1.17% Li<sub>2</sub>O was declared in a release to the ASX on 21 November 2016. This resource was a 75% increase in tonnes and a 33% increase in contained lithium compared to the inferred resource reported in the relisting prospectus.

A surface drilling programme was planned to start in October 2016 to drill 4 deep holes to confirm the extension of the pegmatite veins to depth. The declared resource is on the northern side of an anticline (Zone 1). Earlier surface mapping and limited drilling proved that the pegmatite veins continued onto the southern limb of the anticline. A 9 hole drilling programme and trenching were also planned in this area. Although no trees were to be cut down work could not start until a forest clearance permit was received on 9 December 2016. One drill hole of 150m was completed in Zone 2 before the Christmas/New Year shutdown. This hole was the furthest along strike from the hinge of the anticline and did not intersect pegmatites. The drilling programme recommenced in January 2017.

### **Land Access**

There is a dispute between the landowner and the Company regarding the 2011 waiver agreement whereby Glock Gut und Forstverwaltung GmbH waived any right to object to the development of an underground mine on its property. Both parties have agreed to arbitration and the hearing is scheduled for 14 February 2017.

A temporary settlement agreement (effective 9 November 2016) was reached with the landowner whereby access for drilling was allowed until 30 June 2017 with the Company continuing to make compensation payments of €2,000/month for use of forest roads and providing a bank guarantee for €150,000 in respect of any unrepaired damage to property.

The dispute will not affect the Company's access to the property and the planned drilling program will be completed before 30 June 2017.

In addition, as the mining license holder, the Company has met and will continue to meet all mining license conditions, and as a result, the Company will continue to hold valid mining rights which prevail over landowner rights.

### **Metallurgy**

Dorfner Anzoplan were engaged to carry out the metallurgical optimisation testwork. The initial programme investigated the applicability of sensor based sorting to reject waste dilution from the ore feed to the concentrator. This was carried out at the TOMRA sorting facility in Hamburg, Germany using the bulk samples of amphibolite hosted pegmatite (AHP) and mica schist hosted pegmatite (MHP) mined in 2013. This work demonstrated that laser sorting was effective and virtually all waste could be rejected from the size fractions suitable for sorting (-70 + 8mm).

The AHP is coarsely crystallised and testwork into the applicability of dense media separation (DMS) to recover an early spodumene concentrate was carried out at Metsolve, Vancouver, Canada. This showed that a relatively high grade spodumene concentrate (5.2% Li<sub>2</sub>O) could be obtained but the concentrate also included some amphibolite arising from the -8mm material that was not sorted. Testwork to remove the amphibolite by magnetic separation is in progress.

Dorfner Anzoplan will undertake flotation and magnetic separation testing of the AHP DMS tailings and MHP to obtain a

spodumene concentrate for sale. In addition, they will undertake studies to convert spodumene concentrate to lithium carbonate and lithium hydroxide.

### **Mining**

SRK Consulting commenced work in December 2016 on the mine design studies for the pre-feasibility study (PFS). An initial Phase 1 programme to be completed by mid-February 2017 will address mine planning, geotechnical analysis, stope optimisation, production rate analysis, mine production scheduling and high level capital and operating costs. Following the results of this study a 3 month programme to undertake mine design and scheduling to PFS level will be carried out.

### **Environmental and Permitting**

Environmental base line studies have commenced with characterisation of habitats. Further work can only continue in the spring. The permitting regime applicable to the project has been reviewed by legal consultants. Depending on the disturbed area the project may either fall within the responsibility of the Carinthian Government or the Mining Authority (Federal). A screening to determine the applicable regime will be carried out when the project footprint is better established.

### **Marketing**

A marketing study to initially assess the market in Europe for spodumene concentrate has been undertaken. Certain glass-ceramic producers are keen to establish a European source and they will be provided samples of the DMS spodumene concentrate to test for suitability.

### **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.

On 22 December 2016 a Binding Terms Sheet (Terms Sheet) 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 cash and share capital in CVS as follows:

- a) \$500,000 to be satisfied through the issue of 25,000,000 shares in CVS, at a deemed issue price of 2 cents each, on completion of the Transaction.
- b) \$500,000 in cash, paid in the following instalments:
  - \$5,000 on signing of the Terms Sheet (non-refundable)
  - \$20,000 on completion of the due diligence process by the Purchaser
  - \$25,000 on signing of a formal agreement
  - \$100,000 on completion of the Transaction
  - \$150,000 on the later of CVS completing a \$1 million capital raising, or completion of the Transaction
  - \$200,000 on the later of 60 days following the Purchaser completing the \$1 million capital raising, or completion of the Transaction.

Completion of the Transaction is dependent on the Purchaser completing due diligence, receipt of all necessary shareholder, regulatory and third party approvals by the Company, the Purchaser and CVS, and a formal agreement being entered into.

### **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 4 and forms part of this Directors' report for the half-year ended 31 December 2016.

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**

**14 February 2017**

**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 2016, 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  
14 February 2017

**L Di Giallonardo**  
Partner

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**CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER  
COMPREHENSIVE INCOME  
FOR THE HALF-YEAR ENDED 31 DECEMBER 2016**

	Notes	31 December 2016 \$	31 December 2015 \$
<b>Continuing operations</b>			
Revenue and other income	2a	723,671	110
Employee benefits expense	2b	(133,768)	-
Depreciation and amortisation expense		-	(3,531)
Finance costs	2c	(5,423)	(1,418)
Impairment of deferred exploration and evaluation expenditure	5	(70,782)	-
Consulting fees		(187,021)	(5,279)
Travel expenses		(126,488)	-
Regulatory and compliance costs		(127,017)	(23,551)
Transaction cost relating to the reverse acquisition by the accounting acquirer, European Lithium AT (Investments) Ltd, of European Lithium Limited	8	(4,925,229)	-
Other expenses	2d	(2,085,845)	(39,583)
<b>(Loss) / profit before income tax</b>	2	<b>(6,937,902)</b>	<b>(73,252)</b>
Income tax expense		(5,996)	-
<b>(Loss) / profit after tax from continuing operations</b>		<b>(6,943,898)</b>	<b>(73,252)</b>
<b>Other comprehensive income, net of income tax</b>			
<i>Items that may be reclassified to profit or loss</i>			
Exchange differences on translation of foreign operations		664,287	(64,299)
<b>Other comprehensive income/(loss) for the period, net of income tax</b>		<b>664,287</b>	<b>(64,299)</b>
<b>Total comprehensive loss for the period</b>		<b>(6,279,611)</b>	<b>(137,551)</b>
Basic loss per share (cents per share)	9	(1.94)	(0.03)
Diluted loss per share (cents per share)	9	(1.94)	(0.03)

The accompanying notes form part of these financial statements

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
AS AT 31 DECEMBER 2016**

	Notes	31 December 2016 \$	30 June 2016 \$
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents		2,418,680	344,286
Trade and other receivables		237,084	81,938
<b>Total current assets</b>		<b>2,655,764</b>	<b>426,224</b>
<b>Non-current assets</b>			
Deferred exploration and evaluation expenditure	5	19,519,629	17,072,463
Restricted cash and other deposits		455,265	29,504
<b>Total non-current assets</b>		<b>19,974,894</b>	<b>17,101,967</b>
<b>Total assets</b>		<b>22,630,658</b>	<b>17,528,191</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables		496,611	337,837
Borrowings	2a	-	671,400
<b>Total current liabilities</b>		<b>496,611</b>	<b>1,009,237</b>
<b>Total liabilities</b>		<b>496,611</b>	<b>1,009,237</b>
<b>Net assets</b>		<b>22,134,047</b>	<b>16,518,954</b>
<b>Equity</b>			
Issued capital	6	7,731,432	46,834
Reserves		4,396,432	(477,961)
Retained earnings		10,006,183	16,950,081
<b>Total equity</b>		<b>22,134,047</b>	<b>16,518,954</b>

The accompanying notes form part of these financial statements



**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
FOR THE HALF-YEAR ENDED 31 DECEMBER 2016**

	Notes	Issued capital \$	Share- based payment reserve \$	Retained earnings \$	Foreign currency translation reserve \$	Total equity \$
<b>Balance at 1 July 2015</b>		<b>46,834</b>	-	<b>(2,160,570)</b>	<b>3,667</b>	<b>(2,110,069)</b>
Loss for the period		-	-	(73,252)	-	(73,252)
Other comprehensive income for the period, net of income tax:						
Foreign currency exchange differences arising on translation from functional currency to presentation currency		-	-	-	(64,299)	(64,299)
<b>Total comprehensive loss for the period</b>		-	-	<b>(73,252)</b>	<b>(64,299)</b>	<b>(137,551)</b>
<b>Balance at 31 December 2015</b>		<b>46,834</b>	-	<b>(2,233,822)</b>	<b>(60,632)</b>	<b>(2,247,620)</b>
<b>Balance at 1 July 2016</b>		<b>46,834</b>	-	<b>16,950,081</b>	<b>(477,961)</b>	<b>16,518,954</b>
Loss for the period		-	-	(6,943,898)	-	(6,943,898)
Other comprehensive income for the period, net of income tax						
Foreign currency exchange differences arising on translation from functional currency to presentation currency		-	-	-	664,287	664,287
<b>Total comprehensive loss for the period</b>		-	-	<b>(6,943,898)</b>	<b>664,287</b>	<b>(6,279,611)</b>
Shares issued pursuant to prospectus	6	6,232,200	-	-	-	6,232,200
Shares and options issued to corporate advisor as share issue costs	6	2,500,000	4,210,106	-	-	6,710,106
Share issue costs – shares and options issued to corporate advisor	6,7	(6,710,106)	-	-	-	(6,710,106)
Shares issued to historic creditors	6	95,257	-	-	-	95,257
Share issue costs - cash	6	(276,333)	-	-	-	(276,333)
Deemed consideration of reverse acquisition	6	5,843,580	-	-	-	5,843,580
<b>Balance at 31 December 2016</b>		<b>7,731,432</b>	<b>4,210,106</b>	<b>10,006,183</b>	<b>186,326</b>	<b>22,134,047</b>

The accompanying notes form part of these financial statements

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS  
FOR THE HALF-YEAR ENDED 31 DECEMBER 2016**

	<b>31 December 2016</b>	31 December 2015
	<b>\$</b>	<b>\$</b>
<b>Cash flows from operating activities</b>		
Payments to suppliers and employees	<b>(1,914,138)</b>	(5,500)
Interest received	<b>7,256</b>	110
VAT refunds (paid) / received	<b>(84,683)</b>	54,964
Finance costs	<b>(5,423)</b>	(1,418)
Increase in bank guarantees and restricted deposits	<b>(425,761)</b>	-
<b>Net cash (outflow)/inflow from operating activities</b>	<b>(2,422,749)</b>	48,156
<b>Cash flows from investing activities</b>		
Proceeds from sale of property, plant and equipment	<b>12,375</b>	-
Proceeds from sale of exploration and evaluation expenditure (non-refundable deposit received)	<b>5,000</b>	-
Payments for deferred exploration and evaluation expenditure	<b>(1,812,380)</b>	-
Cash acquired on acquisition of accounting subsidiary	<b>343,642</b>	-
<b>Net cash (outflow)/inflow from investing activities</b>	<b>(1,451,363)</b>	-
<b>Cash flows from financing activities</b>		
Proceeds from the issue of shares	<b>6,232,200</b>	-
Payments for share issue costs	<b>(276,333)</b>	-
Repayment of loans	<b>-</b>	(38,314)
<b>Net cash (outflow)/inflow from financing activities</b>	<b>5,955,867</b>	(38,314)
Net increase/(decrease) in cash held	<b>2,081,755</b>	9,842
Cash and cash equivalents at the beginning of the period	<b>344,286</b>	3,396
Effects of exchange rate fluctuations on cash held	<b>(7,361)</b>	-
<b>Cash and cash equivalents at the end of the period</b>	<b>2,418,680</b>	13,238

The accompanying notes form part of these financial statements

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2016

### NOTE 1: STATEMENT 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 2016 (prepared for Paynes Find Gold Limited, now called European Lithium Limited) 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 2016***

In the half-year ended 31 December 2016, 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 2016.

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 applicable to 31 December 2016***

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 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 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 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 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

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2016

### NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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 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 2016.

### NOTE 2: PROFIT BEFORE INCOME TAX EXPENSE

	31 December 2016	31 December 2015
	\$	\$
<b>a) REVENUE AND OTHER INCOME</b>		
Interest income	7,256	110
Forgiveness of related party loans <sup>(i)</sup>	677,482	-
Realised foreign exchange	21,558	-
Non-Refundable deposit received for sale of Paynes Find Gold Asset	5,000	-
Profit on sale of motor vehicle	12,375	-
	<b>723,671</b>	<b>110</b>
(i) A loan payable by European Lithium AT (Investments) Ltd to European Lithium Ltd, BVI of €450,000 (A\$677,482) was forgiven during the current period. The balance of this loan as at 30 June 2016 was €450,000 (A\$671,400).		
<b>b) EMPLOYEE BENEFITS EXPENSE</b>		
Employee costs	56,435	-
Director fees	77,333	-
	<b>133,768</b>	<b>-</b>
<b>c) FINANCE COSTS</b>		
Bank fees	5,423	1,418
	<b>5,423</b>	<b>1,418</b>
<b>d) OTHER EXPENSES</b>		
Assignment of historic project costs to European Lithium AT (Investments) Ltd <sup>(i)</sup>	1,131,203	-
Pre-acquisition advances <sup>(ii)</sup>	750,000	-
Other administrative expenses	204,642	39,583
	<b>2,085,845</b>	<b>39,583</b>

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2016

### NOTE 2: PROFIT BEFORE INCOME TAX EXPENSE (CONTINUED)

- (i) 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 31 December 2016, the balance of historic creditors has been reduced to \$1,131,203, the majority of which has been paid prior to balance date.
- (ii) As per the terms of the acquisition, advances of \$200,000 and \$550,000 were made by the Company, pre-acquisition.

### NOTE 3: 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 2016, and as disclosed in the 2016 Annual Report this consisted of mineral exploration only in Australia. 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.

### NOTE 4: SALE OF PAYNES FIND GOLD PROJECT

On 22 December 2016 a Binding Terms Sheet (Terms Sheet) was signed 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 cash and share capital in CVS as follows:

- a) \$500,000 to be satisfied through the issue of 25,000,000 shares in CVS, at a deemed issue price of 2 cents each, on completion of the Transaction.
- b) \$500,000 in cash, paid in the following instalments:
- \$5,000 on signing of the Terms Sheet (non-refundable)
  - \$20,000 on completion of the due diligence process by the Purchaser
  - \$25,000 on signing of a formal agreement
  - \$100,000 on completion of the Transaction
  - \$150,000 on the later of CVS completing a \$1 million capital raising, or completion of the Transaction
  - \$200,000 on the later of 60 days following the Purchaser completing the \$1 million capital raising, or completion of the Transaction.

Completion of the Transaction is dependent on the Purchaser completing due diligence, receipt of all necessary shareholder, regulatory and third party approvals by the Company, the Purchaser and CVS, and a formal agreement being entered into.

As at 31 December 2016, the Company has a carrying value of nil for the Paynes Find Gold Project.

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE HALF-YEAR ENDED 31 DECEMBER 2016**

**NOTE 5: DEFERRED EXPLORATION AND EVALUATION EXPENDITURE**

	<b>Six months 31 December 2016</b>	Year to 30 June 2016
	<b>\$</b>	<b>\$</b>
Costs carried forward in respect of areas of interest:		
<i>Exploration and evaluation phase – at cost</i>		
Balance at beginning of period	<b>17,072,463</b>	17,070,538
Expenditure incurred	<b>1,812,380</b>	493,544
Foreign exchange movement	<b>660,040</b>	(491,619)
	<b>19,544,883</b>	17,072,463
Impairment	<b>(25,254)</b>	-
	<b>19,519,629</b>	17,072,463

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.

**NOTE 6: ISSUED CAPITAL**

	<b>31 December 2016</b>	30 June 2016
	<b>\$</b>	<b>\$</b>
433,784,864 Ordinary shares issued and fully paid (30 June 2016: 100 shares)	<b>7,731,432</b>	46,834

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2016

### NOTE 6: ISSUED CAPITAL (CONTINUED)

	Six months to 31 December 2016		Year to 30 June 2016	
	No. of shares	\$	No. of shares	\$
<i>Movement in ordinary shares</i>				
Balance at beginning of period	100 <sup>1</sup>	46,834 <sup>1</sup>	100 <sup>1</sup>	46,834 <sup>1</sup>
Shares acquired on acquisition of legal parent	73,044,750	-	-	-
Shares eliminated in legal subsidiary on acquisition	(100)	-	-	-
Deemed consideration of reverse acquisition	-	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 consideration shares)	187,500,000	-	-	-
- To acquire European Lithium AT (Investments) Ltd (Tranche 2 consideration shares)	62,500,000	-	-	-
- To historic creditors	1,587,614	95,257	-	-
Capital raising costs – shares and options issued to corporate advisor	-	(6,710,106)	-	-
Capital raising costs – cash	-	(276,333)	-	-
Balance at end of period	433,784,864	7,731,432	100 <sup>1</sup>	46,834 <sup>1</sup>

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

<sup>2</sup> Includes 7,812,500 fully paid shares 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.

### NOTE 7: OPTIONS

The following options were issued as share-based payment arrangements during the half-year:

	Number	Grant date	Expiry date	Exercise price \$	Fair value at grant date \$	Vesting date
Options issued to Corporate Advisor	200,000,000	9 Sep 2016	30 Jun 2020	0.10	0.02	9 Sep 2016

There were no share options exercised during the half-year.

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.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2016

### NOTE 7: OPTIONS (CONTINUED)

	Options issued to corporate advisor
Dividend yield (%)	0.00
Expected volatility (%)	57.19
Risk-free interest rate (%)	1.53
Expected life of option (years)	3.81
Exercise price (cents)	0.10
Grant date share price	0.08

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.

### NOTE 8: 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.

Refer to Note 1 for further information on the 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.

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	<b>918,351</b>
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	<b>4,925,229</b>

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 half-year, the loss of the Group would have been \$7,171,881 and revenue from continuing operations would have remained unchanged.



## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2016

### NOTE 9: BASIC AND DILUTED LOSS PER SHARE

	<b>Six months to 31 December 2016</b>	Six months to 31 December 2015
	\$	\$
Basic loss per share (cents per share)	(1.94)	(0.03)
Diluted loss per share (cents per share)	(1.94)	(0.03)
	<b>Six months to 31 December 2016</b>	Six months to 31 December 2015
	<b>No. of shares</b>	No. of shares
Weighted average number of shares	<b>358,442,115</b>	250,000,000

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.

### NOTE 10: CONTINGENT LIABILITIES

During the current period, the Company provided a €150,000 bank guarantee in respect of any unrepaired damage to property at the Wolfsberg Project.

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

### NOTE 11: EVENTS SUBSEQUENT TO REPORTING DATE

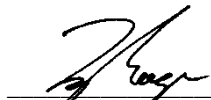
No matters or circumstances have arisen since the end of the half-year which significantly affected or may significantly affect the operations of the Group, the results of those operations, or the state of affairs in future financial years.

## 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 2016 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.



Antony Sage  
Non-Executive Chairman

14 February 2017

**INDEPENDENT AUDITOR'S REVIEW REPORT**

To the members of European Lithium Limited

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

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 2016, the condensed consolidated statement of profit or loss and other 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.

*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 2016 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.

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*.

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*Conclusion*

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 2016 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*.

*HLB Mann Judd*

**HLB Mann Judd  
Chartered Accountants**

**Perth, Western Australia  
14 February 2017**



**L Di Giallonardo  
Partner**

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