



LITHIUM AUSTRALIA NL

ACN 126 129 413

ANNUAL REPORT

FOR THE YEAR ENDED 30 JUNE 2017

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CORPORATE DIRECTORY

DIRECTORS

Adrian Griffin
Managing Director

George Bauk
Non-Executive Chairman

Bryan Dixon
Non-Executive Director

COMPANY SECRETARY

Barry Woodhouse

REGISTERED OFFICE

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SHARE REGISTRY

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STOCK EXCHANGE LISTING

The Company is listed on Australian Securities Exchange Limited
Home Exchange – Perth
ASX Codes: **LIT** and **LITCE**

CHAIRMAN'S LETTER

Dear Shareholder

It is my pleasure to provide you with Lithium Australia's annual report for the year ended 30 June 2017.

Over the past 12 months, Lithium Australia ('LIT' or 'the Company') has significantly progressed its plan to supply lithium chemicals to the current energy paradigm.

We continued to be supported by our first institutional shareholder, Lanstead Capital L.P. LIT is appreciative of the innovative nature of the funding mechanism which provided monthly working capital to support its plan. LIT is actively seeking more institutional investors who recognise the opportunities in this booming lithium market.

Worldwide, the key industries that utilise lithium continue to do well. Growth rates for electric vehicles ('EVs'), supported by governments around the world, sit at around 53 per cent per annum, while energy storage – which is about to take off – is very close to achieving commercial viability. The consumer electronics sector is also experiencing solid growth, as are the glass and ceramics industries. Indeed, Roskill forecasts a surge in demand for lithium from 184,000 tonnes per annum last year to 535,000 tonnes per annum by 2025 which is the median case.

LIT wrote last year that the key to the future success of the lithium industry is the development of a diverse supply chain, involving multiple countries and miners/processes. The challenges this creates within the lithium supply chain are critical to LIT's continuing success, as one of the Company's main goals is the introduction of technology to produce lithium chemicals for downstream consumption by the battery industry.

Big Australian mining companies have now recognised this opportunity. Recent announcements by BHP Nickel West demonstrate that the Kwinana / Rockingham area 45km's south of Perth may be destined to become the world's battery production centre. Greenbushes miner, Tianqui Lithium Australia Pty Ltd is currently building a 24,000 tpa lithium hydroxide factory with approvals to double its capacity in the short term. Growth in the world market has coaxed BHP to again consider downstream metal processing to produce nickel sulphate at its facilities in Kwinana along with cobalt by-products. Lithium-ion batteries also require graphite. Whilst there are currently no companies the size of Tianqui or BHP with stated intentions to develop a graphite production facility in the region, it would be a logical development.

During 2017, and after an extensive safety review of its Sileach® process by the Australian Nuclear Science and Technology Organisation (ANSTO) LIT completed its continuous pilot plant run and subsequently its engineering study. It is LIT's intention to optimise plant design before it considers a Final Investment Decision to develop the Large-Scale Pilot Plant with a capacity to produce up to 2,500 tpa lithium carbonate equivalent.

LIT drilled at two of its prospects this year. With its joint venture partner in Mexico, LIT drilled its Agua Fria prospect. Whilst there were no big hits, the clays provide an ideal opportunity for entrance into the USA market in the event that LIT unlocks the key to the best beneficiation process. LIT also drilled at its Ravensthorpe prospect. Unfortunately, weather conditions did not allow the full program and results to date have been unfavourable.

LIT has identified that the Tin International AG project in Saxony may provide the required feed for its Large-Scale Pilot Plant and beyond. LIT has committed resources to develop feed-stock and we are confident that this historic tin mine will contribute significantly to future lithium supplies.

CHAIRMAN'S LETTER (Continued)

LIT has developed a number of alliances with companies such as Pilbara Minerals Ltd, MetalsTech Ltd, Venus Metals Corporation Ltd, Alix Resources Corporation, Tin International and Focus Minerals NL for the reason of securing a diverse supply of lithium resources in the world's major lithium provinces. LIT also has investments in companies including Lepidico Ltd and Venus Metals, which together provide significant exposure to future supply potential.

Meanwhile, the Company continues to develop a strong international exploration portfolio, the aim being not only to develop its own resources but also utilise existing sources of lithium concentrates to feed its planned lithium chemical production hubs. To that end, in June 2016 Lithium Australia entered into a Sileach® joint venture with Pilbara Minerals Limited to establish a carbonate plant that will produce both lithium carbonate and lithium hydroxide from spodumene sourced from Pilbara Minerals' Pilgangoora deposit located in the north-west of Western Australia.

Thus, in the 2017 financial year, the Company's principal aim – that of creating value for shareholders – has been achieved in numerous ways. In addition to the above-mentioned increase in share price, long-term shareholders benefited from the 5-cent partly paid share series, which in 2015-16 peaked at 30 cents with a bonus issue from a previous year, while in August 2016 a further bonus issue of a one-for-two 25-cent partly-paid share was listed and traded at a high of 6.5 cents. Moreover, in May 2016, Lithium Australia announced its proposed spin-out of the Company's graphite assets, for which an IPO in late 2017 is planned.

I would like to thank all of our stakeholders who continue to participate in this lithium boom and the inevitable energy revolution. In no particular order, I would like to thank our shareholders, the Lithium Board, our employees, ANSTO, Murdoch University the Federal Government and the WA State Government. We know that it takes a team effort to achieve extraordinary results, and that is our aim.

Finally, as chairman, I wish to acknowledge the drive and expertise of the Company's Managing Director, Adrian Griffin, whose commitment has been pivotal to LIT's development, and to also applaud the contribution of non-executive Director Bryan Dixon, also an enthusiastic and dedicated member of the board.

George Bauk
Chairman

DIRECTORS' REPORT

The Directors present their report on Lithium Australia NL ("LIT" or the "Company") and its controlled entities (the "Consolidated entity") for the year ended 30 June 2017 (the "year").

BOARD OF DIRECTORS

The names and details of the Consolidated entity's directors in office during the year and until the date of this report are as follows. Directors were in office for this entire period unless otherwise stated.

| | |
|----------------|------------------------|
| Adrian Griffin | Managing Director |
| George Bauk | Non-Executive Chairman |
| Bryan Dixon | Non-Executive Director |

INFORMATION ON DIRECTORS

Adrian Griffin (Managing Director)

Qualifications

Bsc(Honours),GSA,MAusIMM

Experience

Mr Griffin has extensive experience in the resources sector accumulated over 40 years. He has held directorships in a number of private and listed resource companies and has been responsible for operating large integrated mining and processing facilities including the Bulong nickel-cobalt operation in the late 1990s. Mr Griffin has substantial experience in the mining industry in South Africa and in particular was founder and technical director of Ferrum Crescent Ltd, a developer of iron ore in that country. Mr Griffin is currently a director of Northern Minerals Limited, Parkway Minerals NL, and Reedy Lagoon Corporation Limited.

Other current directorships in listed entities

Non-executive Director – Northern Minerals Ltd
Chairman – Parkway Minerals NL
Non-executive Director – Reedy Lagoon Corporation Ltd

George Bauk Non-Executive Chairman

Qualifications

MBA, BBus

Experience

Mr Bauk has more than 25 years' mining industry experience including particular expertise in critical metals. Regarded for his strategic management, business planning, establishment of high-performing teams and capital-raising skills, he has held senior operational and corporate positions with WMC Resources, Arafura Resources and Indago Resources (formerly Western Metals). Since 2010, Mr Bauk has also been Managing Director and CEO of Northern Minerals Limited, overseeing that company's heavy rare earth project moving to production in northern Australia.

Other current directorships in listed entities

Managing Director – Northern Minerals Limited

DIRECTORS' REPORT (Continued)

Bryan Dixon Non-Executive Director

Qualifications

BCom, CA, ACIS

Experience

Mr Dixon has over 20 years' experience in the mining sector and is currently Managing Director of Blackham Resources Ltd, a West Australian gold producer. Mr Dixon is a Chartered Accountant and has extensive experience in the management of public and listed companies. Previously, Mr Dixon has been employed by an international accounting firm, Resolute Limited, and Archipelago Resources Plc. He was a joint winner of the Asia-Pacific Mining Executive of the year in 2017. Mr Dixon has held a numerous director and management roles with emerging resource companies. Mr Dixon specializes in project feasibility, development, project acquisition and financing of mining projects.

Other current directorships in listed entities

Managing Director – Blackham Resources

Non-Executive Director – Hodges Resources

COMPANY SECRETARY

Barry Woodhouse

Qualifications

BCom, BLaws, CPA, FCIS, FGIA

Experience

Mr Woodhouse is a CPA and a Fellow of Governance Institute of Australia and has almost 30 years' experience in the junior mineral exploration, mineral production, mining services and manufacturing sectors in both private and public companies in Australian and foreign jurisdictions. Mr Woodhouse has held roles including CFO, Company Secretary, Director and Chairman.

PRINCIPAL ACTIVITIES

The principal activity of the consolidated entity during the financial year was project acquisition, mineral exploration and process development, primarily for the extraction and recovery of lithium.

There were no significant changes in the nature of the consolidated entity's principal activities during the financial year other than as stated in the Chairman's Report and outlined in the Review of Operations.

RESULTS OF OPERATIONS

The operating loss after income tax of the Consolidated entity for the year ended 30 June 2017 was \$4,592,255(2016: loss of \$1,774,446).

No dividend has been paid during or is recommended for the financial period ended 30 June 2017.

FINANCIAL POSITION

The Consolidated entity's working capital surplus, being current assets less current liabilities was \$2,726,613 at 30 June 2017 (2016: working capital surplus of \$8,890,671).

In the Directors' opinion, there are reasonable grounds to believe that the Consolidated entity will be able to pay its debts as and when they become due and payable.

DIRECTORS' REPORT (Continued)

REVIEW OF OPERATIONS

It was an exceptional year for LIT. Having advanced from bench scaling testing of its revolutionary Sileach® lithium extraction process to pilot testing, and subsequent engineering design, and financial modelling. This progression has shown that not only is Sileach® a versatile and efficient process but there is scope for further significant advances in the development of the technology. These advances will be built into subsequent testing evaluation and design in the current year.

LIT believes that the application of Sileach® to the processing of lithium silicates will provide avenues for revenue generation not available by employing conventional lithium processing technology. This advantage places LIT ahead of all of its peers in the hard rock lithium industry. It is the intention of LIT to utilise Sileach® on materials that are considered non-conventional sources of lithium.

These non-conventional sources include low-grade spodumene concentrates, lithium micas and other lithium silicates. Presently, on a global basis, vast quantities of such materials are discharged as waste. This creates the opportunity to procure feed sources for Sileach® which potentially have low or no exposure to mining cost. Indeed, the application of Sileach® to such materials can create sustainability within the lithium industry which is otherwise not available.

Furthermore, the application of such processing technology to previously accumulated waste repositories can provide environmental advantages during clean-up and rehabilitation of sites containing such materials.

While advanced processing technology remains the main focus, LIT has accumulated a lithium exploration portfolio and significant strategic relationships with other parties in the lithium industry. This has been done to ensure that, regardless of location, a Sileach® plant established anywhere in the world will have a secure source of feed.

To retain a very clear focus for the investing public LIT has undertaken to divest of its very substantial graphite assets. This will be accomplished through the float of BlackEarth Minerals NL in the not-too-distant future.

Consistent with LIT's approach to the development of disruptive technology in the lithium industry it has begun to evaluate opportunities in battery re-cycling and production of cathode materials. The successful integration of these technologies creates greater sustainability and progress towards a circular lithium economy.

Company projects

LIT has used its first-mover advantage to secure enviable strategic positions within prospective lithium provinces worldwide. Outlined below are lithium projects currently being cost-effectively evaluated by LIT. All have been the subject of ASX releases since the Company changed its name – and its focus from copper/gold to lithium in September 2014.

Australian Projects

- Ravensthorpe Lithium Project, WA
- Greenbushes, WA
- The Goldfields Lithium Alliance, including the Coolgardie Rare Metals Venture, WA
- Seabrook Rare Metals Venture, WA
- Gascoyne, WA
- Pilbara, WA
- Venus Metals Joint Venture, Pilgangoora, WA
- Cape York, Queensland
- Bynoe, Northern Territory
- Lake Johnston, WA
- Kangaroo Island, South Australia
- Poseidon, WA

DIRECTORS' REPORT (Continued)

Global Projects

- Mexico – Electra Joint Venture
- Germany – Sadisdorf Project

Strategic Relationships

- MetalsTech
- Pilgangoora with Pilbara Minerals, WA
- ANSTO
- Murdoch University

Investments

- Lepidico Ltd 320m shares approximating 15% and second largest shareholder
- Venus Metals Corporation Ltd
- MetalsTech Ltd
- Alix Resources Corporation Inc
- Lefroy Exploration Ltd
- BlackEarth Minerals NL

Intellectual Property

- SiLeach® & Sileach® PCT application
- LieNa® and LieNa® PCT Application
- L-Max® WA Exclusive Licence
- L-Max® International Licence number 1
- L-Max® International Licence number 2

Shareholder Opportunities

- MetalsTech priority entitlement delivered a 30% premium on day 1 of MTC listing to LIT shareholders
- BlackEarth Minerals NL Priority Entitlement for proposed ASX IPO details (to be advised)

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

During the 2017 financial year, there were no significant changes in the state of affairs of the consolidated entity.

SUBSEQUENT EVENTS

- (a)** On 11 July 2017, BlackEarth Minerals NL cancelled 15,000,000 ordinary shares and 9,000,000 partly paid shares issued to the Company.
- (b)** On 17 July 2017, the Company received from BlackEarth Minerals NL 1,000,000 ordinary shares as proceeds for the sale of tenements to BlackEarth Minerals NL.
- (c)** On 31 July 2017, the Company issued 2,473,901 shares under the Director & Senior Management Fee & Remuneration Sacrifice Share Plan.
- (d)** On 31 July 2017, the Company entered into a Controlled Placement Agreement (CPA) with Acuity Capital. The CPA provides LIT with up to \$5 million of standby equity capital over the coming 29 month period. Importantly, LIT retains full control of all aspects the placement process: having sole discretion as to whether or not to utilise the CPA, the quantum of issued shares, the minimum issue price of shares and the timing of each placement tranche (if any). There are no requirements on LIT to utilise the CPA and LIT may terminate the CPA at any time, without cost or penalty. Acuity Capital and the CPA do not place any restrictions at any time on LIT raising capital through other methods. If LIT does decide to utilise the CPA, LIT is able to set a floor price (at its sole discretion) and the final issue price will be calculated as the greater of that floor price set by LIT and a 10% discount to a Value Weighted Average Price (VWAP) over a period of LIT's choosing (again at the sole discretion of LIT). As collateral for the CPA, LIT placed 10m shares from its LR7.1 capacity, at nil consideration to Acuity Capital (Collateral Shares) but may, at any time, cancel the CPA and buy back the Collateral Shares for no consideration (subject to shareholder approval).

DIRECTORS' REPORT (Continued)

SUBSEQUENT EVENTS (continued)

- (e) Pursuant to a term sheet dated 28 August 2017, the Company is evaluating the acquisition of up to 100% of the issued share capital of the Very Small Particle Company Limited (VSPC). Completion of this acquisition is subject to technical corporate finance due diligence to the Company's satisfaction by 30 September 2017. Subsequent to signing the term sheet, the Company will pay a non-refundable cash payment of up to \$45,000 depending on the length of the due diligence period and subject to the successful completion of the due diligence, the Company will issue up to 61,151,326 fully paid ordinary LIT shares and 30,575,663 \$0.25 partly paid LIT shares as consideration.
- (f) On 13 September 2017, the Company entered into a memorandum of understanding with Poseidon Nickel to evaluate joint exploration and lithium processing opportunities at Lake Johnston and Ravensthorpe in Southern Western Australia.
- (g) On 26 September 2017, the increase/(decrease) in share prices had the following effect on the fair value of the investments held:

| INVESTMENT | SHARE PRICE AT 30/06/2017 | SHARE PRICE AT 26/09/17 | INCREASE/ (DECREASE) IN SHARE PRICE | NUMBER OF SHARES HELD AT 30/06/2017 | INCREASE/ (DECREASE) IN FAIR VALUE |
|----------------------------|---------------------------------|-------------------------------|--|--|--|
| Lepidico Limited | \$0.013 | \$0.012 | (\$0.001) | 322,118,748 | (\$322,119) |
| Lefroy Exploration Limited | \$0.130 | \$0.150 | \$0.020 | 3,000,000 | \$60,000 |
| Metals Tech | \$0.205 | \$0.120 | (\$0.085) | 2,000,000 | (\$170,000) |
| Alix Resources | \$0.050 | \$0.030 | (\$0.020) | 2,000,000 | (\$40,000) |
| | | | | | <u><u>(\$472,119)</u></u> |

For further information on these investments, please refer to note 9.

FUTURE DEVELOPMENTS

LIT is the only company actively pursuing the production of battery-grade lithium carbonate from all lithium silicates with a cost competitive processing technique, the halogen based Sileach® process. This gives LIT significant 'first mover' advantage.

Meanwhile, LIT is assessing other projects worldwide and reviewing opportunities in Africa, Europe, the Americas and Australia.

Other than as referred to in this report, further information as to the likely developments in the operations of the consolidated entity and expected results of those operations would, in the opinion of the Directors, be speculative and prejudicial to the interests of the consolidated entity and its shareholders.

DIRECTORS' MEETINGS

The number of meetings attended by each of the Directors of the Consolidated entity during the financial year was:

| | Board Meetings | |
|----------------|---------------------------------------|--------------------|
| | Number held and entitled to attend | Number attended |
| Adrian Griffin | 11 | 10 |
| George Bauk | 11 | 10 |
| Bryan Dixon | 11 | 11 |

ENVIRONMENTAL ISSUES

The Consolidated entity's operations are subject to State and Federal laws and regulation concerning the environment. Details of the Consolidated entity's performance in relation to environmental regulation are as follows:

DIRECTORS' REPORT (Continued)

ENVIRONMENTAL ISSUES (continued)

The Consolidated entity's exploration activities are subject to the various state and federal statutes relating to mining and environmental protection. The Board believes that the Consolidated entity has adequate systems in place for the management of its environmental requirements. The Consolidated entity aims to ensure the appropriate standard of environmental care is achieved, and in doing so, that it is aware of and is in compliance with all environmental legislation. The Directors of the Consolidated entity are not aware of any breach of environmental legislation for the financial year under review.

SHARE OPTIONS

At the date of this report, the unissued ordinary shares of Lithium Australia NL under option are as follows:

| Grant Date | Date of Expiry | Exercise Price | Number under Option | Fair Value |
|------------------|----------------|----------------|---------------------|------------|
| 16 October 2015 | 1 July 2019 | \$0.15 | 4,316,666 | \$0.036 |
| 16 October 2015 | 1 July 2019 | \$0.20 | 7,875,000 | \$0.031 |
| 23 December 2015 | 1 July 2019 | \$0.30 | 9,200,000 | \$0.025 |
| | | | 21,391,666 | |

No new options have been issued subsequent to 30 June 2017.

PERFORMANCE RIGHTS

Unlisted performance rights on issue as at 30 June 2017 is as follows:

| | Issue Date | Cancellation Date | Exercised Date | Number | Fair Value |
|--|------------------|-------------------|------------------|-------------------|------------------|
| Tranche 1a | 15 July 2015 | | | 4,050,000 | Nil |
| Tranche 1b | 15 July 2015 | | | 2,025,000 | Nil |
| Tranche 1c | 15 July 2015 | | | 2,025,000 | Nil |
| Tranche 1a | 15 October 2015 | | | 640,000 | Nil |
| Tranche 1b | 15 October 2015 | | | 800,000 | Nil |
| Tranche 1c | 15 October 2015 | | | 800,000 | Nil |
| Tranche 1d | 1 December 2015 | | | 1,000,000 | \$105,000 |
| Tranche 1d | | | 01 December 2016 | (1,000,000) | (\$105,000) |
| Class A | 28 November 2016 | | | 1,000,000 | \$74,025 |
| Class B | 28 November 2016 | | | 2,000,000 | \$92,532 |
| Class C | 28 November 2016 | | | 3,000,000 | \$53,228 |
| Class D | 28 November 2016 | | | 4,000,000 | \$6,658 |
| Class A | 01 December 2016 | | | 500,000 | \$35,694 |
| Class A | | 28 June 2017 | | (125,000) | (\$8,923) |
| Class B | 01 December 2016 | | | 1,000,000 | \$44,617 |
| Class B | | 28 June 2017 | | (250,000) | (\$11,154) |
| Class C | 01 December 2016 | | | 1,500,000 | \$25,658 |
| Class C | 01 December 2016 | 28 June 2017 | | (375,000) | (\$6,414) |
| Class D | 01 December 2016 | | | 2,000,000 | \$3,195 |
| Class D | | 28 June 2017 | | (500,000) | (\$799) |
| Class A | 20 December 2016 | | | 125,000 | \$6,985 |
| Class B | 20 December 2016 | | | 250,000 | \$8,732 |
| Class C | 20 December 2016 | | | 375,000 | \$5,011 |
| Class D | 20 December 2016 | | | 500,000 | \$605 |
| Performance Rights Outstanding as at 30 June 2017 | | | | 25,340,000 | \$329,650 |

DIRECTORS' REPORT (Continued)

PERFORMANCE RIGHTS (continued)

Performance Hurdles/Restrictions

| | Number of Rights | Hurdle |
|------------|-------------------|--|
| Tranche 1a | 4,690,000 | A targeted controlled JORC resource containing 1,000,000t LCE. |
| Tranche 1b | 2,825,000 | A targeted controlled JORC resource containing 5,000,000t LCE. |
| Tranche 1c | 2,825,000 | A targeted controlled JORC resource containing 10,000,000t LCE. |
| Tranche 1d | 1,000,000 | 12 months service. |
| Tranche 1d | (1,000,000) | 12 months service reached. |
| Class A | 1,500,000 | Successful PFS on Sileach® technology. |
| Class B | 3,000,000 | Procurement of feed to support 17,000tpa Li Carbonate from Sileach® plant. |
| Class C | 4,500,000 | Commitment decision to large-scale pilot facility. |
| Class D | 6,000,000 | Financial investment decision for full scale commercial plant. |
| | 25,340,000 | |

No new performance rights have been issued subsequent to 30 June 2017.

PROCEEDINGS ON BEHALF OF THE CONSOLIDATED ENTITY

No person has applied for leave of Court to bring proceedings on behalf of the Consolidated entity or intervened in any proceedings to which the Consolidated entity is a party for the purpose of taking responsibility on behalf of the Consolidated entity for all or any part of those proceedings.

REMUNERATION REPORT (Audited)

The report outlines the remuneration arrangements in place for Directors and Key Management Personnel of Lithium Australia NL in accordance with the Corporations Act 2001 and its Regulations. For the purposes of this report Key Management Personnel are defined as those having authority and responsibility for planning, directing and controlling the major activities of the consolidated entity, directly or indirectly, including any Directors of the consolidated entity.

Remuneration Policy

The board policy is to remunerate Directors, officers and employees at market rates for time, commitment and responsibilities. The Board determines payment to the Directors and reviews their remuneration annually, based on market practice, duties and accountability. Independent external advice is sought when required. The maximum aggregate amount of Directors' fees that can be paid is subject to approval by shareholders in general meeting, from time to time. Fees for Non-Executive Directors are not linked to the performance of the consolidated entity. However, to align Directors' interests with shareholders' interests, the Directors are encouraged to hold securities in the Company.

The consolidated entity's aim is to remunerate at a level that will attract and retain high-calibre Directors, officers and employees. Company officers and Directors are remunerated to a level consistent with the size of the consolidated entity.

There is no scheme to provide retirement benefits, other than statutory superannuation, to Non-Executive Directors.

All equity based remuneration paid to Directors and executives is valued at the cost to the consolidated entity and expensed. Options are valued using the Black-Scholes methodology.

DIRECTORS' REPORT (Continued)

REMUNERATION REPORT (Audited) (Continued)

Performance Based Remuneration

The issue of shares and options to Directors is in accordance with the Company's employee share option plan to encourage the alignment of personal and shareholder returns. The intention of this program is to align the objectives of Directors/executives with that of the business and shareholders. In addition, all Directors and executives are encouraged to hold shares in the Company.

The consolidated entity has not paid bonuses to Directors or executives to date.

Details of Remuneration for Period ended 30 June 2017

The remuneration for each director and of the executive officer of the Consolidated entity during the period was as follows:

Directors and Executive Officers' Emoluments

| | Short Term Benefits | | | Post Employment | | Share Based Payments | | | | Total | Options as % of Total Remuneration | Performance Option Rights as % of Total Remuneration | Performance Rights as % of Total Remuneration |
|---|---------------------|-------|--------------|-----------------|---------------------|---------------------------|--------------------|------------|---------|-----------|------------------------------------|--|---|
| | Salary & Fees | Other | Non-Monetary | Super-annuation | Retirement Benefits | Performance Option Rights | Performance Rights | Equity (a) | Options | | | | |
| Adrian Griffin - Managing Director | | | | | | | | | | | | | |
| 2017 | 287,113 | - | 1,963 | 26,869 | - | - | 161,378 | - | - | 477,323 | 0% | 0% | 34% |
| 2016 | 220,218 | - | - | - | - | 242,500 | 161,000 | 37,500 | - | 661,218 | 0% | 37% | 24% |
| George Bauk - Non Executive Chairman | | | | | | | | | | | | | |
| 2017 | 69,750 | - | - | - | - | - | 56,611 | - | - | 126,361 | 0% | 0% | 45% |
| 2016 | 44,325 | - | - | - | - | 121,250 | - | 7,425 | - | 173,000 | 0% | 70% | 0% |
| Eduardo Valazuela - Non Executive Chairman¹ | | | | | | | | | | | | | |
| 2017 | - | - | - | - | - | - | - | - | - | - | 0% | 0% | 0% |
| 2016 | 2,292 | - | - | - | - | - | - | - | - | 2,292 | 0% | 0% | 0% |
| Bryan Dixon - Non Executive Director | | | | | | | | | | | | | |
| 2017 | 57,500 | - | - | - | - | - | 56,611 | - | - | 114,111 | 0% | 0% | 50% |
| 2016 | 41,250 | - | - | - | - | 121,250 | - | 10,000 | - | 172,500 | 0% | 70% | 0% |
| Barry Woodhouse - Company Secretary | | | | | | | | | | | | | |
| 2017 | 123,790 | - | 1,284 | - | - | - | 27,291 | 94,010 | - | 246,375 | 0% | 0% | 11% |
| 2016 | 91,700 | - | - | - | - | 57,600 | - | 91,700 | - | 241,000 | 0% | 24% | 0% |
| Total | | | | | | | | | | | | | |
| 2017 | 538,153 | - | 3,247 | 26,869 | - | - | 301,891 | 94,010 | - | 964,170 | 0% | 0% | 31% |
| 2016 | 399,785 | - | - | - | - | 542,600 | 161,000 | 146,625 | - | 1,250,010 | 0% | 43% | 13% |

¹ Eduardo Valenzuela was appointed as Non-Executive Chairman 19 August 2013 and resigned on 15 July 2015

Employment Contracts of Directors and Senior Executives

The Managing Director, Mr Adrian Griffin, is employed under contract. This current contract commenced on 1 November 2015 and has a term of 3 years. This contract provides Mr Griffin with a salary of \$250,000 per annum and superannuation. From 1 October 2016 following a remuneration committee meeting held on 12 October 2016, Mr Griffin's salary increased from \$250,000 to \$300,000 per annum. The Company may terminate this employment agreement at any time and without prior notice if serious misconduct has occurred. In this event remuneration is only payable up until the date of the termination. The Company may terminate the employment agreement for any reason by giving no less than 6 months' notice or in lieu of the notice period, paying Mr Griffin an amount equal to the total remuneration Mr Griffin received in the 12-month period prior to the termination.

There are formal contracts finalised for Non-Executive Directors. Non-executive Directors are paid under the terms agreed under contract at rates detailed below:

Director's fees of \$57,500 were paid, or were due and payable to Warrior Strategic Pty Ltd. Mr Dixon is a director and shareholder of Warrior Strategic Pty Ltd. From 1 October 2016, following a remuneration committee meeting held on 12 October 2016 Mr Dixon's director fees increased from \$50,000 per annum to \$60,000 per annum.

Director's fees of \$69,750 were paid, or were due and payable to Mr George Bauk. From 1 October 2016, following a remuneration committee meeting held on 12 October 2016 Mr Bauk's director fees increased from \$54,000 per annum to \$75,000 per annum.

DIRECTORS' REPORT (Continued)

REMUNERATION REPORT (Audited) (Continued)

Directors' interests in shares and options

The number of listed and unlisted options held by each KMP of the entity during the year is as follows:

| | Balance 30/06/2016 | Granted as Compensation | Options Exercised/ Expired | Balance 30/06/2017 | Total Vested 30/06/2017 | Total Exercisable 30/06/2017 | Total Unexercisable 30/06/2017 |
|-------------|-----------------------|----------------------------|----------------------------------|-----------------------|-------------------------------|------------------------------------|--------------------------------------|
| A Griffin | 5,175,000 | - | - | 5,175,000 | - | 5,175,000 | - |
| G Bauk | 2,750,000 | - | - | 2,750,000 | - | 2,750,000 | - |
| B Dixon | 4,000,000 | - | - | 4,000,000 | - | 4,000,000 | - |
| B Woodhouse | 4,666,666 | - | - | 4,666,666 | - | 4,666,666 | - |
| | 16,591,666 | - | - | 16,591,666 | - | 16,591,666 | - |

The number of ordinary shares held by each KMP of the entity during the financial period is as follows:

| | Balance 30/06/2016 | Received as Compensation | Options Exercised | Net change Other | Balance 30/06/2017 |
|-------------|------------------------|-----------------------------|----------------------|---------------------|-----------------------|
| A Griffin | 8,782,980 | - | 1,000,000 | - | 9,782,980 |
| G Bauk | 920,250 | - | - | (300,000) | 620,250 |
| B Dixon | 2,578,978 ¹ | - | - | - | 2,578,978 |
| B Woodhouse | - | 403,146 | - | - | 403,146 |
| | 12,282,208 | 403,146 | 1,000,000 | (300,000) | 13,385,354 |

¹Included in the opening balance is 923,109 shares indirectly held by a related third party.

The number of 25c partly paid shares held by each KMP of the entity during the financial year is as follows:

| | Balance 30/06/2016 | Received as Compensation | Options Exercised | Net change Other | Balance 30/06/2017 |
|-------------|------------------------|-----------------------------|----------------------|---------------------|-----------------------|
| A Griffin | 5,935,869 | - | - | - | 5,935,869 |
| G Bauk | 460,125 | - | - | - | 460,125 |
| B Dixon | 2,039,490 ² | - | - | - | 2,039,490 |
| B Woodhouse | 33,334 | - | - | - | 33,334 |
| | 8,468,818 | - | - | - | 8,468,818 |

²Included in the opening balance is 1,211,555 partly paid shares held by a related third party and 58,999 partly paid shares held by Bryan Dixon.

The number of performance rights held by each KMP of the entity during the financial year is as follows:

| | Balance 30/06/2016 | Received as Compensation | Options Exercised | Net change Other | Balance 30/06/2017 |
|-------------|-----------------------|-----------------------------|----------------------|---------------------|-----------------------|
| A Griffin | 5,050,000 | 5,000,000 | (1,000,000) | - | 9,050,000 |
| G Bauk | 2,025,000 | 2,500,000 | - | - | 4,525,000 |
| B Dixon | 2,025,000 | 2,500,000 | - | - | 4,525,000 |
| B Woodhouse | 1,120,000 | 1,250,000 | - | - | 2,370,000 |
| | 10,220,000 | 11,250,000 | (1,000,000) | - | 20,470,000 |

Options Issued as Part of Remuneration

During the year ended 30 June 2017, the following share based payment options arrangements were in existence with KMP:

| Option Series | Number Granted | Grant Date | Grant Date Fair Value | Expiry Date | Exercise Price | Vesting Date |
|---------------------------|-------------------|------------|--------------------------|-------------|-------------------|--------------|
| Unlisted Series 1 Table A | 2,716,666 | 15/07/2016 | \$0.036 | 01/07/2019 | \$0.15 | 01/07/2019 |
| Unlisted Series 2 Table B | 6,275,000 | 15/07/2016 | \$0.031 | 01/07/2019 | \$0.20 | 01/07/2019 |
| Unlisted Series 3 Table C | 7,600,000 | 15/07/2016 | \$0.025 | 01/07/2019 | \$0.30 | 01/07/2019 |
| | 16,591,666 | | | | | |

DIRECTORS' REPORT (Continued)

REMUNERATION REPORT (Audited) (Continued)

Table A Series 1 - During the year, the following KMP were entitled to options with a fair value of \$0.036.

| | Number Granted | Number Vested | % of Grant Vested | % of Grant Forfeited |
|-------------|------------------|---------------|-------------------|----------------------|
| B Dixon | 1,250,000 | - | 0% | 0% |
| B Woodhouse | 1,466,666 | - | 0% | 0% |
| | 2,716,666 | | | |

Table B Series 2 - During the period, the following KMP were entitled to options with a fair value of \$0.031 per unit.

| | Number Granted | Number Vested | % of Grant Vested | % of Grant Forfeited |
|-------------|------------------|---------------|-------------------|----------------------|
| A Griffin | 2,175,000 | - | 0% | 0% |
| G Bauk | 1,250,000 | - | 0% | 0% |
| B Dixon | 1,250,000 | - | 0% | 0% |
| B Woodhouse | 1,600,000 | - | 0% | 0% |
| | 6,275,000 | | | |

Table C Series 3 - During the period, the following KMP were entitled to options with a fair value of \$0.025 per unit.

| | Number Granted | Number Vested | % of Grant Vested | % of Grant Forfeited |
|-------------|------------------|---------------|-------------------|----------------------|
| A Griffin | 3,000,000 | - | 0% | 0% |
| G Bauk | 1,500,000 | - | 0% | 0% |
| B Dixon | 1,500,000 | - | 0% | 0% |
| B Woodhouse | 1,600,000 | - | 0% | 0% |
| | 7,600,000 | | | |

No new options had been issued or exercised during the year ended 30 June 2017.

Performance Rights Issued as Part of Remuneration

During the year ended 30 June 2017, the following share based payment arrangements were in existence with KMP:

| Performance Rights | Number Granted | Grant Date | Grant Date Fair Value | Expiry Date | Vesting Date | Fair Value |
|--------------------|-------------------|------------|-----------------------|-------------|--------------|------------------|
| Tranche 1a Table A | 3,020,000 | 15/07/2015 | \$0.075 | 01/07/2019 | 01/07/2019 | \$- |
| Tranche 1b Table B | 3,100,000 | 15/07/2015 | \$0.088 | 01/07/2019 | 01/07/2019 | \$- |
| Tranche 1c Table C | 3,100,000 | 15/07/2015 | \$0.105 | 01/07/2019 | 30/11/2019 | \$- |
| Class A Table D | 1,000,000 | 28/11/2016 | \$0.17 | | 28/12/2017 | \$74,025 |
| Class B Table E | 2,000,000 | 28/11/2016 | \$0.17 | | 28/12/2017 | \$92,532 |
| Class C Table F | 3,000,000 | 28/11/2016 | \$0.17 | | 14/01/2018 | \$53,228 |
| Class D Table G | 4,000,000 | 28/11/2016 | \$0.17 | | 01/12/2019 | \$6,658 |
| Class A Table D | 125,000 | 28/12/2016 | \$0.165 | | 28/12/2017 | \$8,923 |
| Class B Table E | 250,000 | 28/12/2016 | \$0.165 | | 28/12/2017 | \$11,154 |
| Class C Table F | 375,000 | 28/12/2016 | \$0.165 | | 14/01/2018 | \$6,414 |
| Class D Table G | 500,000 | 28/12/2016 | \$0.165 | | 01/12/2019 | \$799 |
| | 20,470,000 | | | | | \$253,733 |

DIRECTORS' REPORT (Continued)

REMUNERATION REPORT (Audited) (Continued)

Table A Tranche 1a - During the period, the following KMP were entitled to performance rights with a performance hurdle of a targeted controlled JORC resource containing 1,000,000t LCE.

| | Number Granted | Grant Date Fair Value | Number Vested | % of Grant Vested | % of Grant Forfeited |
|-------------|---------------------------|----------------------------------|--------------------------|------------------------------|-----------------------------|
| A Griffin | 1,350,000 | \$0.075 | - | 0% | 0% |
| G Bauk | 675,000 | \$0.075 | - | 0% | 0% |
| B Dixon | 675,000 | \$0.075 | - | 0% | 0% |
| B Woodhouse | 320,000 | \$0.075 | - | 0% | 0% |
| | 3,020,000 | | | | |

Table B Tranche 1b - During the period, the following KMP were entitled to performance rights with a performance hurdle of a targeted controlled JORC resource containing 5,000,000t LCE.

| | Number Granted | Grant Date Fair Value | Number Vested | % of Grant Vested | % of Grant Forfeited |
|-------------|---------------------------|----------------------------------|--------------------------|------------------------------|-----------------------------|
| A Griffin | 1,350,000 | \$0.088 | - | 0% | 0% |
| G Bauk | 675,000 | \$0.088 | - | 0% | 0% |
| B Dixon | 675,000 | \$0.088 | - | 0% | 0% |
| B Woodhouse | 400,000 | \$0.088 | - | 0% | 0% |
| | 3,100,000 | | | | |

Table C Tranche 1c - During the period, the following KMP were entitled to performance rights with a performance hurdle of a targeted controlled JORC resource containing 10,000,000t LCE.

| | Number Granted | Grant Date Fair Value | Number Vested | % of Grant Vested | % of Grant Forfeited |
|-------------|---------------------------|----------------------------------|--------------------------|------------------------------|-----------------------------|
| A Griffin | 1,350,000 | \$0.105 | - | 0% | 0% |
| G Bauk | 675,000 | \$0.105 | - | 0% | 0% |
| B Dixon | 675,000 | \$0.105 | - | 0% | 0% |
| B Woodhouse | 400,000 | \$0.105 | - | 0% | 0% |
| | 3,100,000 | | | | |

Table D Class A - During the period, the following KMP became entitled to performance rights with a performance hurdle of a successful pre-feasibility study on Sileach™ technology.

| | Number Granted | Grant Date Fair Value | Number Vested | % of Grant Vested | % of Grant Forfeited |
|-------------|---------------------------|----------------------------------|--------------------------|------------------------------|-----------------------------|
| A Griffin | 500,000 | \$0.17 | - | 0% | 0% |
| G Bauk | 250,000 | \$0.17 | - | 0% | 0% |
| B Dixon | 250,000 | \$0.17 | - | 0% | 0% |
| B Woodhouse | 125,000 | \$0.165 | - | 0% | 0% |
| | 1,125,000 | | | | |

Table E Class B - During the period, the following KMP became entitled to performance rights with a performance hurdle of the procurement of feed to support 17,000tpa lithium carbonate from Sileach™ plant.

| | Number Granted | Grant Date Fair Value | Number Vested | % of Grant Vested | % of Grant Forfeited |
|-------------|---------------------------|----------------------------------|--------------------------|------------------------------|-----------------------------|
| A Griffin | 1,000,000 | \$0.17 | - | 0% | 0% |
| G Bauk | 500,000 | \$0.17 | - | 0% | 0% |
| B Dixon | 500,000 | \$0.17 | - | 0% | 0% |
| B Woodhouse | 250,000 | \$0.165 | - | 0% | 0% |
| | 2,250,000 | | | | |

DIRECTORS' REPORT (Continued)

REMUNERATION REPORT (Audited) (Continued)

Table F Class C - During the period, the following KMP became entitled to performance rights with a performance hurdle of a commitment decision to large-scale pilot facility.

| | Number Granted | Grant Date Fair Value | Number Vested | % of Grant Vested | % of Grant Forfeited |
|-------------|---------------------------|----------------------------------|--------------------------|------------------------------|-----------------------------|
| A Griffin | 1,500,000 | \$0.17 | - | 0% | 0% |
| G Bauk | 750,000 | \$0.17 | - | 0% | 0% |
| B Dixon | 750,000 | \$0.17 | - | 0% | 0% |
| B Woodhouse | 375,000 | \$0.165 | - | 0% | 0% |
| | 3,375,000 | | | | |

Table G Class D - During the period, the following KMP became entitled to performance rights with a performance hurdle of a financial investment decision for full-scale development plant.

| | Number Granted | Grant Date Fair Value | Number Vested | % of Grant Vested | % of Grant Forfeited |
|-------------|---------------------------|----------------------------------|--------------------------|------------------------------|-----------------------------|
| A Griffin | 2,000,000 | \$0.17 | - | 0% | 0% |
| G Bauk | 1,000,000 | \$0.17 | - | 0% | 0% |
| B Dixon | 1,000,000 | \$0.17 | - | 0% | 0% |
| B Woodhouse | 500,000 | \$0.165 | - | 0% | 0% |
| | 4,500,000 | | | | |

End of Remuneration Report

DIRECTORS' REPORT (Continued)

INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

The Company paid a premium of \$ 9,328 to insure Directors and Officers of the Company. The Directors and Officers have indemnities in place with the Company whereby the Company has agreed to indemnify the Directors and Officers in respect of certain liabilities incurred by the Director or Officer while acting as a Director of the Company and to insure the Director or Officer against certain risks the Director or Officer is exposed to as an officer of the Company.

CORPORATE GOVERNANCE

In recognising the need for the highest standards of corporate behaviour and accountability, the Directors of Lithium Australia support and have adhered to the principles of sound corporate governance.

The Board recognises the recent recommendations of the Australian Securities Exchange Corporate Governance Council, and considers that Lithium Australia is in compliance with those guidelines. During the financial year, shareholders continued to receive the benefit of an efficient and cost-effective corporate governance policy for the consolidated entity. The consolidated entity's corporate governance statement and disclosures are contained in the annual report.

NON-AUDIT SERVICES

No non-audit services were provided to the consolidated entity in the year ended June 2017.

AUDITOR'S INDEPENDENCE DECLARATION

Section 307C of the Corporations Act 2001 requires our auditors, Bentley's Audit & Corporate (WA) Pty Ltd, to provide the directors of the Consolidated entity with an Independence Declaration in relation to the audit of the financial report. This Independence Declaration is set out on page 17 and forms part of this directors' report for the period ended 30 June 2017.

This report is made in accordance with a resolution of the Directors.



Adrian Griffin
Managing Director

Dated at Perth this 26th day of September 2017

Competent Persons Statement:

The information contained in the report that relates to Exploration Results of projects owned by Lithium Australia NL and is based on information compiled or reviewed by Mr. Adrian Griffin, who is an employee of the Company and is a Member of the Australasian Institute of Mining and Metallurgy and has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which is being undertaken to qualify as a Competent Person as defined in the 2012 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Mr. Griffin has given consent to the inclusion in the report of the matters based on his information in the form and context in which it appears.

**Bentleys Audit & Corporate
(WA) Pty Ltd**

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To The Board of Directors

Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

As lead audit director for the audit of the financial statements of Lithium Australia NL for the financial year ended 30 June 2017, I declare that to the best of my knowledge and belief, there have been no contraventions of:

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

Yours faithfully



BENTLEYS
Chartered Accountants



MARK DELAURENTIS CA
Director

Dated at Perth this 26th day of September 2017

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER
COMPREHENSIVE INCOME**
For the Year Ended 30 June 2017

| | Note | 30 June 2017 \$ | 30 June 2016 \$ |
|--|------|--------------------|--------------------|
| Continuing Operations | | | |
| Revenue | 2 | 42,855 | 28,628 |
| Other Revenue | 3 | 1,753,195 | - |
| Occupancy costs | | (78,050) | (78,927) |
| Professional fees | | (468,976) | (119,587) |
| Corporate fees | | (604,957) | (326,632) |
| Employee benefits expense | 5(a) | (2,248,393) | (1,829,401) |
| Administration costs | | (370,787) | (166,382) |
| Fair value of investments adjustment | | (76,763) | 27,005 |
| Realised gains on financial assets | | (257,502) | 560,952 |
| Unrealised gains on financial assets | | (1,045,714) | 1,045,714 |
| Depreciation and amortisation | 5(b) | (39,094) | (15,948) |
| Loss on disposal of subsidiary | | - | (90,191) |
| Exploration and evaluation costs written off | 5(b) | (1,198,070) | (809,677) |
| Loss before income tax | | (4,592,255) | (1,774,446) |
| Income tax expense | 6 | - | - |
| Loss from continuing operations | | (4,592,255) | (1,774,446) |
| Other comprehensive income | | | |
| Items that may be reclassified subsequently to profit or loss: | | | |
| Exchange differences on translating foreign operation | | - | 91,890 |
| Net fair value gain on available for sale financial assets | | 998,796 | 125,980 |
| Total comprehensive income for the year | | (3,603,459) | (1,556,576) |
| Loss for the year attributable to: | | | |
| Members of the controlling entity | | (4,592,255) | (1,774,446) |
| Non controlling interest | | - | - |
| | | (4,592,255) | (1,774,446) |
| Total comprehensive income attributable to: | | | |
| Members of the controlling entity | | (3,603,459) | (1,556,576) |
| Non controlling interest | | - | - |
| | | (3,603,459) | (1,556,576) |
| Basic loss per share (cents per share) | 18 | 1.81 | 1.03 |

The above statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2017

| | Note | 30 June 2017 \$ | 30 June 2016 \$ |
|------------------------------------|------|--------------------|--------------------|
| Current Assets | | | |
| Cash and cash equivalents | 7 | 2,586,506 | 5,756,645 |
| Trade and other receivables | 8 | 1,038,137 | 317,221 |
| Financial assets | 9 | - | 3,385,822 |
| Total Current Assets | | 3,624,643 | 9,459,688 |
| Non Current Assets | | | |
| Financial assets | 9 | 5,631,545 | 288,496 |
| Exploration Expenditure | 10 | 2,977,849 | 147,050 |
| Intangible assets | 11 | 3,699,945 | 703,118 |
| Property, plant and equipment | 12 | 92,542 | 23,292 |
| Total Non Current Assets | | 12,401,881 | 1,161,956 |
| TOTAL ASSETS | | 16,026,524 | 10,621,644 |
| Current Liabilities | | | |
| Trade and other payables | 13 | 898,030 | 569,017 |
| Total Current Liabilities | | 898,030 | 569,017 |
| TOTAL LIABILITIES | | 898,030 | 569,017 |
| NET ASSETS | | 15,128,494 | 10,052,627 |
| Equity | | | |
| Issued capital | 14 | 29,221,087 | 20,936,454 |
| Reserves | 16 | 2,198,280 | 814,791 |
| Accumulated losses | | (16,290,873) | (11,698,618) |
| Controlling entity interest | | 15,128,494 | 10,052,627 |
| TOTAL EQUITY | | 15,128,494 | 10,052,627 |

The above statement of financial position should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the Year Ended 30 June 2017

| | Issued Capital \$ | Share Based Payment Reserve \$ | Foreign Currency Translation Reserve \$ | Investment Revaluation Reserve \$ | Accumulated Losses \$ | Total \$ |
|--|----------------------|--|---|--|-----------------------------|-------------|
| Balance at 1 July 2015 | 10,565,467 | 129,887 | (94,304) | - | (10,044,510) | 556,540 |
| Loss for the year | - | - | - | - | (1,774,446) | (1,774,446) |
| Other comprehensive income | | | | | | |
| Exchange differences on translation of foreign subsidiary | - | - | 91,890 | - | - | 91,890 |
| Net fair value gain on available for sale financial assets | - | - | - | 125,980 | - | 125,980 |
| Total comprehensive loss for the year | - | - | 91,890 | 125,980 | (1,774,446) | (1,556,576) |

Transaction with owner, directly recorded in equity:

| | | | | | | |
|---|-------------------|----------------|----------------|----------------|---------------------|-------------------|
| Issue of shares | 10,647,843 | - | - | - | - | 10,647,843 |
| Capital raising costs | (435,423) | - | - | - | - | (435,423) |
| Issue of share based payments | - | 840,243 | - | - | - | 840,243 |
| Transfer from share based payment reserve | 158,567 | (158,567) | - | - | - | - |
| Options expired | - | (120,338) | - | - | 120,338 | - |
| Balance at 30 June 2016 | 20,936,454 | 691,225 | (2,414) | 125,980 | (11,698,618) | 10,052,627 |

| | Issued Capital \$ | Share Based Payment Reserve \$ | Foreign Currency Translation Reserve \$ | Investment Revaluation Reserve \$ | Accumulated Losses \$ | Total \$ |
|--|----------------------|--|---|--|-----------------------------|-------------|
| Balance at 1 July 2016 | 20,936,454 | 691,225 | (2,414) | 125,980 | (11,698,618) | 10,052,627 |
| Loss for the year | - | - | - | - | (4,592,255) | (4,592,255) |
| Other comprehensive income | | | | | | |
| Net fair value gain on available for sale financial assets | - | - | - | 988,796 | - | 988,796 |
| Total comprehensive loss for the year | - | - | - | 988,796 | (4,592,255) | (3,603,459) |

Transaction with owner, directly recorded in equity:

| | | | | | | |
|---|-------------------|------------------|----------------|------------------|---------------------|-------------------|
| Issue of shares | 8,206,269 | - | - | - | - | 8,206,269 |
| Capital raising costs | (26,636) | - | - | - | - | (26,636) |
| Issue of share based payments | - | 499,693 | - | - | - | 499,693 |
| Transfer from share based payment reserve | 105,000 | (105,000) | - | - | - | - |
| Balance at 30 June 2017 | 29,221,087 | 1,085,918 | (2,414) | 1,114,776 | (16,290,873) | 15,128,494 |

The above statement of changes in equity should be read in conjunction with the accompanying notes

CONSOLIDATED STATEMENT OF CASH FLOWS
For the Year Ended 30 June 2017

| | 30 June 2017 | 30 June 2016 |
|---|---------------------------|-------------------------|
| Note | \$ | \$ |
| Cash Flows from Operating Activities | | |
| Payments to suppliers and employees | (3,034,316) | (1,774,902) |
| Payments for exploration and evaluation | (1,193,667) | (806,083) |
| Interest received | 41,919 | 28,628 |
| Net cash used in operating activities | 19 <u>(4,186,064)</u> | <u>(2,552,357)</u> |
| Cash Flows from Investing Activities | | |
| Purchase of property, plant and equipment | (106,468) | (31,675) |
| Payment for intangible assets | (3,055,962) | (573,975) |
| Proceeds from sale of financial assets | 12,527 | - |
| Acquisition of exploration and evaluation | (281,329) | - |
| Payments for other financial assets | (246,737) | (104,640) |
| Net cash used in investing activities | <u>(3,677,969)</u> | <u>(710,290)</u> |
| Cash Flows from Financing Activities | | |
| Proceeds from issue of shares | 4,720,530 | 8,402,029 |
| Payment for capital raising costs | (26,636) | (235,422) |
| Net cash generated by financing activities | <u>4,693,894</u> | <u>8,166,607</u> |
| Net increase in cash held | (3,170,139) | 4,903,960 |
| Cash and cash equivalents at the beginning of the period | 5,756,645 | 852,685 |
| Cash and cash equivalents at the end of the period | 7 <u>2,586,506</u> | <u>5,756,645</u> |

The above statement of cash flows should be read in conjunction with the accompanying notes.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2017

These consolidated financial statements and notes represent those of Lithium Australia NL and its controlled entity (the "Consolidated entity"). Australia NL is a no liability company, incorporated and domiciled in Australia.

The Consolidated entity is a for-profit entity for financial reporting purposes under Australian Accounting Standards. The financial statements for the year ended 30 June 2017 were approved and authorised for issue by the Board of Directors on 26 September 2017.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of the material accounting policies adopted by the Consolidated entity in the preparation of the financial report. The accounting policies have been consistently applied, unless otherwise stated.

(a) Basis of Preparation

The financial report is a general purpose financial report that has been prepared in accordance with Australian Accounting Standards including Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001.

Compliance with Australian Accounting Standards ensures that the financial statements and notes also comply with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The financial report has been prepared on an accruals basis and is based on historical cost and does not take into account changing money values or, except where stated, current valuations of non-current assets. Cost is based on the fair values of the consideration given in exchange for assets.

(i) Going Concern

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

The Group has incurred a loss for the year ended 30 June 2017 of \$4,592,255 (2016: \$1,774,446) and cash outflows from operating and investing activities of \$7,864,033 (2016: \$3,262,647). As at 30 June 2017, the Company has a cash at bank balance of \$2,586,506 (2016: \$5,756,645) and a positive working capital position of \$2,726,613 (2016: \$8,890,671).

The directors have prepared a cash flow forecast, which indicates that the Company will have sufficient cash flows to meet all commitments and working capital requirements for the 12 month period from the date of signing this financial report. Based on the cash flow forecasts and other factors referred to below, the directors are satisfied that the going concern basis of preparation is appropriate because:

- the Directors have an appropriate plan to raise additional funds as and when it is required.
- the Group is anticipating receiving an R&D claim for the 2017 financial year within the next two months;
- subsequent to year end, the Group entered in to a Controlled Placement Arrangement with Acuity Capital to raise up to \$5,000,000 in capital; and
- the Directors have an appropriate plan to contain certain operating and exploration expenditure if appropriate funding is unavailable.

Should the Company not achieve the matters set out above, there is material uncertainty whether the Company will continue as a going concern and therefore whether it will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report. The financial statements do not include any adjustments relating to the recoverability and classification of asset carrying amounts or to the amount and classification of liabilities that might result should the Group be unable to continue as a going concern and meet its debts as and when they fall due.

(ii) New Accounting Standards for Application in Future Periods

Application of new and revised Accounting Standards

The Group has adopted all of the new, revised or amending Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ("AASB") that are mandatory for the current reporting period. The adoption of these Accounting Standards and Interpretations did not have any significant impact on the financial performance or position of the Group during the financial year.

Any new, revised or amending Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

Early adoption of new Accounting Standards not yet mandatory

The Group has early adopted AASB 9: Financial Instruments and prospectively applied all the measurement and recognition requirements of AASB 9: Financial Instruments (December 2014), including consequential amendments to other standards, on 1 July 2016. The adoption of AASB 9 results in no material changes to the Group's treatment of its financial instruments, as the Group's financial assets, comprising of investments in listed equity securities, have been designated as financial assets at fair value through other comprehensive income. This treatment is consistent in nature to the previous recognition and measurement requirements of AASB 139.

New Accounting Standards for Application in Future Periods

Accounting Standards issued by the AASB that are not yet mandatorily applicable to the Group, together with an assessment of the potential impact of such pronouncements on the Group when adopted in future periods, are set out below:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2017 (continued)

AASB 15 - Revenue from Contracts with Customers

This standard is applicable to annual reporting periods beginning on or after 1 January 2018.

When effective, this Standard will replace the current accounting requirements applicable to revenue with a single, principles-based model. Apart from a limited number of exceptions, including leases, the new revenue model in AASB 15 will apply to all contracts with customers as well as non-monetary exchanges between entities in the same line of business to facilitate sales to customers and potential customers.

The core principle of the Standard is that an entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for the goods or services. To achieve this objective, AASB 15 provides the following five-step process:

- identify the contract(s) with a customer;
- identify the performance obligations in the contract(s);
- determine the transaction price;
- allocate the transaction price to the performance obligations in the contract(s); and
- recognise revenue when (or as) the performance obligations are satisfied.

The transitional provisions of this Standard permit an entity to either: restate the contracts that existed in each prior period presented per AASB 108 : Accounting Policies, Changes in Accounting Estimates and Errors (subject to certain practical expedients in AASB 15); or recognise the cumulative effect of retrospective application to incomplete contracts on the date of initial application. There are also enhanced disclosure requirements regarding revenue.

Although the directors anticipate that the adoption of AASB 15 may have an impact on the Group's financial statements, it is impracticable at this stage to provide a reasonable estimate of such impact.

AASB 16 - Leases

This standard is applicable to annual reporting periods beginning on or after 1 January 2019.

When effective, this Standard will replace the current accounting requirements applicable to leases in AASB 117 : Leases and related Interpretations. AASB 16 introduces a single lessee accounting model that eliminates the requirement for leases to be classified as operating or finance leases.

The main changes introduced by the new Standard are as follows:

- recognition of a right-of-use asset and liability for all leases (excluding short-term leases with less than 12 months of tenure and leases relating to low-value assets);
- depreciation of right-of-use assets in line with AASB 116 : Property, Plant and Equipment in profit or loss and unwinding of the liability in principal and interest components;
- inclusion of variable lease payments that depend on an index or a rate in the initial measurement of the lease liability using the index or rate at the commencement date;
- application of a practical expedient to permit a lessee to elect not to separate non-lease components and instead account for all components as a lease; and
- inclusion of additional disclosure requirements.

The transitional provisions of AASB 16 allow a lessee to either retrospectively apply the Standard to comparatives in line with AASB 108 or recognise the cumulative effect of retrospective application as an adjustment to opening equity on the date of initial application.

Although the directors anticipate that the adoption of AASB 16 will impact the Group's financial statements, it is impracticable at this stage to provide a reasonable estimate of such impact.

(b) Principles of Consolidation

The consolidated financial statements comprise the finance statements of Lithium Australia NL and its subsidiaries ("the Group"). The financial statements of subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies.

Adjustments are made to bring into line any dissimilar accounting policies that may exist. All intercompany balances and transactions, including unrealised profits arising from intra-group transactions, have been eliminated in full. Unrealised losses are eliminated unless costs cannot be recovered. Subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2017 (continued)

STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Exploration, Evaluation and Development Expenditure

Exploration and evaluation costs are expensed in the period they are incurred apart from mineral acquisition costs, which are capitalised and carried forward where right to tenure of the area of interest is current and they are expected to be recouped through sale or successful development and exploitation of the area of interest, or where exploration and evaluation activities in the area of interest have not reached a stage that permits reasonable assessment of the existence of economically recoverable reserves.

Where an area of interest is abandoned or the directors decide that it is not commercial, any accumulated mineral acquisition costs in respect of that area are written off in the financial period the decision is made. Each area of interest is also reviewed at the end of each accounting period and capitalised costs written off to the extent it is deemed that they will not be recoverable in the future.

Amortisation is not charged on costs carried forward in respect of areas of interest in the development phase until production commences.

(d) Financial Instruments

Initial Recognition and Measurement

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions to the instruments. For Financial assets, this is equivalent to the date that the Company commits itself to either purchase or sell the asset (i.e. trade date accounting is adopted).

Financial instruments are initially measured at fair value plus transaction costs, except where the instruments is classified 'at fair value through profit or loss' in which case transaction costs are expensed to profit or loss immediately. Financial instruments are classified and measured as set out below.

Classification and Subsequent Measurement

Financial instruments are subsequently measure at either fair value, amortised cost using the effective interest rate method or cost. Fair value represents the price that would be received to sell an asset or paid to transfer a liability in orderly transaction between market participants at the measurement date. Where available, quoted prices in an active market are used to determine fair value. In other circumstances, valuation techniques are adopted.

Amortised cost is calculated as (i) the amount at which the financial asset or financial liability is measure at initial recognition; (ii) less principal repayments; (iii) plus or minus the cumulative amortization of the difference, if any, between the amount initially recognised and the maturity amount calculated using the effective interest method; and (iv) less any reduction for impairment.

The effective interest method is used to allocate interest income or interest expense over the relevant period and is equivalent to the rate that exactly discounts estimated future cash payments or receipts (including fees, transaction costs and other premiums or discounts) through the expected life (or when this cannot be reliability predicted, the contractual term) of the financial instrument to the net carry amount of the financial asset or financial liability. Revisions to expected future net cash flows will necessitate an adjustment to the carrying value with a consequential recognition of an income or expense in profit or loss. The Group does not designate any interest in subsidiaries, associates or joint venture entities as being subject to the requirements of accounting standards specifically applicable to financial statements.

(i) Financial assets at fair value through profit and loss or through other comprehensive Income

Financial assets are classified at 'fair value through profit or loss' or Fair value through Other comprehensive Income' when they are either held for trading for purposes of short term profit taking, derivatives not held for hedging purposes, or when they are designated as such to avoid an accounting mismatch or to enable performance evaluation where a group of financial assets is managed by key management personnel on a fair value basis in accordance with a documented risk management or investment strategy. Such assets are subsequently measured at fair value with changes in carrying value being included in profit or loss if electing to choose 'fair value through profit or loss' or other comprehensive income if electing 'Fair Value through other comprehensive income'.

(ii) Financial Liabilities

The Group's financial liabilities include trade and other payables, loan and borrowings, provisions for cash bonus and other liabilities which include deferred cash consideration and deferred equity consideration for acquisition of subsidiaries & associates.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, and payables, net of directly attributable transaction costs.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2017 (continued)

STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value

Fair value is determined based on current bid prices for all quoted investments. Valuation techniques are applied to determine the fair value for all unlisted securities, including recent arm's length transactions, reference to similar instruments and option pricing models.

Derecognition

Financial assets are derecognised where the contractual rights to receipts of cash flows expire or the asset is transferred to another party whereby the entity no longer has any significant continuing involvement in the risk and benefits associated with the asset. Financial Liabilities are recognised where the related obligations are either discharged, cancelled or expire. The difference between the carrying value of the financial liability extinguished or transferred to another party and the fair value of consideration paid, including the transfer of non-cash assets or liabilities assumed, is recognised in profit or loss.

(e) Cash and Cash Equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts.

(f) Trade and Other Receivables

Trade receivables, which generally have 30-90 day terms, are recognised and carried at original invoice amount less an allowance for any uncollectible amounts. An allowance for doubtful debts is made when there is objective evidence that the entity will not be able to collect the debts. Bad debts are written off when identified.

(g) Revenue

Revenue from the sale of goods is recognised upon the delivery of goods to customers.

Interest revenue is recognised on a proportional basis taking into account the interest rates applicable to the financial assets.

Revenue from the rendering of a service is recognised upon the delivery of the service to the customers.

All revenue is stated net of the amount of goods and services tax (GST).

(h) Impairment of Assets

At each reporting date, the Consolidated entity reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from the other assets, the Consolidated entity estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generated unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value, in which case the impairment loss is treated as a revaluation decrease. Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years.

A reversal of an impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value, in which case the impairment loss is treated as a revaluation increase.

(i) Intangible Assets

(i) Intangible assets acquired separately

Intangible assets with finite lives that are acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2017 (continued)

STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

The useful life of the intangible asset acquired – Licence fee is 25 years.

(ii) Internally-generated intangible assets – research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred. An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally generated intangible asset can be recognised, development expenditure is recognised in profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

(j) Property, plant and equipment

IT equipment and other equipment

IT equipment and other equipment (comprising fittings and furniture) are initially recognised at acquisition cost or manufacturing cost, including any costs directly attributable to bringing the assets to the location and condition necessary for it to be capable of operating in the manner intended by the Consolidated entity's management. IT equipment and other equipment are subsequently measured using the cost model, cost less subsequent depreciation and impairment losses. Depreciation is recognised on a diminishing value basis to write down the cost less estimated residual value of IT equipment and other equipment.

The following useful lives are applied:

- IT equipment: 2-5 years
- Other equipment: 3-12 years
- Vehicles: 5-8 years

Material residual value estimates and estimates of useful life are updated as required, but at least annually.

Gains or losses arising on the disposal of property, plant and equipment are determined as the difference between the disposal proceeds and the carrying amount of the assets and are recognised in profit or loss within other income or other expenses.

(k) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Tax Office ("ATO"). In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the statement of financial position are shown inclusive of GST.

The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the statement of financial position.

Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2017 (continued)

STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(l) Taxation

The Consolidated entity adopts the liability method of tax-effect accounting whereby the income tax expense is based on the profit/loss from ordinary activities adjusted for any non-assessable or disallowed items.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or liability is settled. Deferred tax is credited in the statement of comprehensive income except where it relates to items that may be credited directly to equity, in which case the deferred tax is adjusted directly against equity.

Deferred income tax assets are recognised to the extent that it is probable that future tax profits will be available against which deductible temporary differences can be utilised.

The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income taxation legislation and the anticipation that the Consolidated entity will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

(m) Trade and Other Payables

Trade payables and other payables are carried at amortised cost and represent liabilities for goods and services provided to the Consolidated entity prior to the end of the financial year that are unpaid and arise when the Consolidated entity becomes obliged to make future payments in respect of the purchase of these goods and services.

(n) Share Based Payments

Fair value is measured by use of a binomial model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the consolidated entity's estimate of shares that will eventually vest.

For cash-settled share-based payments, a liability equal to the portion of the goods or services received is recognised at the current fair value determined at each reporting date.

(o) Issued Capital

Issued and paid up capital is recognised at the fair value of the consideration received by the Consolidated entity. Any transaction costs arising on the issue of ordinary shares are recognised directly in equity as a reduction of the share proceeds received.

(p) Earnings Per Share

Basic earnings per share is calculated as net earnings attributable to members, adjusted to exclude costs of servicing equity (other than dividends) and preference share dividends, divided by the weighted average number of ordinary shares, adjusted for a bonus element.

Diluted EPS is calculated as net earnings attributable to members, adjusted for costs of servicing equity (other than dividends) and preference share dividends; the after tax effect of dividends and interest associated with dilutive potential ordinary shares that would have been recognised as expenses; and other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares; divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2017 (continued)

STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(q) Critical Accounting Estimates and Judgments

The directors evaluate estimates and judgments incorporated into the financial report based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the Consolidated entity.

Key Estimates - Impairment

The Consolidated entity assesses impairment at the end of each reporting period by evaluating conditions and events specific to the Consolidated entity that may be indicative of impairment triggers. Recoverable amounts of relevant assets are reassessed using value-in-use calculations which incorporate various key assumptions.

Key Estimates – Taxation

Balances disclosed in the financial statements and the notes thereto related to taxation are based on the best estimates of the directors. These estimates take into account both the financial performance and position of the Consolidated entity as they pertain to current income taxation legislation, and the directors' understanding thereof. No adjustment has been made for pending or future taxation legislation. The current income tax position represents that directors' best estimate, pending an assessment by the Australian Taxation Office.

Key Judgment – Environmental Issues

Balances disclosed in the financial statements and notes thereto are not adjusted for any pending or enacted environmental legislation, and the directors' understanding thereof. At the current stage of the Consolidated entity's development and its current environmental impact the directors believe such treatment is reasonable and appropriate.

(r) Fair Value of Assets and Liabilities

The Consolidated entity measures some of its assets and liabilities at fair value on either a recurring or non-recurring basis, depending on the requirements of the applicable Accounting Standard.

Fair value is the price the Consolidated entity would receive to sell an asset or would have to pay to transfer a liability in an orderly (ie unforced) transaction between independent, knowledgeable and willing market participants at the measurement date.

As fair value is a market-based measure, the closest equivalent observable market pricing information is used to determine fair value. Adjustments to market values may be made having regard to the characteristics of the specific asset or liability. The fair values of assets and liabilities that are not traded in an active market are determined using one or more valuation techniques. These valuation techniques maximise, to the extent possible, the use of observable market data.

To the extent possible, market information is extracted from either the principal market for the asset or liability (ie the market with the greatest volume and level of activity for the asset or liability) or, in the absence of such a market, the most advantageous market available to the entity at the end of the reporting period (ie the market that maximises the receipts from the sale of the asset or minimises the payments made to transfer the liability, after taking into account transaction costs and transport costs).

For non-financial assets, the fair value measurement also takes into account a market participant's ability to use the asset in its highest and best use or to sell it to another market participant that would use the asset in its highest and best use.

The fair value of liabilities and the entity's own equity instruments (excluding those related to share-based payment arrangements) may be valued, where there is no observable market price in relation to the transfer of such financial instruments, by reference to observable market information where such instruments are held as assets. Where this information is not available, other valuation techniques are adopted and, where significant, are detailed in the respective note to the financial statements.

Valuation techniques

In the absence of an active market for an identical asset or liability, the Consolidated entity selects and uses one or more valuation techniques to measure the fair value of the asset or liability. The Consolidated entity selects a valuation technique that is appropriate in the circumstances and for which sufficient data is available to measure fair value. The availability of sufficient and relevant data primarily depends on the specific characteristics of the asset or liability being measured. The valuation technique selected by the Consolidated entity are consistent with one or more of the following valuation approaches:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2017 (continued)

STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Market approach: valuation techniques that use prices and other relevant information generated by market transactions for identical or similar assets or liabilities.

Income approach: valuation techniques that convert estimated future cash flows or income and expenses into a single discounted present value.

Cost approach: valuation techniques that reflect the current replacement cost of an asset at its current service capacity.

Each valuation technique requires inputs that reflect the assumptions that buyers and sellers would use when pricing the asset or liability, including assumptions about risks. When selecting a valuation technique, the Consolidated entity gives priority to those techniques that maximise the use of observable inputs and minimise the use of unobservable inputs. Inputs that are developed using market data (such as publicly available information on actual transactions) and reflect the assumptions that buyers and sellers would generally use when pricing the asset or liability are considered observable, whereas inputs for which market data is not available and therefore are developed using the best information available about such assumptions are considered unobservable.

Fair value hierarchy

AASB 13 requires the disclosure of fair value information by level of the fair value hierarchy, which categorises fair value measurements into one of three possible levels based on the lowest level that an input that is significant to the measurement can be categorised into as follows:

Level 1

Measurements based on quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.

Measurements based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 2

Measurements based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3

Measurements based on unobservable inputs for the asset or liability.

The fair values of assets and liabilities that are not traded in an active market are determined using one or more valuation techniques. These valuation techniques maximise, to the extent possible, the use of observable market data. If all significant inputs required to measure fair value are observable, the asset or liability is included in Level 2. If one or more significant inputs are not based on observable market data, the asset or liability is included in Level 3.

The Consolidated entity would change the categorisation within the fair value hierarchy only in the following circumstances:

- (i) if a market that was previously considered active (Level 1) became inactive (Level 2 or Level 3) or vice versa; or
- (ii) if significant inputs that were previously unobservable (Level 3) became observable (Level 2) or vice versa.

When a change in the categorisation occurs, the Consolidated entity recognises transfers between levels of the fair value hierarchy (i.e. transfers into and out of each level of the fair value hierarchy) on the date the event or change in circumstances occurred.

2. REVENUE

| | 2017 | 2016 |
|--|---------------|---------------|
| | \$ | \$ |
| Interest revenue from financial institutes | 42,855 | 28,628 |
| | 42,855 | 28,628 |

3. OTHER REVENUE

| | 2017 | 2016 |
|--------------------|------------------|----------|
| | \$ | \$ |
| Licence Fee | 270,000 | - |
| Sale of Tenements | 720,000 | - |
| R&D Rebate | 752,932 | - |
| Administration Fee | 10,263 | - |
| | 1,753,195 | - |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 30 June 2017 (continued)

4. REMUNERATION OF AUDITORS

| | 2017 | 2016 |
|--|----------------------|----------------------|
| | \$ | \$ |
| Remuneration of the auditor for: | | |
| Auditing or reviewing the financial report | 49,000 | 37,200 |
| | <u>49,000</u> | <u>37,200</u> |

5. LOSS FROM ORDINARY ACTIVITIES

| | 2017 | 2016 |
|--|-------------------------|-------------------------|
| | \$ | \$ |
| (a) Employee benefits expense | | |
| Share based payments | 377,805 | 1,012,402 |
| Defined contribution fund payments | 68,950 | 7,591 |
| Other employee benefits expense | 1,801,638 | 809,408 |
| Total Employee benefits expense from ordinary activities | <u>2,248,393</u> | <u>1,829,401</u> |
| (b) Other expense | | |
| Depreciation and amortisation | 39,094 | 15,948 |
| Exploration and evaluation costs written off | 1,198,070 | 809,677 |
| Total other expense from ordinary activities | <u>1,237,164</u> | <u>825,625</u> |

| | 2017 | 2016 |
|------------------------------|-------------|-------------|
| | \$ | \$ |
| 6. INCOME TAX EXPENSE | | |
| Current tax | - | - |
| Deferred tax | - | - |

- (a) The prima facie tax on loss from ordinary activities before income tax is reconciled to the income tax as follows:

| | | |
|--|-------------|-------------|
| Loss before tax | (4,592,255) | (1,774,446) |
| Prima facie tax (benefit) on loss from ordinary activities before income tax at 27.5% (2016 : 30%) | (1,262,870) | (532,334) |
| <i>Add/(Less) tax effect of:</i> | | |
| Non-deductible expenses | 432,424 | 318,580 |
| Deferred tax asset not brought to account | 830,446 | 213,754 |
| Income tax attributable to entity | <u>-</u> | <u>-</u> |

No income tax is payable by the Consolidated entity. The Directors have considered it prudent not to bring to account the deferred tax asset of income tax losses and exploration deductions until it is probable of deriving assessable income of a nature and amount to enable such benefit to be realised.

The consolidated entity has deferred tax assets not brought to account and available for offset of deferred tax liabilities amounting to \$2,550,802 (2016: \$1,720,356), the benefits of which will only be realised if the conditions for deductibility set out in Note1(l) occur.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2017 (continued)

7. CASH AND CASH EQUIVALENTS

| | | |
|--------------------------------------|------------------|------------------|
| Cash at bank (AA rated institutions) | 2,583,506 | 5,756,645 |
| Petty Cash | 3,000 | - |
| | <u>2,586,506</u> | <u>5,756,645</u> |

8. TRADE AND OTHER RECEIVABLES

| | | |
|----------------|------------------|----------------|
| Other Debtors | 1,020,779 | 188,900 |
| GST receivable | 17,358 | 128,321 |
| | <u>1,038,137</u> | <u>317,331</u> |

9. FINANCIAL ASSETS

| | | |
|--|------------------|------------------|
| Current | | |
| Warrants at fair value (i) | - | 73,440 |
| Equity swap at fair value (ii) | - | 3,312,382 |
| | - | <u>3,385,882</u> |
| Non-current | | |
| Available for sale Australian listed shares – Level 1 fair value | 5,531,545 | 60,290 |
| Available for sale Canadian listed shares – Level 1 fair value | 100,000 | 228,206 |
| | <u>5,631,545</u> | <u>288,496</u> |

- (i) The warrant has been analysed and classified using a fair value hierarchy reflecting the significance of the input used in making the measurement. Financial assets are classified as level 2. The warrants expired unexercised on 4 April 2017.
- (ii) Reconciliation of Equity Swap on 14 January 2016, the Company issued 30,000,000 at \$0.14 to Lanstead Capital L.P.(Lanstead). Lanstead subscribed to 28,571,429 Shares (the Subscription Shares) for an aggregate consideration of \$4m and 1,428,571 shares as a fee. In addition, the Company entered into an Equity Swap Agreement with Lanstead which allows the Company to retain the economic interest in the Lanstead Subscription Shares. The consideration of \$4m is repaid with an initial \$600,000 followed by 18 expected settlements based on the 5 day VWAP for the five days preceding the end valuation date measured against the benchmark price of \$0.1867 per share (Benchmark Price).

Reconciliation of the fair values at the end of the current financial year are set out below:

| | 2017 | 2016 |
|------------------------|-------------|------------------|
| | \$ | \$ |
| Opening fair value | 3,312,382 | - |
| Additions | - | 4,000,000 |
| Fair value revaluation | (1,303,217) | 1,606,668 |
| Settlements | (2,009,165) | (2,294,286) |
| Closing fair value | <u>-</u> | <u>3,312,382</u> |

Financial instruments classified under the equity swap arrangement are measured at fair value using a fair value hierarchy reflecting the significance of the inputs used in making the measurements. These financial assets are classified as level 1.

10. CAPITALISED EXPLORATION EXPENDITURE

| | 2017 | 2016 |
|---------------------------------|------------------|----------------|
| | \$ | \$ |
| Opening balance | 147,050 | 22,000 |
| Additions: | | |
| Interest in Tin International | 372,792 | - |
| Greenbushes Acquisition | 102,090 | - |
| Lithium Rights at Lake Johnston | 1,743,750 | - |
| Interest in Rights of Buckland | 111,991 | - |
| Interest in Electra | 306,009 | 125,050 |
| Lithophile | 194,167 | - |
| Closing balance | <u>2,977,849</u> | <u>147,050</u> |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 30 June 2017 (continued)

11. INTANGIBLE ASSETS

| | 2017 | | | 2016 | | |
|--|---------|-------------------|-----------|---------|-------------------|---------|
| | Patents | Development Costs | Total | Patents | Development Costs | Total |
| | \$ | \$ | \$ | \$ | \$ | \$ |
| Opening balance | 100,800 | 602,318 | 703,118 | - | - | - |
| Transfer from other assets | - | - | - | - | 5,000 | 5,000 |
| Expenditure during the period (i) | - | 3,001,027 | 3,001,027 | 105,000 | 597,318 | 702,318 |
| Less: Amortisation of intangible asset | (4,200) | - | (4,200) | (4,200) | - | (4,200) |
| Closing balance | 96,600 | 3,603,345 | 3,699,945 | 100,800 | 602,318 | 703,118 |

(i) During the period, the company spent \$3,001,027 on development costs relating to the new lithium technology.

(ii) LIT has focused on the development of process technology that may have the ability to transform previously under developed lithium mineral occurrences into valuable ore. The Company has assessed a number of process flow sheets at a laboratory bench scale level and selected the Sileach® technology for pilot plant testing. The Sileach® process is effective on a broad range of silicate minerals that formerly required roasting to extract Lithium. Sileach® is a hydrometallurgical process which eliminates the requirement to roast. The current project development phase is titled Sileach® large scale pilot plant and is at a preliminary prefeasibility study(PFS) of definition. Construction and operation of a large scale pilot plant(LSPP) is considered a necessary step in the commercialisation of Sileach®. The LSPP is intended to produce 2,500tpa of lithium carbonate from the appropriate feed. This output is approximately 1/10 scale of the output of a full-scale lithium carbonate facility,

12. PROPERTY, PLANT AND EQUIPMENT

| | Motor Vehicles | Office Equipment | Computer Equipment | Furniture & Fittings | Total |
|--|----------------|------------------|--------------------|----------------------|---------------|
| | \$ | \$ | \$ | \$ | \$ |
| 2017 | | | | | |
| Gross carrying amount | | | | | |
| Balance at 30 June 2016 | 20,455 | 2,615 | 13,015 | - | 36,085 |
| Additions | - | 60,895 | 32,467 | 10,782 | 104,144 |
| Disposals | - | - | - | - | - |
| Balance at 30 June 2017 | 20,455 | 63,510 | 45,482 | 10,782 | 140,229 |
| Accumulated Depreciation | | | | | |
| Balance at 30 June 2016 | 5,114 | 1,046 | 6,633 | - | 12,793 |
| Depreciation expense | 3,825 | 17,888 | 11,944 | 1,237 | 34,894 |
| Balance at 30 June 2017 | 8,939 | 18,934 | 18,577 | 1,237 | 47,687 |
| Net book value as at 30 June 2017 | 11,516 | 44,576 | 26,905 | 9,545 | 92,542 |
| | | | | | |
| 2016 | | | | | |
| Gross carrying amount | | | | | |
| Balance at 30 June 2015 | - | - | 9,105 | - | 9,105 |
| Additions | 20,455 | 2,615 | 3,910 | - | 26,980 |
| Disposals | - | - | - | - | - |
| Balance at 30 June 2016 | 20,455 | 2,615 | 13,015 | - | 36,085 |
| Accumulated Depreciation | | | | | |
| Balance at 30 June 2015 | - | - | 5,739 | - | 5,739 |
| Depreciation expense | 5,114 | 1,046 | 894 | - | 7,054 |
| Balance at 30 June 2016 | 5,114 | 1,046 | 6,633 | - | 12,793 |
| Net book value as at 30 June 2016 | 15,341 | 1,569 | 6,382 | - | 23,292 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 30 June 2017 (continued)

13. TRADE AND OTHER PAYABLES

| | 2017 | 2016 |
|--------------------------------------|----------------|----------------|
| | \$ | \$ |
| Current - unsecured | | |
| Trade payables | 283,114 | 356,370 |
| Employees annual leave provisions | 41,685 | - |
| Other creditors and accrued expenses | 573,231 | 212,647 |
| | <u>898,030</u> | <u>569,017</u> |

14. ISSUED CAPITAL

| | 2017 | | 2016 | |
|---|--------------------|-------------------|--------------------|-------------------|
| | Number | \$ | Number | \$ |
| Fully Paid Ordinary Shares | | | | |
| Opening Balance | 231,573,560 | 20,934,934 | 129,855,715 | 10,564,297 |
| Issue of shares to directors and staff (i) | 2,300,779 | 440,076 | 4,012,163 | 307,636 |
| Issue of shares on conversion of performance/option rights | 1,000,000 | 105,000 | 12,117,310 | 1,366,428 |
| Issue of shares on \$0.05 and \$0.25 partly paid share call | 1,375,576 | 278,784 | 36,004,266 | 1,321,989 |
| Issue of shares in lieu of payment (ii) | 13,038,816 | 2,378,732 | 1,409,531 | 288,579 |
| Issue of shares to Lepidico shareholders (iii) | 24,268,732 | 3,149,893 | - | - |
| Conversion of CXBCA to LITCB/LITCC | - | - | - | 776,987 |
| Issue of shares (iv) | 10,899,875 | 1,958,684 | 48,174,575 | 6,744,441 |
| Transaction Costs | - | (26,636) | - | (435,423) |
| Closing Balance | <u>284,457,338</u> | <u>29,219,467</u> | <u>231,573,560</u> | <u>20,934,934</u> |

- (i) 403,146 shares were issued to key management personnel
- (ii) Shares based payments are determined with reference to the fair value of goods or services provided by consultants and settled based on the preceding 5 day VWAP.
- (iii) 24,268,732 shares were issued to Lepidico Limited(LPD) Shareholders in relation to the offer dated 16 March 2017 by Lithium Australia(LIT) to acquire all ordinary shares in Lepidico Limited(LPD). The consideration offered was 1 LIT share for every 13.25 LPD shares.
- (iv) On 18 November 2016, the Company issued total 10,899,875 fully paid ordinary shares at \$0.18 each following completion of the Share Purchase Plan.

| | 2017 | | 2016 | |
|--|----------|----------|---------------|----------|
| | Number | \$ | Number | \$ |
| Partly-paid contributing shares - 5 cents | | | | |
| Opening Balance | 26,676 | - | 37,928,001 | - |
| Issue of shares on \$0.05 partly paid share call | (26,676) | - | (37,901,325) | - |
| Closing Balance | <u>-</u> | <u>-</u> | <u>26,676</u> | <u>-</u> |

| | 2017 | | 2016 | |
|--|--------------------|--------------|--------------------|--------------|
| | Number | \$ | Number | \$ |
| Partly-paid contributing shares -25 cents | | | | |
| Opening Balance | 133,199,048 | 1,520 | 11,700,000 | 1,170 |
| Issue of shares on \$0.25 partly paid share call | (1,348,900) | - | (1,546,448) | - |
| Issue of shares to shareholders (i) | - | - | 119,545,496 | - |
| Issue of shares in lieu of payment | 1,000,000 | 100 | 3,500,000 | 350 |
| Closing Balance | <u>132,850,148</u> | <u>1,620</u> | <u>133,199,048</u> | <u>1,520</u> |

- (i) On 11 May 2016, a total of 119,545,496 LITCEs were issued as a bonus to shareholders at nil consideration but a deemed value of \$0.0001 per share.

15. CAPITAL MANAGEMENT

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. There were no changes to the consolidated entity's approach to capital management during the year. Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements. The Board effectively manages the Group's capital by assessing the Group's financial risks and adjusting its capital structure in response to changes in these risks and in the market. These responses include the management of debt levels and by share issues.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2017 (continued)

16. RESERVES

| | 2017 | 2016 |
|--|------------------|----------------|
| | \$ | \$ |
| Option reserve | 756,270 | 634,382 |
| Investment revaluation reserve | 1,114,776 | 125,980 |
| Foreign currency translation reserve | (2,414) | (2,414) |
| Performance rights reserve | 329,648 | 56,843 |
| | <u>2,198,280</u> | <u>814,791</u> |
| Option Reserve | | |
| Opening Balance | 634,382 | 129,887 |
| Transfer options to issued capital on exercise of options | - | (158,567) |
| Conversion of performance option rights | - | 779,400 |
| Transfer from performance option rights achieved | - | 4,000 |
| Valuation of options – partly paid shares | 121,888 | - |
| Options expired | - | (120,338) |
| Closing Balance | <u>756,270</u> | <u>634,382</u> |
| Investment Revaluation Reserve | | |
| Opening Balance | 125,980 | - |
| Net gain arising on revaluation of available for sale financial assets | 988,796 | 125,980 |
| Closing Balance | <u>1,114,776</u> | <u>125,980</u> |
| Foreign Currency Translation Reserve | | |
| Opening Balance | (2,414) | (94,304) |
| Exchange differences arising on translating foreign subsidiary | - | 91,890 |
| Closing Balance | <u>(2,414)</u> | <u>(2,414)</u> |
| Performance Rights Reserve | | |
| Opening Balance | 56,843 | - |
| Issue of performance rights | 377,805 | 60,843 |
| Performance option rights achieved | (105,000) | (4,000) |
| Closing Balance | <u>329,648</u> | <u>56,843</u> |

17. FINANCIAL INSTRUMENTS

Financial Risk Management Policies

The consolidated entity's financial instruments consist solely of deposits with banks. No financial derivatives are held.

(i) *Financial Risk Exposures and Management*

The main risk the consolidated entity is exposed to through its financial instruments is interest rate risk.

Interest rate risk

Interest rate risk is managed by obtaining the best commercial deposit interest rates available in the market by the major Australian Financial Institutions.

Credit risk

The maximum exposure to credit risk, at balance date to recognised financial assets, is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the balance sheet and notes to the financial statements. The consolidated entity does not have any material credit risk exposure to any single receivable or Company of receivables under financial instruments entered into by the consolidated entity.

Liquidity Risk

The consolidated entity manages liquidity risk by monitoring forecast cash flows. The consolidated entity does not have any significant liquidity risk as the consolidated entity does not have any collateral debts.

(i) *Fair Values*

The fair values of financial assets and financial liabilities are presented below and can be compared to their carrying amounts as presented in the statement of financial position. Fair value is the amount at which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

(ii) *Sensitivity Analysis*

Interest Rate Risk

The consolidated entity has performed sensitivity analysis relating to its exposure to interest rate risk at balance date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2017 (continued)

17. FINANCIAL INSTRUMENTS (continued)

This sensitivity analysis demonstrates the effect on the current year results and equity which could result from a change in these risks.

Interest Rate Sensitivity Analysis

At 30 June 2017, the effect on loss as a result of changes in the interest rate, with all other variables remaining constant would be as follows:

| | 2017 \$ | 2016 \$ |
|---|------------|------------|
| Change in loss | | |
| - Increase in interest rate by 100 basis points | 25,865 | 57,566 |
| - Decrease in interest rate by 100 basis points | (25,865) | (57,566) |
| Change in equity | | |
| - Increase in interest rate by 100 basis points | 25,865 | 57,566 |
| - Decrease in interest rate by 100 basis points | (25,865) | (57,566) |

| 2017 | Floating Interest Rate \$ | Fixed Interest Rate Maturing in 1 year or less \$ | Non- interest bearing \$ | Total \$ |
|-----------------------------------|---------------------------------|--|-----------------------------------|-------------|
| <i>Financial assets</i> | | | | |
| Cash and cash equivalents | 2,586,506 | - | - | 2,586,506 |
| Held for trading financial assets | - | - | 5,631,545 | 5,631,545 |
| Trade and other receivables | - | - | 1,038,137 | 1,038,137 |
| Total financial assets | 2,586,506 | - | 6,669,682 | 9,256,188 |
| <i>Financial liabilities</i> | | | | |
| Trade and other payables (i) | - | - | 898,030 | 898,030 |
| Total financial liabilities | - | - | 898,030 | 898,030 |

The financial instruments recognised at fair value in the statement of financial position have been analysed and classified using a fair value hierarchy reflecting the significance of the inputs used in making the measurement.

All financial instruments held are level 1. Interest rate 2% per annum.

(i) The trade and other payables are due within 12 months.

| 2016 | Floating Interest Rate \$ | Fixed Interest Rate Maturing in 1 year or less \$ | Non- interest bearing \$ | Total \$ |
|-----------------------------------|---------------------------------|--|-----------------------------------|-------------|
| <i>Financial assets</i> | | | | |
| Cash and cash equivalents | 5,756,645 | - | - | 5,756,645 |
| Held for trading financial assets | - | - | 3,674,318 | 3,674,318 |
| Trade and other receivables | - | - | 317,221 | 317,221 |
| Total financial assets | 5,756,645 | - | 3,991,539 | 9,748,184 |
| <i>Financial liabilities</i> | | | | |
| Trade and other payables (i) | - | - | 569,017 | 569,017 |
| Total financial liabilities | - | - | 569,017 | 569,017 |

The financial instruments recognised at fair value in the statement of financial position have been analysed and classified using a fair value hierarchy reflecting the significance of the inputs used in making the measurement. All financial instruments held are level 1. Interest rate 2% per annum.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2017 (continued)

18. LOSS PER SHARE

| | 2017 | 2016 |
|--|-------------------------|-------------------------|
| | \$ | \$ |
| Loss used in calculation of basic EPS | (4,592,255) | (1,774,446) |
| | Number of Shares | Number of Shares |
| Weighted average number of ordinary shares outstanding during the year used in the calculation of basic earnings per share | 253,417,191 | 171,569,173 |

19. CASH FLOW INFORMATION

| | 2017 | 2016 |
|--|--------------------|--------------------|
| | \$ | \$ |
| Reconciliation of cash flows from operating activities with loss after income tax | | |
| Loss after income tax | (4,592,255) | (1,774,446) |
| Adjustments for non-cash income and expense items: | | |
| Depreciation | 39,094 | 15,948 |
| (Profit)/Loss on disposal of subsidiaries | - | 90,191 |
| Share based payment expense | 980,403 | 1,012,416 |
| Unrealised/realised gain on equity swap | 1,303,216 | (1,606,666) |
| Changes in assets and liabilities: | | |
| (Increase)/decrease in receivables & prepayments | (932,387) | (36,993) |
| (Decrease)/increase in accounts payable, accruals & employee entitlements | 282,769 | (129,189) |
| (Increase)/decrease in other assets | - | 4,375 |
| (Increase)/decrease in financial assets | (1,266,904) | (127,993) |
| Net cash outflows from Operating Activities | (4,186,064) | (2,552,357) |

20. SEGMENT INFORMATION

(a) Segment performance

Lithium Australia has identified its operating segments based on internal reports that are reviewed and used by the Board of Directors (chief operating decision makers) in assessing performance and determining the allocation of resources.

Lithium Australia is managed primarily on the basis of mining exploration and as a subset of mining, processing technology. Operating segments are considered to have similar economic characteristics.

Types of reportable segments:

- (i) Tenement exploration and evaluation
The exploration of current projects and the evaluation of new ones are reported in this segment. Segment assets, including acquisition costs of exploration licences and all expenses related to the tenements are reported in this segment.
- (ii) Processing technology
The development of processing technology for lithium extraction is reported in this segment.

(b) Basis of accounting for purposes of reporting by operating segments

Unless stated otherwise, all amounts reported to the Board of Directors as the chief decision maker with respect to operating segments are determined in accordance with accounting policies that are consistent to those adopted in Lithium Australia's annual financial report.

Segment assets

Where an asset is used across multiple segments, the asset is allocated to the segment that receives the majority of economic value from the asset. In the majority of instances, segment assets are clearly identifiable on the basis of their nature and physical location.

Unless indicated otherwise in the segment asset notes, investments in financial assets, deferred tax assets and intangible assets have not been allocated to operating segments.

Segment liabilities

Liabilities are allocated to segments where there is a direct nexus between the incurrence of the liability and the operations of the segment. Borrowings and tax liabilities are generally considered to relate to the Group as a whole and are not allocated.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2017 (continued)

20. SEGMENT INFORMATION (continued)

Unallocated items

The following items of revenue, expense assets and liabilities are not allocated to operating segments, as they are not considered part of the core operations of any segment:

- Net gains on disposal of available-for-sale investments;
- Impairment of assets excluding exploration assets and other non-recurring items of revenue or expense;
- Income tax expense;
- Deferred tax assets and liabilities;
- Trade payable and other payables;
- Intangible assets.

21. OPERATING SEGMENTS

(i) Segment revenues and results 30 June 2017

| | Processing Technology | Exploration | Total |
|---------------------------|--------------------------|--------------------|--------------------|
| | \$ | \$ | \$ |
| Revenue | - | - | - |
| Loss | (4,200) | (1,198,070) | (1,202,270) |
| Total segment loss | (4,200) | (1,198,070) | (1,202,270) |

Reconciliation of segment result to Consolidated entity net loss

Unallocated items

| | |
|---|-------------|
| - Interest revenue | 42,855 |
| - Other revenue | 1,753,195 |
| - Fair value of investments adjustment | (76,763) |
| - Realised losses on financial assets | (257,502) |
| - Unrealised losses on financial assets | (1,045,714) |
| - Occupancy | (78,050) |
| - Professional | (468,976) |
| - Compliance & Regulatory | (604,957) |
| - Personnel | (2,248,393) |
| - Administration | (370,786) |
| - Depreciation | (34,894) |

Net loss from continuing operations

(4,592,255)

30 June 2016

| | Processing Technology | Exploration | Total |
|---------------------------|--------------------------|------------------|------------------|
| | \$ | \$ | \$ |
| Revenue | | | |
| Expenses | - | (809,677) | (809,677) |
| Total segment loss | - | (809,677) | (809,677) |

Reconciliation of segment result to consolidated entity net loss

Unallocated items

| | |
|---------------------------------------|-------------|
| - Interest revenue | 28,628 |
| - Other income | 1,634,671 |
| - Fair value of investment adjustment | - |
| - Occupancy | (78,927) |
| - Professional | (119,587) |
| - Compliance & Regulatory | (326,632) |
| - Personnel | (1,829,401) |
| - Administration | (166,382) |
| - Loss on disposal of subsidiary | (91,191) |
| - Depreciation | (15,948) |

Net loss from continuing operations

(1,774,446)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2017 (continued)

| | | | |
|----------------------------------|------------------------------|--------------------|-------------------|
| (ii) Segment Assets | | | |
| 30 June 2017 | Processing Technology | Exploration | Total |
| | \$ | \$ | \$ |
| Segment Assets | 3,699,945 | 2,977,849 | 6,677,794 |
| Unallocated assets | | | |
| - Cash and cash equivalents | | | 2,586,506 |
| - Trade and other receivables | | | 1,038,137 |
| - Other | | | 5,724,087 |
| Total company assets | | | 16,026,524 |
| 30 June 2016 | Processing Technology | Exploration | Total |
| | \$ | \$ | \$ |
| Segment Assets | 703,118 | 147,050 | 850,168 |
| Unallocated assets | | | |
| - Cash and cash equivalents | | | 5,756,645 |
| - Trade and other receivables | | | 317,221 |
| - Other | | | 3,697,610 |
| Total company assets | | | 10,621,644 |
| (iii) Segment Liabilities | | | |
| 30 June 2017 | Processing Technology | Exploration | Total |
| | \$ | \$ | \$ |
| Segment Liabilities | 112,114 | 49,311 | 161,425 |
| Unallocated liabilities | | | |
| - Trade and other payables | | | 736,605 |
| Total company liabilities | | | 898,030 |
| 30 June 2016 | Processing Technology | Exploration | Total |
| | \$ | \$ | \$ |
| Unallocated liabilities | - | - | - |
| - Trade and other payables | | | 569,017 |
| Total company liabilities | | | 569,017 |

22. SUBSEQUENT EVENTS

- (a)** On 11 July 2017, BlackEarth Minerals NL cancelled 15,000,000 ordinary shares and 9,000,000 partly paid shares issued to the Company.
- (b)** On 17 July 2017, the Company received from BlackEarth Minerals NL 1,000,000 ordinary shares as proceeds for the sale of tenements to BlackEarth Minerals NL.
- (c)** On 31 July 2017, the Company issued 2,473,901 shares under the Director & Senior Management Fee & Remuneration Sacrifice Share Plan.
- (d)** On 31 July 2017, the Company entered into a Controlled Placement Agreement (CPA) with Acuity Capital. The CPA provides LIT with up to \$5 million of standby equity capital over the coming 29 month period. Importantly, LIT retains full control of all aspects the placement process: having sole discretion as to whether or not to utilise the CPA, the quantum of issued shares, the minimum issue price of shares and the timing of each placement tranche (if any). There are no requirements on LIT to utilise the CPA and LIT may terminate the CPA at any time, without cost or penalty. Acuity Capital and the CPA do not place any restrictions at any time on LIT raising capital through other methods. If LIT does decide to utilise the CPA, LIT is able to set a floor price (at its sole discretion) and the final issue price will be calculated as the greater of that floor price set by LIT and a 10% discount to a Value Weighted Average Price (VWAP) over a period of LIT's choosing (again at the sole discretion of LIT).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2017 (continued)

22. SUBSEQUENT EVENTS (continued)

- (e) Pursuant to a term sheet dated 28 August 2017, the Company is evaluating the acquisition of up to 100% of the issued share capital of the Very Small Particle Company Limited(VSPC). Completion of this acquisition is subject to technical corporate finance due diligence to the Company's satisfaction by 30 September 2017. Subsequent to signing the term sheet, the Company will pay a non-refundable cash payment of up to \$45,000 depending on the length of the due diligence period and subject to the successful completion of the due diligence, the Company will issue up to 61,151,326 fully paid ordinary LIT shares and 30,575,663 \$0.25 partly paid LIT shares as consideration.
- (f) On 13 September 2017, the Company entered into a memorandum of understanding with Poseidon Nickel to evaluate joint exploration and lithium processing opportunities at Lake Johnston and Ravensthorpe in Southern Western Australia.
- (g) On 26 September 2017, the increase/(decrease) in share prices had the following effect on the fair value of the significant investments held:

| INVESTMENT | SHARE PRICE AT 30/06/2017 | SHARE PRICE AT 26/09/17 | INCREASE/ (DECREASE) IN SHARE PRICE | NUMBER OF SHARES HELD AT 30/06/2017 | INCREASE/ (DECREASE) IN FAIR VALUE |
|----------------------------|---------------------------------|-------------------------------|---|---|--|
| Lepidico Limited | \$0.013 | \$0.012 | (\$0.001) | 322,118,748 | (\$322,119) |
| Lefroy Exploration Limited | \$0.130 | \$0.150 | \$0.020 | 3,000,000 | \$60,000 |
| Metals Tech | \$0.205 | \$0.120 | (\$0.085) | 2,000,000 | (\$170,000) |
| Alix Resources | \$0.050 | \$0.030 | (\$0.020) | 2,000,000 | (\$40,000) |
| | | | | | <u><u>(\$472,119)</u></u> |

For further information on these investments, refer to note 9.

23. RELATED PARTY TRANSACTIONS

Transactions between related parties are on commercial terms and conditions, no more favourable than those available to other parties unless otherwise stated. There were no other related party transactions other than transactions disclosed in Note 23.

24. KEY MANAGEMENT PERSONNEL COMPENSATION

Names and positions held of the Consolidated entity key management personnel in office at any time during the financial period are:

| Key Management Person | Position |
|-----------------------|-------------------------|
| George Bauk | Non-Executive Chairman |
| Adrian Griffin | Managing Director |
| Bryan Dixon | Non-Executive Director |
| Barry Woodhouse | CFO & Company Secretary |

Key management personnel remuneration has been included in the Remuneration Report section of the Directors' Report. The totals of remuneration paid to Key Management Personnel of the Consolidated entity during the year is as follows:

| | 2017 \$ | 2016 \$ |
|--------------------------|----------------|------------------|
| Short-term benefits | 541,401 | 399,785 |
| Share based payments | 395,901 | 850,225 |
| Post-employment benefits | 26,869 | - |
| | <u>964,171</u> | <u>1,250,010</u> |

25. CONTINGENT ASSETS

On the 11 October 2016, the Company entered into a binding letter agreement with MetalsTech. The Company will grant MetalsTech the licence to use Sileach™, LieNA™ or other Lithium Australia owned processing technologies. The licence will grant MetalsTech the exclusive right to use the licensed technology for any project in the province of Quebec, Canada, owned by MetalsTech or for any ore originating from a project within Quebec.

Lithium Australia will be entitled to receive a royalty of 2% of gross revenue derived by MetalsTech from selling all products that were beneficiated using the technology. In addition to royalty payments, MetalsTech will be required to issue Lithium Australia up to 5,000,000 Shares in the Company and 3,000,000 Options, subject to performance millstones as follows:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2017 (continued)

25. CONTINGENT ASSETS (continued)

- (a) Proof of Concept: MetalsTech will issue LIT 500,000 Shares upon LIT achieving representative >90% Li extraction from bench scale testing using spodumene sourced from a MetalsTech projects.
- (b) Quality Tests: MetalsTech will issue LIT 500,000 Shares upon LIT achieving representative >95% Li₂CO₃ purity ppt from leach liquors, using spodumene sourced from a MetalsTech project.
- (c) Pilot Tests: MetalsTech will issue LIT 1,000,000 Shares and 500,000 Options upon LIT achieving representative extraction >90% Li recovery and >85% from leach liquor, in a continuous plant operation, using spodumene sourced from a MetalsTech projects.
- (d) Scoping Study: MetalsTech will issue LIT 1,000,000 Shares and 500,000 Options upon MetalsTech delivering of a scoping study on one of the MetalsTech projects demonstrating that using the Technology, MetalsTech can produce a lithium carbonate product or lithium hydroxide product on cost competitive terms.
- (e) Definitive Feasibility Study: MetalsTech will issue LIT 1,000,000 Shares and 500,000 Options upon MetalsTech delivering of a definitive feasibility study on one of the MetalsTech projects demonstrating that using the Technology, MetalsTech can produce a lithium carbonate product or lithium hydroxide product on cost competitive terms.
- (f) Offtake: MetalsTech will issue LIT 500,000 Options upon MetalsTech executing a binding offtake agreement(s) for the supply of >5,000 tpa of lithium carbonate and/or lithium hydroxide from a processing plant using the Technology.
- (g) Commencement of Plant Construction: MetalsTech will issue LIT 500,000 Options upon MetalsTech commission construction of a full-scale processing plant using the Technology (excluding pilot plant construction).
- (h) First Commercial Production: MetalsTech will issue LIT 500,000 Options upon MetalsTech achieving first commercial production and sales of lithium carbonate and/or lithium hydroxide from a full-scale processing plant using the Technology.

26. CONTINGENT LIABILITIES

The Consolidated Entity has the following contingent liabilities as at 30 June 2017 (30 June 2016: Nil).

Acquisition of Lithophile Pty Ltd

On the 1st July 2016, Lithium Australia NL acquired 100% shareholding in Lithophile Pty Ltd for the consideration of \$26,726 cash payment, 500,000 Shares, 500,000 Partly Paid Shares as well as Deferred Consideration Shares as listed below. The deferred consideration is not probable, and therefore the Group has not provided for such amounts in this financial report.

- (a) First deferred consideration shares of 500,000 fully paid ordinary share and 500,000 partly paid shares (payable on completion of a prefeasibility study).
- (b) Second deferred consideration shares of 1,500,000 fully paid ordinary share (payable on completion of study which indicated resources of no less than 1m tonne grading 1% lithium).

27. COMMITMENTS

(a) Exploration Expenditure

The Consolidated entity has certain obligations with respect to tenements and minimum expenditure requirements in Australia, as follows:

| | 2017 | 2016 |
|---|------------------|------------------|
| | \$ | \$ |
| Within 12 months | 2,306,040 | 668,382 |
| 12 Months or longer and not longer than 5 years | 2,306,040 | 668,382 |
| Longer than 5 years | - | - |
| Total | <u>4,612,080</u> | <u>1,336,764</u> |

(b) Other

Lithium Australia NL and Tin International AG, (subsidiary of German listed Deutsche Rohstoff AG), have entered into the Saxon Farm-In, Incorporated Joint Venture and Shareholders Agreement ("Agreement"). The Agreement considers the Sadisdorf deposit, located in Saxony, Germany as a key asset of the Joint Venture. LIT has the right to earn 15% of the to be established company by spending a total of EUR 750,000 on exploration of Sadisdorf until 30 June 2018. Alternatively, the company can elect to pay the outstanding amount in cash to Tin International by year-end. By investment of a further EUR 1.25 million over a 3-year period Lithium Australia has the right to further increase its interest in the Joint Venture Company to 50%. After the completion of this "earn-in" period, the partners equally bear the project development costs or are diluted accordingly. Tin International received a one-off payment of EUR 200,000 in LIT shares and EUR 50,000 in cash.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2017 (continued)

28. CONTROLLED ENTITY

Lithium Australia NL is the ultimate parent entity of the consolidated group.

The following was a controlled entity at the balance date and has been included in the consolidated financial statements. All shares held are ordinary shares.

Subsidiaries of Lithium Australia NL

| Name | Country of Incorporation | Percentage Interest Held % 2017 | Percentage Interest Held % 2016 | Date Acquired/ Incorporated | Date of Deregistered/ Deconsolidated | |
|-------|---|---------------------------------|---------------------------------|-----------------------------|--------------------------------------|---|
| (i) | Greater African Resources | Mauritius | 100% | 100% | 26 January 2012 | - |
| (ii) | Tyler Ray (Pty) Ltd | South Africa | 74% | 74% | 26 January 2012 | - |
| (iii) | Lithophile Pty Ltd | Australia | 100% | 0% | 01 July 2016 | - |
| (iv) | Resource Conservation and Recycling Corporation Pty Ltd | Australia | 100% | 0% | 10 December 2016 | - |
| (v) | Trilithium Erzgebirge GmbH | Germany | 100% | 0% | 07 February 2017 | - |

- (i) On 26 January 2012, the Company registered Greater African Resources, a company incorporated in Mauritius. Greater African Resources had no assets or liabilities at the date of acquisition.
- (ii) Greater African Resources owns 74% of issued ordinary shares of Tyler Ray (Pty) Ltd.
- (iii) On 01 July 2016, the Company acquired Lithophile Pty Ltd, a company incorporated in Australia. Lithophile had assets of \$33,964 and liabilities of \$34,012 at the date of acquisition.
- (iv) On 10 December 2016, the Company registered Resource Conservation and Recycling Corporation Pty Ltd, a company incorporated in Australia. Resource Conservation and Recycling Corporation has no assets or liabilities at the date of incorporation.
- (v) On 07 February 2017, the Company registered Trilithium Erzgebirge GmbH, a company incorporated in Germany. Trilithium Erzgebirge had no assets or liabilities at the date of incorporation. Greater African Resources owns 100% of issued ordinary shares of Trilithium Erzgebirge GmbH.

29. PARENT ENTITY INFORMATION

| | Parent 2017 \$ | Parent 2016 \$ |
|--|----------------------|----------------------|
| Assets | | |
| Current assets | 3,624,543 | 9,619,465 |
| Non-current assets | 12,401,981 | 873,460 |
| Total Assets | 16,026,524 | 10,492,925 |
| Liabilities | | |
| Current liabilities | 898,030 | 440,696 |
| Total Liabilities | 898,030 | 440,696 |
| Equity | | |
| Issued capital | 29,221,087 | 20,936,454 |
| Reserves | 2,198,280 | 814,791 |
| Accumulated losses | (16,290,873) | (11,699,016) |
| Total Equity | 15,128,494 | 10,052,229 |
| Loss for the period | (4,591,857) | (1,559,616) |
| Total comprehensive loss for the period | (4,591,857) | (1,559,616) |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2017 (continued)

30. SHARE BASED PAYMENTS

The following share-based payment arrangements were in existence during the current reporting periods:

OPTIONS

| Series | Grant Date | Date of Expiry | Exercise Price | Number under Option | Fair Value |
|----------|------------------|----------------|----------------|---------------------|------------|
| Series 1 | 16 October 2015 | 1 July 2019 | \$0.15 | 4,316,666 | \$0.036 |
| Series 2 | 16 October 2015 | 1 July 2019 | \$0.20 | 7,875,000 | \$0.031 |
| Series 3 | 23 December 2015 | 1 July 2019 | \$0.30 | 9,200,000 | \$0.025 |
| | | | | 21,391,666 | |

The weighted average remaining contractual life of options outstanding at year end was 2 years (2016: 3 years).

The weighted average exercise price of outstanding options at reporting date was \$0.22 (2016: \$0.23).

PERFORMANCE RIGHTS

| Tranche 1 | Issue Date | Date of Expiry | Number Issued | Fair Value |
|------------|--------------|----------------|------------------|------------|
| Tranche 1a | 15 July 2015 | 01 July 2019 | 4,050,000 | \$- |
| Tranche 1b | 15 July 2015 | 01 July 2019 | 2,025,000 | \$- |
| Tranche 1c | 15 July 2015 | 01 July 2019 | 2,025,000 | \$- |
| | | | 8,100,000 | \$- |

| Tranche 1 | Issue Date | Date of Expiry | Number Issued | Fair Value |
|------------|-----------------|----------------|------------------|------------|
| Tranche 1a | 15 October 2015 | 01 July 2019 | 640,000 | \$- |
| Tranche 1b | 15 October 2015 | 01 July 2019 | 800,000 | \$- |
| Tranche 1c | 15 October 2015 | 01 July 2019 | 800,000 | \$- |
| | | | 2,240,000 | \$- |

| Class 1 | Issue Date | Date of Expiry | Number Issued | Fair Value |
|---------|------------------|----------------|-------------------|------------------|
| Class A | 28 November 2016 | 01 July 2021 | 1,000,000 | \$74,025 |
| Class B | 28 November 2016 | 01 July 2021 | 2,000,000 | \$92,532 |
| Class C | 28 November 2016 | 01 July 2021 | 3,000,000 | \$53,228 |
| Class D | 28 November 2016 | 01 July 2021 | 4,000,000 | \$6,658 |
| | | | 10,000,000 | \$226,443 |

| Class 2 | Issue Date | Date of Expiry | Number Issued | Fair Value |
|---------|------------------|----------------|------------------|-----------------|
| Class A | 01 December 2016 | 01 July 2021 | 375,000 | \$26,771 |
| Class B | 01 December 2016 | 01 July 2021 | 750,000 | \$33,463 |
| Class C | 01 December 2016 | 01 July 2021 | 1,125,000 | \$19,243 |
| Class D | 01 December 2016 | 01 July 2021 | 1,500,000 | \$2,396 |
| | | | 3,750,000 | \$81,873 |

| Class 3 | Issue Date | Date of Expiry | Number Issued | Fair Value |
|---------|------------------|----------------|------------------|-----------------|
| Class A | 20 December 2016 | 01 July 2021 | 125,000 | \$6,985 |
| Class B | 20 December 2016 | 01 July 2021 | 250,000 | \$8,732 |
| Class C | 20 December 2016 | 01 July 2021 | 375,000 | \$5,011 |
| Class D | 20 December 2016 | 01 July 2021 | 500,000 | \$605 |
| | | | 1,250,000 | \$21,333 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2017 (continued)

30. SHARE BASED PAYMENTS (continued)

Fair value of equity instruments granted in the year

The weighted average fair value of the equity instruments granted during the financial year is \$0.0471 (2016: \$0.0471). Equity instruments were priced using a modified Black-Scholes option pricing model. Where relevant, the expected life used in the model has been adjusted based on management's best estimate for the non-transferability, exercise restrictions (including the probability of meeting market conditions attached to the option), and behavioral considerations. Expected volatility is based on the historical share price volatility over the past 3 years. To allow for effects of early exercise, it was assumed that executives would exercise the options after vesting date when the share price is/was at a premium to the exercise price.

The inputs to the model are listed below.

| | Option Series | | |
|-------------------------|---------------|----------|----------|
| | Series 1 | Series 2 | Series 3 |
| Exercise price | \$0.15 | \$0.20 | \$0.30 |
| Expected volatility | 85% | 85% | 85% |
| Option life | 4 years | 4 years | 4 years |
| Dividend yield | 0.00% | 0.00% | 0.00% |
| Risk-free interest rate | 2.1% | 2.1% | 2.1% |

| | Performance Rights | | | |
|-------------------------|--------------------|-----------|-----------|-----------|
| | Tranche 1 | Class1 | Class 2 | Class 3 |
| Grant date share price | \$0.075 | \$0.17 | \$0.165 | \$0.135 |
| Exercise price | \$- | \$- | \$- | \$- |
| Expected volatility | N/A | N/A | N/A | N/A |
| Performance Right life | 4 years | 4.5 years | 4.5 years | 4.5 years |
| Dividend yield | 0.00% | 0.00% | 0.00% | 0.00% |
| Risk-free interest rate | N/A | N/A | N/A | N/A |

DIRECTORS' DECLARATION

The directors of Lithium Australia NL declare that:

1. The financial statements and notes are in accordance with the Corporations Act 2001 including compliance with accounting standards and:
 - (a) comply with International Financial Reporting Standards as disclosed in note1(a); and
 - (b) give a true and fair view of the Consolidated entity's financial position as at 30 June 2017 and of its performance as represented by the results of its operations, changes in equity and its cash flows for the period ended on that date; and
2. At the date of this statement there are reasonable grounds to believe that the consolidated entity will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Board of Directors made pursuant to S.295(5) of the Corporations Act 2001.



Adrian Griffin
Managing Director

Dated at Perth this 26th day of September 2017

Independent Auditor's Report

To the Members of Lithium Australia NL

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Lithium Australia NL ("the Company") and its subsidiaries ("the Group"), which comprises the consolidated statement of financial position as at 30 June 2017, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion:

- a. the accompanying financial report of the Group is in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the Group's financial position as at 30 June 2017 and of its financial performance for the year then ended; and
 - (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001.
- b. the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

Material Uncertainty Related to Going Concern

We draw attention to Note 1(ai) in the financial report, which indicates that the Group incurred a net loss of \$4,592,255 during the year ended 30 June 2017. As stated in Note 1(ai), these events or conditions, along with other matters as set forth in Note 1(ai), indicate that a material uncertainty exists that may cast significant doubt on the Groups ability to continue as a going concern. Our opinion is not modified in this respect of this matter.



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Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Report section of our report. We are independent of the Group in accordance with the auditor independence requirements of the Corporations Act 2001 and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

| Key audit matter | How our audit addressed the key audit matter |
|---|--|
| <p>Intangible Asset – Development Expenditure - \$3,699,945 (refer to Note 11)</p> <p>The capitalized development costs of \$3,699,945 as disclosed in Note 11 in the consolidated financial statements is considered to be a key audit matter due to the significance to the consolidated statement of financial position and the specific criteria that are required to be met for capitalization.</p> <p>This involves significant management judgement with respect to technical feasibility, intention and ability to complete the intangible asset, ability to use or sell the asset, generation of future benefits and the ability to measure the costs reliably.</p> | <p>Our procedures amongst others included: Assessing the recognition criteria for development costs;</p> <ul style="list-style-type: none"> ➤ Evaluating the key assumptions used for estimates made in capitalizing development costs related to the development of the various lithium extraction technologies and the generation of probable future economic benefits; ➤ We tested additions to capitalised development expenditure for the year by evaluating a sample of recorded expenditure for consistency to underlying records and the capitalisation requirements of the Group's accounting policy and the requirements of AASB 138; ➤ We considered whether there were any impairment triggers and whether the technical feasibility to date has been successful, through discussions with management and review of feasibility reports undertaken during the period. We also obtained corroborative information that supports management's assessment that future economic benefits were attainable; and ➤ We assessed the adequacy of the disclosures in Notes 11. |

| Key audit matter | How our audit addressed the key audit matter |
|--|--|
| <p>Share based payments</p> <p>(Refer to Notes 14 and 30)</p> <p>As disclosed in Notes 14 and 30, the Group has performance rights on issue to related parties which are subject to various performance and service conditions and other equity settled transactions. Furthermore the Group has had several asset acquisitions whereby the consideration transferred was by way of Lithium Australia NL ordinary shares and partly paid shares.</p> <p>These are subject to the measurement and recognition criteria of AASB 2 “Share-based payments”.</p> <p>We have identified this as a key audit matter as it involves significant assumptions made by Management in determining the probability of certain performance conditions being met.</p> | <p>Our procedures included amongst others:</p> <ul style="list-style-type: none"> ➤ Reconciliation of Performance Rights obtained; ➤ Reviewing the underlying terms and conditions of Performance Rights on issue; ➤ Ascertain whether Performance Rights have been valued correctly in accordance with AASB 2 based on the terms and conditions of the Performance Rights; ➤ Reviewed Management's assumptions made on the probabilities of the performance conditions being satisfied to ensure that they are reasonable; and ➤ For new Performance Rights issued and all equity-settled transactions, we assessed the inputs used in the valuation to ascertain whether they are reasonable and in accordance with AASB 2. ➤ For asset acquisitions we reviewed management's assumptions for determining the grant date and fair value of the shares issued. ➤ We assessed the adequacy of the disclosures in Notes 14 and 30. |
| <p>Exploration and Evaluation Expenditure – \$2,977,849</p> <p>(Refer to Note 10)</p> <p>Exploration and evaluation is a key audit matter due to:</p> <ul style="list-style-type: none"> ➤ The level of judgement required in evaluating management's application of the requirements of AASB 6 <i>Exploration for and Evaluation of Mineral Resources</i>. AASB 6 is an industry specific accounting standard requiring the application of significant judgements, estimates and industry knowledge. This includes specific requirements for expenditure to be capitalised as an asset and subsequent requirements which must be complied with for capitalised expenditure to continue to be carried as an asset; and ➤ The assessment of impairment of exploration and evaluation expenditure being inherently difficult. | <p>Our procedures included, amongst others:</p> <ul style="list-style-type: none"> ➤ Assessing management's determination of its areas of interest for consistency with the definition in AASB 6. This involved analysing the tenements in which the company holds an interest and the exploration programmes planned for those tenements. ➤ We agreed to the terms within the acquisition agreements and on a sample basis corroborated rights to tenure to government registries; ➤ We tested the additions to capitalised expenditure for the year to underlying records and assessed the capitalisation requirements of the Company's accounting policy and the requirements of AASB 6; ➤ We considered the activities in each area of interest to date and assessed the planned future activities for each area of interest by evaluating budgets for each area of interest. |

| Key audit matter | How our audit addressed the key audit matter |
|------------------|---|
| | <ul style="list-style-type: none"> ➤ We assessed each area of interest for one or more of the following circumstances that may indicate impairment of the capitalised expenditure: <ul style="list-style-type: none"> ➤ the licenses for the right to explore expiring in the near future or are not expected to be renewed; ➤ substantive expenditure for further exploration in the specific area is neither budgeted or planned ➤ decision or intent by the Company to discontinue activities in the specific area of interest due to lack of commercially viable quantities of resources; and ➤ data indicating that, although a development in the specific area is likely to proceed, the carrying amount of the exploration asset is unlikely to be recovered in full from successful development or sale. ➤ We assessed the appropriateness of the related disclosures in Note 10 to the financial statements. |

Other Information

The directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 30 June 2017, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Report

The directors of the Company are responsible for the preparation of the 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 financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state in accordance with Australian Accounting Standard *AASB 101 Presentation of Financial Statements*, that the financial report complies with International Financial Reporting Standards.

In preparing the financial report, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

Our responsibility is to express an opinion on the financial report based on our audit. Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

Independent Auditor's Report

To the Members of Lithium Australia NL (Continued)



- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial report of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on the Remuneration Report

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2017. The directors of the Company are responsible for the preparation and presentation of the remuneration report in accordance with s 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's Opinion

In our opinion, the Remuneration Report of Lithium Australia NL, for the year ended 30 June 2017, complies with section 300A of the Corporations Act 2001.

BENTLEYS
Chartered Accountants

MARK DELAURENTIS CA
Director

Dated at Perth this 26th day of September 2017

ADDITIONAL ASX INFORMATION

1. CORPORATE GOVERNANCE STATEMENT

The Company's Corporate Governance Statement can be found at www.lithium-au.com/corporate-governance/

2. SUBSTANTIAL SHAREHOLDERS

There are no substantial holders as at 20 September 2017.

3. ISSUED CAPITAL

The issued capital of the company as at 20 September 2017 consists of :

| Quoted/Unquoted | Class | Number of Units | Number of Holders |
|-----------------|---------------------------------|-----------------|-------------------|
| Quoted | Fully Paid Ordinary Shares | 296,931,239 | 5,307 |
| Quoted | Partly Paid Contributing Shares | 132,850,148 | 3,197 |
| Unquoted | \$0.15 Options | 4,316,666 | 3 |
| Unquoted | \$0.20 Options | 7,875,000 | 5 |
| Unquoted | \$0.30 Options | 9,200,000 | 5 |
| Unquoted | Performance Rights | 10,340,000 | 5 |
| Unquoted | Performance Rights | 15,000,000 | 7 |

4. VOTING RIGHTS

Ordinary Shares

In accordance with the Company's Constitution, on a show of hands every member present in person or by proxy or attorney or duly authorised representative has one vote. On a poll every member present in person or by proxy or attorney or duly authorised representative has one vote for every fully paid ordinary share held.

Partly-paid ordinary shares

In accordance with the Company's Constitution, on a show of hands every member present in person or by proxy or attorney or duly authorised representative has one vote. On a poll every member present in person or by proxy or attorney or duly authorised representative has a pro rata vote for every equivalent fully paid ordinary share held.

5. HOLDERS HOLDING LESS THAN A MARKETABLE PARCEL

The number of holders holding less than a marketable parcel of the entity's main class of securities as at 20 September 2017 are as follows:

| Number of Holders | Number of units |
|-------------------|-----------------|
| 851 | 1,767,735 |

6. DISTRIBUTION OF SHAREHOLDERS

The distribution of shareholders as at 20 September 2017 are as follows:

| Distribution of equity securities | Fully Paid Ordinary Shares | Partly Paid Ordinary Shares | \$0.15 Options | \$0.20 Options | \$0.30 Options | Performance Rights | Performance Rights |
|-----------------------------------|----------------------------|-----------------------------|----------------|----------------|----------------|--------------------|--------------------|
| 0-1,000 | 168 | 160 | | | | | |
| 1,001 - 5,000 | 1,312 | 1,198 | | | | | |
| 5,001 - 10,000 | 1,114 | 587 | | | | | |
| 10,001 - 100,000 | 2,304 | 1,092 | | | | | |
| 100,001 and over | 412 | 171 | 3 | 5 | 5 | 5 | 7 |
| TOTALS | 5,307 | 3,197 | 3 | 5 | 5 | 5 | 7 |

ADDITIONAL ASX INFORMATION (continued)

7. 20 LARGEST SHAREHOLDERS

The names of the 20 largest holders of each class of quoted security as at 20 September 2017 are as follows:

| Fully Paid Ordinary Shares | Number Held | % Held |
|---|-------------------|---------------|
| 1. JP Morgan Nominees Australia Limited | 14,567,624 | 4.906 |
| 2. Citicorp Nominees Pty Ltd | 9,295,541 | 3.131 |
| 3. Acuity Capital Investment Management Pty Ltd | 9,249,024 | 3.115 |
| 4. Mr Adrian Griffin | 8,562,842 | 2.884 |
| 5. Parkway Minerals NL | 7,319,044 | 2.465 |
| 6. Horn Resources Pty Ltd | 5,597,679 | 1.885 |
| 7. BNP Paribas Nominees Pty Ltd | 4,512,599 | 1.520 |
| 8. Alan Jenks | 3,750,000 | 1.263 |
| 9. Apollinax Inc | 3,275,000 | 1.103 |
| 10. TA Securities Holdings Berhad | 3,128,598 | 1.054 |
| 11. Gasmere Pty Ltd | 3,008,888 | 1.013 |
| 12. BNP Paribas Noms Pty Ltd | 3,000,000 | 1.010 |
| 13. Buzz Monty Pty Ltd | 2,982,150 | 1.004 |
| 14. Mr Basil Catsipordas | 2,900,000 | 0.977 |
| 15. HSBC Custody Nominees | 2,769,568 | 0.933 |
| 16. Buzz Monty Pty Ltd | 2,357,150 | 0.794 |
| 17. Lastrane Pty Ltd | 2,125,000 | 0.716 |
| 18. Wilderange Corporation Pty Ltd | 1,851,351 | 0.623 |
| 19. M&K Korkidas Pty Ltd | 1,681,333 | 0.566 |
| 20. Warrior Strategic Pty Ltd | 1,616,886 | 0.545 |
| | 93,450,277 | 31.472 |

| Partly Paid Ordinary Shares | Number Held | % Held |
|--|-------------------|---------------|
| 1. Citicorp Nominees Pty Ltd | 7,128,907 | 5.366 |
| 2. Mr Adrian Griffin | 5,291,718 | 3.983 |
| 3. Mr Dennis Bell | 4,392,633 | 3.306 |
| 4. BNP Paribas Nominees Pty Ltd | 4,183,659 | 3.149 |
| 5. TR Nominees Pty Ltd | 4,000,000 | 3.011 |
| 6. BNP Paribas Nominees Pty Ltd | 3,229,933 | 2.431 |
| 7. Wilderange Corporation Pty Ltd | 2,736,663 | 2.060 |
| 8. Gasmere Pty Ltd | 2,375,576 | 1.788 |
| 9. Mr Robert Van Der Laan | 2,273,523 | 1.711 |
| 10. Alan Jenks | 1,875,000 | 1.411 |
| 11. Kingsreef Pty Ltd | 1,794,550 | 1.351 |
| 12. Davsms Investments Pty Ltd | 1,667,924 | 1.255 |
| 13. Apollinax Inc | 1,637,500 | 1.233 |
| 14. Kingsreef Pty Ltd | 1,403,346 | 1.056 |
| 15. Mrs Georgina Isla Pyle | 1,403,143 | 1.056 |
| 16. Horn Resources Pty Ltd | 1,402,900 | 1.056 |
| 17. Ms Jodie Marwick<Dixon Investments A/C> | 1,143,750 | 0.861 |
| 18. Alix Resources Corp | 1,000,000 | 0.753 |
| 19. Pershing Australia Nominees Pty Ltd<Accum A/C> | 984,995 | 0.741 |
| 20. Mr Lang Xu | 830,321 | 0.625 |
| | 50,756,041 | 38.205 |

8. COMPANY SECRETARY

The Company's Secretary is Barry Woodhouse

9. REGISTERED OFFICE AND PRINCIPLE ADMINISTRATIVE OFFICE

Level 1, 675 Murray Street, West Perth, WA, 6005. Telephone number: 08 6145 0288

10. REGISTER OF SECURITIES

Register of securities is kept at Advanced Share Registry, 150 Stirling Highway, Nedlands, WA, 6009. Telephone number :08 9389 8033.

ADDITIONAL ASX INFORMATION (continued)

11. OTHER STOCK EXCHANGES

To the best of its knowledge, the Company's securities are not quoted on any other recognisable stock exchange.

12. RESTRICTED SECURITIES OR SECURITIES SUBJECT TO VOLUNTARY ESCROW

The number and class of restricted securities is nil. The number and class of securities subject to voluntary escrow is nil.

13. UNQUOTED SECURITIES

The following persons hold 20% or more of the equity securities in an unquoted class:

| Class | Holder | Number of units | % Held |
|--------------------|-----------------|-----------------|--------|
| \$0.15 Options | Bryan Dixon | 1,250,000 | 29% |
| \$0.15 Options | Barry Woodhouse | 1,466,666 | 34% |
| \$0.15 Options | Peter Nesveda | 1,600,000 | 37% |
| \$0.20 Options | Adrian Griffin | 2,175,000 | 28% |
| \$0.20 Options | Barry Woodhouse | 1,600,000 | 20% |
| \$0.20 Options | Peter Nesveda | 1,600,000 | 20% |
| \$0.30 Options | Adrian Griffin | 3,000,000 | 33% |
| Performance Rights | Adrian Griffin | 4,050,000 | 39% |
| Performance Rights | Adrian Griffin | 5,000,000 | 33% |

14. REVIEW OF OPERATIONS

A review of operations and activities for the reporting period that complies with Sections 299 and 299A are outlined in the Directors' report.

15. ON MARKET BUY BACKS

There is no current on market buy back of Lithium Australia shares.

16. SCHEDULE OF MINERAL TENEMENTS

| TENEMENT | PROJECT | HOLDER | GRANT DATE |
|----------|---------------|----------------------|------------|
| E09/2168 | YINNIETHARRA | LITHIUM AUSTRALIA NL | 22/02/2017 |
| E09/2191 | THOMAS RIVER | LITHOPHILE PTY LTD | 29/11/2016 |
| E09/2200 | MOUNT JAMES 2 | LITHOPHILE PTY LTD | 8/03/2017 |
| E09/2201 | MOUNT JAMES 1 | LITHOPHILE PTY LTD | 8/03/2017 |
| E09/2203 | MOUNT JAMES 3 | LITHOPHILE PTY LTD | 17/03/2017 |
| M15/1809 | COOLGARDIE | FOCUS MINERALS | 4/02/2013 |
| P15/5519 | COOLGARDIE | FOCUS MINERALS | 3/02/2011 |
| P15/5574 | COOLGARDIE | FOCUS MINERALS | 10/08/2011 |
| P15/5575 | COOLGARDIE | FOCUS MINERALS | 10/08/2011 |
| P15/5625 | COOLGARDIE | FOCUS MINERALS | 9/08/2013 |
| P15/5626 | COOLGARDIE | FOCUS MINERALS | 14/12/2011 |
| P15/5629 | COOLGARDIE | FOCUS MINERALS | 9/08/2013 |
| P15/5739 | COOLGARDIE | FOCUS MINERALS | 17/01/2013 |
| P15/5740 | COOLGARDIE | FOCUS MINERALS | 17/01/2013 |
| P15/5741 | COOLGARDIE | FOCUS MINERALS | 17/01/2013 |
| P15/5742 | COOLGARDIE | FOCUS MINERALS | 17/01/2013 |

ADDITIONAL ASX INFORMATION (continued)

| | | | |
|----------|----------------------|----------------------|------------|
| P15/5743 | COOLGARDIE | FOCUS MINERALS | 17/01/2013 |
| P15/5749 | COOLGARDIE | FOCUS MINERALS | 3/04/2013 |
| E45/4654 | HILLSIDE 1 | LITHIUM AUSTRALIA NL | 4/07/2017 |
| E45/4655 | HILLSIDE 2 | LITHIUM AUSTRALIA NL | 4/07/2017 |
| E45/4660 | HILLSIDE 3 | LITHIUM AUSTRALIA NL | PENDING |
| E45/4668 | HILLSIDE 4 | LITHIUM AUSTRALIA NL | 3/07/2017 |
| E45/4627 | KANGAN | VENUS METALS | 11/10/2016 |
| E45/4630 | MUNGALEENA | VENUS METALS | 6/02/2017 |
| E45/4684 | STRELLEY | VENUS METALS | 2/02/2017 |
| P45/3004 | KAGAN | VENUS METALS | 4/11/2016 |
| E51/1795 | COBALARK 1 | LITHIUM AUSTRALIA NL | PENDING |
| E51/1796 | COBALARK 2 | LITHIUM AUSTRALIA NL | PENDING |
| E63/1777 | MT DAY | LITHIUM AUSTRALIA NL | 7/10/2016 |
| E63/1805 | MT DAY A | LITHIUM AUSTRALIA NL | 28/02/2017 |
| E63/1806 | MT DAY B | LITHIUM AUSTRALIA NL | 28/02/2017 |
| E63/1807 | MT DAY C | LITHIUM AUSTRALIA NL | PENDING |
| E63/1808 | MT DAY D | LITHIUM AUSTRALIA NL | PENDING |
| E63/1809 | LAKE JOHNSON SOUTH | LITHIUM AUSTRALIA NL | PENDING |
| E63/1866 | LAKE JOHNSON | LITHIUM AUSTRALIA NL | PENDING |
| P63/2059 | MT DEANS | LITHIUM AUSTRALIA NL | PENDING |
| P63/2060 | MT DEANS | LITHIUM AUSTRALIA NL | PENDING |
| P63/2061 | MT DEANS | LITHIUM AUSTRALIA NL | PENDING |
| E70/4690 | GREENBUSHES SF 52% | LITHIUM AUSTRALIA NL | PENDING |
| E70/4777 | GREENBUSHES SF 100% | LITHIUM AUSTRALIA NL | PENDING |
| E70/4778 | GREENBUSHES | LITHIUM AUSTRALIA NL | 19/04/2016 |
| E70/4788 | GREENBUSHES KANGAROO | LITHIUM AUSTRALIA NL | 1/07/2016 |
| E70/4789 | GREENBUSHES KOALA | LITHIUM AUSTRALIA NL | 1/07/2016 |
| E70/4790 | GREENBUSHES SOUTH | LITHIUM AUSTRALIA NL | 1/07/2016 |
| E70/4888 | GREENBUSHES A SF17% | LITHIUM AUSTRALIA NL | 3/04/2017 |
| E70/4889 | GREENBUSHES B SF 98% | LITHIUM AUSTRALIA NL | PENDING |
| E70/4890 | GREENBUSHES C SF 48% | LITHIUM AUSTRALIA NL | 13/04/2017 |
| P70/1698 | GREENBUSHES SF 100% | LITHIUM AUSTRALIA NL | PENDING |
| P70/1699 | GREENBUSHES SF 100% | LITHIUM AUSTRALIA NL | PENDING |
| P70/1700 | GREENBUSHES SF 100% | LITHIUM AUSTRALIA NL | PENDING |
| P70/1701 | GREENBUSHES SF 95% | LITHIUM AUSTRALIA NL | PENDING |

ADDITIONAL ASX INFORMATION (continued)

| | | | |
|------------------|------------------------------|-----------------------------|-------------------|
| P70/1702 | GREENBUSHES SF 100% | LITHIUM AUSTRALIA NL | PENDING |
| P70/1703 | GREENBUSHES SF 100% | LITHIUM AUSTRALIA NL | PENDING |
| P70/1704 | GREENBUSHES SF 100% | LITHIUM AUSTRALIA NL | PENDING |
| E74/0543 | RAVENSTHORPE | LITHIUM AUSTRALIA NL | 24/01/2014 |
| E77/2279 | LAKE SEABROOK | LITHIUM AUSTRALIA NL | 27/07/2015 |
| E77/2437 | LAKE SEABROOK | GAZZARD INVESTMENTS PL | PENDING |
| E77/2465 | LAKE SEABROOK | GAZZARD INVESTMENTS PL | PENDING |
| E80/5002 | OSMOND RANGE GRAPHITE | LITHIUM AUSTRALIA NL | PENDING |
| EL 30897 | ANGERS/BYNOE NT | LITHIUM AUSTRALIA NL | 22/03/2016 |
| EPM 26252 | CAPE YORK PROJECT 1 | LITHIUM AUSTRALIA NL | 19/01/2017 |
| EPM 26253* | CAPE YORK PROJECT 6 | LITHIUM AUSTRALIA NL | PENDING |
| EPM 26254* | CAPE YORK PROJECT 5 | LITHIUM AUSTRALIA NL | PENDING |
| EPM 26255 | CAPE YORK PROJECT 2 | LITHIUM AUSTRALIA NL | 13/02/2017 |
| EPM 26257* | CAPE YORK PROJECT 7 | LITHIUM AUSTRALIA NL | PENDING |
| EPM 26339 | CAPE YORK AMBER 1 | LITHIUM AUSTRALIA NL | 13/04/2017 |
| EPM 26353 | CAPE YORK COBREE | LITHIUM AUSTRALIA NL | PENDING |
| EPM 26394 | CAPE YORK AMBER 2 | LITHIUM AUSTRALIA NL | 13/04/2017 |
| EPM 26395 | CAPE YORK AMBER 3 | LITHIUM AUSTRALIA NL | 13/04/2017 |
| EPM 26396 | CAPE YORK AMBER 4 | LITHIUM AUSTRALIA NL | PENDING |
| EPM 26544 | CAPE YORK AMBER 5 | LITHIUM AUSTRALIA NL | PENDING |
| EPM 26583 | CAPE YORK AMBER 6 | LITHIUM AUSTRALIA NL | PENDING |
| EPM 26584 | CAPE YORK AMBER 7 | LITHIUM AUSTRALIA NL | PENDING |
| EPM 26585 | CAPE YORK AMBER 8 | LITHIUM AUSTRALIA NL | PENDING |
| ELA 2017/0005 | DUDLEY SA | LITHIUM AUSTRALIA NL | PENDING |
| EL 5960 | VIVONNE SA | LITHIUM AUSTRALIA NL | 9/05/2017 |
| ERA 1041 | POIMENA TAS | LITHIUM AUSTRALIA NL | PENDING |

Corporate Governance Statement

The Company is committed to implementing the highest standards of corporate governance. In determining what those high standards should involve the Company has considered the ASX Corporate Governance Council's *Principles of Good Corporate Governance and Recommendations*.

In line with the above, the Board has set out the way forward for the Company in its implementation of its Principles of Good Corporate Governance and Recommendations. The approach taken by the board was to set a blueprint for the Company to follow as it introduces elements of the governance process. Due to the current size of the Company and the scale of its operations it is neither practical nor economic for the adoption of all of the recommendations approved via the board charter. Where the Company has not adhered to the recommendations it has stated that fact in this Corporate Governance Statement however has set out a mandate for future compliance when the size of the Company and the scale of its operations warrants the introduction of those recommendations. Date of last review and Board approval: 30 September 2016.

| Principle / Recommendation | Compliance | Reference | Commentary |
|---|------------|--|--|
| Principle 1: Lay solid foundations for management and oversight | | | |
| <u>Recommendation 1.1</u> | | | |
| <p>A listed entity should disclose:</p> <p>a) the respective roles and responsibilities of its board and management; and</p> <p>b) those matters expressly reserved to the board and those delegated to management.</p> | Yes | <p>Board Charter Code of Conduct, Independent Professional Advice Policy Website</p> | <p>To add value to the Company the Board has been formed so that it has effective composition, size and commitment to adequately discharge its responsibilities and duties. Directors are appointed based on the specific skills required by the Company and on their decision-making and judgment. The Board's role is to govern the Company rather than to manage it. In governing the Company, the Directors must act in the best interests of the Company as a whole. It is the role of senior management to manage the Company in accordance with the direction and delegations of the Board and the responsibility of the Board to oversee the activities of management in carrying out those delegated duties.</p> <p>In carrying out its governance role, the main task of the Board is to drive the performance of the Company. The Board must also ensure that the Company complies with all of its contractual, statutory and any other legal obligations, including the requirements of any regulatory body. The Board has the final responsibility for the successful operations of the Company. To assist the Board, carry its functions, it has developed a Code of Conduct to guide the Directors.</p> <p>In general, the Board is responsible for, and has the authority to determine, all matters relating to the policies, practices, management and operations of the Company. It is required to do all things that may be necessary to be done in order to carry out the objectives of the Company. Without intending to limit this general role of the Board, the principal functions and responsibilities of the Board include the following.</p> |

Corporate Governance Statement (continued)

| Principle / Recommendation | Compliance | Reference | Commentary |
|--|------------|-----------|---|
| Principle 1: Lay solid foundations for management and oversight (continued) | | | |
| <u>Recommendation 1.1 (continued)</u> | | | |
| | | | <p>Leadership of the Organisation: overseeing the Company and establishing codes that reflect the values of the Company and guide the conduct of the Board.</p> <p>Strategy Formulation: to set and review the overall strategy and goals for the Company and ensuring that there are policies in place to govern the operation of the Company.</p> <p>Overseeing Planning Activities: the development of the Company's strategic plan</p> <p>Shareholder Liaison: ensuring effective communications with shareholders through an appropriate communications policy and promoting participation at general meetings of the Company as well as ensuring timely and balanced disclosures of all material information concerning the Company that a reasonable person would expect to have a material effect on the price or value of the entity's securities.</p> <p>Monitoring, Compliance and Risk Management: the development of the Company's risk management, compliance, control and accountability systems and monitoring and directing the financial and operational performance of the Company.</p> <p>Company Finances: approving expenses and approving and monitoring acquisitions, divestitures and financial and other reporting along with ensuring the integrity of the Company's financial and other reporting.</p> <p>Human Resources: reviewing the performance of Executive Officers and monitoring the performance of senior management in their implementation of the Company's strategy.</p> <p>Ensuring the Health, Safety and Well-Being of Employees: in conjunction with the senior management team, developing, overseeing and reviewing the effectiveness of the Company's occupational health and safety systems to ensure the well-being of all employees.</p> |

| | | | |
|--|--|---|---|
| | | | <p>Delegation of Authority: delegating appropriate powers to the Managing Director to ensure the effective day-to-day management of the Company and establishing and determining the powers and functions of the Committees of the Board.</p> <p>Monitoring the effectiveness of the Company's corporate governance practices.</p> |
| | | | <p>Full details of the Board's and Company Secretary's roles and responsibilities are contained in the Board Charter. The Board collectively and each Director has the right to seek independent professional advice at the Company's expense, up to specified limits, (that limit is currently set at \$2,000), to assist them to carry out their responsibilities.</p> |
| Recommendation 1.2 | | | |
| <p>A listed entity should:</p> <p>a) undertake appropriate checks before appointing a person, or putting forward to security holders a candidate for election, as a Director; and</p> <p>b) provide security holders with all material information in its possession relevant to a decision on whether or not to elect or re-elect a Director.</p> | <p>Yes, however the full information of new Directors for election was not included in all notices of meeting but will be included in future notices of meeting.</p> | <p>Director Selection Procedure Website</p> | <p>Directors are appointed based on the specific governance skills required by the Company. Given the size of the Company and the business that it operates, the Company aims at all times to have at least one Director with experience appropriate to the Company's operations. The Company's current Directors all have relevant experience in the operations. In addition, Directors should have the relevant blend of personal experience in:</p> <p style="text-align: center;">Accounting and financial management; and Director-level business experience.</p> <p>Each member of the Board is committed to spending sufficient time to enable them to carry out their duties as a Director of the Company.</p> <p>In determining candidates for the Board, the Nomination Committee follows a prescribed process whereby it evaluates the mix of skills, experience and expertise of the existing Board. In particular, the Nomination Committee is to identify the particular skills that will best increase the Board's effectiveness. Consideration is also given to the balance of independent directors. Potential candidates are identified and, if relevant, the Nomination Committee (or equivalent) recommends an appropriate candidate for appointment to the Board. Any appointment made by the Board is subject to ratification by shareholders at the next general meeting. Each Non-executive Director has a written agreement with the Company that covers all aspects of their appointment including term, time commitment required, remuneration, disclosure of interests that may affect independence, guidance on complying with the Company's corporate governance policies and the right to seek independent advice, indemnity and insurance arrangements, rights of access to the Company's information and ongoing confidentiality obligations as well as roles on the Company's committees.</p> |

Corporate Governance Statement (continued)

Principle 1: Lay solid foundations for management and oversight (continued)

| Principle / Recommendation | Compliance | Reference | Commentary |
|---|-------------------|---|---|
| <u>Recommendation 1.3</u> | | | |
| A listed entity should have a written agreement with each Director and senior executive setting out the terms of their appointment. | Yes | Kept at registered office, Independent Professional Advice Policy | Each director has a written and up-to-date agreement. The Board collectively and each Director has the right to seek independent professional advice at the Company's expense, up to specified limits, (that limit is currently set at \$2,000), to assist them to carry out their responsibilities. |
| <u>Recommendation 1.4</u> | | | |
| The company secretary of a listed entity should be accountable directly to the board, through the chair, on all matters to do with the proper functioning of the board. | Yes | Board Charter Website | Full details of the Board's and Company Secretary's roles and responsibilities are contained in the Board Charter. |
| <u>Recommendation 1.5</u> | | | |
| A listed entity should: a) have a diversity policy which includes requirements for the board or a relevant committee of the board to set measurable objectives for achieving gender diversity and to assess annually both the objectives and the entity's progress in achieving them; b) disclose that policy or a summary of it; and | Yes | Diversity Policy Website | The Company recognises and respects the value of diversity at all levels of the organisation. The Company is committed to setting measurable objectives for attracting and engaging women at the Board level, in senior management and across the whole organisation. The Diversity Policy was re-adopted during the year and the Company set the following objectives for the employment of women: <ul style="list-style-type: none"> to the Board – 25% by 2018 to senior management – 33% by 2018 to the organisation as a whole – 33% by 2018 As at the date of this report, the Company has the following proportion of women appointed: <ul style="list-style-type: none"> to the Board – 0% to senior management (including Company Secretary) – 33% to the organisation as a whole – 20% The Company recognises that the mining and exploration industry is intrinsically male dominated in many of the operational sectors and the pool of women with appropriate skills will be limited in some instances. The Company recognises that diversity extends to matters of age, disability, ethnicity, marital/family status, religious/cultural background and sexual orientation. Where possible, the Company will seek to identify suitable candidates for positions from a diverse pool. |

Corporate Governance Statement (continued)

| Principle / Recommendation | Compliance | Reference | Commentary |
|---|------------|-----------|------------|
| Principle 1: Lay solid foundations for management and oversight (continued) | | | |
| <u>Recommendation 1.5 (continued)</u> | | | |
| <p>c) disclose as at the end of each reporting period the measurable objectives for achieving gender diversity set by the board or a relevant committee of the board in accordance with the entity's diversity policy and its progress towards achieving them, and either:</p> <ol style="list-style-type: none"> 1) the respective proportions of men and women on the board, in senior executive positions and across the whole organisation (including how the entity has defined "senior executive" for these purposes); or 2) if the entity is a "relevant employer" under the Workplace Gender Equality Act, the entity's most recent "Gender Equality Indicators", as defined in and published under that Act. | | | |

| Principle / Recommendation | Compliance | Reference | Commentary |
|--|------------|---|---|
| Principle 1: Lay solid foundations for management and oversight (continued) | | | |
| <u>Recommendation 1.6:</u> | | | |
| <p>A listed entity should:</p> <p>a) have and disclose a process for periodically evaluating the performance of the board, its committees and individual Directors; and</p> <p>b) disclose, in relation to each reporting period, whether a performance evaluation was undertaken in the reporting period in accordance with that process.</p> | Yes | <p>Board, Committee & Individuals Performance Evaluation Procedure</p> <p>Website</p> | <p>It is the policy of the Board to conduct evaluation of its performance. The objective of this evaluation is to provide best practice corporate governance to the Company. During the financial year an evaluation of the performance of the Board and its members was formally carried out. From this evaluation, a few areas for improvement were noted but the important conclusion drawn was that there was no overlapping skillset in the Board.</p> |
| <u>Recommendation 1.7:</u> | | | |
| <p>A listed entity should:</p> <p>a) have and disclose a process for periodically evaluating the performance of its senior executives; and</p> <p>b) disclose, in relation to each reporting period, whether a performance evaluation was undertaken in the reporting period in accordance with that process.</p> | Yes | <p>Board, Committee & Individuals Performance Evaluation Procedure</p> <p>Website</p> | <p>is the policy of the Board to conduct evaluation of individuals' performance. The objective of this evaluation is to provide best practice corporate governance to the Company. During the financial year an evaluation of the performance of the individuals was formally carried out. From this evaluation, a few areas for improvement were noted.</p> |

Corporate Governance Statement (continued)

| Principle / Recommendation | Compliance | Reference | Commentary |
|--|------------|--|---|
| Principle 2: Structure the board to add value | | | |
| <u>Recommendation 2.1</u> | | | |
| <p>The board of a listed entity should:</p> <p>a) have a nomination committee which:</p> <ol style="list-style-type: none"> 1) has at least three members, a majority of whom are independent Directors; and 2) is chaired by an Independent Director, and disclose: 3) the charter of the committee; 4) the members of the committee; and 5) as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or <p>b) if it does not have a nomination committee, disclose that fact and the processes it employs to address board succession issues and to ensure that the board has the appropriate balance of skills, knowledge, experience, independence and diversity to enable it to discharge its duties and responsibilities effectively.</p> | No | Nomination Committee Charter, Independent Professional Advice Policy Website | <p>The Board has not established a separate Nomination Committee. Given the current size and composition of the Board, the Board believes that there would be no efficiencies gained by establishing a separate Nomination Committee. Accordingly, the Board performs the role of the Nomination Committee. Items that are usually required to be discussed by a nomination committee are discussed at a separate meeting when required.</p> <p>When the Board convenes as the Nomination Committee it carries out those functions which are delegated to it in the Company's Nomination Committee Charter. The Board deals with any conflicts of interest that may occur when convening in the capacity of the Nomination Committee by ensuring that the Director with conflicting interests is not party to the relevant discussions.</p> <p>To assist the Board to fulfil its function as the Nomination Committee, it has adopted a Nomination Committee Charter which describes the role, composition, functions and responsibilities of the Nomination Committee. The Board as a whole met as the Nomination Committee once during the year and all Board members were in attendance. To assist Directors with independent judgement, it is the Board's policy that if a Director considers it necessary to obtain independent professional advice to properly discharge the responsibility of their office as a Director then, provided the Director first obtains approval from the Chair for incurring such expense, the Company will pay the reasonable expenses associated with obtaining such advice.</p> |

Corporate Governance Statement (continued)

| Principle / Recommendation | Compliance | Reference | Commentary |
|--|------------|---|---|
| Principle 2: Structure the board to add value (continued) | | | |
| <u>Recommendation 2.2</u> | | | |
| <p>A listed entity should have and disclose a board skills matrix setting out the mix of skills and diversity that the board currently has or is looking to achieve in its membership.</p> | Yes | Internal management document | <p>The Company has reviewed the skill set of its Board to determine where the skills lie and any relevant gaps in skills shortages. The Company is working towards filling these gaps through professional development initiatives as well as seeking to identify suitable Board candidates for positions from a diverse pool.</p> |
| <u>Recommendation 2.3</u> | | | |
| <p>A listed entity should disclose:</p> <ul style="list-style-type: none"> a) the names of the Directors considered by the board to be Independent Directors; b) if a Director has an interest, position, association or relationship of the type described in Box 2.3 but the board is of the opinion that it does not compromise the independence of the Director, the nature of the interest, position, association or relationship in question and an explanation of why the board is of that opinion; and c) the length of service of each Director. | Yes | Board Charter, Independence of Directors Assessment Website | <p>The independent Directors of the Company are George Bauk (appointment 15 July 2015) and Bryan Dixon (appointment 7 December 2009). Both George Bauk and Bryan Dixon are independent as they are non-executive directors who are not members of management and who are free of any business or other relationship that could materially interfere with, or could reasonably be perceived to materially interfere with, the independent exercise of their judgement. The Board considers the independence of directors having regard to the relationships listed in Box 2.3 of the Principles & Recommendations and the Company's materiality thresholds. The Board has agreed on the following guidelines, as set out in the Company's Board Charter, for assessing the materiality of matters:</p> <p>Balance sheet items are material if they have a value of more than 10% of pro-forma net asset.</p> <p>Profit and loss items are material if they will have an impact on the current year operating result of 10% or more.</p> <p>Items are also material if they impact on the reputation of the Company, involve a breach of legislation, are outside the ordinary course of business, could affect the Company's rights to its assets, if accumulated would trigger the quantitative tests, involve a contingent liability that would have a probable effect of 10% or more on balance sheet or profit and loss items, or will have an effect on</p> |

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| | | | operations which is likely to result in an increase or decrease in net income or dividend distribution of more than 10%. |
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Corporate Governance Statement (continued)

| Principle / Recommendation | Compliance | Reference | Commentary |
|--|-------------------|------------------|---|
| Principle 2: Structure the board to add value (continued) | | | |
| <u>Recommendation 2.3 (continued)</u> | | | |
| | | | <p>Contracts will be considered material if they are outside the ordinary course of business, contain exceptionally onerous provisions in the opinion of the Board, impact on income or distribution in excess of the quantitative tests, there is a likelihood that either party will default and the default may trigger any of the quantitative or qualitative tests, are essential to the activities of the Company and cannot be replaced or cannot be replaced without an increase in cost which triggers any of the quantitative tests, contain or trigger change of control provisions, are between or for the benefit of related parties, or otherwise trigger the quantitative tests.</p> <p>The Non-independent Director of the Company is Adrian Griffin (appointment 31 January 2011), who is Managing Director and is deemed not to be independent.</p> |

Corporate Governance Statement (continued)

| Principle / Recommendation | Compliance | Reference | Commentary |
|---|-------------------|--|--|
| Principle 2: Structure the board to add value (continued) | | | |
| <u>Recommendation 2.4</u> | | | |
| A majority of the board of a listed entity should be Independent Directors. | Yes | Independence of Directors Assessment Website | The Board has a majority of Directors who are independent. |
| <u>Recommendation 2.5</u> | | | |
| The chair of the board of a listed entity should be an | Yes | Independence of Directors Assessment | The Chairperson is an independent Director who is not the |

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| independent director and, in particular, should not be the same person as the CEO of the entity. | | Website | CEO / Managing Director. |
| Recommendation 2.6 | | | |
| A listed entity should have a program for inducting new Directors and provide appropriate professional development opportunities for Directors to develop and maintain the skills and knowledge needed to perform their role as Directors effectively. | Yes | Director Induction Program, Ongoing Education Framework Website | <p>It is the policy of the Company that each new Director undergoes an induction process in which they are given a full briefing on the Company. Where possible this includes meetings with key executives, tours of the premises, an induction package and presentations. Information conveyed to new Directors include:</p> <p>details of the roles and responsibilities of a Director;</p> <p>formal policies on Director appointment as well as conduct and contribution expectations;</p> <p>a copy of the Corporate Governance Statement, Charters, Policies and Memos and</p> <p>a copy of the Constitution of the Company.</p> <p>In order to achieve continuing improvement in Board performance, all Directors are encouraged to undergo continual professional development. The Board has implemented an Ongoing Education Framework.</p> |

Corporate Governance Statement (continued)

| Principle / Recommendation | Compliance | Reference | Commentary |
|--|------------|-------------------------|--|
| Principle 3: Act ethically and responsibly | | | |
| Recommendation 3. | | | |
| <p>A listed entity should:</p> <p>a) have a code of conduct for its directors, senior executives and employees; and</p> <p>b) disclose that code or a summary of it.</p> | Yes | Code of Conduct Website | <p>As part of its commitment to recognising the legitimate interests of stakeholders, the Company has established a Code of Conduct to guide compliance with legal and other obligations to legitimate stakeholders. These stakeholders include employees, clients, customers, government authorities, creditors and the community as whole.</p> |

Principle 4: Safeguard integrity in corporate reporting

Recommendation 4.1

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| <p>The board of a listed entity should: (a) have an audit committee which:</p> <p>a) has at least three members, all of whom are non-executive directors and a majority of whom are Independent Directors; and</p> <p>1) is chaired by an Independent Director, who is not the chair of the board,</p> <p>and disclose:</p> <p>2) the charter of the committee;</p> <p>3) the relevant qualifications and</p> <p>4) experience of the members of the committee; and</p> <p>5) in relation to each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or</p> | <p>No</p> | <p>Audit and Risk Committee Charter Website</p> | <p>The Board has not established a separate Audit Committee, and therefore it is not structured in accordance with Recommendation 4.1. Given the current size and composition of the Board, the Board believes that there would be no efficiencies gained by establishing a separate Audit Committee. Accordingly, the Board performs the role of Audit Committee. Items that are usually required to be discussed by an Audit Committee are discussed at a separate meeting when required. When the Board convenes as the Audit Committee it carries out those functions which are delegated to it in the Company's Audit Committee Charter. The Board deals with any conflicts of interest that may occur when convening in the capacity of the Audit Committee by ensuring that the Director with conflicting interests is not party to the relevant discussions.</p> <p>The Board as a whole met as the Audit Committee twice during the year and all Board members were in attendance. To assist the Board to fulfil its function as the Audit Committee, the Company has adopted an Audit Committee Charter which describes the role, composition, functions and responsibilities of the Audit Committee. All of the Directors consider themselves to be financially literate and possess relevant industry experience.</p> <p>The Company has established procedures for the selection, appointment and rotation of its external auditor. The Board is responsible for the initial appointment of the external auditor and the appointment of a new external auditor when any vacancy arises, as recommended by the Audit Committee (or its equivalent). Candidates for the position of external auditor must demonstrate complete independence from the Company through the engagement period. The Board may otherwise select an external auditor based on criteria relevant to the Company's business and circumstances. The performance of the external auditor is reviewed on an annual basis by the Audit Committee (or its equivalent) and any recommendations are made to the Board.</p> |
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Corporate Governance Statement (continued)

| Principle / Recommendation | Compliance | Reference | Commentary |
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| Principle 4: Safeguard integrity in corporate reporting (continued) | | | |
| <u>Recommendation 4.1 (continued)</u> | | | |
| b) if it does not have an audit committee, disclose that fact and the processes it employs that independently verify and safeguard the integrity of its corporate reporting, including the processes for the appointment and removal of the external auditor and the rotation of the audit engagement partner. | | | |
| <u>Recommendation 4.2</u> | | | |
| The board of a listed entity should, before it approves the entity's financial statements for a financial period, receive from its CEO and CFO a declaration that, in their opinion, the financial records of the entity have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of the entity and that the opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively. | Yes | Kept at registered office | The Managing Director and the Chief Financial Officer provide a declaration to the Board in accordance with section 295A of the Corporations Act for each financial report and assure the Board that such declaration is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks. |

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Corporate Governance Statement (continued)

| Principle / Recommendation | Compliance | Reference | Commentary |
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| Principle 4: Safeguard integrity in corporate reporting (continued) | | | |
| <u>Recommendation 4.3</u> | | | |
| A listed entity that has an AGM should ensure that its external auditor attends its AGM and is available to answer questions from security holders relevant to the audit. | Yes | AGM | The external auditor is invited to attend every AGM for the purpose of answering questions from security holders relevant to the audit. |
| Principle 5: Make timely and balanced disclosure | | | |
| <u>Recommendation 5.1</u> | | | |
| A listed entity should: a) have a written policy for complying with its continuous disclosure obligations under the Listing Rules; and b) disclose that policy or a summary of it. | Yes | Continuous Disclosure Policy Website | The Board has designated the Company Secretary as the person responsible for overseeing and coordinating disclosure of information to the ASX as well as communicating with the ASX. In accordance with the ASX Listing Rules the Company immediately notifies the ASX of information: 1. concerning the Company that a reasonable person would expect to have a material effect on the price or value of the Company's securities; and 2. that would, or would be likely to, influence persons who commonly invest in securities in deciding whether to acquire or dispose of the Company's securities. |
| Principle 6: Respect the rights of security holders | | | |
| <u>Recommendation 6.1</u> | | | |
| A listed entity should provide information about itself and | Yes | Website Disclosure Policy Website | The Company's website includes the following: Corporate Governance policies, procedures, charters, programs, assessments, codes and frameworks |

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| its governance to investors via its website. | | | Names and biographical details of each of its directors and senior executives Constitution Copies of annual, half yearly and quarterly reports ASX announcements Copies of notices of meetings of security holders Media releases Overview of the Company's current business, structure and history |
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Corporate Governance Statement (continued)

| Principle / Recommendation | Compliance | Reference | Commentary |
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| Principle 6: Respect the rights of security holders (continued) | | | |
| <u>Recommendation 6.1 (continued)</u> | | | |
| | | | Details of upcoming meetings of security holders Summary of the terms of the securities on issue Historical market price information of the securities on issue Contact details for the share registry and media enquiries Share registry key security holder forms |
| <u>Recommendation 6.2</u> | | | |
| A listed entity should design and implement an investor relations program to facilitate effective two-way communication with investors. | Yes | Shareholder Communication Policy, Social Media Policy Website | The Company respects the rights of its shareholders and to facilitate the effective exercise of those rights the Company is committed to: <p>communicating effectively with shareholders through releases to the market via ASX, information mailed to shareholders and the general meetings of the Company;</p> <p>giving shareholders ready access to balanced and understandable information about the Company and corporate proposals;</p> <p>requesting the external auditor to attend the annual general meeting and be available to answer shareholder questions about the conduct of the audit and the preparation and content of the auditor's report of future Annual Reports.</p> |

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| | | | The Company also makes available a telephone number and email address for shareholders to make enquiries of the Company. |
| <u>Recommendation 6.3</u> | | | |
| A listed entity should disclose the policies and processes it has in place to facilitate and encourage participation at meetings of security holders. | Yes | Shareholder Communication Policy Website | The Company respects the rights of its shareholders and to facilitate the effective exercise of those rights the Company is committed to making it easy for shareholders to participate in shareholder meetings of the Company. The Company also makes available a telephone number and email address for shareholders to make enquiries of the Company. |

Corporate Governance Statement (continued)

| Principle / Recommendation | Compliance | Reference | Commentary |
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| Principle 6: Respect the rights of security holders (continued) | | | |
| <u>Recommendation 6.4</u> | | | |
| A listed entity should give security holders the option to receive communications from and send communications to, the entity and its security registry electronically. | Yes | Shareholder Communication Policy Website | Shareholders are regularly given the opportunity to receive communications electronically. |
| Principle 7: Recognise and manage risk | | | |
| <u>Recommendation 7.1</u> | | | |
| The board of a listed entity should: a) have a committee or committees to oversee risk, each of which: 1) has at least three members, a majority of whom are independent Directors; and 2) is chaired by an Independent | No | Risk Management Policy Website | The Board has not established a separate Risk Committee, and therefore it is not structured in accordance with Recommendation 7.1. Given the current size and composition of the Board, the Board believes that there would be no efficiencies gained by establishing a separate Risk Committee. Accordingly, the Board performs the role of Risk Committee. Items that are usually required to be discussed by a Risk Committee are discussed at a separate meeting when required. When the Board convenes as the Risk Committee it carries out those functions which are delegated to it in the Company's Risk Committee Charter. The Board deals with any conflicts of interest that may occur when convening in the capacity of the Risk Committee by |

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| <p>Director, and disclose:</p> <p>3) the charter of the committee;</p> <p>4) the members of the committee; and</p> <p>5) as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or</p> | | | <p>ensuring that the Director with conflicting interests is not party to the relevant discussions.</p> <p>The Board as a whole did not meet as the Risk Committee during the year. Risk identification and risk management discussions occurred at several Board meetings throughout the year. To assist the Board to fulfil its function as the Risk Committee, the Company has adopted a Risk Management Policy.</p> |
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Corporate Governance Statement (continued)

| Principle / Recommendation | Compliance | Reference | Commentary |
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| Principle 7: Recognise and manage risk (continued) | | | |
| <u>Recommendation 7.1 (continued)</u> | | | |
| <p>b) if it does not have a risk committee or committees that satisfy (a) above, disclose that fact and the processes it employs for overseeing the entity's risk management framework.</p> | | | |
| <u>Recommendation 7.2</u> | | | |
| <p>The board or a committee of the board should:</p> <p>a) review the entity's risk management framework at least annually to satisfy itself that it continues to be sound; and</p> | <p>Yes</p> | <p>Risk Management Policy Website</p> | <p>The Board has adopted a Risk Management Policy, which sets out the Company's risk profile. Under the policy, the Board is responsible for approving the Company's policies on risk oversight and management and satisfying itself that management has developed and implemented a sound system of risk management and internal control. Under the policy, the Board delegates day-to-day management of risk to the Managing Director, who is responsible for identifying, assessing, monitoring and managing risks. The Managing Director is also responsible for updating the Company's material</p> |

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| <p>b) disclose, in relation to each reporting period, whether such a review has taken place.</p> | | | <p>business risks to reflect any material changes, with the approval of the Board.</p> <p>In fulfilling the duties of risk management, the Managing Director may have unrestricted access to Company employees, contractors and records and may obtain independent expert advice on any matter they believe appropriate, with the prior approval of the Board.</p> |
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Corporate Governance Statement (continued)

| Principle / Recommendation | Compliance | Reference | Commentary |
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| Principle 7: Recognise and manage risk (continued) | | | |
| <u>Recommendation 7.2 (continued)</u> | | | |
| | | | <p>In addition, the following risk management measures have been adopted by the Board to manage the Company's material business risks:</p> <p>the Board has established authority limits for management, which, if proposed to be exceeded, requires prior Board approval;</p> <p>the Board has adopted a compliance procedure for the purpose of ensuring compliance with the Company's continuous disclosure obligations; and</p> <p>the Board has adopted a corporate governance manual which contains other policies to assist the Company to establish and maintain its governance practices.</p> <p>During the year, management regularly reported to the Board on the following categories of risks affecting the Company as part of the Company's systems and processes for managing material business risks: operational, financial reporting, sovereignty and market-related risks. The insights gained from this review comprise.</p> |
| <u>Recommendation 7.3</u> | | | |
| <p>A listed entity should disclose:</p> <p>a) if it has an internal audit function, how the function is structured and what role it performs; or</p> <p>b) if it does not have an internal audit function, that fact and the</p> | <p align="center">No</p> | <p align="center">Audit and Risk Committee Charter Website</p> | <p>The Board performs the role of Audit Committee. When the Board convenes as the Audit Committee it carries out those functions which are delegated to it in the Company's Audit Committee Charter which include reviewing the Company's internal financial control system. Due to the nature and size of the Company's operations, and the Company's ability to derive substantially all of the benefits of an independent internal audit function, the expense of an independent internal auditor is not considered to be appropriate.</p> |

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| processes it employs for evaluating and continually improving the effectiveness of its risk management and internal control processes. | | | |
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Corporate Governance Statement (continued)

| Principle / Recommendation | Compliance | Reference | Commentary |
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| Principle 7: Recognise and manage risk (continued) | | | |
| <u>Recommendation 7.4</u> | | | |
| A listed entity should disclose whether it has any material exposure to economic, environmental and social sustainability risks and, if it does, how it manages or intends to manage those risks. | Yes | Corporate Governance Statement | The Company has considered its economic, environmental and social sustainability risks by way of internal review and has concluded that it is not subject to material economic, environmental and social sustainability risks. |
| Principle 8: Remunerate fairly and responsibly | | | |
| <u>Recommendation 8.1</u> | | | |
| The board of a listed entity should: a) have a remuneration committee which: 1) has at least three members, a majority of whom are independent Directors; and 2) is chaired by an Independent Director, and disclose: 3) the charter of the committee; 4) the members of the committee; and | No | Remuneration Committee Charter, Independent Professional Advice Policy Website | The Board has not established a separate Remuneration Committee, and therefore it is not structured in accordance with Recommendation 8.1. Given the current size and composition of the Board, the Board believes that there would be no efficiencies gained by establishing a separate Remuneration Committee. Accordingly, the Board performs the role of Remuneration Committee. Items that are usually required to be discussed by a Remuneration Committee are discussed at a separate meeting when required. When the Board convenes as the Remuneration Committee it carries out those functions which are delegated to it in the Company's Remuneration Committee Charter. The Board deals with any conflicts of interest that may occur when convening in the capacity of the Remuneration Committee by ensuring that the Director with conflicting interests is not party to the relevant discussions. |

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| <p>5) as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or</p> | | | <p>The Board as a whole met as the Remuneration Committee once during the year and all Board members were in attendance. To assist the Board to fulfil its function as the Remuneration Committee, the Company has adopted a Remuneration Committee Charter which describes the role, composition, functions and responsibilities of the Remuneration Committee.</p> <p>To assist Directors with independent judgement, it is the Board's policy that if a Director considers it necessary to obtain independent professional advice to properly discharge the responsibility of their office as a Director then, provided the Director first obtains approval from the Chair for incurring such expense, the Company will pay the reasonable expenses associated with obtaining such advice.</p> |
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Corporate Governance Statement (continued)

| Principle / Recommendation | Compliance | Reference | Commentary |
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| Principle 8: Remunerate fairly and responsibly (continued) | | | |
| <u>Recommendation 8.1 (continued)</u> | | | |
| <p>b) if it does not have a remuneration committee, disclose that fact and the processes it employs for setting the level and composition of remuneration for Directors and senior executives and ensuring that such remuneration is appropriate and not excessive.</p> | | | |
| <u>Recommendation 8.2</u> | | | |

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| <p>A listed entity should separately disclose its policies and practices regarding the remuneration of Non-executive Directors and the remuneration of Executive Directors and other senior executives.</p> | <p>Yes</p> | <p>Remuneration Policy Website</p> | <p>Details of remuneration, including the Company's policy on remuneration, are contained in the Remuneration Report which forms of part of the Annual Report. The remuneration of Non-executive Directors is set by reference to payments made by other companies of similar size and industry, and by reference to the Director's skills and experience. Given the Company is at its early stage of development and the financial restrictions placed on it, the Company may consider it appropriate to issue unlisted options to non-Executive Directors, subject to obtaining the relevant approvals. The Remuneration Policy is subject to annual review. All of the Directors' option holdings are fully disclosed. Executive pay and rewards consists of a base salary and performance incentives. Long term performance incentives may include options granted at the discretion of the Board and subject to obtaining the relevant approvals. The grant of options is designed to recognise and reward efforts as well as to provide additional incentive and may be subject to the successful completion of performance hurdles. Executives are offered a competitive level of base pay at market rates (for comparable companies) and are reviewed annually to ensure market competitiveness.</p> |
| <p><u>Recommendation 8.3</u></p> | | | |
| <p>A listed entity which has an equity-based remuneration scheme should:</p> <ul style="list-style-type: none"> a) have a policy on whether participants are permitted to enter into transactions (whether through the use of derivatives or otherwise) which limit the economic risk of participating in the scheme; and b) disclose that policy or a summary of it. | <p>Yes</p> | <p>Remuneration Policy Website</p> | <p>Executives and Non-Executive Directors are prohibited from entering into transactions or arrangements which limit the economic risk of participating in unvested entitlements.</p> |

