



LITHIUM AUSTRALIA NL

ACN 126 129 413

FINANCIAL REPORT

FOR THE YEAR ENDED 30 JUNE 2018

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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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Perth WA 6000

SHARE REGISTRY

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Nedlands WA 6009

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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

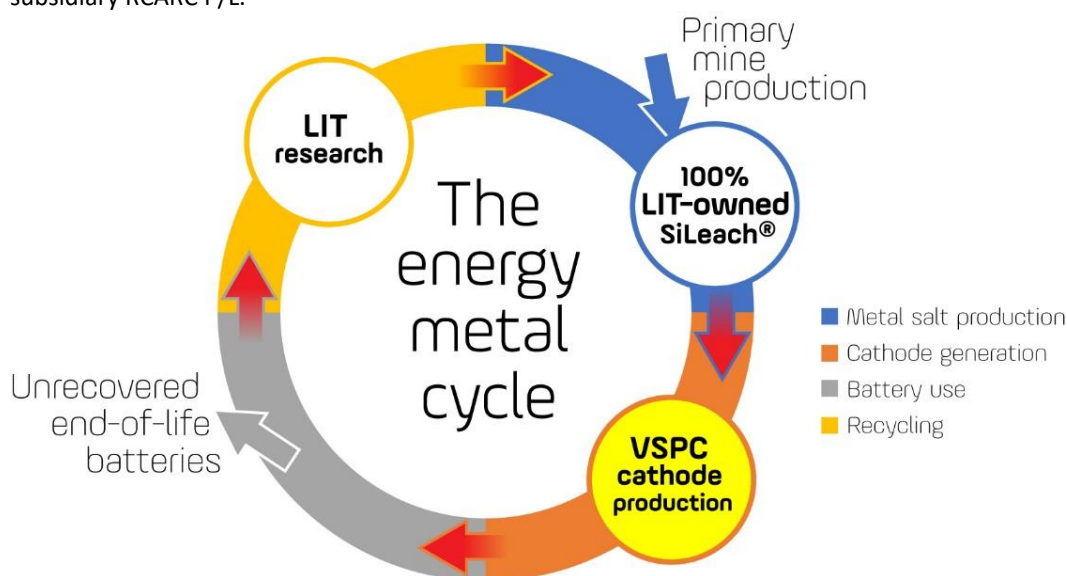
During the past year, Lithium Australia has overcome numerous challenges in its quest to 'close the loop' on the energy-metal cycle. In so doing, it has created a platform from which to deliver sustainable and ethical materials to the lithium-ion battery (LIB) industry.

The company's achievements include a technology package designed to provide the long-term benefits of reliable supply while reducing pressure on the environment, setting it apart from its peers.

Lithium Australia's flagship SiLeach® technology continues to evolve and there have been some revolutionary changes. Now successfully pilot-tested, it is resolving some of the most significant issues in lithium extraction; in particular, processes to precipitate lithium from low-tenor solutions have been developed, improving the energy balance and lowering operating costs. Potentially, similar benefits can be achieved in recovering lithium from brines without extensive evaporation.

Also this year, the company's acquisition of VSPC Limited provided it with access to advanced cathode powder production, in which nanotechnology has generated powders that outperform industry benchmarks. Recently re-commissioned, the VSPC pilot plant, laboratory and testing facility in Brisbane has already delivered advanced cathode powders for industry testing in China.

In addition, Lithium Australia is developing processes to recover all the metals from spent LIBs. Indeed, those processes have progressed to the point where a commercial outcome is within reach. The environmental implications of implementing a commercial recycling business are enormous, in that it will significantly reduce the quantity of batteries going to landfill (along with the deleterious components they contain). Battery recycling can also replenish supplies of cobalt, much of which emanates from impoverished regions in the Congo, where artisanal mining often involves the use of child labour. This recycling initiative comes courtesy of Lithium Australia subsidiary RCARC P/L.



In Germany, meanwhile, Lithium Australia confirmed the nature of the mineralisation at Sadisdorf, establishing its first JORC-complaint lithium resource. Subsequently, it acquired 100% of that project. Also in Germany, the company has identified cobalt mineralisation at the nearby Eichigt exploration licence, and its exploration projects in Australia and Mexico continue to advance.

Looking ahead, Lithium Australia plans to manufacture LIBs at the VSPC facility, from material originally sourced as mine waste from the Kalgoorlie region in Western Australia. A first for the industry, it will see the company's concept 'From mine waste to motor vehicle' become a reality.

In summary, Lithium Australia will commit to a large-scale SiLeach® pilot plant, advance the cathode powder business to definitive feasibility and close the energy-metal cycle by applying the LIB recycling technology currently being developed by RCARC.

The company is proud of its achievements, which position it at the forefront of energy management and LIB technology, and will build on these to become a leader in the field.

Lithium Australia values your support and looks forward to even greater success in 2019.

A handwritten signature in black ink, appearing to read 'GB', with a long horizontal line extending to the right.

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 2018 (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

Non-executive Director – BlackEarth Minerals NL

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 2018 was \$8,093,005 (2017: loss of \$4,592,225).

No dividend has been paid during or is recommended for the financial period ended 30 June 2018.

FINANCIAL POSITION

The Consolidated entity's working capital surplus, being current assets less current liabilities was \$13,697,269 at 30 June 2018 (2017: working capital surplus of \$2,726,613).

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

Lithium Australia wants to be a part of making Australia a world lithium hub but believes the Federal Government needs to recognise the innovative and research intensive status of the industry, as it does with clinical trials, and retain an R&D environment competitive with other jurisdictions and this developing industry.

At risk is the chance for Australia to increase its meagre 0.5% (A\$1.1 billion) share of the lithium-based battery value chain by moving beyond simply exporting concentrated ore, instead establishing a 'Lithium Valley' for energy metals in Western Australia on a scale that rivals Silicon Valley's role in developing the computer industry in the 20th century.

Lithium Australia is firmly of the view that the proposed rebate cap will have a negative impact on the development of innovative critical minerals projects in Australia. The proposed cap will force projects, such as our pilot plant, to develop very slowly and result in missed opportunities for the country.

Lithium Australia has advanced its goal of developing an integrated lithium company with the capability of capitalising on all major sectors of the lithium supply chain, and in so doing closing the loop on the lithium production cycle.

Key elements of LIT's strategy include the following:

- 100% owned SiLeach® technology is capable of converting mine waste to lithium chemicals;
- 100% owned LieNa® technology is capable of extracting lithium from spodumene;
- 100% owned technology is capable of extracting lithium from waste water;
- VSPC technology can convert lithium chemicals to superior quality lithium-ion battery cathode materials; and
- Recycling technology will recover valuable metals, including lithium and cobalt, from spent batteries, closing the loop on the energy metal cycle.

LIT's technology development is supported by a growing resource base, which – coupled with its SiLeach® process – can breathe new life into otherwise stranded assets. A prime example is the association of tin with lithium mineralisation, as exemplified by the Sadisdorf deposit in Germany (see below).

Patent authorities have confirmed that SiLeach® is novel, inventive and has industry application. LIT has supported a significant research and development programme to achieve this goal. The latter, which is likely to be the world's first hydrometallurgical facility for the production of lithium chemicals from silicates, will be fed by mine waste.

Company projects

Lithium Australia has many projects currently on foot. 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. There has been a change from last year's list. Lithium Australia has reviewed a number of areas and these projects have not met with the required criteria.

Australian Projects

- Ravensthorpe Lithium Project, WA
- Greenbushes, WA
- Seabrook Rare Metals Venture, WA
- Gascoyne, WA
- Pilbara, WA
- Cape York, Queensland
- Bynoe, Northern Territory
- Lake Johnston, WA
- Kangaroo Island, South Australia

Global Projects

- Mexico – Electra Joint Venture
- Germany – Sadisdorf Project

DIRECTORS' REPORT (Continued)

Strategic Relationships

- MetalsTech
- Pilgangoora with Pilbara Minerals, WA
- ANSTO
- Curtin University
- Murdoch University
- University of Queensland
- University of Newcastle

Investments

- MetalsTech Ltd – 1m shares
- Infinite Lithium Corp. (formerly Alix Resources Corporation Inc) – 2m shares
- Lefroy Exploration Ltd – 3m shares
- BlackEarth Minerals NL – 11.1m shares and 1m partly paid shares
- VSPC Ltd (wholly owned subsidiary)
- Resource, Conservation and Recycling Corporation Pty Ltd

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
- VSPC Proprietary Processes
- Recycling

SADISDORF – GERMANY

The style of mineralisation at Sadisdorf – an historic tin mine in Saxony, Germany, close to the border with the Czech Republic – is a greisen (altered granite). The tin mineralisation is enveloped by a pervasive lithium-mica alteration. Application of LIT's SiLeach® technology provides an opportunity to combine the value of the tin with that of the lithium, the latter contained within minerals otherwise considered waste.

A source of lithium for the European EV industry

Significantly the resource at Sadisdorf is close to proposed LIB battery production facilities planned to service the rapidly growing EV industry in Europe. The site is also well serviced by established infrastructure and reagent supplies. These features will enable development not only to the stage of lithium chemicals, but with the addition of VSPC technology, cathode powders to the European LIB industry.

Maiden lithium resource estimate completed

CSA Global, a leading international mining consultancy, has estimated an Inferred Mineral Resource at Sadisdorf of 25 million tonnes grading 0.45% Li₂O (see Table 1 below), based on re-analysis and re-interpretation of historical drilling and underground sampling. Reporting was in accordance with JORC 2012 (see [ASX announcement](#) 7 December 2017 and Retraction Statement on 1 June 2018 in regard to Production Target).

Work is currently underway to better define this Production Target.

Classification	Domain	Tonnes (Mt)	Li (%)	Li ₂ O (%)
Inferred	Inner greisen	17	0.22	0.47
Inferred	Outer greisen	8	0.20	0.43
Inferred	Total	25	0.21	0.45
Note: the Mineral Resource was estimated within constraining wireframe solids defined above (with a nominal 0.15% Li cut-off). The Mineral Resource is reported from all blocks within these wireframe solids. Differences may occur due to rounding.				

Table 1. Inferred Mineral Resource estimate for Sadisdorf.

DIRECTORS' REPORT (Continued)

Resource modelling has confirmed that the dormant tin mine, which contains significant lithium mineralisation, can be considered a polymetallic deposit with value contributions from lithium, tin and tungsten. Moreover, application of SiLeach® has the potential to provide significant by-product credits (e.g. potassium sulphate fertiliser, sodium silicate).



Figure 1 LIT managing director Adrian Griffin observes preparations for drilling at Sadisdorf.

LIT completed drilling at Sadisdorf which aims to improve resource definition and progress to a resource upgrade. Three drill holes have been completed as shown in Table 2 below:

Drill hole ID	X (metres)	Y (metres)	Z (metres)	Planned Azimuth	Planned Dip	Planned length	Actual length
SDDH-17-01T	5404692.0	5633054.4	592.6	88.2°	-86.0°	310 m	310.0 m
SDDH-17-02T	5404703.4	5633052.3	592.4	280.2°	-66.6°	150 m	100.8 m
SDDH-17-02TA	5404703.4	5633052.3	592.4	280.2°	-66.6°	150 m	150.0 m
Coordinate system: DHDN / 3-degree Gauss-Kruger zone 5							

Table 2. Holes completed for the JV's maiden drilling programme at Sadisdorf.

EICHIGT PROJECT

The Eichigt Project lies on the border between Germany and the Czech Republic in Saxony, slightly over 100km from the Sadisdorf project.

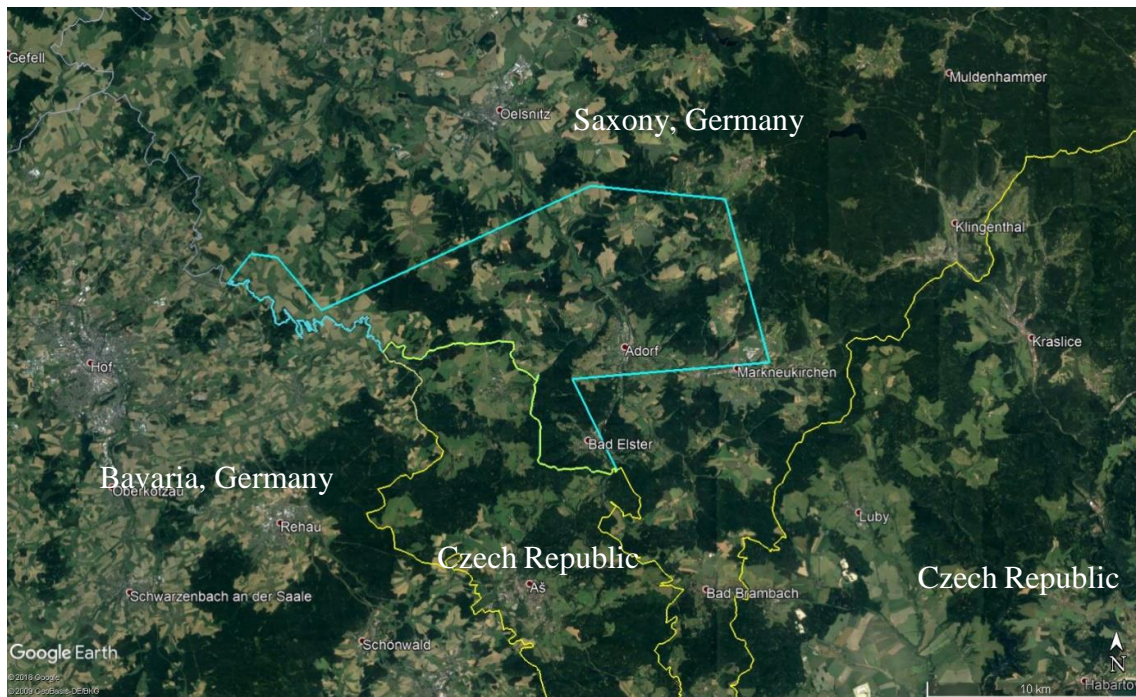


Figure 2 - The Eichigt Project, on the German/Czech border in Saxony, Germany

The licence area contains a buried granite cupola similar to the lithium- and tin-bearing cupola at Sadisdorf, but initial exploration focussed on gossans in veins that outcrop at surface. These veins were historically mined for copper but no production has been recorded since the 17th century.

Results showed high levels of cobalt and copper. The first five grab samples are shown in Table 3.

Lithium Australia™ Eichigt					
Location	E03G	E03G	E04G	E07G	E08G
Weight (kg)	1.06	0.36	0.70	0.81	0.08
Li2O (%)	0.23	0.26	0.19	0.21	0.26
Co (%)	0.18	0.60	0.24	0.18	0.60
Cu (%)	0.17	0.48	0.20	0.38	0.26
Ni (ppm)	541	506	344	719	495
As (ppm)	35.4	30.1	32.1	534	796
U (ppm)	35.5	20.8	11.0	48.2	53.5

Table 3: Results of the initial five grab samples at Eichigt.

This is very early data at the first stages of exploration but is highly encouraging and more work is in progress.

DIRECTORS' REPORT (Continued)

Competent Persons' Statement – Lithium Mineral Resources - Sadisdorf

The information in this announcement that relates to in situ lithium Mineral Resources for Sadisdorf is based on and fairly represents information compiled by Mr Thomas Branch under the direction and supervision of Dr Andrew Scogings, in accordance with the requirements of the JORC Code 2012. Dr Scogings is a full-time employee of CSA Global Pty Ltd and takes overall responsibility for the Mineral Resource estimate and associated report. Dr Scogings is a Member of both the Australian Institute of Geoscientists and 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 he is undertaking, to qualify as a Competent Person in terms of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves' (JORC Code 2012). Dr Scogings consents to the inclusion of such information in this announcement in the form and context in which it appears. LIT confirms that it is not aware of any new information or data that materially affects the information included in this announcement, and in the case of the Sadisdorf Mineral Resource estimate the company confirms that all material assumptions and technical parameters underpinning the estimates in the 7 December 2017 and 1 June 2018 announcements continue to apply and have not materially changed.

Competent Persons' Statement – Eichigt Germany

The information contained in the report that relates to Exploration Results together with any related assessments and interpretations is based on information compiled by Mr Albert Gruber on behalf of Mr Adrian Griffin, Managing Director of Lithium Australia and has been supervised by Mr Phillip Schiemer, Exploration Manager for Lithium Australia. Mr Schiemer is a Member of both the Australian Institute of Geoscientists and 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 being undertaken, to qualify as a Competent Person as defined in the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves' (JORC Code 2012). Mr Schiemer consents to the inclusion in this report of the matters based on Mr Gruber's data in the form and context in which it appears. The Company is not aware of any new information or data that materially affects the information in this report.

Competent Persons' Statement – Lithium Mineral Resources – Australia

The information in this report that relates to Australian Exploration Results, together with any related assessments and interpretations, is based on information compiled by Mr Adrian Griffin on behalf of Lithium Australia NL. Mr Griffin is a member of the Australasian Institute of Mining and Metallurgy and has sufficient experience relevant to the styles of mineralisation under consideration, and to the activity they have undertaken, to qualify as Competent Persons, as defined in the *Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (2012 edition)*. Mr Griffin consents to the inclusion in the report of the matters based on their information in the form and context in which it appears. LIT is not aware of any new information or data that materially affects that contained herein.

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

During the 2018 financial year, there were no significant changes in the state of affairs of the consolidated entity.

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.

SUBSEQUENT EVENTS

- (a) On 26 July 2018, the Company issued 7,000,000 ordinary shares upon conversion of the convertible notes having a value of \$700,000 together with 43,681 ordinary shares issued in satisfaction of interest accrued, pursuant to a conversion notice issued under the unsecured convertible note deed with Arena Investors, LP.
- (b) On 6 September 2018, the Company formally recommissioned the VSPC factory.
- (c) On 10 September 2018, the Company issued 2,500,000 ordinary shares upon conversion of the convertible notes having a value of \$250,000 together with 27,609 ordinary shares issued in satisfaction of interest accrued, pursuant to a conversion notice issued under the unsecured convertible note deed with Arena Investors, LP.
- (d) On 12 September 2018, the Company issued 21,325,531 ordinary shares, 1,500,000 partly paid shares and paid €535,500 as consideration for the acquisition of exploration licences in Germany.
- (e) On 19 September 2018, the Company issued 4,500,000 ordinary shares upon conversion of the convertible notes having a value of \$450,000 together with 46,101 ordinary shares issued in satisfaction of interest accrued, pursuant to a conversion notice issued under the unsecured convertible note deed with Arena Investors, LP.
- (f) On 21 September 2018, the Company terminated the convertible note facility with Arena Investors, LP.
- (g) On 28 September 2018, the increase/(decrease) in share prices had the following effect on the fair value of the investments held:

INVESTMENT	SHARE PRICE AT 30/06/2018	SHARE PRICE AT 28/09/18	INCREASE/ (DECREASE) IN SHARE PRICE	NUMBER OF SHARES HELD AT 30/06/2018	INCREASE/ (DECREASE) IN FAIR VALUE
Venus Metals Ltd	\$0.15	\$0.195	\$0.045	400,000	\$18,000
Venus Metals Ltd Options	\$0.04	\$0.041	\$0.001	133,334	\$133
Lefroy Exploration Limited	\$0.165	\$0.16	(\$0.005)	3,000,000	(15,000)
BlackEarth Minerals NL	\$0.09	\$0.135	\$0.045	11,150,000	\$501,750
Metals Tech	\$0.096	\$0.073	(\$0.023)	1,000,000	(\$23,000)
Alix Resources	\$0.1231	\$0.145	\$0.0219	2,000,000	\$43,800
					<u>\$525,683</u>

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

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	6	6
George Bauk	6	6
Bryan Dixon	6	6

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:

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 apart from the notice received in regard to Ravensthorpe. The Company has responded to a request for information and awaits the outcome of that investigation.

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
3 May 2018	2 May 2021	\$0.1938	8,484,849	\$0.077
24 May 2018	23 May 2021	\$0.1756	15,167,602	\$0.072
			45,044,117	

No new options have been issued subsequent to 30 June 2018.

PERFORMANCE RIGHTS

Unlisted performance rights on issue as at 30 June 2018 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
Class A	28 November 2016			1,000,000	\$165,993
Class B	28 November 2016			2,000,000	\$220,864
Class C	28 November 2016			3,000,000	\$220,417
Class D	28 November 2016			4,000,000	\$17,960
Class A	01 December 2016			375,000	\$60,409
Class B	01 December 2016			750,000	\$80,358
Class C	01 December 2016			1,125,000	\$80,169
Class D	01 December 2016			1,500,000	\$6,521
Class A	20 December 2016			125,000	\$16,462
Class B	20 December 2016			250,000	\$21,862
Class C	20 December 2016			375,000	\$21,763
Class D	20 December 2016			500,000	\$1,750
Class A(2)	30 April 2018			900,000	\$61,244

DIRECTORS' REPORT (Continued)

PERFORMANCE RIGHTS (continued)

Class B(2)	30 April 2018	900,000	\$32,752
Class C(2)	30 April 2018	900,000	\$12,390
Class D(2)	30 April 2018	2,250,000	\$8,445
Class E(2)	30 April 2018	2,250,000	\$673
Performance Rights Outstanding as at 30 June 2018		32,540,000	\$1,030,032

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.
Class A(2)	900,000	Successful pilot plant recommissioning of VSPC Ltd.
Class B(2)	900,000	Product quality specification produced by the plant are equal to or greater than industry accepted reference standards.
Class C(2)	900,000	Delivery of a pre-feasibility study supporting decision to proceed to a definitive feasibility study for the construction of a commercial scale plant to produce cathode material (Commercial Plant).
Class D(2)	2,250,000	Delivery of a definitive feasibility study for the construction of a commercial plant to produce cathode material which supports and investment decision to proceed to construction.
Class E(2)	2,250,000	Commencement of construction of commercial plant.
	32,540,000	

No new performance rights have been issued subsequent to 30 June 2018

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.

DIRECTORS' REPORT (Continued)

REMUNERATION REPORT (Audited) (Continued)

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.

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 paid a \$50,000 bonus to Adrian Griffin on the 9 November 2017.

Details of Remuneration for Period ended 30 June 2018

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	Bonus	Non-Monetary	Super-annuation	Retirement Benefits	Performance Option Rights	Performance Rights	Equity	Options	\$	%	%	%
Adrian Griffin - Managing Director													
2018	357,033	50,000	3,219	30,922	-	-	263,565	-	-	704,739	0%	0%	37%
2017	287,113	-	1,963	26,869	-	-	161,378	-	-	477,323	0%	0%	34%
George Bauk - Non Executive Chairman													
2018	82,500	-	-	-	-	-	125,365	-	-	207,865	0%	0%	60%
2017	69,750	-	-	-	-	-	56,611	-	-	126,361	0%	0%	45%
Bryan Dixon - Non Executive Director													
2018	60,000	-	-	-	-	-	125,365	-	-	185,365	0%	0%	68%
2017	57,500	-	-	-	-	-	56,611	-	-	114,111	0%	0%	50%
Barry Woodhouse - Company Secretary													
2018	190,335	-	1,479	6,272	-	-	48,528	57,965	-	304,579	0%	0%	16%
2017	123,790	-	1,284	-	-	-	27,291	94,010	-	246,375	0%	0%	11%
Total													
2018	689,867	50,000	4,698	37,193	-	-	562,823	57,965	-	1,402,548	0%	0%	40%
2017	538,153	-	3,247	26,869	-	-	301,891	94,010	-	964,170	0%	0%	31%

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 January 2018 following a remuneration committee meeting held on 15 February 2018, Mr Griffin's salary increased from \$300,000 to \$385,000 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.

DIRECTORS' REPORT (Continued)

REMUNERATION REPORT (Audited) (Continued)

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 \$60,000 were paid, or were due and payable to Warrior Strategic Pty Ltd. Mr Dixon is a director and shareholder of Warrior Strategic Pty Ltd.

Director's fees of \$82,500 were paid, or were due and payable to Mr George Bauk. From 1 January 2018, following a remuneration committee meeting held on 15 February 2018 Mr Bauk's director fees increased from \$75,000 per annum to \$90,000 per annum.

Barry Woodhouse, as CFO and Company Secretary has agreed to be paid a proportion of his remuneration in Company Shares pursuant to the terms and conditions of the Director and Senior Management Fee and Remuneration Sacrifice Share Plan.

Directors' interests in shares and options

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

	Balance 30/06/2017	Received as Compensation	Options Exercised	Net change Other	Balance 30/06/2018
A Griffin	9,782,980	-	-	-	9,782,980
G Bauk	620,250	-	-	-	620,250
B Dixon	2,578,978	-	-	97,015	2,675,993 ¹
B Woodhouse	403,146	605,888	-	(485,804)	523,230
	13,385,354	605,888	-	(388,789)	13,602,453

¹Included in the closing balance is 2,557,995 shares indirectly held by a related third party and 117,998 shares held by Bryan Dixon.

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

	Balance 30/06/2017	Received as Compensation	Options Exercised	Net change Other	Balance 30/06/2018
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 1,980,491 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 30/06/2017	Received as Compensation	Options Exercised	Net change Other	Balance 30/06/2018
A Griffin	9,050,000	4,000,000	-	-	13,050,000
G Bauk	4,525,000	1,600,000	-	-	6,125,000
B Dixon	4,525,000	1,600,000	-	-	6,125,000
B Woodhouse	2,370,000	-	-	-	2,370,000
	20,470,000	7,200,000	-	-	27,670,000

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

DIRECTORS' REPORT (Continued)

REMUNERATION REPORT (Audited) (Continued)

	Balance 30/06/2017	Granted as Compensation	Options Exercised/ Expired	Balance 30/06/2018	Total Vested 30/06/2018	Total Exercisable 30/06/2018	Total Unexercisable 30/06/2018
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	-

Options Issued as Part of Remuneration

During the year ended 30 June 2018, 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					

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			

Table D Series 4 - During the period, the following KMP were entitled to options with a fair value of \$0.135 per unit.

	Number Granted	Number Vested	% of Grant Vested	% of Grant Forfeited
A Griffin	4,000,000	-	0%	0%
G Bauk	1,600,000	-	0%	0%
B Dixon	1,600,000	-	0%	0%
	7,200,000			

No new options had been issued or exercised during the year ended 30 June 2018.

DIRECTORS' REPORT (Continued)

REMUNERATION REPORT (Audited) (Continued)

Performance Rights Issued as Part of Remuneration

During the year ended 30 June 2018, 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		15/07/2018	\$165,993
Class B Table E	2,000,000	28/11/2016	\$0.17		15/08/2018	\$220,964
Class C Table F	3,000,000	28/11/2016	\$0.17		30/09/2018	\$220,417
Class D Table G	4,000,000	28/11/2016	\$0.17		01/12/2019	\$17,960
Class A Table D	125,000	28/12/2016	\$0.165		15/07/2018	\$20,136
Class B Table E	250,000	28/12/2016	\$0.165		15/08/2018	\$26,786
Class C Table F	375,000	28/12/2016	\$0.165		30/09/2018	\$26,723
Class D Table G	500,000	28/12/2016	\$0.165		01/12/2019	\$2,174
Class A(2) Table H	900,000	30/04/18	\$0.135		31/08/2018	\$61,244
Class B(2) Table I	900,000	30/04/18	\$0.135		31/10/2018	\$37,752
Class C(2) Table J	900,000	30/04/18	\$0.135		28/02/2019	\$12,390
Class D(2) Table K	2,250,000	30/04/18	\$0.135		28/02/2020	\$8,445
Class E(2) Table L	2,250,000	30/04/18	\$0.135		28/02/2022	\$673
	27,670,000					\$821,657

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				

DIRECTORS' REPORT (Continued)**REMUNERATION REPORT (Audited) (Continued)**

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				

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				

Table H Class A(2) - During the period, the following KMP became entitled to performance rights with a performance hurdle of the successful pilot plant recommissioning of VSPC Ltd..

	Number Granted	Grant Date Fair Value	Number Vested	% of Grant Vested	% of Grant Forfeited
A Griffin	500,000	\$0.135	-	0%	0%
G Bauk	200,000	\$0.135	-	0%	0%
B Dixon	200,000	\$0.135	-	0%	0%
	900,000				

DIRECTORS' REPORT (Continued)

REMUNERATION REPORT (Audited) (Continued)

Table I Class B(2) - During the period, the following KMP became entitled to performance rights with a performance hurdle of product quality specification produced by the plant are equal to or greater than industry accepted reference standards.

	Number Granted	Grant Date Fair Value	Number Vested	% of Grant Vested	% of Grant Forfeited
A Griffin	500,000	\$0.135	-	0%	0%
G Bauk	200,000	\$0.135	-	0%	0%
B Dixon	200,000	\$0.135	-	0%	0%
	900,000				

Table J Class C(2) - During the period, the following KMP became entitled to performance rights with a performance hurdle of the delivery of a pre-feasibility study supporting decision to proceed to a definitive feasibility study for the construction of a commercial scale plant to produce cathode material (Commercial Plant).

	Number Granted	Grant Date Fair Value	Number Vested	% of Grant Vested	% of Grant Forfeited
A Griffin	500,000	\$0.135	-	0%	0%
G Bauk	200,000	\$0.135	-	0%	0%
B Dixon	200,000	\$0.135	-	0%	0%
	900,000				

Table K Class D(2) - During the period, the following KMP became entitled to performance rights with a performance hurdle of the delivery of a definitive feasibility study for the construction of a commercial plant to produce cathode material which supports and investment decision to proceed to construction..

	Number Granted	Grant Date Fair Value	Number Vested	% of Grant Vested	% of Grant Forfeited
A Griffin	1,250,000	\$0.135	-	0%	0%
G Bauk	500,000	\$0.135	-	0%	0%
B Dixon	500,000	\$0.135	-	0%	0%
	2,250,000				

Table L Class E(2) - During the period, the following KMP became entitled to performance rights with a performance hurdle of the commencement of construction of commercial plant.

	Number Granted	Grant Date Fair Value	Number Vested	% of Grant Vested	% of Grant Forfeited
A Griffin	1,250,000	\$0.135	-	0%	0%
G Bauk	500,000	\$0.135	-	0%	0%
B Dixon	500,000	\$0.135	-	0%	0%
	2,250,000				

End of Remuneration Report

DIRECTORS' REPORT (Continued)

INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

The Company paid a premium of \$ 16,138 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 2018.

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 21 and forms part of this directors' report for the period ended 30 June 2018.

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



Adrian Griffin
Managing Director

Dated at Perth this 28th day of September 2018

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 partner for the audit of the financial statements of Lithium Australia NL for the financial year ended 30 June 2018, 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



DOUG BELL CA
Partner

Dated at Perth this 28th day of September 2018

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER
COMPREHENSIVE INCOME**
For the Year Ended 30 June 2018

	Note	30 June 2018 \$	30 June 2017 \$
Continuing Operations			
Revenue	2	113,995	42,855
Other Revenue	3	2,047,010	1,753,195
Occupancy costs		(128,672)	(78,050)
Professional fees		(957,382)	(468,976)
Corporate fees		(617,245)	(604,957)
Laboratory/Plant expense		(55,993)	-
Employee benefits expense	5(a)	(2,829,809)	(2,248,393)
Administration costs		(812,911)	(370,787)
Fair value of investments adjustment		(2,262)	(76,763)
Realised gains on financial assets		-	(257,502)
Unrealised gains on financial assets		-	(1,045,714)
Depreciation and amortisation	5(b)	(681,006)	(39,094)
Exploration and evaluation costs written off	5(b)	(2,760,384)	(1,198,070)
Finance costs		(1,408,346)	-
Loss before income tax		(8,093,005)	(4,592,255)
Income tax expense	6	-	-
Loss from continuing operations		(8,093,005)	(4,592,255)
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translating foreign operation		(23,832)	-
Net fair value gain on available for sale financial assets		3,212,341	988,796
Total comprehensive income for the year		(4,904,496)	(3,603,459)
Loss for the year attributable to:			
Members of the controlling entity		(8,087,136)	(4,592,255)
Non controlling interest		(5,869)	-
		(8,093,005)	(4,592,255)
Total comprehensive income attributable to:			
Members of the controlling entity		(4,898,627)	(3,603,459)
Non controlling interest		(5,869)	-
		(4,904,496)	(3,603,459)
Basic loss per share (cents per share)	20	2.30	1.81

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 2018**

	Note	30 June 2018 \$	30 June 2017 \$
Current Assets			
Cash and cash equivalents	7	18,339,857	2,586,506
Trade and other receivables	8	362,207	1,038,137
Financial assets	9	90,247	-
Total Current Assets		18,792,311	3,624,643
Non Current Assets			
Financial assets	9	1,905,954	5,631,545
Exploration Expenditure	10	2,915,044	2,977,849
Intangible assets	11	15,870,997	3,699,945
Property, plant and equipment	13	449,068	92,542
Total Non Current Assets		21,141,063	12,401,881
TOTAL ASSETS		39,933,374	16,026,524
Current Liabilities			
Trade and other payables	14	1,689,083	898,030
Convertible Note	15	3,405,959	-
Total Current Liabilities		5,095,042	898,030
TOTAL LIABILITIES		5,095,042	898,030
NET ASSETS		34,838,332	15,128,494
Equity			
Issued capital	16	51,386,424	29,221,087
Reserves	18	3,904,663	2,198,280
Accumulated losses		(20,446,886)	(16,290,873)
Controlling entity interest		34,844,201	15,128,494
Non-controlling interest		(5,869)	-
TOTAL EQUITY		34,838,332	15,128,494

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 2018

	Issued Capital \$	Share Based Payment Reserve \$	Foreign Currency Translation Reserve \$	Investment Revaluation Reserve \$	Accumulated Losses \$	Non Controlling Interest \$	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

	Issued Capital \$	Share Based Payment Reserve \$	Foreign Currency Translation Reserve \$	Investment Revaluation Reserve \$	Accumulated Losses \$	Non Controlling Interest \$	Total \$
Balance at 1 July 2017	29,221,087	1,085,918	(2,414)	1,114,776	(16,290,873)	-	15,128,494
Loss for the year	-	-	-	-	(8,087,136)	(5,869)	(8,093,005)
Other comprehensive income							
Net fair value gain on available for sale financial assets	-	-	-	3,212,341	-	-	3,212,341
Effects of exchange rates on foreign currency translation	-	-	(23,832)	-	-	-	(23,832)
Total comprehensive loss for the year	-	-	(23,832)	3,212,341	(8,087,136)	(5,869)	(4,904,496)
Transaction with owner, directly recorded in equity:							
Issue of shares	23,014,385	-	-	-	-	-	23,014,385
Capital raising costs	(849,048)	-	-	-	-	-	(849,048)
Effects of exchange rates on foreign currency translation	-	-	-	-	-	-	-
Issue of share based payments	-	2,448,997	-	-	-	-	2,448,997
Transfer from investment revaluation reserve	-	-	-	(3,931,123)	3,931,123	-	-
Balance at 30 June 2018	51,386,424	3,534,915	(26,246)	395,994	(20,446,886)	(5,869)	34,838,332

CONSOLIDATED STATEMENT OF CASH FLOWS

For the Year Ended 30 June 2018

		30 June 2018	30 June 2017
	Note	\$	\$
Cash Flows from Operating Activities			
Payments to suppliers and employees		(3,651,373)	(3,034,316)
Payments for exploration and evaluation		(2,150,550)	(1,193,667)
Proceeds from R&D tax rebate		2,391,035	-
Interest received		113,995	41,919
Net cash used in operating activities	21	(3,296,893)	(4,186,064)
Cash Flows from Investing Activities			
Cash acquired from acquisition		68,271	-
Purchase of property, plant and equipment		(81,740)	(106,468)
Payment for intangible assets		(2,187,203)	(3,055,962)
Proceeds from sale of financial assets		7,266,973	12,527
Acquisition of exploration and evaluation		(102,937)	(281,329)
Payments for other financial assets		(219,288)	(246,737)
Net cash used in investing activities		4,744,076	(3,677,969)
Cash Flows from Financing Activities			
Proceeds from issue of shares		7,530,000	4,720,530
Payment for capital raising costs		-	(26,636)
Proceeds from borrowings		7,395,000	-
Payment for convertible note financing cost		(595,000)	-
Net cash generated by financing activities		14,330,000	4,693,894
Net increase in cash held		15,777,183	(3,170,139)
Cash and cash equivalents at the beginning of the period		2,586,506	5,756,645
Effects of exchange rates on consolidation of foreign subsidiary		(23,832)	-
Cash and cash equivalents at the end of the period	7	18,339,857	2,586,506

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 2018

These consolidated financial statements and notes represent those of Lithium Australia NL and its controlled entity (the "Consolidated entity"). Lithium 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 2018 were approved and authorised for issue by the Board of Directors on 28 September 2018.

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 2018 of \$8,093,005 (2017: \$4,592,255) and cash inflows from operating and investing activities of \$1,447,183 (2017: \$7,864,033). As at 30 June 2018, the Company has a cash at bank balance of \$18,339,857 (2017: \$2,586,506) and a positive working capital position of \$13,697,269 (2017: \$2,726,613).

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 Directors have an appropriate plan to contain certain operating and exploration expenditure if appropriate funding is unavailable.

(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2018 (continued)

STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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. The adoption of AASB 9 effects 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. The difference to the measurement requirements of the old AASB 139 is that realised gains/losses on disposal of financial assets are no longer recognised in profit or loss, rather they remain in other comprehensive income.

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:

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.

As the Group's revenue consists of interest and R&D rebates, the adoption of AASB 15 is not expected to have a material effect.

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. Refer to note 29 for the Group's operating leases which will be required to be booked on balance sheet.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2018 (continued)

STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) *Principles of Consolidation*

The consolidated financial statements comprise the financial 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.

(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 instrument 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 measured 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 an 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 measured 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 reliably predicted, the contractual term) of the financial instrument to the net carrying 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'.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2018 (continued)

STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(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.

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-generated 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-generated 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-generated 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2018 (continued)

STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(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 the average remaining life of patents. 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 remaining useful life of the intellectual property acquired is 5 years as at balance date.

(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2018 (continued)

STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

(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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2018 (continued)

STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2018 (continued)

STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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:

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

	2018	2017
	\$	\$
Interest revenue from financial institutions	113,995	42,855
	113,995	42,855

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2018 (continued)

3. OTHER REVENUE

	2018	2017
	\$	\$
Licence Fee	-	270,000
Sale of Tenements	200,000	720,000
R&D Rebate	1,790,380	752,932
Administration Fee	54,582	10,263
Profit from Sale of Fixed Asset	2,048	-
	2,047,010	1,753,195

4. REMUNERATION OF AUDITORS

	2018	2017
	\$	\$
Remuneration of the auditor for:		
Auditing or reviewing the financial report	49,057	49,000
	49,057	49,000

5. LOSS FROM ORDINARY ACTIVITIES

	2018	2017
	\$	\$
(a) Employee benefits expense		
Share based payments	832,337	377,805
Defined contribution fund payments	102,904	68,950
Other employee benefits expense	1,894,568	1,801,638
Total Employee benefits expense from ordinary activities	2,829,809	2,248,393
(b) Other expense		
Depreciation and amortisation	681,006	39,094
Exploration and evaluation costs written off	2,760,384	1,198,070
Total other expense from ordinary activities	3,441,390	1,237,164

6. INCOME TAX EXPENSE

	CONSOLIDATED	
	2018	2017
	\$	\$
(a) Major components of income tax expense are as follows:		
Current income tax expense/(benefit)	-	-
Deferred income tax expense/(benefit)	-	-
Income tax expense reported in the Consolidated Statement of Profit or Loss and Other Comprehensive Income	-	-
(b) The prima facie tax on loss from ordinary activities before income tax is reconciled to the income tax as follows:		
Profit/(Loss) from ordinary activities before income tax expense	(8,093,005)	(4,592,255)
Prima facie tax benefit on profit from ordinary activities before income tax at 27.5% (2017: 27.5%)	(2,225,576)	(1,262,870)
<i>Tax effect of permanent differences:</i>		
Share-based expense	228,893	103,896
Donations	138	147
Entertainment	3,188	4,231
R&D Incentive Expenditure	982,205	311,196
R&D Rebate Received	(492,355)	(207,056)
Foreign entity losses	380,900	3,467
Tax losses not recognised	1,122,607	1,046,989
	-	-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2018 (continued)

6. INCOME TAX EXPENSE

(c) **Deferred tax assets and (liabilities) are attributable to the following:**

Legal Fees	134,441	48,441
Accrued Expenses	7,260	4,400
Payroll Liabilities	3,603	-
Provisions	61,556	46,348
Plant & Equipment	(14,052)	(15,075)
Unrealised Gains	(102,663)	(295,101)
Intangible Assets	(2,636,235)	-
Tax Losses	2,546,090	210,987
	-	-

(d) **Unrecognised deferred tax assets**

Deferred tax assets have not been recognised in respect of the following items as the Directors do not believe it is appropriate to regard realisation of future tax benefits as probable:

Tax Losses	3,103,924	2,334,802
Capital Losses	777,852	777,852
	3,881,776	3,112,654

7. CASH AND CASH EQUIVALENTS

Cash at bank (AA rated institutions)	18,339,857	2,583,506
Petty Cash	-	3,000
	18,339,857	2,586,506

8. TRADE AND OTHER RECEIVABLES

Other Debtors	61,557	1,020,779
GST receivable	300,650	17,358
	362,207	1,038,137

9. FINANCIAL ASSETS

Current

Fixed term deposits	90,247	-
Available for sale Australian listed shares – Level 1 fair value	-	-
	90,247	-

Non-current

Available for sale Australian listed shares – Level 1 fair value	1,659,834	5,531,545
Available for sale Canadian listed shares – Level 1 fair value	246,120	100,000
	1,905,954	5,631,545

The following reflects the Lanstead equity swap which completed in the 2017 financial year:

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

	2018	2017
	\$	\$
Opening fair value	-	3,312,382
Additions	-	-
Fair value revaluation	-	(1,303,217)
Settlements	-	(2,009,165)
Closing fair value	-	-

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2018 (continued)

10. CAPITALISED EXPLORATION EXPENDITURE

	2018 \$	2017 \$
Opening balance	2,977,849	147,050
Additions:		
Interest in Tin International	76,986	372,792
Greenbushes Acquisition	-	102,090
Lithium Rights at Lake Johnston	(78,750)	1,743,750
Interest in Rights of Buckland	(111,991)	111,991
Interest in Electra		306,009
Moolyella Acquisition	50,950	-
Lithophile		194,167
Closing balance	2,915,044	2,977,849

The Value of the Group's interest in capitalised exploration expenditure is dependent upon:

- The continuance of the Group's rights to tenure of the areas of interest;
- The results of future exploration; and
- The recoupment of costs through successful development and exploitation of the areas of interest, or alternatively, by their sale.

11. INTANGIBLE ASSETS

	2018				2017			
	Patents	Development Costs	Intellectual Property	Total	Patents	Development Costs	Total	
	\$	\$		\$	\$	\$	\$	
Opening balance	96,600	3,603,345	-	3,699,945	100,800	602,318	703,118	
Acquisition (i)	-	-	10,192,597	10,192,597	-	-	-	
Expenditure during the period (ii)	-	2,300,770	-	2,300,770	-	3,001,027	3,001,027	
Additions through acquisition	288,173	-	-	288,173	-	-	-	
Less: Amortisation of intangible asset	(4,200)	-	(606,288)	(610,488)	(4,200)	-	(4,200)	
Closing balance	380,573	5,904,115	9,586,309	15,870,997	96,600	3,603,345	3,699,945	

(i) On 28 February 2018, the Company acquired the share capital of VSPC Ltd. Refer to note 12

Consideration paid:	\$
61,133,540 Ordinary Shares at a deemed issue price of \$0.16 per share	9,781,366
30,566,770 Partly Paid Shares at a deemed issue price of \$0.028 per share	855,870
Less: Consolidated Net Assets/(Liabilities) acquired	444,639
	10,192,597

(ii) During the period, the Company spent \$2,588,943 on development and patent costs relating to the new lithium technology, cathode technology and battery recycling.

(iii) 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 (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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2018 (continued)

12. BUSINESS COMBINATION

(a) Very Small Particle Company Limited

On 28 February 2018, Lithium Australia NL acquired 100% of the ordinary share capital and voting rights in Very Small Particle Company Limited ("VSPC"), in accordance with a Share Sale Agreement executed on 23 February 2018. VSPC is the holder of intellectual property and a pilot plant designed to produce complex metal oxides/phosphate powders for the production of lithium-ion batteries.

(b) Consideration

On 28 February 2018, Lithium Australia NL issued 61,133,540 fully paid ordinary shares and 30,566,770 LITCE Partly Paid Shares as consideration for the acquisition. The fair value of the consideration shares equalled \$10,637,236.

(c) Consideration

The initial accounting for the business combination has been provisionally accounted for. The value of identifiable assets and liabilities of VSPC as at the date of acquisition were:

	\$
Consideration paid	
61,133,540 Ordinary Shares	9,781,366
30,566,770 LITCE Partly Paid Shares	855,870
Total consideration	<u>10,637,236</u>
Cash	68,271
Other assets	2,855
Intangible assets	297,963
Plant and equipment	357,152
Trade and other payables	<u>(281,602)</u>
Net assets acquired	444,639
Intellectual property acquired (refer note 11)	<u>10,192,597</u>

The difference between the fair value of the consideration acquired and the net assets of VSPC is attributable to the intellectual property held by VSPC with respect to the production of complex metal oxides/phosphate powders for the production of lithium-ion batteries.

The net cashflow on acquisition was an inflow of \$68,271.

13. PROPERTY, PLANT AND EQUIPMENT

	Motor Vehicles	Office Equipment	Computer Equipment	Furniture & Fittings	Laboratory Construction, Equipment & Tools	Total
2018	\$	\$	\$	\$	\$	\$
Gross carrying amount						
Balance at 30 June 2017	20,455	63,510	45,482	10,782	-	140,229
Additions	-	3,719	22,392	995	-	27,106
Additions through acquisition	25,000	5,709	-	21,073	2,668,064	2,719,846
Disposals	-	(2,614)	-	-	-	(2,614)
Balance at 30 June 2018	<u>45,455</u>	<u>70,324</u>	<u>67,874</u>	<u>32,850</u>	<u>2,668,064</u>	<u>2,884,567</u>
Accumulated Depreciation						
Balance at 30 June 2017	8,939	18,934	18,577	1,237	-	47,687
Depreciation expense	27,623	25,032	15,911	24,091	2,295,155	2,387,812
Balance at 30 June 2018	<u>36,562</u>	<u>43,966</u>	<u>34,488</u>	<u>25,328</u>	<u>2,295,155</u>	<u>2,435,499</u>
Net book value as at 30 June 2018	<u>8,893</u>	<u>26,358</u>	<u>33,386</u>	<u>7,522</u>	<u>372,909</u>	<u>449,068</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2018 (continued)

13. PROPERTY, PLANT AND EQUIPMENT (continued)

	Motor Vehicles	Office Equipment	Computer Equipment	Furniture & Fittings	Laboratory Construction, Equipment & Tools	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

14. TRADE AND OTHER PAYABLES

	2018 \$	2017 \$
Current - unsecured		
Trade payables	818,953	283,114
Employees annual leave provisions	96,987	41,685
Other creditors and accrued expenses	773,143	573,231
	<u>1,689,083</u>	<u>898,030</u>

15. CONVERTIBLE NOTE

	2018 \$	2017 \$
Opening Balance	-	-
Issue of Convertible Notes at Face Value	8,500,000	-
Transaction Costs	(3,448,613)	-
Conversion to Equity	(2,921,148)	-
Amortisation of transaction costs	1,275,720	-
Closing balance	<u>3,405,959</u>	<u>-</u>

On 23 February 2018 Lithium Australia NL ("LIT") entered into a Convertible Note Deed with Arena Resources L.P ("Arena").

The terms of the agreement were as follows:

- Issue of up to 21,000,000 Convertible Notes at a face value of \$21,000,000 with a discount rate of 13%;
- Conversion period is within 12 months of the issue date of each Convertible Note tranche and is to be settled by LIT via the issue of fully paid ordinary shares or by cash, at LIT's discretion;
- The face value of the convertible note is \$1 per convertible note;
- Interest of 2% per annum;
- Transaction fee equal to 2% of the face value of the Convertible Notes issued;
- Issue of Options to Arena for each convertible note tranche issued;
 - The exercise price of each Option is 130% of the average VWAP of LIT's shares
 - Expiry date of 3 years after the issue of the convertible notes
- The Company also has a fee payable to a separate, unrelated external party equal to 5% of the face value of the Convertible Notes issued;
- The Convertible Notes are unsecured.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2018 (continued)

15. CONVERTIBLE NOTE (continued)

During the year, the Group issued two tranches of Convertible Notes and options pursuant to the above agreement:

- 3,500,000 Convertible Notes on 9 March 2018 ("Tranche 1")
- 5,000,000 Convertible Notes on 23 May 2018 ("Tranche 2")
- 8,484,849 options issued on 1 May 2018 and 15,167,602 options issued on 23 May 2018 ("Tranche Options")

The options were valued at \$1,748,613 using the Black-Scholes option pricing model, refer to Note 32.

During the year, Arena issued conversion notices for Convertible Notes with a face value of \$2,100,000 which were converted to ordinary shares as per Note 16.

Subsequent to year end, the Arena Convertible Note facility has been terminated. Refer to Note 24

16. ISSUED CAPITAL

	2018		2017	
	Number	\$	Number	\$
Fully Paid Ordinary Shares				
Opening Balance	284,457,338	29,219,467	231,573,560	20,934,934
Issue of shares to directors and staff (i)	2,302,261	348,527	2,300,779	440,076
Issue of shares on conversion of performance/option rights	-	-	1,000,000	105,000
Issue of shares on \$0.05 and \$0.25 partly paid share call	-	-	1,375,576	278,784
Issue of shares in lieu of payment (ii)	5,009,178	702,926	13,038,816	2,378,732
Issue of shares to Lepidico shareholders	-	-	24,268,732	3,149,893
Issue of shares (iii)	58,250,000	8,379,047	10,899,875	1,958,684
Issue of shares (iv)	61,133,540	9,781,367	-	-
Issue of shares (v)	165,653	25,000	-	-
Issue of shares (vi)	17,158,582	2,921,148	-	-
Transaction Costs	-	(849,048)	-	(26,636)
Closing Balance	428,476,552	50,528,434	284,457,338	29,219,467

- (i) 605,888 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) On 28 July 2017, the Company entered into a Controlled Placement Agreement with Acuity Capital Investment Management Pty Ltd. Pursuant to the Controlled Placement Agreement the Company issued the following shares:
 - 31 July 2017 10,000,000 fully paid ordinary shares were issued as collateral¹ for \$nil consideration;
 - 17 October 2017 5,000,000 fully paid ordinary shares were issued as collateral¹ for \$nil consideration;
 - 17 October 2017 10,000,000 fully paid ordinary shares at net \$0.14 per share;
 - 31 October 2017 15,000,000 fully paid ordinary shares at net \$0.1653 per share;
 - 14 November 2017 15,000,000 fully paid ordinary shares at net \$0.20 per share and
 - 13 February 2018 3,250,000 fully paid ordinary shares at a net \$0.20 per share.

¹ As collateral for the Controlled Placement Agreement, the Company agreed to place 15,000,000 shares from its LR7.1 capacity, at nil consideration to Acuity Capital (collateral shares) but may, at any time, cancel the Controlled Placement Agreement and buy back the collateral shares for no consideration (subject to shareholder approval).
- (iv) On 28 February 2018 the Company issued 61,133,540 fully paid ordinary shares at a deemed value of \$0.16 per share as consideration for the acquisition of VSPC Ltd.
- (v) On 20 April 2018 the Company entity issued 165,653 ordinary shares at a deemed value of \$0.1509 per share as consideration for the acquisition of the Moolyella Project Exploration Licence.
- (vi) On 1 March 2018, the Company secured \$18,270,000 (face value \$21,000,000) convertible note facility with a leading institutional investor, Arena Investors LP. Pursuant to the convertible note agreement, the company issued the following shares:
 - 19 April 2018 702,879 fully paid ordinary shares at a value of \$0.1976 per share;
 - 24 April 2018 2,141,048 fully paid ordinary shares at a value of a value of \$0.1947 per share;
 - 07 May 2018 2,226,632 fully paid ordinary shares at a value of \$0.1873 per share;
 - 17 May 2018 1,531,784 fully paid ordinary shares at a value of \$0.1816 per share;
 - 23 May 2018 1,539,263 fully paid ordinary shares at a value of \$0.1807 per share;
 - 31 May 2018 1,675,333 fully paid ordinary shares at a value of \$0.1661 per share;
 - 14 June 2018 2,605,006 fully paid ordinary shares at a value of \$0.1603 per share and
 - 26 June 2018 4,736,637 fully paid ordinary shares at a value of \$0.1470 per share.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2018 (continued)

16. ISSUED CAPITAL (continued)

	2018		2017	
	Number	\$	Number	\$
Partly-paid contributing shares - 5 cents				
Opening Balance	-	-	26,676	-
Issue of shares on \$0.05 partly paid share call	-	-	(26,676)	-
Closing Balance	-	-	-	-

	2018		2017	
	Number	\$	Number	\$
Partly-paid contributing shares -25 cents				
Opening Balance	132,850,148	1,620	133,199,048	1,520
Issue of shares on \$0.25 partly paid share call	-	-	(1,348,900)	-
Issue of shares (i)	30,566,770	855,869	-	-
Issue of shares in lieu of payment	5,000,000	500	1,000,000	100
Closing Balance	168,416,918	857,989	132,850,148	1,620

- (i) On 28 February 2018 the Company issued 30,566,770 partly paid ordinary shares at a deemed value of \$0.028 per share as consideration for the acquisition of VSPC Ltd.

17. 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.

18. RESERVES

	2018	2017
	\$	\$
Option reserve	2,504,883	756,270
Investment revaluation reserve	395,994	1,114,776
Foreign currency translation reserve	(26,246)	(2,414)
Performance rights reserve	1,030,032	329,648
	3,904,663	2,198,280
Option Reserve		
Opening Balance	756,270	634,382
Issue of options pursuant to the convertible note agreement	1,748,613	-
Valuation of options – partly paid shares	-	121,888
Closing Balance	2,504,883	756,270
Investment Revaluation Reserve		
Opening Balance	1,114,776	125,980
Net gain/(loss) arising on revaluation of available for sale financial assets	(718,782)	988,796
Closing Balance	395,994	1,114,776
Foreign Currency Translation Reserve		
Opening Balance	(2,414)	(2,414)
Exchange differences arising on translating foreign subsidiary	(23,832)	-
Closing Balance	(26,246)	(2,414)
Performance Rights Reserve		
Opening Balance	329,648	56,843
Issue of performance rights	700,384	377,805
Performance option rights achieved	-	(105,000)
Closing Balance	1,030,032	329,648

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2018 (continued)

19. 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.

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 2018, the effect on loss as a result of changes in the interest rate, with all other variables remaining constant would be as follows:

	2018 \$	2017 \$
Change in loss		
- Increase in interest rate by 100 basis points	183,399	25,865
- Decrease in interest rate by 100 basis points	(183,399)	(25,865)
Change in equity		
- Increase in interest rate by 100 basis points	183,339	25,865
- Decrease in interest rate by 100 basis points	(183,339)	(25,865)

	Floating Interest Rate	Fixed Interest Rate Maturing in 1 year or less	Non- interest bearing	Total
2018	\$	\$	\$	\$
<i>Financial assets</i>				
Cash and cash equivalents	18,339,857	-	-	18,339,857
Held for trading financial assets	-	-	1,905,954	1,905,954
Trade and other receivables	-	90,247	362,207	452,454
Total financial assets	18,339,857	90,247	2,268,161	20,698,265
<i>Financial liabilities</i>				
Trade and other payables (i)	-	-	1,689,083	1,689,083
Convertible note (ii)	-	3,405,959	-	3,405,959
Total financial liabilities	-	3,405,959	1,689,083	5,095,042

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2018 (continued)

19. FINANCIAL INSTRUMENTS (continue)

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.
- (ii) On 01 March 2018, the Company secured \$18,270,000 (face value \$21,000,000) convertible note facility with a leading institutional investor, Arena Investors LP. The notes are unsecured and will be drawn-down in six separate tranches, each with a 12 month maturity, as follows:
- \$3,045,000 (face value \$3,500,000) to be received upon signing of the Convertible Note Deed and issued under the Company's existing placement capacity;
 - \$4,350,000 (face value \$5,000,000) (subject to shareholder approval) for the Second Tranche which may be drawn after shareholder approval which must be obtained within 45 days of the date of signing the Convertible Note Deed; and
 - \$2,720,000 (face value \$3,125,000) (subject to shareholder approval) for each of the remaining four tranches, with a minimum of 4 months between drawdowns or such other time as permitted by the ASX Listing Rules.

	Floating Interest Rate	Fixed Interest Rate Maturing in 1 year or less	Non- interest bearing	Total
	\$	\$	\$	\$
2017				
<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.

20. LOSS PER SHARE

	2018 \$	2017 \$
Loss used in calculation of basic EPS	(8,087,136)	(4,592,255)
	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	351,031,490	253,417,191

21. CASH FLOW INFORMATION

	2018	2017
Reconciliation of cash flows from operating activities with loss after income tax	\$	\$
Loss after income tax	(8,093,005)	(4,592,255)
Adjustments for non-cash income and expense items:		
Depreciation	681,006	39,094
Share based payment expense	1,614,454	980,403
Unrealised/realised gain on equity swap	-	1,303,216
Convertible note financing costs	1,275,719	-
Sale of tenements	(200,000)	-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2018 (continued)

21. CASH FLOW INFORMATION (continue)

Changes in assets and liabilities:

(Increase)/decrease in receivables & prepayments	675,930	(932,387)
(Decrease)/increase in accounts payable, accruals & employee entitlements	749,003	282,769
(Increase)/decrease in other assets		-
(Increase)/decrease in financial assets	-	(1,266,904)

Net cash outflows from Operating Activities

(3,296,893)	(4,186,064)
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	Liability 1/07/2017	Cash- inflow	Interest paid	Other	Transaction costs	Amortisation	Conversions to equity	Liability 30/06/2018
R&D Loan	-	1,200,000	36,000	(1,236,000)	-	-	-	-
Funding (i)								
Convertible	-	7,395,000	-	-	(2,343,613)	1,275,720	(2,921,149)	3,405,958
Note								

- (i) During the period, the Group received advanced funding of \$1,200,000 in relation to the 2017 R&D claim from an external party. The balance of the \$1,200,000 loan was offset against the full amount of the claim amount of \$1,790,380 with the net of \$590,380 being received.

22. 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:

- 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.
- Processing technology
The development of processing technology for lithium extraction and battery material research & development 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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2018 (continued)

23. OPERATING SEGMENTS

(i) Segment revenues and results 30 June 2018

	Processing Technology \$	Exploration \$	Total \$
Revenue	-	-	-
Loss	(620,278)	(2,760,384)	(3,380,662)
Total segment loss	(620,278)	(2,760,384)	(3,380,662)

Reconciliation of segment result to Consolidated entity net loss

Unallocated items	
- Interest revenue	113,995
- Other revenue	2,047,010
- Fair value of investments adjustment	(2,262)
- Occupancy	(128,672)
- Professional	(957,382)
- Compliance & Regulatory	(617,245)
- Personnel	(2,829,809)
- Administration	(812,911)
- Laboratory/Plant	(55,993)
- Depreciation	(60,728)
- Finance cost	(1,408,346)
Net loss from continuing operations	(8,093,005)

30 June 2017

	Processing Technology \$	Exploration \$	Total \$
Revenue	-	-	-
Expenses	(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 income	1,753,195
- Fair value of investment 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)

(ii) Segment Assets

30 June 2018	Processing Technology \$	Exploration \$	Total \$
Segment Assets	15,870,997	2,915,044	18,786,041
Unallocated assets			
- Cash and cash equivalents			18,339,857
- Trade and other receivables			362,207
- Other			2,445,269
Total company assets			39,933,374

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2018 (continued)

23. OPERATING SEGMENTS (continued)

	Processing Technology	Exploration	Total
30 June 2017	\$	\$	\$
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
(iii) Segment Liabilities			
30 June 2018	Processing Technology	Exploration	Total
	\$	\$	\$
Segment Liabilities	317,215	208,943	526,158
Unallocated liabilities			
- Trade and other payables			1,162,925
- Convertible note			3,405,959
Total company liabilities			5,095,042
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

24. SUBSEQUENT EVENTS

- (a) On 26 July 2018, the Company issued 7,000,000 ordinary shares upon conversion of the convertible notes having a value of \$700,000 together with 43,681 ordinary shares issued in satisfaction of interest accrued, pursuant to a conversion notice issued under the unsecured convertible note deed with Arena Investors, LP.
- (b) On 6 September 2018, the Company formally recommissioned the VSPC factory.
- (c) On 10 September 2018, the Company issued 2,500,000 ordinary shares upon conversion of the convertible notes having a value of \$250,000 together with 27,609 ordinary shares issued in satisfaction of interest accrued, pursuant to a conversion notice issued under the unsecured convertible note deed with Arena Investors, LP.
- (d) On 12 September 2018, the Company issued 21,325,531 ordinary shares, 1,500,000 partly paid shares and paid €535,000 as consideration for the acquisition of exploration licences in Germany. On 19 September 2018, the Company issued 4,500,000 ordinary shares upon conversion of the convertible notes having a value of \$450,000 together with 46,101 ordinary shares issued in satisfaction of interest accrued, pursuant to a conversion notice issued under the unsecured convertible note deed with Arena Investors, LP.
- (e) On 21 September 2018, the Company terminated the convertible note facility with Arena Investors, LP.
- (f) On 28 September 2018, the increase/(decrease) in share prices had the following effect on the fair value of the significant investments held:

INVESTMENT	SHARE PRICE AT 30/06/2018	SHARE PRICE AT 28/09/18	INCREASE/ (DECREASE) IN SHARE PRICE	NUMBER OF SHARES HELD AT 30/06/2018	INCREASE/ (DECREASE) IN FAIR VALUE
Venus Metals Ltd	\$0.15	\$0.195	\$0.045	400,000	\$18,000
Venus Metals Ltd Options	\$0.04	\$0.041	\$0.001	133,334	\$133
Lefroy Exploration Limited	\$0.165	\$0.16	(\$0.005)	3,000,000	(\$15,000)
BlackEarth Minerals NL	\$0.09	\$0.135	\$0.045	11,150,000	\$501,750
Metals Tech	\$0.0960	\$0.073	(\$0.023)	1,000,000	(\$23,000)
Alix Resources	\$0.1231	\$0.145	\$0.0219	2,000,000	\$43,800
					\$525,683

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2018 (continued)

25. 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 26.

26. 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:

	2018	2017
	\$	\$
Short-term benefits	744,567	541,401
Share based payments	620,788	395,901
Post-employment benefits	37,193	26,869
	<u>1,402,548</u>	<u>964,171</u>

27. 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:

- (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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2018 (continued)

28. CONTINGENT LIABILITIES

The Consolidated Entity has the following contingent liabilities as at 30 June 2018.

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).

During the period, the Group entered in to an agreement with Tin International to acquire the Hegelsohe and Sadisdorf tenements subject to conditions precedent. As at 30 June 2018 the conditions precedent had not occurred. 450,000 Euros and 1,500,000 Euro worth of LIT shares are payable upon satisfaction of the conditions precedent.

29. COMMITMENTS

(a) Exploration Expenditure

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

	2018	2017
	\$	\$
Within 12 months	2,767,440	2,306,040
12 Months or longer and not longer than 5 years	2,767,440	2,306,040
Longer than 5 years	-	-
Total	5,534,880	4,612,080

(b) Operating Lease Commitments

	2018	2017
	\$	\$
Within 12 months	77,131	75,250
12 Months or longer and not longer than 5 years	59,295	136,426
Longer than 5 years	-	-
Total	136,426	211,626

The Company leases offices in West Perth, Western Australia, under a non-cancellable operating lease expiring 31 March 2020. Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term.

30. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2018 (continued)

30. CONTROLLED ENTITY (continued)

Subsidiaries of Lithium Australia NL

Name	Country of Incorporation	Percentage Interest Held % 2018	Percentage Interest Held % 2017	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%	100%	01 July 2016	-
(iv) Resource Conservation and Recycling Corporation Pty Ltd	Australia	80%	100%	10 December 2016	-
(v) Trilithium Erzgebirge GmbH	Germany	100%	100%	07 February 2017	-
(vi) VSPC Ltd	Australia	100%	0%	01 March 2018	-

- (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.

31. PARENT ENTITY INFORMATION

	Parent 2018 \$	Parent 2017 \$
Assets		
Current assets	20,896,101	3,624,543
Non-current assets	18,260,714	12,401,981
Total Assets	39,156,815	16,026,524
Liabilities		
Current liabilities	4,318,483	898,030
Total Liabilities	4,318,483	898,030
Equity		
Issued capital	51,386,423	29,221,087
Reserves	3,928,495	2,198,280
Accumulated losses	(20,476,586)	(16,290,873)
Total Equity	34,838,332	15,128,494
Loss for the period	(4,185,713)	(4,591,857)
Total comprehensive loss for the period	(4,185,713)	(4,591,857)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2018 (continued)

32. 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
Series 4	3 May 2018 (i)	2 May 2021	\$0.1938	8,484,849	\$0.077
Series 5	24 May 2018 (i)	23 May 2021	\$0.1756	15,167,602	\$0.072
				45,044,117	

The weighted average remaining contractual life of options outstanding at year end was 2 years (2017: 2 years).

The weighted average exercise price of outstanding options at reporting date was \$0.21 (2017: \$0.22).

(i) Options issued to Arena Investors, LP pursuant to the Convertible Note deed were valued at \$1,748,613. Refer to Note 15.

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	\$165,993
Class B	28 November 2016	01 July 2021	2,000,000	\$220,864
Class C	28 November 2016	01 July 2021	3,000,000	\$220,417
Class D	28 November 2016	01 July 2021	4,000,000	\$17,960
			10,000,000	\$625,234

Class 2	Issue Date	Date of Expiry	Number Issued	Fair Value
Class A	01 December 2016	01 July 2021	375,000	\$60,409
Class B	01 December 2016	01 July 2021	750,000	\$80,358
Class C	01 December 2016	01 July 2021	1,125,000	\$80,169
Class D	01 December 2016	01 July 2021	1,500,000	\$6,521
			3,750,000	\$227,457

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2018 (continued)

32. SHARE BASED PAYMENTS (continued)

Class 3	Issue Date	Date of Expiry	Number Issued	Fair Value
Class A	20 December 2016	01 July 2021	125,000	\$16,462
Class B	20 December 2016	01 July 2021	250,000	\$21,862
Class C	20 December 2016	01 July 2021	375,000	\$21,763
Class D	20 December 2016	01 July 2021	500,000	\$1,750
			1,250,000	\$61,837

Class 4	Issue Date	Date of Expiry	Number Issued	Fair Value
Class A(2)	30 April 2018	30 April 2023	900,000	\$61,244
Class B(2)	30 April 2018	30 April 2023	900,000	\$32,752
Class C(2)	30 April 2018	30 April 2023	900,000	\$12,390
Class D(2)	30 April 2018	30 April 2023	2,250,000	\$6,445
Class E(2)	30 April 2018	30 April 2023	2,250,000	\$673
			7,200,000	\$115,504

Fair value of equity instruments granted in the year

The weighted average fair value of the equity instruments granted during the financial year is \$0.016 (2017: \$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	Series 4	Series 5
Exercise price	\$0.15	\$0.20	\$0.30	\$0.1938	\$0.1756
Expected volatility	85%	85%	85%	98.03%	98.03%
Option life	4 years	4 years	4 years	3 years	3 years
Dividend yield	0.00%	0.00%	0.00%	0.00%	0.00%
Risk-free interest rate	2.1%	2.1%	2.1%	1.95%	1.95%

	Performance Rights				
	Tranche 1	Class1	Class 2	Class 3	Class 4
Grant date share price	\$0.075	\$0.17	\$0.165	\$0.135	\$0.135
Exercise price	\$-	\$-	\$-	\$-	\$-
Expected volatility	N/A	N/A	N/A	N/A	N/A
Performance Right life	4 years	4.5 years	4.5 years	4.5 years	5 years
Dividend yield	0.00%	0.00%	0.00%	0.00%	0.00%
Risk-free interest rate	N/A	N/A	N/A	N/A	N/A

Share Based Payments to suppliers

A number of suppliers have agreed to be paid by way of the issue of shares. Invoices are paid at the prevailing VWAP based on the date of the invoice. The total of these share based payments for the year was \$702,926.

Director and Senior Management Fee and Remuneration Sacrifice Share Plan

Several employees have agreed to be paid a portion of their salary pursuant to the Director and Senior Management Fee and Remuneration Sacrifice Share Plan. The total of these share based payments for the year was \$348,527.

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 2018 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 28th day of September 2018

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 2018, 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 2018 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(a).

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.



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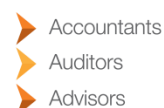
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Key Audit Matters

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>Acquisition of Very Small Particle Company Limited</p> <p>As disclosed in note 12 to the financial statements during the year, the Group acquired Very Small Particle Company Limited ("VSPC").</p> <p>This was a key audit matter due to:</p> <ul style="list-style-type: none"> – The size of the transaction having a pervasive impact on the financial statements; and – The complexity in identifying the elements of consideration and the judgement applied in determining its fair value. 	<p>Procedures performed as part of our assessment of the transaction and the appropriateness of the accounting treatment applied, included:</p> <ul style="list-style-type: none"> – Review of contractual agreements relating to the acquisition and understanding the key terms and conditions of the transaction; – Assessing the requirements of AASB 3 Business Combinations ("AASB 3") and considered whether VSPC met the definition of a business; – Assessment of the calculation of the consideration; – Testing of the acquisition date balance sheet of VSPC to underlying supporting documentation; – Assessing the amortisation rate applied to the intangible assets acquired; and – Assessment of the adequacy of the disclosures in Note 12 of the financial statements.
<p>Intangible Asset – Development Expenditure</p> <p>The capitalised development costs of \$5,904,115, disclosed in Note 11 to the 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 capitalisation.</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:</p> <ul style="list-style-type: none"> – assessing the recognition criteria for development costs; – evaluating the key assumptions used for estimates made in capitalising 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;

Key audit matter	How our audit addressed the key audit matter
	<ul style="list-style-type: none"> – we considered whether there were any impairment triggers and whether the technical feasibility to date has been achieved, through discussions with management and review of reports; and – we assessed the adequacy of the disclosures in Note 11.
<p>Convertible Notes</p> <p>As disclosed in Note 15 to the financial statements, the Consolidated Entity issued 8,500,000 convertible notes and 23,652,451 unquoted options. As at 30 June 2018 the balance of the convertible note liability was \$3,405,959.</p> <p>Convertible Notes are considered to be a key audit matter due to:</p> <ul style="list-style-type: none"> – the value of the balance; and – the complexities involved in the recognition and measurement of convertible financial instruments and associated transaction costs. 	<p>Our procedures amongst others included:</p> <ul style="list-style-type: none"> – analysing the agreement to identify the key terms and conditions for each convertible note; – verification of the funds received from the issue of convertible notes during the year; – assessing the accounting treatment of the financial instruments in accordance with the recognition and measurement as well as the disclosure requirements of the relevant Australian Accounting Standards; – evaluating management's option valuations and assessing the assumptions and inputs used; – assessing the calculation including relevant amortisation of transaction costs for the year; and – we assessed the adequacy of the disclosures in Note 15.
<p>Capitalised Exploration Expenditure - \$2,915,044 (refer to Note 10)</p> <p>Capitalised exploration expenditure 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 	<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 acquisition agreements and on a sample basis corroborated rights to tenure to government registries and relevant agreements as applicable; – 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;

Key audit matter	How our audit addressed the key audit matter
<ul style="list-style-type: none"> – The assessment of impairment of capitalised exploration expenditure being inherently difficult. 	<ul style="list-style-type: none"> – 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. – 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 2018, 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(a), 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.

- 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 2018. 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 2018, complies with section 300A of the Corporations Act 2001.



BENTLEYS
Chartered Accountants



DOUG BELL CA
Partner

Dated at Perth this 28th day of September 2018