

12 May 2020

Daniel Nicholson
Advisor, Listings Compliance (Perth)
ASX Limited

Dear Daniel

Query letter dated 6 May 2020

I refer to your query letter dated 6 May 2020. Capitalised terms have the meaning given in your letter.

Below are ASX's queries and EUR's responses:

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| <p>1. Is EUR able to confirm that in the Directors' Opinion the Half Year Accounts:</p> <p>(a) comply with the relevant Accounting Standards; and</p> <p>(b) give a true and fair view of EUR's financial performance and position?</p> |
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Yes.

EUR confirms that in the Director's opinion the Half Year Accounts complied with the relevant Accounting Standards and gave a true and fair view of EUR's financial performance and position.

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| <p>2. Please explain the basis for and the factors considered by the Directors to satisfy themselves that EUR could continue as a going concern. In answering this question, please comment specifically on what basis EUR's directors satisfied themselves that the \$2m drawdown described in the March Quarterly Activities Information and Half Year Accounts would complete.</p> |
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The factors considered by the Directors were as follows:

1. On 30 December 2019, EUR announced that it had entered into a EUR 7.5m financing facility with a Swiss based sophisticated investor introduced by Helvetican following the execution of a terms sheet. The debt facility was established to allow EUR to complete the DFS at the Wolfsberg Lithium Project in Austria. The 30 December 2019 announcement was approved by Helvetican prior to its release.
2. In February 2020 EUR and its lawyers engaged with Helvetican's lawyers (Allens) to prepare security documentation for the loan, with security to be provided by both EUR and its Austrian subsidiary.

3. Given the delays incurred in receiving funds under the Helvetican facility, the Company approached Winance to make a second drawdown on the Winance convertible note facility (refer to ASX announcement 31 July 2019 and 2019 notice of annual general meeting for terms of this facility). The drawdown for \$2m was agreed on or about 28 February 2019 and the formal request delivered to Winance on 4 March 2020 (i.e. prior to the Board approving the 31 December 2019 accounts). EUR issued the Appendix 3B and Cleansing Statement after being told by Winance that the funds had been transferred.

3. Does EUR consider that its level of operations is sufficient to warrant continued quotation of its securities on ASX as required under listing rule 12.1? In answering this question:

3.1 please explain the basis for this conclusion; and

3.2 please comment on the nature of the EUR's current business activities.

Yes.

The principal activity of the Company is lithium exploration at its Wolfsberg Lithium Project located in Austria.

Exploration and evaluation expenditure incurred by the Company in developing the Wolfsberg Lithium Project for the 9 months ended 31 March 2020 totaled approximately \$2,597k.

Activities undertaken by the Company in the current financial year mainly relate to the advancement of the Definitive Feasibility Study (DFS) as well as work undertaken by Dorfner/Anzaplan in completing the metallurgical test work to assess and optimize the process lines, flowsheets and layouts. Further details on the activities are documented in the Half Year Accounts and the March 2020 Quarterly Activities Report.

As reported in the March 2020 Quarterly Activities Report, the Company has temporarily suspended its operations at the Wolfsberg Lithium Project as a result of restrictions imposed due to the COVID-19 pandemic.

The Board also notes that the Company currently has a market capitalisation of approximately \$26m.

4. Does EUR consider that the financial condition of EUR is sufficient to warrant continued listing on ASX as required under Listing Rule 12.2? In answering this question, please also explain the basis for this conclusion.

Yes.

As at 31 December 2019, EUR had \$35.5 million in Total Assets and \$2.73m in Total Liabilities. The Board's view is that the relative size of EUR's liabilities to assets is low. As highlighted in the Half Year Accounts (see note 1 'going concern' on page 11), EUR's ability to continue as a going concern is dependent on raising further capital. Until recently, EUR

was continuing to engage in discussion with Winance regarding the convertible loan note facility and timing as to receipt of those funds. Simultaneously and with more focus given the status of the Winance facility, the Board is currently assessing two alternative funding arrangements to allow urgent funding and also to defer certain supplier payments along with the potential conversion of debt to equity. The Company expects to conclude these negotiations shortly and if terms are agreed to announce further funding.

5. If the answer to questions 3 or 4 is “No”, please explain what steps EUR has taken, or proposes to take, to warrant continued listing on ASX under the requirements of Listing Rules 12.1 and 12.2.

Not applicable.

6. In relation to the Half Year Accounts, did the Board receive the CFO and CEO declaration, as described in section 4.2 of EUR’s Corporate Governance Disclosure, that in the opinion of the CFO and CEO, the financial records of EUR have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of EUR and that the opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively?

Yes.

7. If the answer to Question 6 is ‘no’, why did the Board not receive the CEO and CFO declaration as described in section 4.2 of EUR’s Corporate Governance Disclosure?

Not applicable.

8. What enquiries did the Board make of management to satisfy itself that the financial records of EUR have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of EUR?

Based on the current size of EUR and its operational structure, the Board also effectively represents managements. EUR maintains control to facilitate the preparation of a reliable financial report and the Board had consideration to these controls when making enquiries in the ordinary course of business in respect to EUR’s financial records. This includes the Board obtaining a CEO and CFO declaration as noted in the answer to question 6. In addition to the existing processes in place, the Board amongst other things, sought all relevant financial records and related data, other information and necessary explanations to reasonably confirm that these were properly maintained in accordance with the appropriate accounting standards and that the financial records give a true and fair view of the financial position and performance of EUR. In addition, the Board reviews the reports (addresses to the Board) provided by its external auditors, prior to signing off the Half Year Accounts.

9. Commenting specifically on the material uncertainty related to going concern, does the board consider that EUR has a sound system of risk management and internal control which is operating effectively?

Yes.

10. Commenting specifically on the Facility, what are the material terms relating to the timing and issuance of drawdown notices and timing and obligations to advance funds under the Facility?

In accordance with clause 3.1 of the Facility, on 4 March 2020 EUR delivered a formal request for \$2m to Winance. Winance agreed to the request and in accordance with clause 3.2 of the Facility was required to transfer the Subscription Price (as defined in the Facility) by no later than the business day after the request.

Under clause 3.3, EUR was required to issue the notes within 1 business day of receiving the funds.

11. Please separately provide a copy of the Facility to ASX (not for release to market).

A copy of the Facility is attached. I note the agreement is confidential and not to be released.

12. Commenting specifically on the Tranche 2 Announcement, the Appendix 3B, the Cleansing Statement, the April Update, the March 2020 Quarterly Activities Information and the Appendix 5B Information:

12.1 Why have the funds pursuant to the A\$2m drawdown referred to in the Tranche 2 Announcement not been received? In answering this question, please provide detail of the communication(s) with Winance.

Subsequent to the release of the March Quarterly Activities Information, the Company received notification from Winance that whilst it had instructed its bank to transfer funds to EUR, the bank had been prevented from doing so.

EUR has advice that Winance is obliged to transfer funds to EUR. However, EUR is reluctant to enforce its rights without first exploring other funding opportunities as it wishes to reserve its relationship with Winance.

12.2 When does EUR expect to receive the funds pursuant to the A\$2m drawdown referred to in the Tranche 2 Announcement?

The Company is confident that funding will be received under the Winance facility once the markets stabilize post the impact of the COVID-19 crisis.

12.3 Please confirm whether EUR has issued the Convertible Notes (the subject of the Appendix 3B and Cleansing Statement) in circumstances where it appears that EUR has not received funds pursuant to the drawdown notice referred to in the Tranche 2 Announcement? If the answer to this question is affirmative and EUR has issued the Convertible Notes, please confirm when the Convertible Notes were issued.

EUR issued the Appendix 3B and Cleansing Statement in anticipation of receiving the funds and having been told by Winance that the funds would be transferred. However, as the funds were not received, no Convertible Notes have been issued.

12.4 Given that the Facility Announcement states that further drawdowns under the Facility are subject to prior shareholder approval, does EUR intend on obtaining any shareholder approval for the drawdown referred to in the Tranche 2 Announcement?

EUR intends to obtain shareholder approval to ratify the issue as soon as reasonably practicable and once funds are received.

12.5 What steps does EUR intend to take if the A\$2m of funds referred to in the Tranche 2 Announcement are not received by EUR in a timely manner such that EUR can only fund less than 2 quarters (as disclosed in the March 2020 Quarterly Activities Information)?

Given the delays incurred in receiving the funds under the Winance facility, EUR has taken steps to raise further capital from alternative sources and is currently in negotiations with two parties. In addition, the Company is seeking agreement with certain creditors to defer debts and is considering undertaking a rights issue to existing shareholders.

Furthermore, the Company has deferred, and reduced where possible, certain exploration related expenditure and overhead costs.

13. Please confirm that EUR is complying with the Listing Rules and, in particular, Listing Rule 3.1.

EUR confirms that it is in compliance with the Listing Rules, and in particular, Listing Rule 3.1.

14. Please confirm that EUR's responses to the questions above have been authorised and approved under its published continuous disclosure policy or otherwise by its board or an officer of EUR with delegated authority from the board to respond to ASX on disclosure matters.

EUR confirms that the above responses have gone through the required Board approval process.

Regards,



For and on behalf of the EUR Board,

Tony Sage

Non-Executive Chairman



6 May 2020

Reference: 17792

Ms Melissa Chapman
Company Secretary
European Lithium Limited

By email

Dear Ms Chapman

European Lithium Limited ('EUR'): Queries regarding Accounts

ASX refers to:

- A. EUR's announcement entitled 'European Lithium Signs Binding Agreement for A\$10m Funding Facility' lodged with ASX Market Announcements Platform ('MAP') and released on 31 July 2019 ('Facility Announcement') which disclosed EUR's execution of a A\$10m finance facility with Winance Investments LLC ('Winance') ('Facility'). In particular, ASX refers to the material terms of the Facility included in Annexure A to the announcement, including, among other things, the following:

"Further drawdowns of A\$8m are at the Company's election available in tranches of A\$1m each upon full conversion of the notes from the previous drawdown, subject to:

- a) a cooling off period calculated based on the value of the tranche and average trading volumes during the preceding 60-day period; and*
 - b) prior approval by EUR's shareholders"*
- B. EUR's announcement entitled 'Notice Under Sections 708a(5)(E) and 708a(12c)(E) (As Notionally Inserted by ASIC Corporations (Sale Offers: Securities Issued on Conversion of Convertible Notes) Instrument 2016/82) of the Corporations Act 2001 (Cth)' lodged with MAP and released on 20 September 2019 which disclosed, among other things, EUR's election to draw down on the Facility an initial amount of A\$2m and which included an Appendix 3B for the issue of 2,000 convertible notes to Winance.
- C. EUR's request for a trading halt on 2 March 2020 in order to announce a funding update and board changes ('Trading Halt')
- D. EUR's request for a voluntary suspension on 4 March 2020 pending an announcement regarding a funding update and board changes ('Suspension').
- E. EUR's announcement entitled 'European Lithium Draws AUD\$2M From Existing Facility' lodged with MAP and released on 5 March 2020 which, among other things, disclosed that EUR had agreed to drawdown a further AUD\$2m from its existing facility with Winance (being the Facility) ('Tranche 2 Announcement'). In particular, ASX notes that the Tranche 2 Announcement included the following statement:
- "The issue is made using the Company's existing capacity under Listing Rule 7.1 and without shareholder approval."*
- F. The Appendix 3B for a Proposed Issue of Securities lodged with MAP and released on 5 March 2020 for the proposed issue of 2,000 convertible notes ('Convertible Notes') to Winance under the Facility with a proposed issue date of 5 March 2020 ('Appendix 3B').
- G. EUR's reinstatement to official quotation on 5 March 2020 following the release of the Tranche 2 Announcement.

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- H. EUR's announcement entitled 'Notice Under Sections 708a(5)(E) and 708a(12c)(E) (As Notionally Inserted by ASIC Corporations (Sale Offers: Securities Issued on Conversion of Convertible Notes) Instrument 2016/82) of the Corporations Act 2001 (Cth)' lodged with MAP and released on 10 March 2020 ('Cleansing Statement') which disclosed, among other things, that:

"Following this notice the Company will issue 2,000 convertible notes (each with a face value of \$1,000) (Convertible Notes) to Winance Investment LLC. The Convertible Notes are issued without disclosure."

- I. EUR's half year accounts for the half year ended 31 December 2019 lodged with MAP and released on 13 March 2020 ('Half Year Accounts').
- J. ASX notes that the Independent Auditor's Report attached to the Half Year Accounts ('Auditor's Report') contains a material uncertainty related to going concern.
- K. The notes to the financial statements in the Half Year Accounts include the following:

at Note 1 'Summary of Significant Accounting Policies - Going Concern':

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

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

- The Group has successfully completed its pre-feasibility study and work is underway on the Definitive-Feasibility Study (DFS). The Company has agreed a long-term debt facility of EUR 7,500,000 with a Swiss based sophisticated investor introduced by Helvetican International AG (Debt Facility) allowing access to funds for the purposes of the DFS. The Company has yet to draw down on the Debt Facility as outstanding security issues relating to the loan require finalisation;*
- The Company has established the Winance convertible loan note facility (refer note 7) allowing access to funds for the purposes of working capital and project DFS", and*

at Note 14 'Events Subsequent to the Reporting Date':

"On 5 March 2020, the Company drew down \$2m from the Winance Facility through the issue of 2,000 convertible notes".

- L. EUR's announcement entitled 'European Lithium Market Update' lodged with MAP and released on 1 April 2020 ('April Update') which, among other things, disclosed that:

"Further to our announcement on 5 March 2020 regarding the Winance finance facility and 30 December 2019 regarding the debt facility introduced by Helvetican, the Company advises it is in communication with both parties who have confirmed their commitment to finalising these transactions.

Both parties have advised that the COVID-19 pandemic has hampered their business plans, however, both wish to fulfil their commitments as soon as practicable."

- M. EUR's Quarterly Activities Report for the quarter ended 31 March 2020 lodged with MAP and released on 30 April 2020 ('March 2020 Quarterly Activities Report') which, among other things, disclosed that:

"The Company previously drew down A\$2.0m (2,000 convertible notes) on 20 September 2019 (Tranche 1). During the quarter, Winance converted the remaining 940 convertible notes from Tranche 1. As at 31 March 2020, there were nil convertible notes remaining from the Tranche 1 drawdown.

On 5 March 2020, the Company announced that it had agreed to draw down a further A\$2.0m (2,000 convertible notes) under the Winance facility (Tranche 2). As at the date of this announcement, the Company

is yet to receive Tranche 2 funding, however the Company advises it is in communication with Winance who have confirmed their commitment to finalizing the transaction.”

(‘March 2020 Quarterly Activities Report Information’)

- N. EUR’s Appendix 5B attached to its March 2020 Quarterly Activities Report lodged with MAP and released on 30 April 2020 which, among other things, includes at Item 4.6, cash and cash equivalents at the end of the quarter in the amount of \$58,000, and as footnotes to Item 8, the following statements:

“ As outlined above in section 7, further drawdown on the Winance facility is subject to full conversion of the notes from the previous drawdown. Also as outlined above in section 7, on 5 March 2020, the Company announced that it had agreed to draw down a further A\$2.0m (2,000 convertible notes) under the Winance facility (Tranche 2). As at the date of this announcement, the Company is yet to receive Tranche 2 funding, however the Company advises it is in communication with Winance who have confirmed their commitment to finalizing the transaction. The table is prepared on the basis that the Company receives funding under Tranche 2 of the Winance facility.*

*** As outlined, the Company is awaiting funding under Tranche 2 of the Winance facility. As such, net cash used in operating activities of (\$293k) in the March 2020 is not representative of the Company’s current level of net operating cash flows.*

**** Taking the above into consideration and assuming Tranche 2 of the Winance facility is not received in a timely manner, the Company’s Estimated quarters of funding available (Item 8.7) is less than 2 quarters, which is more a representative estimate.”*

(the ‘Appendix 5B Information’).

- O. EUR’s Corporate Governance Statement for 2019 lodged on the ASX Market Announcements Platform on 27 September 2019 which provides confirmation that EUR complies with recommendation 4.2 of the ASX Corporate Governance Principles and Recommendations which states:

“The board of a listed entity should, before it approves the entity’s financial statements for a financial period, receive from its CEO and CFO a declaration that, in their opinion, the financial records of the entity have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of the entity and that the opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.”

- P. Listing Rule 12.1 which states:

12.1 The level of an entity’s operations must, in ASX’s opinion, be sufficient to warrant the continued +quotation of the entity’s +securities and its continued listing.

- Q. Listing Rule 12.2 which states:

12.2 An entity’s financial condition (including operating results) must, in ASX’s opinion, be adequate to warrant the continued +quotation of its +securities and its continued listing.

- R. Listing Rule 19.11A which states:

19.11A If a listing rule requires an entity to give ASX +accounts, the following rules apply.

(a) If the entity controls an entity within the meaning of section 50AA of the Corporations Act or is the holding company of an entity, required by any law, regulation, rule or accounting standard, or if ASX requires, the +accounts must be consolidated +accounts.

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- (b) *The +accounts must be prepared to Australian accounting standards. If the entity is a +foreign entity the +accounts may be prepared to other standards agreed by ASX.*
- (c) *If the listing rule requires audited +accounts, the audit must be conducted in accordance with Australian auditing standards by a registered company auditor. If the entity is a +foreign entity, the audit may be conducted in accordance with other standards agreed by ASX and may be conducted by an overseas equivalent of a registered company auditor.*
- (d) *If the listing rule requires +accounts to be reviewed, the review must be conducted in accordance with Australian auditing standards. If the entity is a +foreign entity, the review may be conducted in accordance with other standards agreed by ASX. Unless the listing rule says an independent accountant may conduct the review, it must be conducted by a registered company auditor (or, if the entity is a +foreign entity, an overseas equivalent of a registered company auditor).*
- (e) *If there is a +directors' declaration that relates to the +accounts, the +directors' declaration must be given to ASX with the +accounts.*
- (f) *If there is a +directors' report that relates to the period covered by the +accounts, the +directors' report must be given to ASX with the +accounts.*

Request for Information

In light of the Facility Announcement, Trading Halt, Suspension, Tranche 2 Announcement, Appendix 3B, Cleansing Statement, Half Year Accounts and the Auditor's Report, April Update, the March 2020 Quarterly Activities Information, the Appendix 5B Information and the application of the Listing Rules stated above, please respond to each of the following questions:

1. Is EUR able to confirm that in the Directors' Opinion the Half Year Accounts:
 - (a) comply with the relevant Accounting Standards; and
 - (b) give a true and fair view of EUR's financial performance and position?
2. Please explain the basis for and the factors considered by the Directors to satisfy themselves that EUR could continue as a going concern. In answering this question, please comment specifically on what basis EUR's directors satisfied themselves that the \$2m drawdown described in the March Quarterly Activities Information and Half Year Accounts would complete.
3. Does EUR consider that its level of operations is sufficient to warrant continued quotation of its securities on ASX as required under listing rule 12.1? In answering this question:
 - 3.1 please explain the basis for this conclusion; and
 - 3.2 please comment on the nature of the EUR's current business activities.
4. Does EUR consider that the financial condition of EUR is sufficient to warrant continued listing on ASX as required under Listing Rule 12.2? In answering this question, please also explain the basis for this conclusion.
5. If the answer to questions 3 or 4 is "No", please explain what steps EUR has taken, or proposes to take, to warrant continued listing on ASX under the requirements of Listing Rules 12.1 and 12.2.
6. In relation to the Half Year Accounts, did the Board receive the CFO and CEO declaration, as described in section 4.2 of EUR's Corporate Governance Disclosure, that in the opinion of the CFO and CEO, the financial records of EUR have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of EUR and that

the opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively?

7. If the answer to Question 6 is 'no', why did the Board not receive the CEO and CFO declaration as described in section 4.2 of EUR's Corporate Governance Disclosure?
8. What enquiries did the Board make of management to satisfy itself that the financial records of EUR have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of EUR?
9. Commenting specifically on the material uncertainty related to going concern, does the board consider that EUR has a sound system of risk management and internal control which is operating effectively?
10. Commenting specifically on the Facility, what are the material terms relating to the timing and issuance of drawdown notices and timing and obligations to advance funds under the Facility?
11. Please separately provide a copy of the Facility to ASX (not for release to market).
12. Commenting specifically on the Tranche 2 Announcement, the Appendix 3B, the Cleansing Statement, the April Update, the March 2020 Quarterly Activities Information and the Appendix 5B Information:
 - 12.1 Why have the funds pursuant to the A\$2m drawdown referred to in the Tranche 2 Announcement not been received? In answering this question, please provide detail of the communication(s) with Winance.
 - 12.2 When does EUR expect to receive the funds pursuant to the A\$2m drawdown referred to in the Tranche 2 Announcement?
 - 12.3 Please confirm whether EUR has issued the Convertible Notes (the subject of the Appendix 3B and Cleansing Statement) in circumstances where it appears that EUR has not received funds pursuant to the drawdown notice referred to in the Tranche 2 Announcement? If the answer to this question is affirmative and EUR has issued the Convertible Notes, please confirm when the Convertible Notes were issued.
 - 12.4 Given that the Facility Announcement states that further drawdowns under the Facility are subject to prior shareholder approval, does EUR intend on obtaining any shareholder approval for the drawdown referred to in the Tranche 2 Announcement?
 - 12.5 What steps does EUR intend to take if the A\$2m of funds referred to in the Tranche 2 Announcement are not received by EUR in a timely manner such that EUR can only fund less than 2 quarters (as disclosed in the March 2020 Quarterly Activities Information)?
13. Please confirm that EUR is complying with the Listing Rules and, in particular, Listing Rule 3.1.
14. Please confirm that EUR's responses to the questions above have been authorised and approved under its published continuous disclosure policy or otherwise by its board or an officer of EUR with delegated authority from the board to respond to ASX on disclosure matters.

When and where to send your response

Please note that ASX reserves its right under Listing Rule 18.7A to release this letter and EUR's response to the market. Accordingly, EUR's response should address each question separately and be in a format suitable for release to the market.

Unless the information is required immediately under Listing Rule 3.1, a response is requested as soon as possible and, in any event by no later than **2:00 PM AWST Tuesday, 12 May 2020**.

Any response should be sent to me by return email at ListingsCompliancePerth@asx.com.au. It should not be sent to the ASX Market Announcements Office.

Enquiries

If you have any queries regarding any of the above, please contact me.

Yours faithfully

Daniel Nicholson
Adviser, Listings Compliance (Perth)