

23 December 2016

**Australian taxation implications for shareholders in European Lithium Limited (a BVI incorporated company) of the demerger of shares in Paynes Find Gold Limited (now called European Lithium Limited)**

On 9 September 2016 European Lithium Limited (**ELL**) (BVI Company Number: 1629378) demerged all of its shares in Paynes Find Gold Limited.

Subsequent to the demerger, Paynes Find Gold Limited changed its name to European Lithium Limited (EUR).

The demerger was effected via ELL making a pro-rata in-specie distribution of all its shares in EUR to its shareholders (these shares are hereafter referred to as the 'Tranche 1 EUR shares').

If following the demerger, the JORC resource for the Wolfsberg Lithium Project was upgraded to a minimum of 4,500,000 tonnes inferred resources at 1.3% Li<sub>2</sub>O, then the ELL shareholders were to receive additional EUR shares (these shares are hereafter referred to as the 'Tranche 2 EUR shares'). This requirement has been satisfied and consequently the Tranche 2 EUR shares were issued by EUR on 23 December 2016.

A summary of the Australian taxation implications for ELL shareholders, who hold their ELL shares on capital account, of receiving the Tranche 1 EUR shares and the Tranche 2 EUR shares, is provided below.

The summary does not constitute tax advice. The summary does not take into account the individual circumstances or needs of shareholders. The summary is not a complete analysis of all the taxation laws which may apply to shareholders. Neither ELL or EUR, nor any of its officers or advisers, accepts liability or responsibility with respect to any shareholder placing reliance on any part of the summary. All shareholders should seek their own independent taxation advice.

**Tranche 1 EUR shares**

**Distribution of the Tranche 1 EUR shares not assessable income, nor exempt income**

The distribution of the Tranche 1 EUR shares by ELL to its shareholders was a demerger dividend that is neither assessable income, nor exempt income of the ELL shareholders.

**Cost base of ELL shares and Tranche 1 EUR shares**

The ELL shareholders who received Tranche 1 EUR shares under the demerger must recalculate the cost base and reduced cost base of their post-CGT ELL shares and calculate the cost base and reduced cost base of those EUR shares.

The first element of the cost base (and reduced cost base) of each post-CGT ELL share and Tranche 1 EUR share is worked out by apportioning the sum of the cost bases (reduced cost bases) of the post-CGT ELL shares just before the demerger over the post-CGT ELL shares and the Tranche 1 EUR shares.

The appointment of this sum is required to be done on reasonable basis having regard to the market values of the ELL and EUR shares just after the demerger, or a reasonable approximation of those market values.

Immediately after the demerger, it is considered that the market value of an ELL share was negligible. On this basis:

- the cost base and reduced cost base of an ELL share should be nil; and
- the cost base and reduced cost base of a Tranche 1 EUR share received under the demerger (before the distribution of the Tranche 2 EUR shares) should be calculated as follows:

$$\text{Cost base of a EUR share} = \frac{1}{\text{Number of Tranche 1 EUR shares received under the demerger}} \times \text{Sum of the cost bases of the post-CGT ELL shares}$$

$$\text{Reduced cost base of a EUR share} = \frac{1}{\text{Number of Tranche 1 EUR shares received under the demerger}} \times \text{Sum of the reduced cost bases of the post-CGT ELL shares}$$

#### **Acquisition date for CGT purposes of the Tranche 1 EUR shares received under the demerger**

A Tranche 1 EUR share received by an ELL shareholder under the demerger is taken to have been acquired for CGT purposes on the date the shareholder acquired, for CGT purposes, the corresponding ELL share.

The acquisition date for CGT purposes may be relevant, amongst other things, for determining whether a discount capital gain is made on the disposal of a EUR share.

#### **Tranche 2 EUR shares**

##### **Distribution of the Tranche 2 EUR shares was not assessable income, nor exempt income**

As EUR did not credit its share capital account in connection with the issue of the Tranche 2 EUR shares, the distribution of those shares is neither assessable income, nor exempt income.

##### **Cost base of EUR shares**

EUR shareholders who received Tranche 2 EUR shares must recalculate the cost base and reduced cost base of all of their EUR shares owned immediately before the issue of the Tranche 2 EUR shares on and calculate the cost base of the Tranche 2 EUR shares received.

The first element of the cost base (and reduced cost base) of each EUR share must be worked out by apportioning the sum of the cost bases (reduced cost bases) of the EUR shares just before the distribution of the Tranche 2 EUR shares on 23 December 2016. The appointment of this sum should be done on a pro-rata basis.

The cost base and reduced cost base of a EUR share after the distribution of the Tranche 2 EUR shares should be calculated as follows:

Cost base of a EUR share	=	$\frac{1}{\text{Number of EUR shares owned immediately after the Tranche 2 shares are distributed}}$	x	Sum of the cost bases of EUR shares owned at the time the Tranche 2 shares are distributed
Reduced cost base of a EUR share	=	$\frac{1}{\text{Number of EUR shares owned immediately after the Tranche 2 shares are distributed}}$	x	Sum of the reduced cost bases of EUR shares owned at the time the Tranche 2 shares are distributed

**Acquisition date of the Tranche 2 EUR shares received**

Tranche 2 EUR shares received are taken to have been acquired for CGT purposes on the date shareholders acquired their original EUR shares.

Shareholders who acquired their original EUR shares at different times, will have to work out how many of their bonus shares are taken to have been acquired at each of those times. This should be done a pro-rata basis.

The acquisition date for CGT purposes may be relevant, amongst other things, for determining whether a discount capital gain is made on the disposal of a EUR share.

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