

European Metals Holdings Limited

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Corporate Information

ASX: EMH

AIM: EMH

Frankfurt: E861.F

CDIs on Issue: 150.8M



EUROPEAN METALS

20 November 2019

POTENTIAL STRATEGIC PARTNERSHIP WITH CEZ AND SIGNIFICANT INVESTMENT INTO CINOVEC PROJECT

European Metals Holdings Limited (“**European Metals**” or “**the Company**”) is pleased to announce that it has today reached conditional agreement with CEZ Group (“**CEZ**”), one of Central and Eastern Europe’s largest power utilities, regarding a potential strategic partnership and significant investment into the Cinovec Project (“**Cinovec**” or “**the Project**”).

If concluded, the agreement will see, subject to the successful completion of due diligence, shareholder, and other approvals, CEZ become a 51% shareholder in Geomet s.r.o. (“**Geomet**”), the Company’s Czech subsidiary and holder of the rights over the Project, for consideration of approximately **EUR 34.06 million (approximately AUD 55.25 million)** by subscribing for new shares in Geomet (the “**Proposed Subscription**”).

Headquartered in the Czech Republic, CEZ is an established, integrated energy group with operations in a number of Central and Southeastern European countries and Turkey. CEZ’s core business is the generation, distribution, trade in, and sales of electricity and heat, trade in and sales of natural gas, and coal extraction. CEZ Group has 33,000 employees and annual revenue of approximately EUR 7.24 billion.

The largest shareholder of its parent company, CEZ a. s., is the Czech Republic with a stake of approximately 70%. The shares of CEZ a.s. are traded on the Prague and Warsaw stock exchanges and included in the PX and WIG-CEE exchange indices. CEZ’s market capitalization is approximately EUR 10.08 billion.

As one of the leading Central European power companies, CEZ intends to develop several projects in areas of energy storage and battery manufacturing in the Czech Republic and in Central Europe.

CEZ is also a market leader for E-mobility in the region and has installed and operates a network of EV charging stations throughout Czech Republic. The automotive industry in Czech is a significant contributor to GDP and the number of EV’s in the country is expected to grow significantly in coming years.

European Metals Managing Director Keith Coughlan said, “We are very pleased to have concluded another stage of negotiations with CEZ regarding the future development of the Cinovec Project. CEZ is one of the largest companies in the Czech Republic and one of the leading companies in Central and Eastern Europe, having a strong vision with regards to the construction of battery production facilities, renewable energy and power storage.

If concluded, this agreement will result in Cinovec being fully funded through to a construction decision and will assist greatly in the integration of Cinovec into the European battery market. The potential investment by CEZ further demonstrates EMH’s commitment to develop fully the Cinovec Project in conjunction with Czech industry, for the benefit of the country’s involvement in the battery and EV industries. With their blend of technical foresight, historic mining experience, strong balance sheet and involvement in the rapidly growing European Battery Industry, CEZ is the ideal partner for the Company.”

Background to the Proposed Subscription

In July this year, EMH announced that CEZ was conducting due diligence on the Company and the Cinovec Project, and that the successful outcome of the due diligence process could result in CEZ potentially becoming the Company's largest shareholder and co-development partner for the Cinovec Project. Since then, EMH and CEZ have held detailed discussions on the framework for CEZ's participation in the Cinovec Project and today EMH and CEZ entered into the Exclusivity and Framework Agreement (further details of which are set out below).

The Company considers that CEZ Group is an ideal strategic and financial partner for the Cinovec Project. In addition to CEZ's financial strength, the Board believes that CEZ provides strong strategic relationships within the Czech Republic, the European Union and abroad. CEZ is a leader in power generation and distribution in the region and has plans to become heavily involved in the development of new energy systems. Through these battery industry activities, CEZ is expected to assist greatly in the securing of off take agreements for the Project.

Principal terms of the Proposed Subscription

Pursuant to the Exclusivity and Framework Agreement, CEZ has the option, but not the obligation, to subscribe, through its wholly-owned subsidiary SDAS, for such number of Geomet shares as will result in SDAS holding Geomet shares comprising fifty-one per cent. (51%) of the ownership interests and voting rights in Geomet, attached with the right to receive fifty-one per cent. (51%) of dividends, liquidation balance and other proceeds payable by Geomet to Geomet shareholders following completion of the subscription.

The amount to be paid by CEZ to Geomet under the option is in total approximately €34.06m, equivalent to approximately £29.15m and AUD55.25m. This compares to EMH's market valuation of approximately £32.88m (€38.42m; AUD62.32m) based on the closing price of an EMH share in London of 21.8 pence on 19 November 2019, the day immediately before announcement by EMH of the Proposed Subscription. The amounts in GBP and AUD included above have been calculated using an average exchange rate for EUR/GBP and EUR/AUD respectively as at 18 November 2019.

Completion of the Proposed Subscription is conditional, *inter alia*, on the satisfaction of the following conditions:

- (i) completion of due diligence in respect of the Company and the Cinovec Project to the satisfaction of CEZ at its sole discretion;
- (ii) EMH shareholder approval;
- (iii) agreement of the initial work programme and budget for Geomet; and
- (iv) CEZ and EMH agreeing the identity of the Chief Executive Officer, the Chief Operating Officer and the statutory auditor of Geomet to be appointed with effect from completion.

EMH has agreed to provide CEZ with a period of exclusivity under the Exclusivity and Framework Agreement, with certain break fees payable by EMH if it does not proceed with the Proposed Subscription. In particular, EMH and Geomet have undertaken until 31 March 2020 not to conduct discussions or negotiations or enter into any agreement or arrangement with any person or entity other than CEZ or SDAS in respect of an acquisition of an interest over or in, and/or establishment of a joint venture, partnership or other cooperation in connection with, the Cinovec Project and/or Geomet, by any means.

EMH and CEZ have also agreed the form of the Geomet Shareholders' Agreement which sets out their rights and obligations as shareholders in Geomet should CEZ exercise the option. The Geomet Shareholders' Agreement includes certain minority shareholder protections with a number of reserved matters which require the approval of both CEZ and EMH, together with deadlock-breaking provisions in the event that on completion of the proposed work programme, the parties disagree on a construction decision.

Financial effects of the proposed subscription

The primary financial objective of the Proposed Subscription is to secure the funding for the next stage of the development of the Cinovec Project and to provide a strong platform for the Cinovec Project to progress into production. Whilst the Board believes from the extensive PFS work undertaken to date that Cinovec is a robust project with strong economics, the funding of large mining and processing projects requiring significant capital expenditure is very challenging for smaller mining companies in current economic and market conditions.

The addition of a partner with the financial strength of CEZ, and the strong significant business relationships that it brings, significantly enhances the attractiveness of the Cinovec Project at this important stage of its development.

The subscription proceeds from the Proposed Subscription will be used by Geomet to develop the Cinovec Project through completion of the Definitive Feasibility Study ("DFS"), complete all permitting processes and advance the Cinovec Project to a decision to construct. The DFS will bring together the detailed operational and financial implementation plan, including geological, technical, engineering, metallurgical, environmental and financial technical expert reports. The Company has prepared the detailed budget and business plan for the delivery of the DFS, together with the front-end engineering design programme, which is expected to take up to 18 months to complete. In order to facilitate the timely progressing of the DFS, Geomet will enter into a service contract with one or more third party contractors, provided that EMH will be appointed to provide services of managing the Cinovec Project development.

On completion of the proposed subscription by SDAS, EMH's ongoing interest in Geomet will reduce to 49%. Under the Geomet Shareholders' Agreement, Geomet will have a board of five directors. EMH will have the right to nominate two of the five Geomet directors.

Accordingly, on completion EMH will cease to consolidate Geomet's results within the EMH's consolidated accounts. As at 30 June 2019, Geomet's total assets amounted to AUD\$12.17 million. In the year ended 30 June 2019 Geomet's loss before taxation amounted to AUD\$0.287 million.

ASX Listing Rule 11.2

ASX Listing Rule 11.2 provides that an entity may not dispose of its main undertaking (that is, its main asset or business) without the approval of its shareholders. While the Proposed Subscription may be considered to constitute the Company disposing of its main undertaking, the Company will not be making any change to its main undertaking. That is, the Company will remain engaged in the same principal business activities following completion of the Proposed Subscription. Accordingly, the Company will be seeking Shareholder approval under Listing Rule 11.2 for completeness.

CEZ is not a related party of the Company, and Shareholder approval for the Proposed Subscription is not required for the purposes of ASX Listing Rule 10.1.

AIM Rule 15

The Proposed Subscription would constitute a fundamental change of business of the Company under Rule 15 of the AIM Rules. The Proposed Subscription is therefore conditional on, *inter alia*, Shareholder approval which will be sought at a General Meeting of the Company to be convened in due course. The Company will, however, remain an operating minerals company under the AIM Rules given its remaining material interest and ongoing involvement in the Cinovec Project after the Proposed Subscription has completed, as described above.

The completion of the Proposed Subscription will not result in any changes to the Company's Board or management.

Further information

The Company expects to publish shortly a circular to shareholders setting out further details of the Proposed Subscription, the Exclusivity and Framework Agreement and Geomet Shareholders' Agreement, together with notice of the General Meeting and a further announcement will be made in due course.

BACKGROUND INFORMATION ON CINOVEC

PROJECT OVERVIEW

Cinovec Lithium/Tin Project

European Metals, through its wholly owned subsidiary, Geomet s.r.o., controls the mineral exploration licenses awarded by the Czech State over the Cinovec Lithium/Tin Project. Cinovec hosts a globally significant hard rock lithium deposit with a total Indicated Mineral Resource of 372.4Mt at 0.45% Li₂O and 0.04% Sn and an Inferred Mineral Resource of 323.5Mt at 0.39% Li₂O and 0.04% Sn containing a combined 7.22 million tonnes Lithium Carbonate Equivalent and 263kt of tin reported 28 November 2017 (**Further Increase in Indicated Resource at Cinovec South**). An initial Probable Ore Reserve of 34.5Mt at 0.65% Li₂O and 0.09% Sn reported 4 July 2017 (**Cinovec Maiden Ore Reserve – Further Information**) has been declared to cover the first 20 years mining at an output of 22,500tpa of lithium carbonate reported 11 July 2018 (**Cinovec Production Modelled to Increase to 22,500tpa of Lithium Carbonate**).

This makes Cinovec the largest lithium deposit in Europe, the fourth largest non-brine deposit in the world and a globally significant tin resource.

The deposit has previously had over 400,000 tonnes of ore mined as a trial sub-level open stope underground mining operation.

In June 2019 EMH completed an updated Preliminary Feasibility Study, conducted by specialist independent consultants, which indicated a return post tax NPV of USD1.108B and an IRR of 28.8% and confirmed that the Cinovec Project is a potential low operating cost, producer of battery grade lithium hydroxide or battery grade lithium carbonate as markets demand. It confirmed the deposit is amenable to bulk underground mining. Metallurgical test-work has produced both battery grade lithium hydroxide and battery grade lithium carbonate in addition to high-grade tin concentrate at excellent recoveries. Cinovec is centrally located for European end-users and is well serviced by infrastructure, with a sealed road adjacent to the deposit, rail lines located 5 km north and 8 km south of the deposit and an active 22 kV transmission line running to the historic mine. As the deposit lies in an active mining region, it has strong community support.

The economic viability of Cinovec has been enhanced by the recent strong increase in demand for lithium globally, and within Europe specifically.

There are no other material changes to the original information and all the material assumptions continue to apply to the forecasts.

CONTACT

For further information on this update or the Company generally, please visit our website at www.europeanmet.com or see full contact details at the end of this release.

COMPETENT PERSON

Information in this release that relates to exploration results is based on information compiled by Dr Pavel Reichl. Dr Reichl is a Certified Professional Geologist (certified by the American Institute of Professional Geologists), a member of the American Institute of Professional Geologists, a Fellow of the Society of Economic Geologists and is a Competent Person as defined in the 2012 edition of the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves and a Qualified Person for the purposes of the AIM Guidance Note on Mining and Oil & Gas Companies dated June 2009. Dr Reichl consents to the inclusion in the release of the matters based on his information in the form and context in which it appears. Dr Reichl holds CDIs in European Metals.

The information in this release that relates to Mineral Resources and Exploration Targets has been compiled by Mr Lynn Widenbar. Mr Widenbar, who is a Member of the Australasian Institute of Mining and Metallurgy, is a full time employee of Widenbar and Associates and produced the estimate based on data and geological information supplied by European Metals. Mr Widenbar has sufficient experience that is relevant to the style of mineralisation and type of deposit under consideration and to the activity that he is undertaking to qualify as a Competent Person as defined in the JORC Code 2012 Edition of the Australasian Code for Reporting of Exploration Results, Minerals Resources and Ore Reserves. Mr Widenbar consents to the inclusion in this report of the matters based on his information in the form and context that the information appears.

CAUTION REGARDING FORWARD LOOKING STATEMENTS

Information included in this release constitutes forward-looking statements. Often, but not always, forward looking statements can generally be identified by the use of forward looking words such as “may”, “will”, “expect”, “intend”, “plan”, “estimate”, “anticipate”, “continue”, and “guidance”, or other similar words and may include, without limitation, statements regarding plans, strategies and objectives of management, anticipated production or construction commencement dates and expected costs or production outputs.

Forward looking statements inherently involve known and unknown risks, uncertainties and other factors that may cause the company’s actual results, performance and achievements to differ materially from any future results, performance or achievements. Relevant factors may include, but are not limited to, changes in commodity prices, foreign exchange fluctuations and general economic conditions, increased costs and demand for production inputs, the speculative nature of exploration and project development, including the risks of obtaining necessary licences and permits and diminishing quantities or grades of reserves, political and social risks, changes to the regulatory framework within which the company operates or may in the future operate, environmental conditions including extreme weather conditions, recruitment and retention of personnel, industrial relations issues and litigation.

Forward looking statements are based on the company and its management’s good faith assumptions relating to the financial, market, regulatory and other relevant environments that will exist and affect the company’s business and operations in the future. The company does not give any assurance that the assumptions on which forward looking statements are based will prove to be correct, or that the

company's business or operations will not be affected in any material manner by these or other factors not foreseen or foreseeable by the company or management or beyond the company's control.

Although the company attempts and has attempted to identify factors that would cause actual actions, events or results to differ materially from those disclosed in forward looking statements, there may be other factors that could cause actual results, performance, achievements or events not to be as anticipated, estimated or intended, and many events are beyond the reasonable control of the company. Accordingly, readers are cautioned not to place undue reliance on forward looking statements. Forward looking statements in these materials speak only at the date of issue. Subject to any continuing obligations under applicable law or any relevant stock exchange listing rules, in providing this information the company does not undertake any obligation to publicly update or revise any of the forward looking statements or to advise of any change in events, conditions or circumstances on which any such statement is based.

LITHIUM CLASSIFICATION AND CONVERSION FACTORS

Lithium grades are normally presented in percentages or parts per million (ppm). Grades of deposits are also expressed as lithium compounds in percentages, for example as a percent lithium oxide (Li₂O) content or percent lithium carbonate (Li₂CO₃) content.

Lithium carbonate equivalent ("LCE") is the industry standard terminology for, and is equivalent to, Li₂CO₃. Use of LCE is to provide data comparable with industry reports and is the total equivalent amount of lithium carbonate, assuming the lithium content in the deposit is converted to lithium carbonate, using the conversion rates in the table included below to get an equivalent Li₂CO₃ value in percent. Use of LCE assumes 100% recovery and no process losses in the extraction of Li₂CO₃ from the deposit.

Lithium resources and reserves are usually presented in tonnes of LCE or Li.

The standard conversion factors are set out in the table below:

Table: Conversion Factors for Lithium Compounds and Minerals

Convert from		Convert to Li	Convert to Li₂O	Convert to Li₂CO₃
Lithium	Li	1.000	2.153	5.324
Lithium Oxide	Li ₂ O	0.464	1.000	2.473
Lithium Carbonate	Li ₂ CO ₃	0.188	0.404	1.000
Lithium Hydroxide	LiOH.H ₂ O	0.165	0.356	0.880

WEBSITE

A copy of this announcement is available from the Company's website at www.europeanmet.com.

ENQUIRIES:

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The information contained within this announcement is considered to be inside information, for the purposes of Article 7 of EU Regulation 596/2014, prior to its release. The person who arranged for the release of this announcement on behalf of the Company was Keith Coughlan, Managing Director.