



Arizona Lithium Limited
Interim Financial Report
for the half-year ended 31 December 2022

ABN 15 008 720 223

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Corporate directory

Directors	Mr Barnaby Egerton-Warburton Non-Executive Chairman
	Mr Paul Lloyd Managing Director
	Mr Matthew Blumberg Executive Director
Company Secretary	Mr Shaun Menezes
Registered Office	Level 2, 10 Outram Street West Perth WA 6005
Share register	Automic Registry Services Level 5, 191 St Georges Terrace Perth, WA 6000
Auditor	Grant Thornton Australia Level 43 Central Park 152-158 St Georges Terrace Perth, WA 6000
Securities exchange listing	Australian Securities Exchange Level 40, Central Park 152 – 158 St Georges Terrace Perth Western Australia 6000 Code: AZL

Directors' Report

The Directors present their interim financial report, together with the consolidated financial statements of Arizona Lithium Limited ("the Company") and its controlled entities ("the Group"), for the half-year ended 31 December 2022.

DIRECTORS

The following directors held office during and since the end of the half-year, unless otherwise stated:

- Mr Barnaby Egerton-Warburton
- Mr Paul Lloyd
- Mr Matthew Blumberg

PRINCIPAL ACTIVITIES

The Company is a mineral exploration entity focussing on the Big Sandy and Lordsburg Projects in USA exploring for lithium.

REVIEW OF OPERATIONS

Acquiring Canada's Highest Grade Lithium Brine Resource

In December 2022, AZL signed a definitive agreement to acquire 100% of Prairie Lithium Corporation, one of Canada's most advanced lithium brine companies, and one of the most advanced Direct Lithium Extraction (DLE) projects globally.

Prairie's JORC Inferred Mineral Resource is 4.1 million tonnes of lithium carbonate equivalent (LCE) at 111 mg/L, the highest quality inferred lithium brine resource in Canada discovered to date.

The acquisition represents a 1,200% increase to AZL's global lithium Resource, now 4.4MT of LCE (inferred and indicated).

Strategic Alliance With Navajo

In December 2022, AZL entered a Strategic Alliance Terms Sheet with Navajo Transitional Energy Company, LLC ("NTEC"), a limited liability company wholly owned by the Navajo Nation. NTEC is a world class energy company that owns the Navajo Mine, operates mines in Montana and Wyoming, and aims to promote the development of the Navajo Nation's resources and new sources of energy, power, and transmission.

NTEC will manage all permitting and contract mining services at the Big Sandy Lithium Project and become a substantial AZL shareholder by meeting certain mining development milestones. Vern Lund, Managing Director of NTEC, will also join the AZL Board, further strengthening the Strategic Alliance.

Commencement of DFS at Big Sandy

In November 2022, AZL announced the acceleration of Big Sandy with the commencement of the Definitive Feasibility Study ("DFS"). The Scoping Study, completed in October 2022, identified unique opportunities using new extraction technology that will be fast-tracked for development and inclusion in the DFS. AZL's Lithium Research Centre, located in Tempe, Arizona, will be the base of operations for technology development and collaboration with process equipment and battery manufacturers.

Directors' Report

Identification of Drill Targets at Lordsburg

In September 2022, AZL announced that in consultation with Western Australia-based geophysical consultants, Resource Potentials, the Company completed a passive seismic survey and Titan magnetotelluric electromagnetics across the Lordsburg Lithium Project, located in South-West New Mexico, to test for potential lithium mineralised subsurface brines. Similar geophysical methods have been used with success by Galan Lithium Limited on their Hombre Muerto Project in Argentina¹.

Strategic US\$1.25M Investment in Midwest Lithium AG

In November 2022, AZL announced a strategic equity investment of US\$1.25m in Midwest Lithium AG ("Midwest"), for approximately 11.5% of Midwest. The investment by AZL is part of a broader US\$2.5m capital raise Midwest completed, which is expected to be used for surface exploration, ground expansions, property acquisition, permitting and working capital.

Midwest holds a significant land position in the Black Hills of South Dakota, one of North America's only proven hard rock spodumene lithium producing districts in the US including a number of historical mines. The district holds over 24,000 pegmatite bodies of which between 2-5% are believed to carry lithium mineralisation; the pegmatites are all located around a large local granitic intrusion known as the Harney Peak Granite. Visible spodumene and other lithium minerals are easily identified around the district.

Strategic Partnership for Lithium Extraction

In October 2022, AZL announced the signing of a Letter of Intent (LOI) for a strategic partnership with Cemvita Factory (Cemvita) to utilize Cemvita's portable organic lixiviant production plant at the Company's newly established Lithium Research Centre. AZL announced the completion of the Scoping Study in 2022, which has confirmed Big Sandy as being well positioned to become a long-term lithium producer to supply the rapidly growing demand for electric vehicles in North America.

\$12m Placement to Advance Research and Processing Facilities

Arizona Lithium raised \$12m via a placement to institutional and sophisticated investors, following approval by AZL shareholders and the General Meeting held on 14 July 2022. The funds will be applied to the land purchase for the Lithium Processing Plant, expansion and operation of the Lithium Research Centre and securing IP protection over Lithium Processing Technology.

EVENTS SUBSEQUENT TO THE END OF THE REPORTING PERIOD

The Company entered into a share and purchase agreement with Prairie Lithium Corporation ("Prairie") on 18 December 2022 to acquire 100% of the shares in Prairie by the issue of 500,000,000 ordinary shares in the Company ("AZL Shares") or Exchangeable Shares to shareholders of Prairie and cash consideration of CAD\$40,000,000. An Exchangeable Share has substantially the same rights as an AZL Share and can be exchanged for an AZL Share at the election of the holder for 5 years from their date of issue. This agreement was subject to shareholder and regulatory approval. On 14 March 2023, the shareholders of the Company approved the issue of shares and acquisition and all other substantive approvals have been obtained. The fair

¹Galan Lithium Ltd, Announcement October 4, 2018: Geophysical Results Define Brine Potential at Candelas Project, Hombre Muerto

Directors' Report

value of the acquisition is \$68,956,044. As a result, the acquisition date of Prairie was determined to be 14 March 2023. At the date of this report, the Directors have not completed the acquisition accounting for Prairie.

On 14 March 2023, shareholders at a general meeting approved the following:

- The issue of 240,000,000 Performance Rights to Directors;
- The issue of 11,000,000 Options exercisable at \$0.12 expiring 4 years from date of issue to Zach Maurer vesting in four tranches on various dates.

No other matters or circumstances have arisen since the end of the financial period which significantly affected or may significantly affect the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial periods.

AUDITOR'S INDEPENDENCE DECLARATION

The lead auditor's independence declaration under section 307C of the Corporations Act 2001 is included within this financial report.

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

On behalf of the Board of Directors,



Mr Barnaby Egerton-Warburton
Non-Executive Chairman

Dated this 15th day of March 2023

Auditor's Independence Declaration

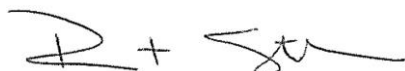
To the Directors of Arizona Lithium limited

In accordance with the requirements of section 307C of the *Corporations Act 2001*, as lead auditor for the review of Arizona Lithium Limited for the half-year ended 31 December 2022. I declare that, to the best of my knowledge and belief, there have been:

- a no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- b no contraventions of any applicable code of professional conduct in relation to the review.



GRANT THORNTON AUDIT PTY LTD
Chartered Accountants



B P Steedman
Partner – Audit & Assurance
Perth, 15 March 2023

Condensed consolidated statement of profit or loss and other comprehensive income for the half-year ended 31 December 2022

	Note	31 December 2022 \$	31 December 2021 \$
Interest income		563,584	5,219
Share-based payments expense	11	(3,112,666)	(6,415,970)
Corporate and regulatory expenses		(609,018)	(450,429)
Directors' fees		(226,965)	(214,775)
Exploration and evaluation expensed		(1,217,323)	(403,646)
Depreciation		(314,509)	-
Foreign exchange gain / (loss)		(40,848)	(35,351)
Finance costs		(82,282)	-
Gain on financial asset	5	6,275	12,487
Administrative expenses		(767,838)	(824,744)
Loss before income tax expense		(5,801,590)	(8,327,209)
Income tax expense		-	-
Loss after income tax from continuing operations attributable to members of Arizona Lithium Limited		(5,801,590)	(8,327,209)
Operations of disposal group (discontinued operation)			
Gain on demerger of subsidiaries	13	-	6,396,170
Profit from disposal group		-	6,396,170
Loss attributable to members of Arizona Lithium Limited		(5,801,590)	(1,931,039)
Other comprehensive income			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Exchange difference on translation of foreign controlled entities, net of tax		10,388	22,365
Total comprehensive loss for the period		(5,791,202)	(1,908,674)
Loss per share attributable to the ordinary equity holders of the Company			
Basic loss per share in cents	2	(0.24)	(0.11)
Diluted loss per share in cents	2	(0.24)	(0.11)
Loss per share from continuing operations attributable to the ordinary equity holders of the Company			
Basic loss per share in cents	2	(0.24)	(0.47)
Diluted loss per share in cents	2	(0.24)	(0.47)

The accompanying notes form part of these financial statements.

Condensed consolidated statement of financial position as at 31 December 2022

	Note	31 December 2022 \$	30 June 2022 \$
CURRENT ASSETS			
Cash and cash equivalents		46,796,752	42,983,007
Trade and other receivables		141,030	234,709
Prepayments		161,610	154,994
TOTAL CURRENT ASSETS		47,099,392	43,372,710
NON-CURRENT ASSETS			
Property, plant and equipment	3	2,923,583	49,749
Right of use assets	4	2,696,549	69,286
Other financial assets	5	2,575,659	633,228
TOTAL NON-CURRENT ASSETS		8,195,791	752,263
TOTAL ASSETS		55,295,183	44,124,973
CURRENT LIABILITIES			
Trade and other payables		821,882	524,152
Lease liability	6	558,270	13,083
Funds received in advance		-	715,385
TOTAL CURRENT LIABILITIES		1,380,152	1,252,620
NON-CURRENT LIABILITIES			
Lease liability	6	2,298,397	56,204
TOTAL NON-CURRENT LIABILITIES		2,298,397	56,204
TOTAL LIABILITIES		3,678,549	1,308,824
NET ASSETS		51,616,634	42,816,149
EQUITY			
Contributed equity	7	124,405,131	113,594,860
Reserves		17,331,538	13,539,734
Accumulated losses		(90,120,035)	(84,318,445)
TOTAL EQUITY		51,616,634	42,816,149

The accompanying notes form part of these financial statements.

Condensed consolidated statement of changes in equity for the half-year ended 31 December 2022

	Issued shares	Share based payment reserve	Foreign translation reserve	Accumulated losses	Total
	\$	\$	\$	\$	\$
At 1 July 2022	113,594,860	15,725,497	(2,185,763)	(84,318,445)	42,816,149
Comprehensive Loss					
Loss for period	-	-	-	(5,801,590)	(5,801,590)
Other comprehensive income for the period, net of tax	-	-	10,388	-	10,388
Total comprehensive loss for the period	-	-	10,388	(5,801,590)	(5,791,202)
Transactions with owners, in their capacity as owners, and other transfers					
Shares issued during the period	12,219,071	-	-	-	12,219,071
Share issue costs	(1,408,800)	668,750	-	-	(740,050)
Share-based payments	-	3,112,666	-	-	3,112,666
At 31 December 2022	124,405,131	19,506,913	(2,175,375)	(90,120,035)	51,616,634

The accompanying notes form part of these financial statements.

Condensed consolidated statement of changes in equity for the half-year ended 31 December 2022

	Issued shares	Share based payment reserve	Foreign translation reserve	Accumulated losses	Total
	\$	\$	\$	\$	\$
At 1 July 2021	79,616,174	6,795,047	(2,239,081)	(79,302,912)	4,869,228
Comprehensive Loss					
Loss for period	-	-	-	(1,931,039)	(1,931,039)
Other comprehensive income for the period, net of tax	-	-	22,365	-	22,365
Total comprehensive loss for the period	-	-	22,365	(1,931,039)	(1,908,674)
Transactions with owners, in their capacity as owners, and other transfers					
Shares issued during the period	18,016,533	-	-	-	18,016,533
Share issue costs	(1,484,247)	724,200	-	-	(760,047)
Share-based payments	-	6,415,970	-	-	6,415,970
Capital distribution and demerger dividend (Note 13)	(5,895,320)	-	-	(786,904)	(6,682,224)
At 31 December 2021	90,253,140	13,935,217	(2,216,716)	(82,020,855)	19,950,786

The accompanying notes form part of these financial statements.

Condensed consolidated statement of cash flows for the half-year ended 31 December 2022

	31 December 2022 \$	31 December 2021 \$
CASH FLOWS FROM OPERATING ACTIVITIES		
Payments to suppliers and employees	(3,165,281)	(2,897,825)
Interest received	563,584	5,219
Net cash used in operating activities	(2,601,697)	(2,892,606)
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash received from loan repayment	-	247,788
Payments for acquisition of plant and equipment	(2,275,765)	-
Payments for other financial assets	(1,949,653)	-
Net cash provided by/(used in) investing activities	(4,225,418)	247,788
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds of share issues	11,497,390	18,016,534
Cost of share issues	(871,269)	(808,500)
Net cash provided by financing activities	10,626,121	17,208,034
Net increase in cash and cash equivalents	3,799,006	14,563,216
Cash and cash equivalents at the beginning of the period	42,983,007	4,951,159
Effects of exchange rate changes on cash and cash equivalents	14,739	-
Cash and cash equivalents at the end of the period	46,796,752	19,514,375

The accompanying notes form part of these financial statements.

Notes to the financial statements

1 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

The interim financial report is a general purpose financial report which has been prepared in accordance with the requirements of the Corporations Act 2001, applicable Accounting Standards including AASB 134 "Interim Financial Reporting", Australian Accounting Interpretations and other authoritative pronouncements of the Australian Accounting Standards.

The interim financial report covers Arizona Lithium Limited ("the Company") and controlled entities ("the Group"). The Company is a for-profit entity limited by shares, and incorporated and domiciled in Australia.

The interim financial report has been prepared on an accruals basis and is based on historical cost modified by the revaluation of selected non-current assets, financial assets and financial liabilities for which the fair value basis of accounting has been applied. All amounts are presented in Australian Dollars.

The interim report does not include full disclosures of the type normally included in an annual financial report.

The interim financial report, including comparatives, should be read in conjunction with the annual Financial Report of Arizona Lithium Limited for the year ended 30 June 2022 and any public announcements made by the Company during the half year in accordance with the continuous disclosure obligations arising under the Australian Securities Exchange Listing Rules and Corporations Act 2001.

Going concern

The interim consolidated financial report has been prepared on the going concern basis, which contemplates the continuity of normal business activity and the realisation of assets and the settlement of liabilities in the normal course of business.

On 14 March 2023, shareholders at a general meeting approved the acquisition of Prairie Lithium Corporation ("Prairie") by the issue of 500,000,000 ordinary shares in the Company ("AZL Shares") or Exchangeable Shares to shareholders of Prairie and cash consideration of CAD\$40,000,000 (A\$43,956,044 assuming FX rate (AUD:CAD) of 0.91). As a result, the Company's cash reserves will be reduced to A\$5,050,653 on a pro-forma basis after inclusion of the cash acquired in the Prairie acquisition.

To meet the capital and operating expenditure budgets for the next twelve month the Directors intend to raise further capital for the Group. The directors believe that there are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable given its past history of successfully raising new equity and current market capitalisation of the Company.

Should the Company be unable to raise the required capital to fund the next 12 months planned capital and operating expenditure, there is material uncertainty on its ability to continue as a going concern it may be required to realise its assets and extinguish its liabilities other than in the normal course of business and at amounts different to those stated in the financial statements.

Notes to the financial statements

1 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Significant Accounting Policies

The significant accounting policies and methods of computation adopted in the preparation of the half-year financial report are consistent with those adopted and disclosed in the Company's annual financial report for the financial year ended 30 June 2022 and have been consistently applied by the entities in the Group. These accounting policies are consistent with Australian Accounting Standards and with International Financial Reporting Standards.

New and Amended Accounting policies adopted by the Group

The Group has adopted all of the new and revised Accounting Standards and Interpretations issued by the Australian Accounting Standards Board that are mandatory for the current reporting period. The adoption of these new and revised Accounting Standards and Interpretations has not resulted in a significant or material change to the Group's accounting policies.

Any new, revised or amending Accounting Standards or Interpretations that are not yet mandatory have not been early adopted by the Group. The Directors have determined that there is no material impact of these standards and interpretations.

Significant accounting estimates and judgements

The preparation of the interim financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expense. Actual results may differ from these estimates.

The judgements, estimates and assumptions applied in the interim financial statements, including the key sources of estimation uncertainty were the same as those applied in the Group's last annual financial statements for the year ended 30 June 2022 unless otherwise disclosed in the interim financial statements.

2 LOSS PER SHARE

	31 December 2022	31 December 2021
Weighted average number of ordinary shares used in the calculation of basic/diluted loss per share (number)	2,388,883,783	1,776,892,580
Basic/diluted loss (\$)	(5,801,590)	(1,931,039)
Basic/diluted loss per share (cents)	(0.24)	(0.11)
Basic/diluted loss from continuing operations (\$)	(5,801,590)	(8,327,209)
Basic/diluted loss per share from continuing operations (cents)	(0.24)	(0.47)

The diluted loss per share is equal to the basic loss per share because there were no dilutive potential ordinary shares.

Notes to the financial statements

3 PROPERTY, PLANT AND EQUIPMENT

	31 December 2022 \$	30 June 2022 \$
At cost	2,934,329	49,749
Accumulated depreciation	(10,746)	-
Total	2,923,583	49,749

The increase in plant and equipment relates predominantly to the acquisition of equipment for the development of Lithium Research Centre in Tempe, Arizona.

4 RIGHT OF USE ASSETS

	31 December 2022 \$	30 June 2022 \$
At cost	3,000,312	69,286
Accumulated depreciation	(303,763)	-
Total	2,696,549	69,286

The increase in the right of use assets relates predominantly to the property lease for the Lithium Research Centre in Tempe, Arizona.

5 OTHER FINANCIAL ASSETS

	31 December 2022 \$	30 June 2022 \$
Mining rehabilitation bond – South Africa ⁽ⁱ⁾	311,486	322,838
Security bond – leased premises	294,520	290,390
Unlisted investment at fair value ⁽ⁱⁱⁱ⁾	1,949,653	-
Other financial assets	20,000	20,000
Total	2,575,659	633,228

⁽ⁱ⁾ In 2017, the Company paid a mining rehabilitation bond of \$570,933 (ZAR 5,574,974) to secure access to the Kangwane South Project. This has been revalued to \$483,674 at 31 December 2022 (30 June 2022: \$482,189) due to movements in the AUD:ZAR exchange rate, before a \$172,188 (30 June 2022: \$171,659) loss allowance is recognised against this asset based on the Directors' estimate of losses following consideration of unbiased probability-weighted amounts that are determined by evaluating a range of possible outcomes; the time value of money; and reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

Notes to the financial statements

5 OTHER FINANCIAL ASSETS (continued)

(ii) As at 31 December 2022, the Group holds 2,049,181 shares in Midwest Lithium AG ("Midwest"). Whether the 11.5% equity investment in Midwest is a financial asset or associate is a key judgment. The Directors have determined that the Company does not have significant influence over Midwest and has been accounted for as a financial asset. The carrying value of the investment represents the initial transaction value on the date of investment, being 7 November 2022. The Directors have determined that there is no movement in the fair value of the investment between 7 November 2022 and 31 December 2022 as there were no further capital raisings by Midwest and no significant exploration activities that could affect Midwest's valuation.

6 LEASE LIABILITY

	31 December 2022 \$	30 June 2022 \$
Carrying value	2,856,667	69,287
Current	558,270	13,083
Non-current	2,298,397	56,204
	2,856,667	69,287

7 CONTRIBUTED EQUITY

Contributed equity consists of the following:

	31 December 2022 \$	30 June 2022 \$
Issued shares	124,405,131	113,594,860
Total	124,405,131	113,594,860

	Number of shares Half Year to 31/12/22	Number of shares Year to 30/06/22	Half-year to 31/12/22 \$	Year to 30/06/22 \$
Opening balance	2,233,496,990	1,656,034,601	113,594,860	79,616,174
Placement	171,428,571	358,933,332	12,000,000	36,200,000
Issue of shares on exercise of options and performance rights	37,579,078	218,529,057	219,071	8,314,056
Capital reduction (Note 13)	-	-	-	(5,895,320)
Capital raising costs	-	-	(1,408,800)	(4,640,050)
Closing balance	2,442,504,639	2,233,496,990	124,405,131	113,594,860

Notes to the financial statements

8 SEGMENT INFORMATION

During the half year, the Group's operations consisted of exploration for lithium in USA, and corporate functions and South African exploration interests that were managed from Australia.

The Board is the chief operating decision maker. All amounts reported to the Board are determined in accordance with accounting policies that are consistent with financial reporting requirements. Intra-group loans are valued in Australian dollars with no interest charged. There are no intragroup eliminations because assets used across the Group and all trade payables are allocated to the Australian segment, with all assets, liabilities and transactions controlled from Australia.

(i) Segment performance

	Australia Half-year ended 31 December		United States Half-year ended 31 December		Consolidated Half-year ended 31 December	
	2022	2021	2022	2021	2022	2021
	\$	\$	\$	\$	\$	\$
Interest income	563,584	5,219	-	-	563,584	5,219
Total income	563,584	5,219	-	-	563,584	5,219
Segment result:						
Loss after income tax	(3,896,622)	(7,254,086)	(1,904,968)	(1,326,276)	(5,801,590)	(1,931,039)

(ii) Segment financial position

	Australia		United States		Consolidated	
	As at 31 Dec 2022	As at 30 June 2022	As at 31 Dec 2022	As at 30 June 2022	As at 31 Dec 2022	As at 30 June 2022
	\$	\$	\$	\$	\$	\$
Segment assets	49,230,168	43,650,009	6,065,015	474,964	55,295,183	44,124,973
Segment liabilities	(721,987)	(1,308,824)	(2,956,562)	-	(3,678,549)	(1,308,824)
Segment net assets	48,508,181	42,341,185	3,108,453	474,964	51,616,634	42,816,149

Notes to the financial statements

9 FINANCIAL INSTRUMENTS

Fair Value Measurement

The fair value of financial assets and financial liabilities approximate their carrying amounts.

10 EVENTS SUBSEQUENT TO THE END OF THE REPORTING PERIOD

The Company entered into a share and purchase agreement with Prairie Lithium Corporation ("Prairie") on 18 December 2022 to acquire 100% of the shares in Prairie by the issue of 500,000,000 ordinary shares in the Company ("AZL Shares") or Exchangeable Shares to shareholders of Prairie and cash consideration of CAD\$40,000,000. An Exchangeable Share has substantially the same rights as an AZL Share and can be exchanged for an AZL Share at the election of the holder for 5 years from their date of issue. This agreement was subject to shareholder and regulatory approval. On 14 March 2023, the shareholders of the Company approved the issue of shares and acquisition and all other substantive approvals have been obtained. The fair value of the acquisition is \$68,956,044. As a result, the acquisition date of Prairie was determined to be 14 March 2023. At the date of this report, the Directors have not completed the acquisition accounting for Prairie.

On 14 March 2023, shareholders at a general meeting approved the following:

- The issue of 240,000,000 Performance Rights to Directors;
- The issue of 11,000,000 Options exercisable at \$0.12 expiring 4 years from date of issue to Zach Maurer vesting in four tranches on various dates.

No other matters or circumstances have arisen since the end of the financial period which significantly affected or may significantly affect the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial periods.

11 SHARE BASED PAYMENTS

The following share based payment transactions occurred or were recognised during the half-year:

- 25,000,000 \$0.18 Lead Manager options expiring 15/08/2024 with a total value of \$668,750 were recognised during the half year as a capital raising cost.
- 111,500,000 performance rights were issued to directors on 15/08/2022 following shareholder approval at a general meeting held on 14/07/2022 as follows:

Notes to the financial statements

11 SHARE BASED PAYMENTS (CONTINUED)

Tranche	# Performance Rights	Vesting Condition	Expiry Date
Class A	26,000,000	Successful commercial operation of the research facility in Phoenix, Arizona to process ore from the Big Sandy Lithium Project and produce lithium to a market acceptable standard with a minimum production of 20kgs of LCE per month for two consecutive months.	3 years from the date of issue
Class B	28,500,000	Completion of a successful Scoping Study for the Big Sandy Lithium Project	3 years from the date of issue
Class C	28,500,000	Announcement to the ASX of the completion of a profitable Preliminary Feasibility Study for the Big Sandy Lithium Project	4 years from the date of issue
Class D	28,500,000	Announcement to the ASX of the completion of a profitable Bankable Feasibility Study for the Big Sandy Lithium Project	5 years from the date of issue

All share options issued during the half year vested immediately. The Class B Performance Rights issued during the half year vested on 18/10/2022.

Fair values of share options issued are determined using the Black-Scholes model based on information available as at the measurement date, considering the exercise price, term of option, the share price at grant date, expected price volatility of the underlying share, expected yield and the risk-free interest rate for the term of the option. Parameters for all share options issued during the period were:

	Lead Manager options
Measurement date	25/07/2022
Issue date	15/08/2022
Expiry date	15/08/2024
Dividend yield	-
Expected volatility	100%
Risk-free interest rate	2.69%
Expected life of options (years)	2.00
Underlying share price	\$0.078
Option exercise price	\$0.18
Value per option	\$0.02675
Number of options issued	25,000,000
Value of options	\$668,750
Amount expensed during half year	-
Capital raising cost recognised during half year	\$668,750

Notes to the financial statements

11 SHARE BASED PAYMENTS (CONTINUED)

Parameters for all performance rights issued during the period were:

	Class A	Class B	Class C	Class D
Measurement date	14/07/2022	14/07/2022	14/07/2022	14/07/2022
Issue date	15/08/2022	15/08/2022	15/08/2022	15/08/2022
Expiry date	15/08/2025	15/08/2025	15/08/2026	15/08/2027
Expected life of rights (years)	3	3	4	5
Underlying share price	\$0.085	\$0.085	\$0.085	\$0.085
Value per right	\$0.085	\$0.085	\$0.085	\$0.085
Commencement of performance / vesting period	Date of issue			
Performance measurement / vesting date	On satisfaction of relevant Vesting Condition			
Number of rights issued	26,000,000	28,500,000	28,500,000	28,500,000
Value of rights	\$2,210,000	\$2,422,500	\$2,422,500	\$2,422,500
Amount expensed during half year	\$278,266	\$2,422,500	\$228,819	\$183,081

12 CONTINGENT LIABILITIES AND CONTINGENT ASSETS

As at 31 December 2022, there were no contingent liabilities or contingent assets.

Notes to the financial statements

13 GAIN ON DEMERGER OF SUBSIDIARY

Demerger – Gold-Copper Projects (31 December 2021 Half Year)

On 2 September 2021, shareholders approved:

- the sale the subsidiaries which owned of the Devil's Canyon Gold-Copper Project, the Western Desert Gold-Copper Project and the Lone Pine Gold Copper Project (together the "Gold-Copper Projects") to Diablo Resources Limited ("Diablo") for consideration of 40,000,000 fully paid shares in Diablo;
- the reduction in share capital of the Company without cancelling any shares by the market value of the 40,000,000 Diablo shares; and
- that the reduction be satisfied by the Company distributing and transferring the 40,000,000 Diablo Shares to the shareholders of the Company on a pro rata basis.

The transaction was completed on 6 October 2021 and Diablo was admitted to the Official List of the ASX on 12 October 2021, following the successful completion of an initial public offering raising \$6.5 million before costs.

Following the demerger, the Company is a US focussed lithium company, with the Big Sandy and Lordsburg Projects. Corporately, the Company retains its board, management team and cash holdings.

The Gold-Copper Projects were demerged with their explorations assets and no debt.

The Group recognised a net fair value gain on demerger as follows:

	31 December 2021 \$
Fair value of Gold-Copper Projects demerger ⁽ⁱ⁾	6,682,224
Carrying value of net assets	(286,054)
Net fair value gain	<u>6,396,170</u>

⁽ⁱ⁾ The fair value of the Diablo demerger is based on the first five trading days after the demerger date volume weighted average price ("VWAP") of Diablo (\$0.1671) multiplied by the number of Diablo shares issued (40,000,000 ordinary shares). The demerger distribution is accounted for as a reduction in equity, split between share capital of \$5,895,320 and accumulated losses of \$786,904. The amount treated as a reduction in share capital has been calculated by reference to the market value of the Company's shares and the market value of Diablo's shares post demerger. The difference between the fair value of the distribution and the capital reduction amount is the demerger dividend.

Directors' declaration

In accordance with a resolution of the Directors of Arizona Lithium Limited, we state that:

- 1) In the opinion of the Directors:
 - a) the interim financial statements and supplementary notes, are in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the financial position of the Group as at 31 December 2022 and of its performance, as represented by the results of its operations and its cash flows, for the period ended on that date; and
 - (ii) complying with Accounting Standards AASB 134: *Interim Financial Reporting and the Corporations Regulations 2001*; and
 - b) there are reasonable grounds to believe that Arizona Lithium Limited will be able to pay its debts as and when they become due and payable.
- 2) The Directors have been given the declarations required by section s.303(5) of the *Corporations Act 2001*.

Signed in accordance with a resolution of the Directors:



Mr Barnaby Egerton-Warburton

Non-Executive Chairman

Dated this 15th day of March 2023

Independent Auditor's Review Report

To the Members of Arizona Lithium Limited

Report on the half year financial report

Conclusion

We have reviewed the accompanying half year financial report of Arizona Lithium Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 31 December 2022, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half year ended on that date, a description of accounting policies, other selected explanatory notes, and the directors' declaration.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the accompanying half-year financial report of Arizona Lithium Limited does not comply with *Corporations Act 2001* including:

- a giving a true and fair view of Arizona Lithium Limited's financial position as at 31 December 2022 and of its performance for the half year ended on that date; and
- b complying with Accounting Standard AASB 134 *Interim Financial Reporting and the Corporations Regulations 2001*.

Basis for Conclusion

We conducted our review in accordance with ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*. Our responsibilities are further described in the Auditor's Responsibilities for the Review of the Financial Report section of our report. We are independent of the Company 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 (including Independence Standards)* (the Code) that are relevant to our audit of the annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

Material uncertainty related to going concern

We draw attention to Note 1 in the financial report, which states that on 14th March 2023, the shareholders of the Company approved the acquisition of Prairie Lithium Corporation by the issue of 500,000,000 ordinary shares in the Company or exchangeable shares and cash consideration of A\$43,956,044 to the shareholders of Prairie Lithium Corporation. The impact of this acquisition is the Group's cash reserves will be reduced to A\$5 million on a pro-forma basis after inclusion of the cash acquired in the Prairie acquisition. As stated in Note 1, these events or conditions along with other matters as set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our conclusion is not modified in respect of this matter.

Directors' responsibility for the half-year financial report

The Directors of the Company are responsible for the preparation of the half-year 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 half-year financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 31 December 2022 and its performance for the half-year ended on that date, and complying with Accounting Standard AASB 134 *Interim Financial Reporting and the Corporations Regulations 2001*.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

GRANT THORNTON AUDIT PTY LTD
Chartered Accountants

B P Steedman
Partner – Audit & Assurance
Perth, 15 March 2023