



Consolidated Financial Statements

(Expressed in Canadian dollars)

Six months ended June 30, 2018 and year ended December 31, 2017



INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Standard Lithium Ltd.

We have audited the accompanying consolidated financial statements of Standard Lithium Ltd. which comprise the consolidated statements of financial position as at June 30, 2018 and December 31, 2017, and the consolidated statements of comprehensive loss, changes in equity and cash flows for the six months ended June 30, 2018 and the year ended December 31, 2017, and the related notes comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Standard Lithium Ltd. as at June 30, 2018 and December 31, 2017, and its financial performance and its cash flows for the six months ended June 30, 2018 and the year ended December 31, 2017 in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 in the consolidated financial statements which indicates the existence of a material uncertainty that may cast significant doubt on the ability of Standard Lithium Ltd. to continue as a going concern.

Manning Elliott LLP

CHARTERED PROFESSIONAL ACCOUNTANTS
Vancouver, British Columbia
October 26, 2018

STANDARD LITHIUM LTD.

Consolidated Statements of Financial Position

As at June 30, 2018 and December 31, 2017

Expressed in Canadian dollars

	June 30, 2018	December 31, 2017
ASSETS		
Current assets		
Cash	\$ 13,513,182	\$ 4,067,672
Receivables	105,445	51,922
Prepaid expenses	1,029,104	390,434
	14,647,731	4,510,028
Non-current assets		
Reclamation deposit (Note 6)	82,509	78,825
Exploration and evaluation assets (Note 4)	16,190,343	7,885,906
Deposit on mineral property (Note 5)	-	125,800
	16,272,852	8,090,531
TOTAL ASSETS	\$ 30,920,583	\$ 12,600,559
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities (Note 9)	\$ 683,407	\$ 1,050,201
EQUITY		
Share capital (Note 8)	45,187,983	25,709,682
Reserves (Note 8)	9,847,553	7,437,154
Deficit	(25,076,922)	(21,331,831)
Accumulated other comprehensive gain (loss)	278,562	(264,647)
TOTAL EQUITY	30,237,176	11,550,358
TOTAL LIABILITIES AND EQUITY	\$ 30,920,583	\$ 12,600,559

Nature and Continuance of Operations (Note 1)

Commitments (Notes 4 and 14)

Subsequent Events (Note 15)

Approved by the Board of Directors and authorized for issue on October 26, 2018.

"Robert Mintak"

Director

"Dr. Andrew Robinson"

Director

The accompanying notes are an integral part of these consolidated financial statements.

STANDARD LITHIUM LTD.

Consolidated Statements of Comprehensive Loss

Six months ended June 30, 2018 and year ended December 31, 2017

Expressed in Canadian Dollars

	June 30, 2018	December 31, 2017
Administrative Expenses		
Advertising and investor relations	\$ 451,736	\$ 1,247,543
Consulting fees (Note 9)	329,843	873,179
Corporate development	26,000	355,000
Filing and transfer agent	69,744	87,454
Foreign exchange gain	(21,467)	(101,306)
Management fees (Note 9)	481,674	436,135
Office and administration	104,129	175,471
Professional fees	76,994	125,332
Property investigation	-	240,482
Share-based payment (Notes 8 and 9)	1,488,695	7,591,832
Research and development	625,301	246,718
Travel	112,442	184,314
Loss from operations before other items	(3,745,091)	(11,462,154)
Other items		
Write-off of mineral property (Note 4)	-	(8,441,085)
Gain on settlement of convertible debenture (Note 7)	-	(7,329)
Interest and accretion expense (Note 7)	-	(1,288)
Net loss before other comprehensive loss	(3,745,091)	(19,911,856)
Other comprehensive loss		
Items that may be reclassified subsequently to income or loss:		
Currency translation differences of foreign operations	543,209	(264,647)
Total comprehensive loss	\$ (3,201,882)	\$(20,176,503)
Weighted average number of common shares		
outstanding – basic and diluted	64,039,725	53,388,658
Basic and diluted loss per share	\$ (0.06)	\$ (0.37)

The accompanying notes are an integral part of these consolidated financial statements.

STANDARD LITHIUM LTD.

Consolidated Statements of Changes in Equity

Six months ended June 30, 2018 and year ended December 31, 2017

Expressed in Canadian dollars

	Number of shares	Share capital	Share subscriptions received	Equity portion of convertible debenture	Reserves	Deficit	Accumulated Other Comprehensive Gain (Loss)	Total
Balance, December 31, 2016	21,760,083	\$ 4,783,187	\$ 235,250	\$ 48,162	\$ 37,364	\$ (1,419,975)	\$ -	\$ 3,683,988
Share-based payment	-	-	-	-	7,591,832	-	-	7,591,832
Settlement of debenture	3,000,000	750,000	-	(48,162)	-	-	-	701,838
Shares issued for cash, net of costs	27,606,072	11,553,634	(235,250)	-	-	-	-	11,318,384
Shares issued for exploration and evaluation assets	7,750,000	8,173,569	-	-	-	-	-	8,173,569
Warrants exercised	225,000	56,250	-	-	-	-	-	56,250
Stock options exercised	650,000	393,042	-	-	(192,042)	-	-	201,000
Net loss for the year	-	-	-	-	-	(19,911,856)	-	(19,911,856)
Currency translation differences for foreign operations	-	-	-	-	-	-	(264,647)	(264,647)
Balance, December 31, 2017	60,991,155	25,709,682	-	-	7,437,154	(21,331,831)	(264,647)	11,550,358
Share-based payment	-	-	-	-	1,488,695	-	-	1,488,695
Shares issued for cash, net of costs	10,622,205	18,064,245	-	-	1,212,260	-	-	19,276,505
Warrants exercised	1,300,000	325,000	-	-	-	-	-	325,000
Stock options exercised	214,216	509,056	-	-	(290,556)	-	-	218,500
Shares issued for exploration and evaluation assets	400,000	580,000	-	-	-	-	-	580,000
Net loss for the period	-	-	-	-	-	(3,745,091)	-	(3,745,091)
Currency translation differences for foreign operations	-	-	-	-	-	-	543,209	543,209
Balance, June 30, 2018	73,527,576	\$ 45,187,983	\$ -	\$ -	\$ 9,847,553	\$ (25,076,922)	\$ 278,562	\$ 30,237,176

The accompanying notes are an integral part of these consolidated financial statements.

STANDARD LITHIUM LTD.

Consolidated Statements of Cash Flows

Six months ended June 30, 2018 and year ended December 31, 2017

Expressed in Canadian Dollars

	June 30, 2018	December 31, 2017
Cash flows from (used in) operating activities		
Net loss	\$ (3,745,091)	\$ (19,911,856)
Add items not affecting cash		
Write-off of mineral property	-	8,441,085
Share-based payment	1,488,695	7,591,832
Interest and accretion expense	-	1,335
Gain on settlement of convertible debenture	-	7,329
Net changes in non-cash working capital items to operations:		
Receivables	(53,523)	(49,100)
Prepaid expenses	(638,670)	(390,434)
Accounts payable and accrued liabilities	197,616	(92,060)
Net cash used in operating activities	(2,750,973)	(4,401,869)
Cash flows used in investing activities		
Exploration and evaluation expenditures	(7,623,522)	(3,187,671)
Deposit paid on mineral property	-	(125,800)
Reclamation deposit	-	(78,825)
Net cash used in investing activities	(7,623,522)	(3,392,296)
Cash flows from financing activities		
Proceeds from the issuance of shares, net of costs	19,276,505	11,318,384
Exercise of warrants	325,000	56,250
Exercise of stock options	218,500	201,000
Net cash from financing activities	19,820,005	11,575,634
Net change in cash	9,445,510	3,781,469
Cash, beginning of year	4,067,672	286,203
Cash, end of year	\$ 13,513,182	\$ 4,067,672
Supplemental Cash Flow Information		
Interest paid	-	-
Income taxes paid	1,022	-

Non-Cash Transactions (Note 13)

The accompanying notes are an integral part of these consolidated financial statements.

STANDARD LITHIUM LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2018 AND YEAR ENDED DECEMBER 31, 2017

(Expressed in Canadian Dollars)

1. Nature and Continuance of Operations

Standard Lithium Ltd. (the “Company”) was incorporated under the laws of the Province of British Columbia on August 14, 1998 under the name Tango Capital Corp. On April 7, 1999, the Company changed its name to Patriot Capital Corp. and to Patriot Petroleum Corp. effective March 5, 2002. On December 1, 2016 the Company continued under the Canadian Business Corporations Act and changed its name to Standard Lithium Ltd. The Company’s principal operations are comprised of exploration for and development of lithium brine properties in the United States of America (“USA”).

The address of the Company’s corporate office and principal place of business is 835, 1100 Melville Street, Vancouver, British Columbia, Canada, V6E 4A6. The Company’s shares are listed on the TSX Venture Exchange under the symbol “SLL”.

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) on a going concern basis, which presume the realization of assets and discharge of liabilities in the normal course of business for the foreseeable future. The Company has no sources of revenue and as at June 30, 2018 had an accumulated deficit of \$25,076,922 (December 31, 2017 - \$21,331,831). These matters raise significant doubt regarding the Company’s ability to continue as a going concern. The Company’s ability to continue as a going concern is dependent upon its ability to raise equity financings. These consolidated financial statements do not include any adjustments to the amounts and classification of assets and liabilities that might be necessary should the Company be unable to continue in business.

2. Basis of Presentation

a) Statement of compliance

These consolidated financial statements have been prepared in accordance with IFRS as issued by the International Accounting Board (“IASB”). These consolidated financial statements have been prepared on the basis of IFRS standards that are effective for the Company’s fiscal year, the six months ended June 30, 2018.

b) Basis of consolidation

The consolidated financial statements of the Company include the accounts of the Company and its wholly owned subsidiaries. On February 21, 2017, the Company acquired Moab Minerals Corp. and its wholly owned subsidiary 1093905 Nevada Corp. Moab Minerals Corp. was incorporated under the British Columbia Business Corporations Act and 1093905 Nevada Corp. was incorporated in the State of Nevada, USA. On March 17, 2017, the Company incorporated California Lithium Ltd. in the State of Nevada, USA. On June 13, 2017, the Company acquired Vernal Minerals Corp. and its wholly owned subsidiary Arkansas Lithium Corp. Vernal Minerals Corp. was incorporated under the British Columbia Business Corporations Act and Arkansas Lithium Corp. was incorporated in the State of Nevada, USA. All significant inter-company balances and transactions have been eliminated upon consolidation.

STANDARD LITHIUM LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2018 AND YEAR ENDED DECEMBER 31, 2017

(Expressed in Canadian Dollars)

2. Basis of Presentation - continued

c) Functional and presentation currency

Items included in the consolidated financial statements of the Company and its wholly owned subsidiaries are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The functional currency of the Company and its Canadian subsidiaries, Moab Minerals Corp. and Vernal Minerals Corp. is the Canadian dollar. The functional currency of 1093905 Nevada Corp., California Lithium Ltd. and Arkansas Lithium Corp. is the United States dollar.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the date of transaction. Foreign currency gains and losses resulting from the settlement of such transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are included in profit and loss.

The results and financial position of a subsidiary that has a functional currency different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities are translated at the closing rate at the reporting date;
- Income and expenses for each income statement are translated at average exchange rates for the period; and
- All resulting exchange differences are recognised in other comprehensive income as cumulative translation adjustments.

On consolidation, exchange differences arising from the translation of the net investment in foreign entity is taken to accumulated other comprehensive loss. When a foreign operation is sold, such exchange differences are recognized in profit or loss as part of the gain or loss on sale.

d) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for financial assets classified as fair value through profit or loss which are stated at their fair value.

In addition, these consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

e) Critical accounting estimates and judgments

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities and contingent liabilities as at the date of the financial statements, and the reported amount of revenues and expenses during the reporting period. Estimates and judgments are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

STANDARD LITHIUM LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2018 AND YEAR ENDED DECEMBER 31, 2017

(Expressed in Canadian Dollars)

2. Basis of presentation - continued

e) Critical accounting estimates and judgments - continued

Significant accounting judgments that management has made in the process of applying accounting policies and that have the most significant effect on the amounts recognized in the consolidated financial statements include, but are not limited to:

- (i) *Determination of categories of financial assets and financial liabilities*
The determination of categories of financial assets and financial liabilities has been identified as an accounting policy involving assessments and judgments made by management.
- (ii) *Recoverability of exploration and evaluation assets*
The application of the Company's accounting policy for exploration and evaluation assets requires judgment in determining whether future economic benefits will flow to the Company, which may be based on assumptions about future events or circumstances. Estimates and assumptions made may change if new information becomes available. If, after expenditures are capitalized, information becomes available suggesting impairment, the amount capitalized is written off in the profit or loss in the period the new information becomes available.
- (iii) *Going concern assumption*
As described in Note 1, management uses its judgement in determining whether the Company is able to continue as a going concern.

The key sources of estimation uncertainty that have a significant risk of causing material adjustment to the amounts recognized in the financial statements are as follows:

- (i) *Deferred income taxes*
Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and the level of future taxable income realized, including the usage of tax planning strategies.
- (ii) *Share-based payment transactions*
The Company measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the share option, volatility and dividend yield and making assumptions about them. The assumptions and models used for estimating the fair value for share-based payment transactions are disclosed in Note 8.

STANDARD LITHIUM LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2018 AND YEAR ENDED DECEMBER 31, 2017

(Expressed in Canadian Dollars)

3. Significant Accounting Policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements and have been applied consistently by the Company.

a) Impairment of non-financial assets

Non-financial assets are evaluated at least annually by management for indicators that carrying value is impaired and may not be recoverable. When indicators of impairment are present, the recoverable amount of an asset is evaluated at the level of a cash generating unit ("CGU"), the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or group of assets, where the recoverable amount of the CGU is the greater of the CGU's fair value less costs to sell and its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments to the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset or CGU is estimated to be less than its carrying amount, the carrying amount of the asset or CGU is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss.

Where an impairment loss subsequently reverses for assets with a finite useful life, the carrying amount of the asset or CGU is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset or CGU in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

b) Income taxes

Tax expense comprises current and deferred tax. Tax is recognized in income except to the extent it relates to items recognized in other comprehensive income or directly in equity.

Current tax expense is based on the results for the period as adjusted for items that are not taxable or not deductible. Current tax is calculated using tax rates and laws that were enacted or substantively enacted at the end of the reporting period.

Deferred tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts. Deferred tax is calculated using tax rates and laws that have been enacted or substantively enacted at the end of the reporting period, and which are expected to apply when the related deferred tax asset is realized or the deferred tax liability is settled.

STANDARD LITHIUM LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2018 AND YEAR ENDED DECEMBER 31, 2017

(Expressed in Canadian Dollars)

3. Significant Accounting Policies - continued

b) Income taxes – continued

Deferred tax liabilities are generally recognized for all taxable temporary differences. However, deferred tax liabilities are not recognized for taxable temporary differences arising on investments in subsidiaries where the reversal of the temporary difference can be controlled and it is probable that the difference will not reverse in the foreseeable future, or on temporary differences that arise from goodwill which is not deductible for tax purposes. Deferred tax assets are recognized to the extent it is probable that taxable profits will be available against which the deductible temporary differences can be utilized. Deferred tax assets are reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred tax assets and liabilities are not recognized in respect of temporary differences that arise on initial recognition of assets and liabilities acquired other than in a business combination.

c) Convertible debenture

Convertible debentures are classified separately into financial liability and equity components in accordance with the substance of the contractual agreement. At the date of issue, the fair value of the liability component is estimated using a discount rate that would have been applicable to non-convertible debt. This amount is recorded as a liability on an amortized cost basis until extinguished upon conversion or repayment. The equity component is determined by deducting the amount of the liability component from the face value of the convertible debenture as a whole. This is recognized and included in equity, net of income tax effects, and is not subsequently remeasured.

d) Earnings per share

Basic earnings per share ("EPS") is calculated by dividing profit or loss attributable to ordinary equity holders (numerator) by the weighted average number of ordinary shares outstanding (denominator) during the period. The denominator is calculated by adjusting the shares issued at the beginning of the period by the number of shares bought back or during the period, multiplied by a time-weighting factor.

Diluted EPS is calculated by adjusting the earnings and number of shares for the effects of dilutive options and other dilutive potential units. The effects of anti-dilutive potential units are ignored in calculating diluted EPS. All options and warrants are considered anti-dilutive when the Company is in a loss position.

e) Share-based payments

The Company has an equity-settled share purchase stock option plan. Share-based payments to employees are measured at the fair value of the instruments issued and are amortized over the vesting period, which is the period over which all of the specific vesting conditions are satisfied. For awards with graded vesting, the fair value of each tranche is recognized over its respective vesting period.

Share-based payments to non-employees are measured at the fair value of goods or services received, or the fair value of the equity instruments issued, if it is determined the fair value of the goods or services cannot be reliably measured, and are recorded at the date the goods or services are received. The offset to the recorded cost is to stock options reserve. Consideration received on the exercise of stock options is recorded as share capital and the related stock options reserve is transferred to share capital. Upon expiry the recorded value is transferred to deficit.

STANDARD LITHIUM LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2018 AND YEAR ENDED DECEMBER 31, 2017

(Expressed in Canadian Dollars)

3. Significant Accounting Policies – continued

e) Share-based payments – continued

Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also charged to profit or loss over the remaining vesting period.

Where a grant of options is cancelled and settled during the vesting period, excluding forfeitures when vesting conditions are not satisfied, the Company immediately accounts for the cancellation as an acceleration of vesting and recognizes the amount that otherwise would have been recognized for services received over the remainder of the vesting period. Any payment made to the employee on the cancellation is accounted for as the repurchase of an equity interest except to the extent the payment exceeds the fair value of the equity instrument granted, measured at the repurchase date. Any such excess is recognized as an expense.

f) Financial instruments

The Company adopted IFRS 9 in its consolidated financial statements on January 1, 2018. Due to the nature of its financial instruments, the adoption of IFRS 9 had no impact on the opening deficit balance on January 1, 2018. The impact on the classification and measurement of its financial instruments is set out below.

The following table summarizes the classification and measurement changes under IFRS 9 for each financial instrument:

Financial Instrument	Original classification under IAS 39	New classification under IFRS 9
Cash	Fair value through profit or loss ("FVTPL")	FVTPL
Accounts payable	Other liabilities	Amortized cost

The original carrying value of the Company's financial instruments under IAS 39 has not changed under IFRS 9.

Financial assets

The Company classifies its financial assets into the following categories, depending on the purpose for which the asset was acquired. Management determines the classification of its financial assets at initial recognition.

Amortized cost

Amortized cost are those assets which are held within a business whose objective is to hold financial assets to collect contractual cash flows; and the terms of the financial assets must provide on specified dates cash flows solely through the collection of principal and interest.

Fair value through other comprehensive income ("FVOCI")

FVOCI assets are those assets which are held within a business whose objective is achieved by both collecting contractual cash flows and selling financial assets; and the contractual terms of the financial assets give rise on specified dates to cash flows solely through the collection of principal and interest.

STANDARD LITHIUM LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2018 AND YEAR ENDED DECEMBER 31, 2017

(Expressed in Canadian Dollars)

3. Significant Accounting Policies – continued

f) Financial instruments - continued

FVTPL

A financial asset shall be measured at fair value through profit or loss unless it is measured at amortized cost or FVOCI. The Company may however make the irrevocable option to classify particular investments as FVTPL.

All financial instruments are initially recognized at fair value on the consolidated statement of financial position. Subsequent measurement of financial instruments is based on their classification. Financial assets and liabilities classified at FVTPL are measured at fair value with changes in those fair values recognized in the consolidated statement of loss and comprehensive loss for the year. Financial assets classified at amortized cost are measured at amortized cost using the effective interest method.

Financial assets are de-recognized when the contractual rights to the cash flows from the financial asset expire or when the contractual rights to those assets are transferred.

Financial liabilities

Management determines the classification of its financial liabilities at initial recognition.

Amortized cost

The Company classifies all financial liabilities as subsequently measured at amortized cost using the effective interest method, except for financial liabilities carried at FVTPL and certain other exceptions.

Financial liabilities are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

g) Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received net of direct issuance costs.

The Company uses the residual value method with respect to the measurement of common shares and share purchase warrants issued as units. The proceeds from the issue of units is allocated between common shares and share purchase warrants where the fair value of the common shares is based on the market value on the announcement date and the balance, if any, is allocated to the attached warrants.

STANDARD LITHIUM LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2018 AND YEAR ENDED DECEMBER 31, 2017

(Expressed in Canadian Dollars)

3. Significant Accounting Policies - continued

h) Leases

Leases in terms of which the Company assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset. Leases in terms of which the Company does not assume substantially all the risks and rewards of ownership are classified as operating leases, which are recognised as an expense on a straight-line basis over the lease term.

i) Exploration and Evaluation Expenditures

General exploration and evaluation ("E&E") expenditures incurred prior to acquiring the legal right to explore are charged to profit or loss as incurred. E&E expenditures incurred subsequent to acquisition of the legal right to explore, including license and property acquisition costs, geological and geophysical expenditures, costs of drilling exploratory wells and directly attributable overhead including salaries and employee benefits, are initially capitalized as E&E assets. E&E assets are not depleted and are moved into property, plant and equipment when they are determined to meet certain technical feasibility and commercial viability thresholds as determined by management. Upon transfer to property, plant and equipment, E&E assets are assessed for impairment in addition to regular impairment reviews to ensure they are not carried at amounts above their estimated recoverable values.

E&E assets are assessed for impairment at the cash-generating unit level when there are indicators of impairment. The Company considers the following to be indicators of impairment:

- (a) the period for which the entity has the right to explore in the specific area has expired during the period or will expire in the near future, and is not expected to be renewed;
- (b) substantive expenditure on further exploration for and evaluation of mineral resources in the specific area is neither budgeted nor planned;
- (c) exploration for and evaluation of mineral resources in the specific area have not led to the discovery of commercially viable quantities of mineral resources and the entity has decided to discontinue such activities in the specific area; and
- (d) sufficient data exist to indicate that, although a development in the specific area is likely to proceed, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale.

j) Research and development expenditures

Research expenditures are expensed in the period incurred. Product development expenditures are expensed in the period incurred unless the product under development meets specific criteria related to technical, market and financial feasibility for deferral and amortization. The Company's policy is to amortize deferred product development expenditures over the expected future life of the product once product revenues or royalties are recorded. No product development expenditures have been deferred to date.

STANDARD LITHIUM LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2018 AND YEAR ENDED DECEMBER 31, 2017

(Expressed in Canadian Dollars)

3. Significant Accounting Policies – continued

k) Changes in accounting standards

New accounting standards adopted effective January 1, 2018

IFRS 9 Financial Instruments

The Company adopted IFRS 9, “Financial Instruments: Classification and Measurement” effective for January 1, 2018. The Company adopted IFRS 9 retrospectively, without restatement of prior year consolidated financial statements. IFRS 9 replaces the provisions of IAS 39, “Financial Instruments: Recognition and Measurement” (“IAS 39”) that relate to the recognition, classification, and measurements of financial assets and financial liabilities, derecognition of financial instruments and impairment of financial assets. IFRS 9 uses a single approach to determine whether a financial asset is classified and measured at amortized cost or fair value. The approach in IFRS 9 is based on how the Company manages its financial instruments and the contractual cash flow characteristics of the financial asset. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward in IFRS 9. The effect of the Company’s adoption of IFRS 9 is described in Note 3 (f).

IFRS 15 Revenue from Contracts with Customers

The Company adopted IFRS 15, “Revenue from Contracts with Customers” effective for January 1, 2018. The adoption of this standard did not have any impact on the Company’s consolidated financial statements as the Company does not have any revenue.

STANDARD LITHIUM LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2018 AND YEAR ENDED DECEMBER 31, 2017

(Expressed in Canadian Dollars)

3. Significant Accounting Policies - continued

k) Changes in accounting standards - continued

Accounting standards issued but not yet effective:

Standards issued, but not effective, up to the date of issuance of the Company's consolidated financial statements are listed below. This listing of standards and interpretations issued are those that the Company reasonably expects to have an impact on disclosures, financial position or performance when applies at a future date. The following new standards, amendments and interpretations have not been early adopted in these consolidated financial statements and are not expected to have a material effect on the Company's future results and financial position:

New accounting standards effective for annual periods on or after January 1, 2019:

IFRS 16 Leases

IFRS 16 was issued in January 2016 and specifies how a company will recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with the approach to lessor accounting substantially unchanged from its predecessor, IAS 17.

New accounting standards effective for annual periods on or after January 1, 2019:

IFRIC 23 Uncertainty over Income Tax Treatments

IFRIC 23, Uncertainty over Income Tax Treatments, provides guidance on the accounting for current and deferred tax liabilities and assets in circumstances in which there is uncertainty over income tax treatments. The Interpretation is applicable for annual periods beginning on or after June 1, 2019. Earlier application is permitted. The Interpretation requires: (a) an entity to contemplate whether uncertain tax treatments should be considered separately, or together as a group, based on which approach provides better predictions of the resolution; (b) an entity to determine if it is probable that the tax authorities will accept the uncertain tax treatment; and (c) if it is not probable that the uncertain tax treatment will be accepted, measure the tax uncertainty based on the most likely amount or expected value, depending on whichever method better predicts the resolution of the uncertainty.

STANDARD LITHIUM LTD.

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4. Exploration and Evaluation Assets

	California Property \$	Paradox Property \$	Arkansas Property \$	Total \$
Acquisition costs:				
Balance, December 31, 2016	3,989,705	-	-	3,989,705
Acquisition of property	1,316,250	8,449,939	1,258,000	11,024,189
Claim maintenance fees	97,734	-	-	97,734
Impairment	-	(8,449,939)	-	(8,449,939)
Balance, December 31, 2017	5,403,689	-	1,258,000	6,661,689
Acquisition of property	723,157	-	4,372,434	5,095,591
Effect of movement in foreign exchange rates	13,408	-	191,194	204,602
Balance, June 30, 2018	6,140,254	-	5,821,628	11,961,882
Exploration Costs:				
Balance, December 31, 2016	-	-	-	-
Geophysical exploration	116,749	-	-	116,749
Surveying	115,736	-	-	115,736
Test pits	56,648	-	-	56,648
Site management	82,185	-	-	82,185
Other exploration costs	717,267	6,676	385,038	1,108,981
Effect of movement in foreign exchange rates	(249,406)	(15,530)	-	(264,936)
Impairment	-	8,854	-	8,854
Balance, December 31, 2017	839,179	-	385,038	1,224,217
Site management	152,826	-	-	152,826
Other exploration costs	1,669,003	-	785,192	2,454,195
Effect of movement in foreign exchange rates	355,450	-	41,773	397,223
Balance, June 30, 2018	3,016,458	-	1,212,003	4,228,461
Balance, December 31, 2017	6,242,868	-	1,643,038	7,885,906
Balance, June 30, 2018	9,156,712	-	7,033,631	16,190,343

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4. Exploration and Evaluation Expenditures - continued

California Property

On August 11, 2016, the Company entered into an option purchase and assignment agreement (the "Option Purchase Agreement") with TY & Sons Explorations (Nevada), Inc. ("TY & Sons") and Nevada Alaska Mining Company Inc. ("Nevada Mining"), pursuant to which the Company will acquire all of TY & Sons' right, title and interest in a property option agreement between TY & Sons and Nevada Mining, as property owner (the "Underlying Option Agreement"). Under the Underlying Option Agreement, TY & Sons has the option (the "Option") to acquire from Nevada Mining an interest in the California Property (collectively, the "Option Purchase"), which comprises mineral claims situated in San Bernardino County, California. The transaction, having received the approval of the TSX Venture Exchange, closed on November 17, 2016. As consideration, the Company issued 14,000,000 common shares of the Company and paid certain costs incurred to TY & Sons.

In order to exercise the Option pursuant to the terms of the Underlying Option Agreement, the Company will be required to pay the total sum of US\$325,000 and issue an aggregate of 2,500,000 common shares to Nevada Mining as follows:

- US\$125,000 on closing of the Option Purchase Agreement (paid)
- US\$50,000 on or before July 7, 2017 (paid)
- US\$50,000 on or before July 7, 2018 (paid)
- US\$50,000 on or before July 7, 2019
- US\$50,000 on or before July 7, 2020
- Issue 500,000 common shares on closing of the Option Purchase Agreement (issued)
- Issue 500,000 common shares on or before October 1, 2017 (issued)
- Issue 500,000 common shares on or before October 1, 2018 (issued)
- Issue 500,000 common shares on or before October 1, 2019
- Issue 500,000 common shares on or before October 1, 2020

The property is subject to a 2.5% net smelter return royalty on commercial production from the mineral claims, in favour of Nevada Mining, of which 1.0% may be repurchased for US\$1,000,000 on or before July 7, 2019. The property is also subject to an additional 0.5% net smelter returns royalty applicable to any after acquired properties in the area of interest stipulated by the Option Purchase Agreement, also in favour of Nevada Mining.

On May 1, 2017, the Company signed a Property Lease Agreement with National Chloride Company of America ("National Chloride") for rights to an adjacent property to the California Property, with approximately 12,290 acres. Under this Property Lease Agreement, the Company paid US\$25,000 at signing of a Letter of Intent and will be required to pay the total sum of US\$1,825,000 and issue an aggregate of 1,700,000 common shares of the Company to National Chloride as follows:

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4. Exploration and Evaluation Expenditures - continued

California Property – continued

- US\$25,000 on the Purchase Agreement date (paid)
- US\$50,000 on or before November 24, 2017 (paid)
- US\$100,000 on or before May 24, 2018 (paid)
- US\$100,000 on or before May 24, 2019
- US\$100,000 on or before May 24, 2020
- US\$100,000 on or before May 24, 2021
- US\$100,000 on or before May 24, 2022
- US\$250,000 upon successful completion of a pre-feasibility study
- US\$1,000,000 upon successful completion of a bankable feasibility study

- Issue 100,000 common shares on the closing date (issued)
- Issue 100,000 common shares on or before November 24, 2017 (issued)
- Issue 200,000 common shares on or before May 24, 2018 (issued)
- Issue 200,000 common shares on or before May 24, 2019
- Issue 200,000 common shares on or before May 24, 2020
- Issue 200,000 common shares on or before May 24, 2021
- Issue 200,000 common shares on or before May 24, 2022
- Issue 500,000 common shares successful completion of a pre-feasibility study

It is expressly agreed that the “Leased Rights” are limited to lithium exploration and production activities and operations. The Company will pay a two percent royalty on gross revenue derived from the properties to National Chloride, subject to a minimum annual royalty payment of US\$500,000. On September 1, 2017, the Property Lease Agreement was amended to include an additional approximately 6,000 acres adjacent to the 12,290 acres. The amendment agreement continues all the economic terms of the previous lease agreement with National Chloride, with the additional requirement that the Company will be responsible for ongoing carrying costs associated with the additional claims. A payment of \$56,873 (US\$44,805) was made to the Bureau of Land Management, Department of the Interior (“BLM”) for these carrying costs.

On April 23, 2018 the Company entered into an exploration and option agreement (“EOA”), with TETRA Technologies, Inc., to secure access to additional operating and permitted land consisting of approximately 12,100 acres in Bristol Dry Lake, and up to 11,840 acres in the adjacent Cadiz Dry Lake, Mojave Desert, California. The EOA with TETRA allows for the exclusive right to negotiate and conduct exploration activities and to enter into a mineral lease to allow exploration and production activities for lithium extraction on property held under longstanding mining claims and permits by TETRA.

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4. Exploration and Evaluation Expenditures - continued

California Property – continued

In connection with the entering into of the EOA, the Company made a non-refundable deposit of \$131,680 (US\$100,000) (See Note 5), and will be required to pay the total sum of US\$2,700,000 and issue an aggregate of 3,400,000 common shares of the Company to TETRA Technologies, Inc. as follows:

- US\$100,000 initial payment on April 23, 2018 (paid)
 - US\$200,000 on or before April 23, 2019
 - US\$200,000 on or before April 23, 2020
 - US\$200,000 on or before April 23, 2021
 - US\$200,000 on or before April 23, 2022
 - US\$200,000 on or before April 23, 2023
 - US\$500,000 upon successful completion of a pre-feasibility study
 - US\$1,000,000 upon successful completion of a bankable feasibility study
-
- Issue 200,000 common shares on April 23, 2018 (issued)
 - Issue 200,000 common shares on or before October 23, 2018
 - Issue 400,000 common shares on or before April 23, 2019
 - Issue 400,000 common shares on or before April 23, 2020
 - Issue 400,000 common shares on or before April 23, 2021
 - Issue 400,000 common shares on or before April 23, 2022
 - Issue 400,000 common shares on or before April 23, 2023
 - Issue 1,000,000 common shares successful completion of a pre-feasibility study

On November 1, 2017, the Company entered into a share purchase agreement to acquire all of the outstanding share capital of a privately held British Columbia based mineral exploration company (the “Vendor”) which holds the rights to a series of 54 prospective mineral claims located in San Bernardino County, California.

In consideration for the acquisition of the Vendor, the Company will issue 1,000,000 common shares, and will assume responsibility for all outstanding liabilities of the Vendor. Closing of the acquisition remains subject to the final approval of the TSX Venture Exchange, as well as certain other conditions as are customary in transactions of this nature. All common shares issued in connection with the acquisition will be subject to a four-month-and-one-day hold period in accordance with the policies of the TSX Venture Exchange. Subsequent to June 30, 2018, the Company decided to not complete the transaction and the Company has no further obligations or liabilities to the Vendor.

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4. Exploration and Evaluation Expenditures – continued

Paradox Property

On February 2, 2017, the Company entered into a share purchase agreement to acquire all of the outstanding share capital of Moab Minerals Corp. (“Moab”), a privately-held British Columbia-based mineral exploration company. Moab holds the rights to the Paradox Project (“Paradox”), which consists of 2,175 placer claims, covering an area of approximately 43,335 acres, in the Paradox basin in Grand and San Juan counties in the State of Utah. In consideration for the claims Moab is required to pay the vendor US\$380,850 (paid) and US\$250,000 on each of the 12, 18, and 24 months anniversaries from the effective date of the purchase agreement between Moab and the vendor.

In consideration for the acquisition of the share capital of Moab, the Company issued 6,850,000 common shares and has assumed responsibility for all outstanding liabilities of Moab. In addition, the Company paid a finders’ fee of 200,000 common shares to an arm’s length third-party who assisted in facilitating the acquisition. The transaction was approved by the TSX Venture Exchange and the common shares were issued on February 21, 2017. The value of the common shares of Moab acquired less the liabilities assumed, totalling \$8,449,939 has been attributed to the underlying Paradox surface rights held by Moab. On August 31, 2017, the Company dropped the Paradox Property and terminated the purchase agreement with the vendor. The Company recorded a write-off of mineral property of \$8,441,085. The Company has no further obligations or liabilities in relation to the Paradox Property.

Arkansas Property

On July 26, 2017, the Company entered into a Memorandum of Understanding (MOU) with a non-affiliated NYSE-listed company (the “Vendor”) with regard to an option to acquire certain rights to conduct brine exploration and production and lithium extraction activities on approximately 33,000 net brine acres located in Columbian and Lafayette Counties, Arkansas. At signing of the MOU, a non-refundable deposit of \$614,150 (US\$500,000) was made with additional fees and payment obligations in the future if the option is executed and exercised, and subject to certain conditions.

On December 29, 2017, the Company entered into an Option Agreement to proceed with the transaction (the “Agreement Date”). Under this Option Agreement, the Company will be required to make payments to the Vendor as follows:

- US\$500,000 before January 28, 2018 (paid)
- An additional US\$600,000 on or before December 29, 2018
- An additional US\$700,000 on or before December 29, 2019
- An additional US\$750,000 on or before December 29, 2020
- Additional annual payments of US\$1,000,000 on or before each annual anniversary of the Agreement Date, beginning with that date that is 48 months following the Agreement Date, until the earlier of the expiration of the Exploratory Period or, if the Optionee exercises the Option, the Optionee beginning payment of the Royalty.

During the Lease Period, at any time following the commencement of Commercial Production, the Company agreed to pay a Royalty of 2.5% of gross revenue (minimum Royalty US\$1,000,000) to the underlying owner.

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4. Exploration and Evaluation Expenditures – continued

Arkansas Property - continued

On May 4, 2018 the Company entered into a Memorandum of Understanding (“MOU”), with LANXESS Corporation (“LANXESS”) with the purpose of testing and proving the commercial viability of extraction of lithium from brine that is produced as part of LANXESS’ bromine extraction business at its three southern Arkansas facilities. The MOU sets out the basis on which the parties have agreed to cooperate in a phased process towards developing commercial opportunities related to the production, marketing and sale of battery grade lithium products extracted from tail brine and brine produced from the Smackover Formation. The MOU forms the basis of what will become a definitive agreement and is binding until the execution of a more comprehensive agreement that the parties may execute on the completion of further development phases. Standard Lithium has paid an initial \$3,834,000 (US\$3,000,000) reservation fee to LANXESS to secure access to the tail brine, with an additional US\$3,000,000 fee due upon completion of certain development phases.

5. Deposit on mineral property

On October 23, 2017, the Company entered into a Memorandum of Understanding (“MOU”) with TETRA Technologies, Inc. and in connection with entering into the MOU, made a non-refundable deposit of \$125,800 (US\$100,000). On April 23, 2018, the Company entered into an EOA (as described in Note 4) with TETRA and upon entering into the EOA the non-refundable deposit was reclassified from deposit on mineral property to exploration and evaluation assets.

6. Reclamation deposit

On September 6, 2017, the Company paid \$82,509 (US\$62,659) for a reclamation bond to the Bureau of Land Management (“BLM”) with respect to the exploration trenching and drilling on Bristol Dry Lake (Note 4). This amount was determined by the BLM to be sufficient to meet all anticipated reclamation requirements.

7. Convertible Debenture

During the year ended December 31, 2017, the Company issued 3,000,000 common shares of the Company to convert a \$750,000 convertible debenture, resulting in a gain on settlement of convertible debenture of \$7,329. Upon settlement, \$48,162 was removed from the Equity portion of convertible debenture. Interest expense of \$1,288 was incurred during the year ended December 31, 2017.

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8. Share Capital

a) Authorized capital

Unlimited number of common voting shares without nominal or par value

Unlimited number of preferred shares without par value issued in one or more series

73,527,576 common shares were issued and outstanding at June 30, 2018.

On January 13, 2017 the Company closed a private placement comprising of 17,120,600 common shares issued at a price of \$0.25 per share for gross proceeds of \$4,280,150.

On January 13, 2017, the Company issued 3,000,000 common shares to convert \$750,000 of convertible debentures (See Note 7).

On February 21, 2017, the Company issued 7,050,000 shares with a fair value of \$7,050,000 to acquire Moab Minerals Corp (See Note 4).

On May 24, 2017, the Company issued 100,000 common shares with a fair value of \$90,000 to National Chloride (See Note 4).

On June 22, 2017, the Company closed a private placement comprising of 9,894,785 common shares issued at a price of \$0.75 per share for gross proceeds of \$7,421,089. The Company paid finder's fees of \$74,841 in cash and issued 590,687 common shares with a fair value of \$443,015 in conjunction with the private placement.

On October 1, 2017, the Company issued 500,000 common shares with a fair value of \$775,000 to Nevada Alaska Mining Company Inc. (See Note 4).

On November 27, 2017, the Company issued 100,000 common shares with a fair value of \$267,000 to National Chloride (See Note 4).

During the year ended December 31, 2017, the Company issued a total of 650,000 common shares for the exercise of stock options. The Company received proceeds of \$201,000 and re-classified \$192,042 from Stock option reserve to Share capital upon exercise.

During the year ended December 31, 2017, the Company issued a total of 225,000 common shares for the exercise of share purchase warrants. The Company received proceeds of \$56,250 upon exercise.

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8. Share Capital - continued

a) Authorized capital - continued

On February 16, 2018, the Company closed a brokered private placement and issued 10,312,821 units of the Company at a price of \$2.10 per unit, for gross proceeds of \$21,656,924. Each unit consists of one common share of the Company and one-half of one common share purchase warrant. Each full warrant is exercisable to acquire one common share of the Company at an exercise price of \$2.60 for a period of two years. The Company paid finder's fees of \$2,165,692 in cash, issued 309,384 common shares with a fair value of \$609,486 and granted 721,897 compensation options ("Broker option") at a fair value of \$1,212,260. Each Broker option is exercisable for one unit until February 16, 2020 at an exercise price of \$2.10 per unit. Each unit consists of one common share of the Company and one-half of one common share purchase warrant. Each full warrant is exercisable to acquire one common share of the Company at an exercise price of \$2.60 for a period of two years.

On May 1, 2018, the Company issued 200,000 common shares with a fair value of \$286,000 to National Chloride (See Note 4).

On May 29, 2018, the Company issued 200,000 common shares with a fair value of \$294,000 to TETRA Technologies. Inc. (See Note 4).

During the six months ended June 30, 2018, the Company issued a total of 214,216 common shares for the exercise of stock options. The Company received proceeds of \$218,500 and re-classified \$290,556 from Reserves to Share capital upon exercise.

During the six months ended June 30, 2018, the Company issued a total of 1,300,000 common shares for the exercise of share purchase warrants. The Company received proceeds of \$325,000 upon exercise.

b) Warrants

Warrant transactions are summarized as follows:

	Number of warrants	Weighted average exercise price
Balance at December 31, 2016	5,000,000	\$ 0.25
Exercised	(225,000)	0.25
Balance at December 31, 2017	4,775,000	0.25
Issued	5,156,411	2.60
Exercised	(1,300,000)	0.25
Balance at June 30, 2018	8,631,411	\$ 1.65

The weighted average contractual life of the warrants outstanding is 2.13 years.

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8. Share Capital - continued

c) Options

The Company has a stock option plan in place under which it is authorized to grant options to officers, directors, employees, consultants and management company employees enabling them to acquire up to 10% of the issued and outstanding common stock of the Company. Under the plan, the exercise price of each option shall not be less than the price permitted by any stock exchange. The options can be granted for a maximum term of 10 years.

On March 3, 2017, the Company granted 4,290,000 stock options to directors, officers and consultants of the Company at an exercise price of \$1.05 per share for a period of 5 years. 1,430,000 of these options vested immediately, 1,430,000 of these options vested one year after the grant date and 1,430,000 of the options vested two years after the grant date.

On April 21, 2017, the Company cancelled 3,040,000 stock options and recognized the amount of share-based payments that would have been recognized for services received over the remainder of the vesting period.

On June 16, 2017, the Company granted 2,590,000 stock options to directors, officers and consultants of the Company at an exercise price of \$0.96 per share for a period of 5 years. 863,333 of these options vested immediately, 863,333 vested six months after the date of grant and 833,334 of the options vest one year after the date of grant.

On August 9, 2017, the Company granted 825,000 options to consultants of the Company at an exercise price of \$1.02 per share for a period of 3 years. 275,000 of these options vested immediately, 275,000 of the options vested six months after the date of grant and 275,000 of these options vested one year after the date of grant.

On February 16, 2018, in conjunction with the closing of the Company's private placement the Company granted 721,897 stock options at an exercise price of \$2.10 for a period of two years with all of the stock options vesting immediately on the grant date (See Note 8(a)).

On February 21, 2018, the Company granted 500,000 stock options to directors, officers and consultants of the Company at an exercise price of \$2.10 for a period of five years with all of the stock options vesting immediately on the date of grant.

The weighted average fair value at grant date of options granted during the six months ended June 30, 2018 was \$2.08 per option (December 31, 2017: \$1.15). The fair value was determined using the Black-Scholes option-pricing model using the following weighted average assumptions:

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8. Share Capital - continued

c) Options - continued

	June 30, 2018	December 31, 2017
Expected stock price volatility	180%	147%
Risk-free interest rate	1.88%	1.23%
Dividend yield	-	-
Expected life of options	3.2 years	4.8 years
Stock price on date of grant	\$2.08	\$1.27
Forfeiture rate	-	-

Stock option transactions are summarized as follows:

	Number of options	Weighted average exercise price
Balance at December 31, 2016	600,000	\$ 0.25
Options granted	7,705,000	1.02
Options exercised	(650,000)	0.31
Options cancelled	(3,040,000)	1.05
Balance at December 31, 2017	4,615,000	0.99
Options granted	1,221,897	2.10
Options exercised	(214,216)	1.02
Options forfeited	(50,000)	1.02
Balance at June 30, 2018	5,572,681	\$ 1.24

The following table summarizes stock options outstanding and exercisable at June 30, 2018:

Options Outstanding			Options Exercisable		
Exercise Price \$	Number of Shares	Weighted Average Remaining Contractual Life (years)	Exercise Price \$	Number Exercisable	Weighted Average Exercise Price \$
1.05	1,250,000	3.68	1.05	833,334	1.05
0.96	2,590,000	3.96	0.96	2,590,000	0.96
1.02	510,784	2.11	1.02	340,523	1.02
2.10	721,897	1.63	2.10	721,897	2.10
2.10	500,000	4.65	2.10	500,000	2.10
	5,572,681	3.49	1.24	4,985,754	1.26

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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9. Related Party Transactions

Key management personnel are persons responsible for planning, directing and controlling the activities of the entity, and include directors and officers of the Company.

Compensation to key management is comprised of the following:

	June 30, 2018	December 31, 2017
Consulting and management fees	\$ 481,674	\$ 636,432
Share-based payments	480,710	4,042,118
	\$ 962,384	\$ 4,678,550

As at June 30, 2018 there is \$152,555 (December 31, 2017: \$99,696) in accounts payable and accrued liabilities owing to officers of the Company.

These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties, unless otherwise noted. Amounts due to/from the related parties are non-interest bearing, unsecured and have no fixed terms of repayment.

10. Income Taxes

Income tax expense (recovery) varies from the amount that would be computed from applying the combined Canadian federal and provincial income tax rate to income before taxes as follows:

	June 30, 2018	December 31, 2017
Net loss for the year before taxes	\$ (3,745,091)	\$ (19,911,856)
Statutory Canadian corporate tax rate	27.00%	26.00%
Anticipated tax recovery	\$ (1,011,100)	\$ (5,177,083)
Non-deductible items and other differences	(639,909)	2,152,049
Change in income tax rates	-	(140,905)
Difference in foreign income tax rates	-	(88,553)
Change in unrecognized tax benefits	1,651,009	3,254,492
Actual income tax provision (recovery)	\$ -	\$ -

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10. Income Taxes - continued

The significant components of the Company's deferred tax assets (liabilities) are as follows:

	June 30, 2018	December 31, 2017
Petroleum and natural gas interests	\$ 61,047	\$ 61,047
Mineral property interests	1,812,091	1,263,047
Non-capital loss carry forwards	2,814,986	2,348,542
Share issue costs	767,287	131,766
	5,455,411	3,804,402
Unrecognized deferred tax assets	(5,455,411)	(3,804,402)
Net deferred income tax assets	\$ -	\$ -

At June 30, 2018, the Company has available non-capital tax losses for Canadian income tax purposes of approximately \$9,700,000, available for carry-forward to reduce future years' taxable income, if not utilized, expiring between 2031 and 2038. At June 30, 2018, the Company has available non-capital tax losses for United States income tax purposes of approximately \$960,000, available for indefinite carry-forward to reduce future years' taxable income.

11. Capital Management

The Company considers its capital structure to include shareholders' equity. Management's objective is to ensure that there is sufficient capital to minimize liquidity risk and to continue as a going concern. Management reviews its capital management approach on an ongoing basis and believes that its approach, given the relative size of the Company is reasonable.

The Company is not subject to any external restrictions and the Company did not change its approach to capital management during the year.

12. Financial instruments and financial risk management

The fair value of financial instruments is the amount of consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act. Fair values are determined by reference to quoted market prices, as appropriate, in the most advantageous market for that instrument to which the Company has immediate access. In the absence of an active market, fair values are determined based on prevailing market rates for instruments with similar characteristics.

The fair value of current financial instruments approximates their carrying value as they are short term in nature.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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12. Financial instruments and financial risk management - continued

Financial instruments that are held at fair value are categorised based on a valuation hierarchy which is determined by the valuation methodology utilised:

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is as prices) or indirectly (that is, derived from prices).

Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

There were no transfers between Levels 1, 2 or 3 for the periods ended June 30, 2018 and December 31, 2017.

The following table sets forth the Company's financial assets measured at fair value by level within the fair value hierarchy:

June 30, 2018	Level 1	Level 2	Level 3	Total
Cash	\$13,513,182	\$ -	\$ -	\$13,513,182

December 31, 2017	Level 1	Level 2	Level 3	Total
Cash	\$ 4,067,672	\$ -	\$ -	\$ 4,067,672

The Company's Board of Directors has the overall responsibility for the establishment and oversight of the Company's risk management framework. The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and in response to the Company's activities. Management regularly monitors compliance with the Company's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Company.

In the normal course of operations, the Company is exposed to various risks such as commodity, interest rate, credit, and liquidity risk. To manage these risks, management determines what activities must be undertaken to minimize potential exposure to risks. The objectives of the Company in managing risk are as follows:

- maintaining sound financial condition;
- financing operations; and
- ensuring liquidity to all operations.

In order to satisfy these objectives, the Company has adopted the following policies:

- recognize and observe the extent of operating risk within the business;
- identify the magnitude of the impact of market risk factors on the overall risk of the business and take advantage of natural risk reductions that arise from these relationships.

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12. Financial instruments and financial risk management – continued

(i) Interest rate risk

The Company does not have any financial instruments which are subject to interest rate risk.

(ii) Credit risk

Credit risk is the risk of loss if counterparties do not fulfill their contractual obligations and arises principally from trade receivables. The Company does not have any financial instruments which are subject to credit risk.

(iii) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they come due. The Company manages this risk by careful management of its working capital to ensure its expenditures will not exceed available resources. As at June 30, 2018, the Company has a working capital surplus of \$13,964,324 (December 31, 2017 – \$3,459,827).

(iv) Foreign Exchange Risk

Currency risk is the risk to the Company's earnings that arises from fluctuations of foreign exchange rates and the degree of volatility of these rates. The Company does not use derivative instruments to reduce its exposure to foreign currency risk. The Company is exposed to currency risk through the following assets and liabilities denominated in US dollars:

	June 30, 2018	December 31, 2017
Cash	\$ 88,007	\$ 2,149,356
Accounts payable	(407,421)	(688,097)

At June 30, 2018, US Dollar amounts were converted at a rate of USD 1.00 to CAD 1.3168. A 10% increase or decrease in the US Dollar relative to the Canadian Dollar would result in a change of approximately \$29,000 in the Company's comprehensive loss for the year.

13. Non-Cash Transactions

Non-cash Financing and Investing Activities	2018 \$	2017 \$
Shares issued for exploration and evaluation assets	580,000	8,173,569
Shares issued for finder's fees	609,486	443,015
Exploration and evaluation expenditures included in accounts payable	309,312	823,722

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14. Commitments

On November 1, 2017, the company entered into a commercial property lease that will expire on October 31, 2020. The future minimum rental payments under the non-cancelable operating lease as at June 30, 2018:

	Period ended June 30, 2018
2020	\$ 99,833
2020	99,833
2021	33,278
	<u>\$ 232,944</u>

15. Subsequent Events

On July 9, 2018, the Company granted 300,000 stock options to a consultant of the Company at an exercise price of \$1.21 per share for a period of five years with 75,000 of these stock options vesting every three months from the date of grant.

On September 4, 2018, the Company granted 2,000,000 stock options to directors, officers and consultants of the Company at an exercise price of \$1.40 per share for a period of five years with all of the stock options vesting immediately on the date of grant.

Subsequent to June 30, 2018, a total of 350,000 warrants were exercised for proceeds of \$87,500 and the Company issued 350,000 common shares.