

28 March 2017

Market Announcements Office
Australian Securities Exchange
Level 4, 20 Bridge Street
SYDNEY NSW 2000

Dear Sir/Madam

LEPIDICO LTD – TARGET'S STATEMENT

In accordance with item 14 of section 633(1) of the *Corporations Act 2001* (Cth), we attach a copy of the Target's Statement of Lepidico Ltd (ACN 008 894 442) (ASX: LPD) (**Lepidico**) dated 28 March 2017 in relation to the off-market takeover bid by Lithium Australia NL (ACN 126 129 413) (**LIT**) for all of the ordinary shares in Lepidico (**Target's Statement**).

A copy of the Target's Statement has been given to each of the Australian Securities and Investments Commission and LIT today.

Yours faithfully



Shontel Norgate
Joint Company Secretary

Lepidico Ltd

ACN 008 894 442

Target's Statement

This Target's Statement has been issued in response to the off-market takeover bid made by Lithium Australia NL (ACN 126 129 413) (**Lithium Australia** or **LIT**) for all of the fully paid ordinary shares in Lepidico Ltd (**Lepidico**), which Lithium Australia does not already own or control.

Lepidico's Directors unanimously recommend that you **REJECT** the Offer and **TAKE NO ACTION**

The Independent Expert has concluded that the Offer is **NEITHER FAIR NOR REASONABLE** to Lepidico Shareholders

STEINEPREIS PAGANIN
Lawyers & Consultants



BACCHUS
Capital Advisers

Legal Adviser

Corporate Adviser

IMPORTANT INFORMATION

This is an important document that should be read in its entirety. If you do not understand it you should consult your professional advisers without delay.

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KEY DATES

Date of Lithium Australia's Offer	16 March 2017
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Date of this Target's Statement	28 March 2017
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Close of Offer Period (unless extended or withdrawn)	midnight (AWST) on 18 April 2017
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ENQUIRIES

Lepidico Shareholders may call Lepidico's information line on 1300 048 130 for callers within Australia or on +61 3 9415 4656 for callers outside Australia, if they have any queries in relation to the Offer. The information line will be open between 9:00am and 5:00pm (Melbourne time) Monday to Friday. Calls to Lepidico's information line may be recorded.

Further information relating to the Offer can be obtained from the ASX website (ASX Code: LPD) at www.asx.com.au or from Lepidico's website at www.lepidico.com.

IMPORTANT NOTICES

Nature of this document

This is a Target's Statement issued by Lepidico under Part 6.5 Division 3 of the Corporations Act in response to the off-market takeover bid made by Lithium Australia for all of the fully paid ordinary shares in Lepidico.

ASIC lodgement

This Target's Statement is dated 28 March 2017 and was lodged with ASIC and given to ASX on that date. Neither ASIC, nor ASX, nor any of their respective officers take any responsibility for the contents of this Target's Statement.

Defined terms

A number of defined terms are used in this Target's Statement. These terms are explained in section 10 of this Target's Statement. In addition, unless the contrary intention appears or the context requires otherwise, words and phrases used in this Target's Statement and defined in the Corporations Act have the same meaning and interpretation as in the Corporations Act.

No account of personal circumstances

This Target's Statement does not take into account your individual objectives, financial situation or particular needs. It does not contain personal advice. Your Lepidico Directors encourage you to seek independent financial and taxation advice before making a decision as to whether or not to accept the Offer.

Disclaimer as to forward looking statements

Some of the statements appearing in this Target's Statement (including in the Independent Expert's Report) may be in the nature of forward looking statements. You should be aware that such statements are only predictions and are subject to inherent risks and uncertainties. Those risks and uncertainties include factors and risks specific to the industry in which Lepidico operates as well as general economic conditions, prevailing exchange rates and interest rates and conditions in the financial markets. Actual events or results may differ materially from the events or results expressed or implied in any forward looking statement.

None of Lepidico, Lepidico's officers and employees, any persons named in this Target's Statement with their consent, or any person involved in the preparation of this Target's Statement, makes any representation or warranty (express or implied) as to the accuracy or likelihood of fulfilment of any forward looking statement, or any events or results expressed or implied in any forward looking statement, except to the extent required by law. You are cautioned not to place undue reliance on any forward looking statement. The forward looking statements in this Target's Statement (including in the Independent Expert's Report) reflect views held only as at the date of this Target's Statement.

Disclaimer as to information

The information on Lithium Australia contained in this Target's Statement has been prepared by Lepidico using publicly available information. The information in this Target's Statement concerning Lithium Australia, has not been independently verified by Lepidico. Accordingly, Lepidico does not, subject to the Corporations Act, make any representation or warranty (express or implied) as to the accuracy or completeness of such information.

Foreign jurisdictions

The release, publication or distribution of this Target's Statement in jurisdictions other than Australia may be restricted by law or regulation in such other jurisdictions and persons who come into possession of it should seek advice on and observe any such restrictions. Any failure to comply with such restrictions may constitute a violation of applicable laws or regulations.

This Target's Statement has been prepared in accordance with Australian law and the information contained in this Target's Statement may not be the same as that which would have been disclosed if this Target's Statement had been prepared in accordance with the laws and regulations outside of Australia.

Privacy

Lepidico has collected your information from its register of members for the purpose of providing you with this Target's Statement. The type of information Lepidico has collected about you includes your name, contact details and information on your shareholding or option holding (as applicable) in Lepidico. Without this information, Lepidico would be hindered in its ability to issue this Target's Statement. The Corporations Act requires the name and address of Lepidico Shareholders to be held in a public register. Your information may be disclosed on a confidential basis to Lepidico's Related Bodies Corporate and external service providers (such as the share registry of Lepidico and print and mail service providers) and may be required to be disclosed to regulators such as ASIC and the ASX. If you would like details of information about you held by Lepidico, please contact the Company. Calls to the Company may be recorded.

REASONS TO REJECT THE UNSOLICITED, CONDITIONAL AND INADEQUATE SCRIP TAKEOVER OFFER FROM LITHIUM AUSTRALIA

Further detail on each of these summarised points can be found in section 1 of this Target's Statement

1. LITHIUM AUSTRALIA'S RATIONALE IS **FLAWED**

YOUR DIRECTORS BELIEVE THAT A COMBINATION OF LEPIDICO AND LITHIUM AUSTRALIA MAKES NO SENSE AND MAY LEAD TO SIGNIFICANT DETERIORATION IN THE VALUE OF YOUR COMPANY

- You are owners of Lepidico, a Company with a straightforward strategy to leverage its registered L-Max[®] Technology to become the **leading low-cost producer of lithium from an alternative source, the lithium-micas**. This sound, clearly articulated strategy differentiates Lepidico from its peers and is being delivered on the back of the **excellent Phase 1 L-Max[®] Plant Pre-Feasibility Study results and the planned Definitive Feasibility Study**.
- Lithium Australia's proposal to "fast-track L-Max[®] and Sileach[™]" to become a **'one-stop-shop' solution for lithium extraction and production is a cliché**. Attempting to **advance two new process technologies at the same time with no cashflow is unrealistic and high risk**, while prioritising the development of one process technology at the expense of the other will lead to Shareholder **value destruction and diminished market support**.
- Lithium Australia's statement that "a combined group provides access to the synergies of both L-Max[®] and Sileach[™]" is **unsupported by fact**. Combining the technologies will provide **no synergistic benefits to Lepidico Shareholders**, rather it simply appears to be a deliberate distraction by Lithium Australia in pursuit of attempted value creation for their own shareholders. **Such a combination will defocus the well-conceived L-Max[®] strategy and expose Lepidico's Shareholders to new risks**.
- One of Lithium Australia's assets is the agreement with Lepidico over L-Max[®] licences, which is reflected in its market value. **This component of Lithium Australia's market value has no value to a Lepidico Shareholder who already owns the L-Max[®] Technology**.

Your Board sees no strategic merit in the proposed combination of Lepidico and Lithium Australia, and views the Offer as a tactic by Lithium Australia borne out of desperation and frustration with its own prospects.

2. LITHIUM AUSTRALIA'S BUSINESS MODEL IS **FLAWED**

LITHIUM AUSTRALIA'S ALL SCRIP OFFER EXPOSES YOU TO SUBSTANTIAL RISKS AND CONCERNS ASSOCIATED WITH LITHIUM AUSTRALIA'S BUSINESS MODEL

- Lepidico is concerned that Lithium Australia is **overstating the potential commercial viability of Sileach[™]** which is still at a scoping study stage. Further, Lithium Australia has admitted its testwork program had to be terminated due to "**mechanical and material handling issues**".
- Lithium Australia has advised that a product of Sileach[™] is hexafluorosilicic acid, thereby **confirming Lepidico's concerns the halogen that Lithium Australia is using in its reagent suite is fluorine**. Concentrated

hexafluorosilicic acid is highly toxic and may cause considerable materials handling and process design challenges.

- In order to make a fully informed decision on the value of the Offer, **further information on the Sileach™ process needs to be disclosed by Lithium Australia to Lepidico's Shareholders** to assess its potential commercial viability, including the type and concentrations of reagents and catalysts used and recoveries achieved in producing lithium carbonate from spodumene concentrate. This information has been requested by Lepidico but has yet to be provided by Lithium Australia.

The management of Lithium Australia is not providing you with information vital for understanding the commercialisation potential of Sileach™. This is clearly inappropriate when simultaneously asking you to accept Lithium Australia Shares in exchange for your Lepidico Shares.

3. LITHIUM AUSTRALIA'S INTENTIONS ARE **FLAWED**

YOU SHOULD NOT HAND CONTROL OF YOUR COMPANY TO A NEW MANAGEMENT TEAM WITH NO CLEAR STRATEGY

- If the takeover is successful, Lithium Australia intends to replace the Lepidico Board with its own directors, thus **ensuring the loss of your Directors expertise and most importantly the loss of the valuable skill set developed specific to the L-Max® Technology.**
- Lepidico's existing Board and executive management team has **extensive experience in building listed mining companies from humble beginnings:** most notably LionOre Mining International Ltd and PanAust Ltd.
- Lithium Australia has provided no information as to the executive management team to which it will entrust the development of L-Max®.

Lepidico Shareholders should not entrust their investment to the Lithium Australia team. Lithium Australia's intentions with respect to your Company are short-sighted, ill conceived, and risk significantly undermining the value you should receive from your Company which your Directors can deliver.

4. LITHIUM AUSTRALIA'S OFFER IS **FLAWED**

LITHIUM AUSTRALIA'S OFFER IS CONDITIONAL AND INADEQUATE IN A NUMBER OF MATERIAL RESPECTS

- Lithium Australia's Offer is materially **below the Independent Expert's valuation of a Lepidico Share**, which BDO has assessed to be between **\$0.016 to \$0.021 per Lepidico Share, with a preferred value of \$0.018.**
- Further, **BDO considers the value of 13.25 Lepidico Shares to be between \$0.212 and \$0.278, with a preferred value of \$0.239;** as of 24 March 2017, **Lithium Australia's Share price was only \$0.135.**
- Accordingly, the Independent Expert has concluded that **Lithium Australia's Offer is NEITHER FAIR NOR REASONABLE.**
- Lithium Australia's Offer for your Lepidico Shares, as at 24 March, is **32.1% BELOW Lepidico's Share price;** this is **before** allowing for an **appropriate**

premium for control to apply to a takeover offer for your Company which BDO, the Independent Expert, has assessed to be between **30% and 40%**.

- **Lepidico's Shares have consistently traded above the implied Offer price every day** following the day of Lithium Australia's announcement on 6 February 2017; further, **Lepidico's Share price has significantly outperformed Lithium Australia's share price over the past six months.**
- **If you accept the Offer, you may lose control of your Lepidico Shares and not receive any consideration in return** for up to 12 months.

Your Directors believe that the Lithium Australia Offer for your Lepidico Shares is NEITHER FAIR NOR REASONABLE and this view is supported by the Independent Expert's opinion.

5. LITHIUM AUSTRALIA'S APPROACH IS **FLAWED**

THE OFFER IS UNSOLICITED AND DOES NOT HAVE THE SUPPORT OF LEPIDICO'S MAJOR SHAREHOLDER

- Despite Lithium Australia's statement that "Major Shareholders back the Lithium Australia bid", Lepidico's **major shareholder**, Strategic Metallurgy, which has a relevant interest in 17.34% of Lepidico, has written to the Company advising its current **intention to REJECT the Offer.**
- Lithium Australia has not set a minimum acceptance condition for its Offer and is not bidding for any Lepidico Options. If you accept Lithium Australia's Offer and it is not successful in acquiring all of Lepidico's Shares, **you will lose direct exposure to Lepidico's straightforward strategy to become the leading low-cost producer of lithium.**

Lithium Australia's bid is unsolicited, unwelcome and unnecessary.

Your Company has a clear strategy to become a leading producer of low cost, battery grade lithium carbonate from non-conventional sources.

Lepidico does not need Lithium Australia or its Sileach™ Technology to deliver on this strategy.

Therefore, your Directors unanimously recommend that you REJECT Lithium Australia's unsolicited, conditional and inadequate Offer and TAKE NO ACTION.

28 March 2017

Dear Shareholder,

TAKE NO ACTION AND REJECT LITHIUM AUSTRALIA'S UNSOLICITED, CONDITIONAL AND INADEQUATE OFFER

I am writing to you in response to the **unsolicited, conditional and inadequate scrip takeover offer** announced by Lithium Australia NL (**Lithium Australia, LIT or Bidder**) to acquire all of the Shares in Lepidico that it does not already own or control (**Lithium Australia's Offer**).

Under the Offer, Lepidico Shareholders are being offered one (1) LIT Share for every thirteen and one quarter (13.25) Lepidico Shares. The Offer period commenced on 16 March 2017 and will close at midnight (AWST) on 18 April 2017, unless extended or withdrawn.

Your Directors unanimously recommend you REJECT the Offer and TAKE NO ACTION.

BDO, the Independent Expert, has concluded that Lithium Australia's Offer is NEITHER FAIR NOR REASONABLE to Lepidico's Shareholders

Lepidico's major shareholder, Strategic Metallurgy, which holds a relevant interest in 17.34% of Lepidico, has written to the Company advising that it currently intends to REJECT the Offer.

This Target's Statement sets out your Directors' response to the Offer and contains their recommendation, reasons for that recommendation, and other important information you should consider when deciding whether to accept or reject the Offer.

As a Lepidico Shareholder, you own part of an exciting company focused on exploration, development and production of lithium, utilising a metallurgical process technology that it owns outright. The L-Max[®] Process has the potential to disrupt the lithium market by producing low cost, battery grade lithium carbonate from non-conventional sources, specifically lithium rich mica minerals including lepidolite and zinnwaldite. Your Company has completed a Pre-Feasibility Study for a Phase 1 L-Max[®] Plant, and has recently committed to undertake a Definitive Feasibility Study upon securing additional finance, with production targeted for 2019.

On 16 March 2017, the Company announced a pro-rata, non-renounceable entitlement offer of Lepidico Shares on the basis of one (1) new Lepidico Share for every four (4) Lepidico Shares held by eligible Lepidico Shareholders on the record date (21 March 2017) at an issue price of \$0.013 per new Lepidico Share. The proceeds of the Entitlement Offer, along with the Company's existing cash reserves, will be used to commence the Definitive Feasibility Study, including certain exploration activities, and for other working capital requirements. If sufficient proceeds are raised from the Entitlement Offer, the Company will then use these proceeds to accelerate additional activities on its exploration prospects. Further details on the Entitlement Offer are set out in section 7.7 of this Target's Statement.

Your Board has carefully considered Lithium Australia's Offer and believes that the Offer of one (1) LIT Share for every thirteen and one quarter (13.25) Shares, which as at 24 March 2017 equates to \$0.0102 per Share, is INADEQUATE and SIGNIFICANTLY UNDERVALUES a

Lepidico Share. Accordingly, your Board unanimously recommends that you REJECT the Offer and TAKE NO ACTION. Furthermore, Lepidico's major shareholder, Strategic Metallurgy, which holds a relevant interest in 17.34% of Lepidico, has written to the Company advising that it currently intends to REJECT the Offer.

Your Directors believe that you should **REJECT** the Offer for the following reasons.

1. Your Directors believe that a combination of Lepidico and Lithium Australia makes no strategic sense and may lead to a significant deterioration in the value of your Company.
2. Lithium Australia's scrip Offer exposes you to substantial risks associated with Lithium Australia's business model.
3. You should not hand control of your Company to a new management team with no clear strategy.
4. Lithium Australia's Offer is conditional and inadequate in a number of material respects.
5. The Offer is unsolicited and does not have the support of your Company's major shareholder.

BDO, the Independent Expert, has also concluded that the Offer is **NEITHER FAIR NOR REASONABLE** to Lepidico's Shareholders.

For the reasons outlined above and elsewhere in this Target's Statement, we recommend that you **REJECT THE OFFER** and **TAKE NO ACTION**. Each of your Directors intends to **REJECT** the Offer in respect of the Lepidico Shares they own or control.

Your Board recommends that you read this Target's Statement in its entirety (including the Independent Expert's Report in Annexure A) and consider the Offer having regard to your own personal risk profile, investment strategy and tax circumstances.

To REJECT the Offer, simply do nothing and TAKE NO ACTION in relation to all documentation and communication sent to you by Lithium Australia.

If you are in doubt as to whether to accept or reject the Offer, you should seek your own independent professional advice.

Your Directors will be closely monitoring the progress of the Offer and will keep Lepidico Shareholders informed of any material developments in relation to the Offer through releases to the ASX (which will also be published on Lepidico's website).

On behalf of all Directors of Lepidico, I thank you for your continued support.

Yours sincerely,



Gary Johnson
Non-Executive Chairman
For and on behalf of
Lepidico Ltd

YOUR DIRECTORS' RECOMMENDATION

After taking into account each of the matters described in this document, in particular the reasons to **REJECT** the Offer set out in section 1 and the Independent Expert's Report included in Annexure A of this Target's Statement, each of your Directors recommends that you **REJECT** Lithium Australia's Offer and **TAKE NO ACTION**.

Details of the interest of your Directors' shareholdings are set out in section 8 of this Target's Statement.

HOW TO REJECT LITHIUM AUSTRALIA'S OFFER

To **REJECT** this unsolicited, conditional and inadequate Offer, **TAKE NO ACTION** by ignoring all documents sent to you by Lithium Australia.

You should read this Target's Statement in full before making any decision, including the detailed reasons why your Directors recommend to **REJECT** the Offer.

If you have any questions in relation to the Offer, please call Lepidico's information line on 1300 048 130 for callers within Australia or on +61 3 9415 4656 for callers outside Australia. The information line will be open from Monday to Friday between 9.00am to 5.00pm (Melbourne time).

If you accept the Offer, you will forfeit the opportunity to benefit if a third party makes a superior proposal. You will not be entitled to the benefit of a superior offer price from a third party if you have already accepted the Offer or have otherwise sold your Lepidico Shares.

Once you have accepted the unsolicited, conditional and inadequate scrip Offer from Lithium Australia, other than in exceptional circumstances, you **CANNOT** withdraw your acceptance. Your Board recommends that you **TAKE NO ACTION** in relation to any material sent to you by Lithium Australia.

1. WHY YOU SHOULD REJECT THE OFFER

In summary, the key reasons why the Lepidico Directors recommend Lepidico Shareholders **REJECT** the Offer are:

1. Your Directors believe that a combination of Lepidico and Lithium Australia makes no sense and may lead to a significant deterioration in the value of your Company.
2. Lithium Australia's all scrip Offer exposes you to substantial risks and concerns associated with Lithium Australia's business model.
3. You should not hand control of your Company to a new management team with no clear strategy.
4. Lithium Australia's Offer is conditional and inadequate in a number of material respects.
5. The Offer is unsolicited and does not have the support of Lepidico's major shareholder.

1.1 YOUR DIRECTORS BELIEVE THAT A COMBINATION OF LEPIDICO AND LITHIUM AUSTRALIA MAKES NO SENSE AND MAY LEAD TO A SIGNIFICANT DETERIORATION IN THE VALUE OF YOUR COMPANY

You are owners of Lepidico, a Company with a straightforward strategy to leverage its registered L-Max[®] Technology to become the leading low-cost producer of lithium from an alternative source, the lithium micas.

In a relatively short period of time, Lepidico has positioned itself to revolutionise the traditional production of lithium. The Company's highly prospective L-Max[®] Technology, which allows for the extraction and recovery of lithium chemicals from lithium bearing micas such as lepidolite and zinnwaldite, is disrupting the established lithium production status quo. These lithium-rich minerals have largely been overlooked as a source of lithium until the advent of L-Max[®] because no commercially viable process existed to recover this metal, which is essential for many new battery technologies.

Lepidico has a clearly articulated strategy, experienced management team and despite the competitive environment for developing disruptive lithium extraction technologies, its perseverance is being rewarded. Lepidico has become a leading player in the development of a new commercial facility to extract lithium from lithium rich micas.

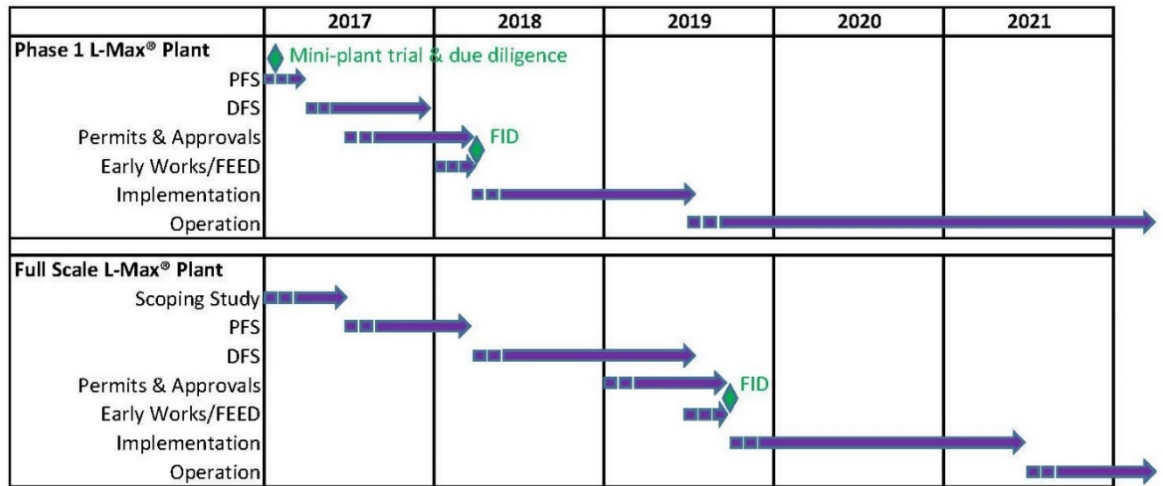
As recently demonstrated through the excellent results from the Phase 1 L-Max[®] Plant PFS, Lepidico is on track to become a low cost lithium carbonate producer by 2019 with the construction of its Phase 1 L-Max[®] Plant.

Unlike Lithium Australia, Lepidico has a clearly articulated strategy which is being delivered on the back of the excellent Phase 1 L-Max[®] PFS results and the planned DFS.

Lepidico's excellent PFS results have confirmed the viability of constructing a strategically located Phase 1 L-Max[®] Plant at Kenora, Ontario in Canada, processing lithium-mica concentrates purchased from third party suppliers.

These positive results have provided the confidence to commit to a DFS, which is expected to take nine months to complete, once additional financing is secured.

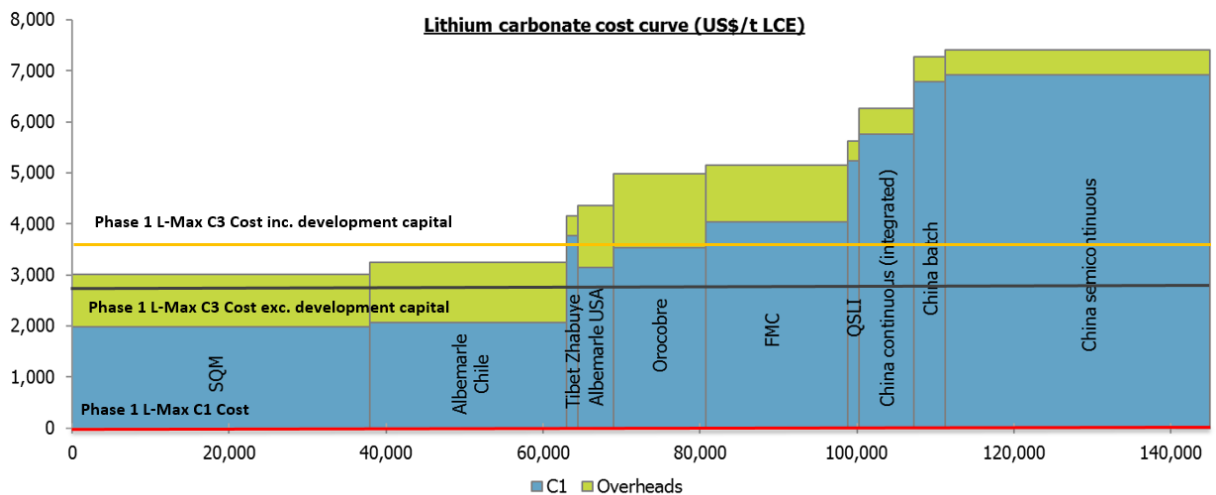
Figure 1: L-Max® Plant Timeline



The PFS and DFS planning parameters confirm that L-Max® provides a low cost lithium processing alternative when the facilities are strategically located close to sources of the major reagents, as well as markets for its by-products. It is also important to note that L-Max® utilises a suite of relatively inexpensive, commonly used reagents.

Capital and operating costs have been estimated using ‘first principle’ assumptions that demonstrate that the Phase 1 L-Max® Plant design, as contemplated in the DFS, should be cost competitive. When taking by-product credits into account the Phase 1 L-Max® Plant should be at the lower end of the lithium carbonate global industry cost curve.

Figure 2: Lithium Carbonate Cost Curve 2016 (Source: Roskill)



A Phase 1 L-Max® Plant strategically located at Kenora, Canada allows for:

1. close proximity to abundant, low-cost sources of bulk consumables, in particular sulphuric acid;
2. a location close to markets for bulk by-products, in particular potassium sulphate fertiliser and sodium silicate;
3. a region with established infrastructure, in particular road, rail and port infrastructure; and

4. close proximity to a skilled labour force with competitive labour rates.

Lithium Australia seeks to transfer this valuable knowledge, progress and value to its own shareholders when Lepidico is achieving critical commercialisation milestones on its own.

Contrary to your Company's impressive progress to date, in your Board's opinion Lithium Australia's Sileach™ technology remains unproven and significantly less advanced than your L-Max® Technology.

While your Directors note that Lithium Australia intends to commercialise Sileach™ in the future, it is notable that Lithium Australia has not yet completed a scoping study, nor does it appear to be close to doing so as it is recently had to terminate a test work program, citing "mechanical and material handling issues".

As Lithium Australia highlights in its Bidder's Statement:

"Lithium Australia is in the process of completing a technical analysis of the data generated to deliver a scoping study at which point a decision will be made whether to proceed to a prefeasibility study for the construction of a large scale pilot facility."

Further, based on the structure of Lithium Australia's Performance Rights set out in the Bidder's Statement, Lithium Australia considers 1 July 2021, over four years from now, to be an acceptable deadline to give itself to complete a "Successful pre-feasibility study on Sileach™". As Lithium Australia's directors own 18,100,000 Performance Rights (George Bauk: 4,525,000; Adrian Griffin: 9,050,000; Bryan Dixon: 4,525,000), it is assumed that they will be compensated with performance shares as long as they complete a successful PFS on Sileach™ before 1 July 2021.

By comparison, Lepidico has already achieved this goal of completing a successful PFS and is planning to undertake a DFS once additional funding is secured.

Your Directors see NO merit in combining L-Max® and Sileach™. Attempting to advance two new process technologies at the same time with no cashflows is unrealistic and high risk.

Your Directors consider Lithium Australia's proposal to "fast-track L-Max® and Sileach™" to become a "single, one-stop-shop solution for lithium extraction and production", is unrealistic and high risk, particularly for a company with no cashflows. Further, Lithium Australia's proposition that a combination of the two companies "provides a cheaper route to commercialisation (looking to build a single pilot plant to test Sileach™ and L-Max® in parallel, rather than two separate plants)" is unsubstantiated. Firstly, taking technology from concept to full scale commercial application is not a trivial task, especially as Lithium Australia seeks to develop these technologies at the same time. Secondly, the ability to finance the development of both technologies in parallel would be challenging and presents a risk that one of these technologies will be prioritised over the other, which will lead to value destruction and diminished market support.

In the Bidder's Statement, Lithium Australia has not described how it is going to deliver upon its own business strategy nor how it intends to integrate Lepidico's business and deliver value for the benefit of shareholders. Lithium Australia has merely disclosed that it plans to combine the commercialisation of Sileach™ and L-Max®, in order to gain synergies in the testing and commercialisation process for both technologies, and create processing plants that can utilise both processing

streams. Your Directors have serious reservations about this approach as there is no evidence of synergies between the two technologies.

It is therefore questionable as to whether Lithium Australia has developed a clear strategy for commercialising Sileach™ or whether the bid for Lepidico is the result of desperation relating to the lack of prospects for the development of their own technology in the short to medium-term.

Lepidico's investor proposition is that it provides Lepidico Shareholders with a singular exposure to a unique flagship technology, L-Max®, offering an alternative to the multitude of existing spodumene exploration and development companies. Lithium Australia intends to dilute this competitive advantage and expose you to its high risk asset portfolio.

Lithium Australia states that "the Combined Group will create a leading diversified lithium company with direct ownership of both L-Max® and Sileach™ and a portfolio of potential hard-rock lithium production interests." However, Lepidico Shareholders have invested in Lepidico for direct exposure to its bedrock technology, L-Max®.

In your Board's view, Lithium Australia lacks a consistent and robust strategy. It has chosen to offer its shareholders a bundle of ever changing strategies and assets, immature technology, and a disparate portfolio of questionable quality exploration assets without demonstrating an ability to commercialise them. Lithium Australia's intentions to combine both companies will dilute your competitive advantage and expose you to a higher risk asset portfolio.

Part of Lithium Australia's market value has no value to a Lepidico Shareholder who already owns the L-Max® Technology.

One of Lithium Australia's assets is its agreement with Lepidico over L-Max® licences, which is also reflected in its market value. The recent completion of the PFS on the Phase 1 L-Max® Plant has enhanced the value of an L-Max® licence. This component of Lithium Australia's market value therefore has no value to a Lepidico Shareholder who already has an interest in the L-Max® Technology.

In the event the Offer results in a change of control of Lepidico, Lepidico Shareholders may lose economic value due to change of control provisions in key commercial arrangements.

On 23 February 2017, Lepidico announced that it had signed a farm-in agreement with Pioneer Resources Limited ("Pioneer") for Lepidico to earn a 75% interest in the 'PEG009' lepidolite prospect located within Pioneer's Pioneer Dome project near Norseman in Western Australia. This agreement represents yet another turning point in Lepidico's journey to become the leading extractor of lithium from lithium rich mica ore. Assuming success, this would represent more than five years of feed for Lepidico's L-Max® plant.

Then, on 20 March 2017, Lepidico announced that it had produced high specification battery grade lithium carbonate, of 99.7% purity, using its L-Max® Technology from samples taken from the PEG009 lepidolite prospect. Exploration at PEG009 will commence immediately following receipt of funds from Lepidico's Entitlement Offer.

Lepidico Shareholders should be aware that Pioneer has a change of control provision in place with Lepidico in this agreement. This provision protects Pioneer from any undesirable aspects associated with a change of control of Lepidico and allows Pioneer to terminate the agreement in this event if they so wish.

Your Board sees no strategic merit in the proposed combination of Lepidico and Lithium Australia, and views the Offer as a tactic by Lithium Australia borne out of desperation and frustration of its own prospects.

1.2 LITHIUM AUSTRALIA'S ALL SCRIP OFFER EXPOSES YOU TO SUBSTANTIAL RISKS AND CONCERNS ASSOCIATED WITH LITHIUM AUSTRALIA'S BUSINESS MODEL

Lepidico is concerned that Lithium Australia is overstating the current commercial viability of Sileach™, which is merely at a scoping stage.

An evaluation of announcements made to the ASX by Lithium Australia over the past year has revealed that in a number of instances information, which is key to understanding the potential commercial viability of Sileach™, has been absent.

It was only after repeated requests by Lepidico that Lithium Australia finally released information on the status of Sileach™ test work on 27 February 2017. In summary, the Sileach™ pilot program on spodumene was announced in December 2016 but only commenced on 30 January 2017 and was terminated on 2 February 2017 due to mechanical and materials handling issues, and at the date of this report had not been recommenced. Further, leach extractions ranged from 62% to 73% and only pregnant liquor was produced (no lithium carbonate product), which is poor by industry standards for a commercially viable process.

Despite this, Lithium Australia has commissioned the design of a large-scale pilot plant based on Sileach™ technology. In your Board's opinion, Lithium Australia's aspirations are clearly out of sync with their technical achievements to date.

Lithium Australia has confirmed that a product of Sileach™ is hexafluorosilicic acid, confirming Lepidico's concerns that the halogen that Sileach™ uses in its reagent suite is fluorine.

Lithium Australia confirmed on 13 March 2017, that a product of the Sileach™ process is hexafluorosilicic acid and that Sileach™ does not use hydrofluoric acid. In your Board's opinion, this disclosure raises more questions than answers. The lithium bearing mineral spodumene does not contain fluorine, therefore this element must be introduced to the Sileach™ process via a reagent.

Furthermore, while hexafluorosilicic acid may be relatively benign at very low concentrations, as is sometimes used in water supplies, at higher concentrations it is extremely toxic. Hexafluorosilicic acid has a median lethal dose value of 430mg/kg, making hexafluorosilicic acid toxic on this measure.

Lithium Australia has provided no information as to the concentrations of hexafluorosilicic acid that Sileach™ produces other than to point out that it is used for fluoridation of domestic water supplies, which while factual may be misleading if significantly higher concentrations occur in its process. Further, it has provided no information as to how it will dispose of or use this product.

In addition, hexafluorosilicic acid is challenging to store and transport, particularly in hot environments such as the Pilbara, as it starts to evaporate and decompose above 20°C, releasing toxic hydrogen fluoride gas which, on contact with

moisture in the air, forms hydrofluoric acid. Hydrofluoric acid is highly toxic and corrosive, having the potential to impose considerable occupational health, safety and environmental challenges in an industrial context.

Despite repeated enquiries to disclose the precise reagent suite employed by Sileach™, Lithium Australia continues to refer to the process as being halogen-based, rather than identifying the actual reagents used. Your Board continues to be concerned that the “reactive elements” referred to by Lithium Australia contain fluorine in a form that is or could become hazardous and toxic and therefore prohibitive to process commercialisation.

Lepidico requests Lithium Australia to disclose the reagent(s) that Sileach™ employs that contain fluorine and the reagent concentrations that are employed. Now that it is known that hexafluorosilicic acid is a product of the Sileach™ process, Lithium Australia should also provide information on the resultant concentration and quantity of this potentially hazardous chemical, and how it is planned to be disposed of safely.

The Board of Lepidico considers that Lepidico Shareholders need clarity on these issues in order to understand the risks and rewards associated with the Offer and of holding shares in Lithium Australia.

In order for Lepidico Shareholders to make a fully informed decision, they need to understand the potential commercial viability of Sileach™. Further information on the process needs to be disclosed, including the reagents used in the leach stage. This information has been requested by Lepidico but has yet to be provided by Lithium Australia.

Lepidico Shareholders need to understand that the Sileach™ process represents a major asset for Lithium Australia and has been heavily promoted by them as a viable processing solution for low-grade lithium product.

In its ASX announcement of 27 February 2017, Lithium Australia stated:

“Sileach™ is differentiated from other processes by its unique chemistry. Essential to the operation of the Sileach™ process is the addition of halogens, a group of reactive elements which attack the chemical bonds in the silicate mineral, causing all metals to go into solution.”

To make a fully informed decision on whether or not to accept Lithium Australia’s all scrip Offer, Lepidico Shareholders have a right to know more information about Lithium Australia’s business model, the Sileach™ process and its “unique chemistry”, and the reagent suite it employs. Such information is not contained in the Bidder’s Statement, which is clearly inappropriate when simultaneously asking Lepidico Shareholders to accept Lithium Australia Shares in exchange for their Lepidico Shares.

Despite repeated requests made by Lepidico’s Managing Director, Mr Joe Walsh, to Lithium Australia’s Managing Director, Mr Adrian Griffin, to provide information that will enable Lepidico’s Shareholders to make a fully informed decision in relation to the Offer, such information has not been forthcoming.

No information on Sileach™ related by-products is available. Lepidico is concerned that Sileach™ is a complex hydrometallurgical process that without the benefits of by-products will have a prohibitively high operating cost structure.

By products produced by Sileach™ when processing lepidolite “remains [a] work in progress at Murdoch University”. Lithium Australia has not provided any

information with regards to the production of by-products from spodumene using the Sileach™ process. Lepidico is concerned that Sileach™ is a complex hydrometallurgical process and that without the benefits of by-products will have a high operating cost structure.

Lepidico's excellent Phase 1 L-Max® PFS results demonstrated the importance of by-products, whose value offsets the cost of producing lithium carbonate on a C1 cash cost basis. The L-Max® Technology produces several valuable by-products including sulphate of potash, caesium, tantalum concentrate and sodium silicate.

Lithium Australia has advised that an engineering study for a Sileach™ plant is scheduled to be completed in April 2017. Your Directors emphasise that the release of comprehensive results from this work are vital in order for Lepidico Shareholders to understand the commercial viability of Sileach™. These results should be published before the close of the Offer, currently scheduled for midnight (AWST) on 18 April 2017.

Lithium Australia is awaiting the results of an engineering study for a Sileach™ plant to be located in Western Australia, including engineering design, capital cost estimates, operating cost estimates and comparative logistic costs of a number of sites. These results are expected in April 2017 and as it currently stands, your Board understands Port Hedland is Lithium Australia's favoured location.

The release of such results is essential for Lepidico Shareholders to understand the commercial viability of Sileach™, including Lithium Australia's preferred location of its plant.

By comparison, your Directors wish to point out that based on Lepidico's Phase 1 L-Max® Plant PFS results, the preferred location for our Plant is in Kenora, Ontario in Canada, a location close to primary markets for lithium carbonate and the suite of by-products L-Max® will produce, which a site in Western Australia does not fit.

The management of Lithium Australia is not providing you with information vital for understanding the commercialisation potential of its Sileach™ process technology. This is clearly inappropriate when simultaneously asking you to accept Lithium Australia Shares in exchange for your Lepidico Shares.

1.3 LEPIDICIO SHAREHOLDERS SHOULD NOT HAND CONTROL OF YOUR COMPANY TO A NEW MANAGEMENT TEAM WITH NO CLEAR STRATEGY

If the takeover is successful, Lithium Australia intends to replace the Lepidico Board with its own directors, thus ensuring the loss of your Director's expertise and most importantly the loss of the valuable skill set developed specific to the L-Max® Technology.

If Lithium Australia is successful in acquiring control of Lepidico, Lithium Australia intends to seek to replace existing Lepidico Board members with current Lithium Australia directors; further, if Lithium Australia is successful in acquiring all of Lepidico, Lithium Australia has advised it intends to replace all of the Lepidico Board with current directors of Lithium Australia. In such circumstances, the knowledge, experience and expertise of the current Lepidico Board, including in

relation to the development of L-Max[®], will be lost and made redundant to Lithium Australia.

Your Directors consider this intention by Lithium Australia to be short-sighted and will ultimately impact shareholder value.

Lepidico's existing Board and executive management team have extensive experience building listed mining companies from humble beginnings.

Lepidico's Board and executive management team have extensive mining, technological and corporate experience, having built listed companies from humble beginnings to multi-billion dollar companies, delivering significant value to shareholders. Further, there is a singular focus on the successful commercialisation of the L-Max[®] Technology.

Mr Joe Walsh, Lepidico's Managing Director, served as General Manager Corporate Development with PanAust Ltd for 12 years and was instrumental in the evolution of PanAust from an explorer in 2004 to a plus US\$2 billion, S&P/ASX Top 100 Index, multi-mine copper and gold company with a portfolio of development assets in Asia, the Pacific and South America.

Messrs Gary Johnson, Lepidico's Non-Executive Chairman, and Mark Rodda, Lepidico's Non-Executive Director, have been associated with and held executive positions with LionOre Mining International Limited, a company with operations in Australia and Africa and listings on the Toronto Stock Exchange, London Stock Exchange and ASX, when it was acquired by the MMC Norilsk Nickel Group in 2007 for C\$6.8 billion cash consideration. During Messrs Johnson's and Rodda's time with LionOre, the company's market capitalisation grew by more than C\$6 billion.

Lepidico has a clear and focused strategy to fast track the Company to a cash flow generating position while proactively managing risk

Lepidico's Board and executive management team have been key to developing and executing a focused strategy enabling Lepidico to become a lithium carbonate producer by 2019, all while proactively managing the Company's risk profile.

Lepidico Shareholders should not entrust their investment to the Lithium Australia team. Lithium Australia's intentions with respect to your Company are short-sighted, ill conceived, and risk significantly undermining the value you should receive from your Company, which your Directors can deliver.

1.4 LITHIUM AUSTRALIA'S OFFER IS CONDITIONAL AND INADEQUATE IN A NUMBER OF MATERIAL RESPECTS

Lithium Australia's Offer is materially below the Independent Expert's valuation.

Your Directors have appointed an Independent Expert, BDO Corporate Finance (WA) Pty Ltd, to assess whether the Offer is fair and reasonable to all Lepidico Shareholders. A copy of BDO's Independent Expert's Report is included in Annexure A of this Target's Statement.

The Independent Expert has assessed that the fair value of a Lepidico Share is in the range of \$0.016 to \$0.021 per Lepidico Share, with a preferred value of \$0.018. Accordingly, BDO considers the value of 13.25 Lepidico Shares to be between \$0.212 and \$0.278, with a preferred value of \$0.239. As of 24 March 2017, Lithium Australia's Share price was only \$0.135. See section 10 of the Independent Expert's Report in Annexure A of this Target's Statement.

Accordingly, the Independent Expert has concluded that Lithium Australia's Offer is neither fair nor reasonable.

Your Directors wish to point out that BDO's valuation described in the Independent Expert's Report is different to the indicative preliminary valuation independently prepared by Breakaway Research ("**Breakaway**") and included in its research report on Lepidico titled 'Significant Potential Uplift with new Li Technology' dated March 2017, as announced to ASX on 15 March 2017.

Breakaway estimated the net present value of the proposed Phase 1 L-Max[®] Plant at around US\$190 million (after tax) based on the PFS parameters and using publicly available information only. Assuming the capital to build the Plant is funded entirely by raising new equity at a Share price of \$0.013, Breakaway concluded that the value of the Phase 1 L-Max[®] Plant is \$0.043 per Lepidico Share. Breakaway's indicative preliminary valuation was estimated based on discounting expected post-tax cash flows in perpetuity and using a 10% discount rate.

Lithium Australia's Offer is NOT a cash offer and is 32.1% BELOW the Lepidico Share price.

If you accept the Offer, you will **NOT RECEIVE CASH** except in circumstances where you would have received an unmarketable parcel of Lithium Australia Shares; instead you will only receive one (1) Lithium Australia Share for every thirteen and a quarter (13.25) Lepidico Shares that you hold. This implies a value of \$0.0102 per Lepidico Share which, as of 24 March 2017, is **32.1% BELOW** Lepidico's Share price.

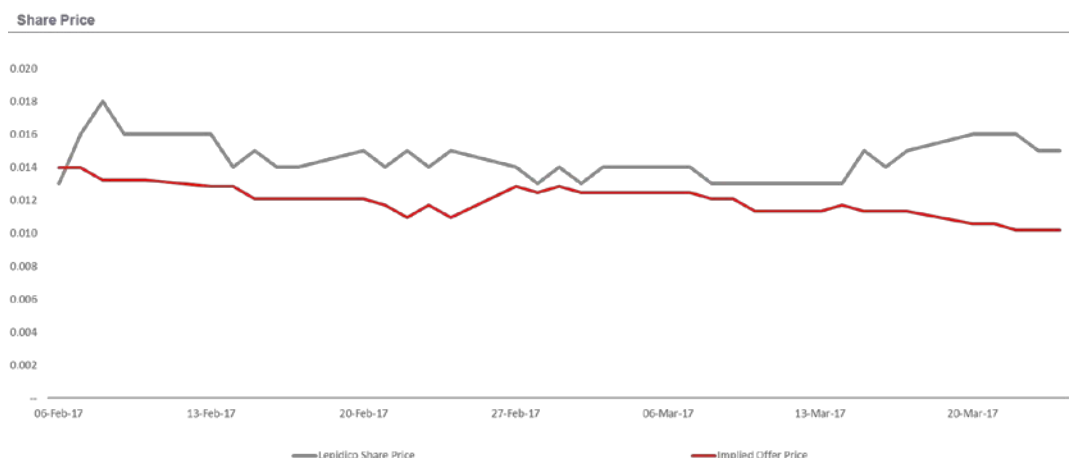
Your Directors believe that the Offer price is inadequate and significantly undervalues the full underlying value of your Lepidico Shares.

The Directors have formed this view on the basis of the Independent Expert's Report which concludes that the Offer is neither fair nor reasonable and values a Lepidico Share in the range of \$0.016 to \$0.021 per Lepidico Share, with a preferred value of \$0.018. The Directors consider that Lithium Australia's Offer fails to sufficiently reflect the attractiveness, strategic nature and intrinsic value of Lepidico's assets.

Lepidico's Shares have traded above the implied Offer price every day since 7 February 2017, the day after Lithium Australia announced its intention to bid for your Company.

Since 7 February 2017, the day after Lithium Australia announced its intention to make an offer for your Company, Lepidico's shares have consistently traded above the implied Offer price. This demonstrates the highly opportunistic nature and below market value of the Offer.

Figure 3: Lepidico's Share Price Performance vs. LIT's Implied Offer Price (Source: CapIQ)



Lepidico's Share price has significantly out-performed Lithium Australia's Share price over the past six months and since the appointment of Mr Joe Walsh as Managing Director of your Company.

Lithium Australia's Share price is down 28.9% over the past six months; in comparison, Lepidico's Share price is up 15.4% over the same period. Investors in Lepidico have also benefited from a considerable share price increase since Mr Joe Walsh was announced as Managing Director of your Company on 23 September 2016, an indication of Lepidico Shareholders' faith in the Company's current management and strategic direction.

Figure 4: Lepidico Share Price vs. LIT Share Price Over the Past 6 Months (Source: CapIQ)



In the Independent Expert's opinion, an appropriate premium for control to apply to a takeover offer for your Company is between 30% and 40%.

As of Lithium Australia's announcement on 6 February 2017 that it intended to make a takeover bid for Lepidico, the implied Offer price represented only a 13.2% premium to Lepidico's closing Share price on the trading day immediately preceding this announcement (3 February 2017).

Based on BDO's analysis contained in the Independent Expert's Report (see Annexure A of this Target's Statement), this premium is significantly below average

takeover premiums typically seen in the Australian market for acquisitions of general mining companies.

In the Independent Expert's Report, BDO opined as follows:

"We have reviewed the control premiums paid by acquirers of all general mining companies listed on the ASX ... from 2008 onwards ... the long term average of *announced* control premiums paid by acquirers of general mining companies on the ASX is approximately 50% ... we consider that an appropriate premium for control to apply is between 30% and 40%."

Your Directors believe that the Lithium Australia Offer for your Lepidico Shares is NEITHER FAIR NOR REASONABLE.

1.5 THE OFFER IS UNSOLICITED AND DOES NOT HAVE THE SUPPORT OF LEPIDICO'S MAJOR SHAREHOLDER

Lithium Australia's bid is unsolicited, unwelcome and unnecessary.

Your Directors have not sought a transaction with Lithium Australia nor do they believe a combination of the two companies makes any sense for the reasons explained above. Lepidico has a clear strategy to become a leading producer of low cost, battery grade lithium carbonate from non-conventional sources. Your Company does not need Lithium Australia or its Sileach™ technology to deliver on this strategy.

Lepidico's major Shareholder intends to REJECT the Offer.

Despite Lithium Australia's suggestion that "Major Shareholders back Lithium Australia's bid", Strategic Metallurgy, Lepidico's major shareholder with a relevant interest as at 16 March 2017 of 17.34% of Lepidico, has advised the Company in writing that it completely supports Lepidico's strategy, the Entitlement Offer to fund the DFS, and that it intends to reject Lithium Australia's Offer.

If you accept the Offer and Lithium Australia is not successful in acquiring all of Lepidico's Shares, you will lose direct exposure to Lepidico's straight forward strategy to become the leading low-cost producer of lithium carbonate.

Lithium Australia has not set a minimum acceptance condition for its Offer; further, Lithium Australia has not made an offer, nor does it presently intend to make an offer, to acquire Lepidico Options.

Therefore, if you accept the Offer for your Lepidico Shares and Lithium Australia is not successful in acquiring all of Lepidico's Shares, you will end up holding Lithium Australia Shares where Lithium Australia only has an investment in Lepidico; that is, you will lose direct exposure to the future performance of Lepidico.

If you accept the Offer, you will not automatically receive Lithium Australia Shares for potentially up to 12 months.

If you accept the Offer, you will not receive Lithium Australia Shares until the earlier of:

- one month after you have validly accepted the Offer or the contract resulting from its acceptance becomes unconditional (whichever is the later), and
- 21 days after the end of the Offer Period, provided that the Offer has become unconditional.

The Offer is currently subject to a number of conditions; furthermore, Lithium Australia is entitled to continue to extend the Offer for a period of up to 12 months.

Accordingly, if you accept the Offer you will lose the ability to trade your Lepidico Shares on-market and you will not receive Lithium Australia Shares in consideration for your Lepidico Shares until (at least) the Offer becomes unconditional.

Do not accept the Offer prematurely or you will be forced to hold Lithium Australia Shares.

If you accept the Offer, there are very limited circumstances where you will be able to withdraw or revoke your acceptance of the Offer. In short, except in these very limited circumstances, you will be left holding Lithium Australia Shares even though you may have changed your mind and wish to again hold Lepidico Shares.

Your Directors unanimously recommend that you **REJECT** Lithium Australia's unsolicited, conditional and inadequate Offer and **TAKE NO ACTION.**

2. LITHIUM AUSTRALIA'S STATEMENTS ARE INACCURATE

Lithium Australia's Bidder's Statement contains a number of inaccurate statements, which Lithium Australia has refused to amend or address (or which have otherwise become outdated following the occurrence of recent events). Lepidico has set out these statements and its responses below for the benefit of Lepidico Shareholders.

Lithium Australia Claim	Lepidico Response
<p><i>"Major Shareholders back Lithium Australia's bid."</i></p>	<p>Lithium Australia contends in its RIU Explorers Conference presentation dated 23 February 2017 that major Lepidico Shareholders back its bid.</p> <p>Lithium Australia has only been able to secure Offer acceptances for 17.76% of Lepidico's Shares through six pre-bid contracts. However, not a single one of these registered holders own more than 5.5% of Lepidico, with the smallest one owning a mere 0.10%.</p> <p>The registered Lepidico Shareholders with whom Lithium Australia has entered into pre-bid contracts, and their shareholdings as at the date of those contracts, are as follows:</p> <ul style="list-style-type: none"> • 0.10% - Robert Van Der Laan • 1.37% - GFR Superannuation Fund • 3.52% - Horn Resources Pty Ltd • 5.54% - Parkway Minerals NL • 2.35% - Wah Len Enterprises SDN BHD • 4.17% - Venture Frontier Limited • 0.41% - Lee Chui Yen • 0.30% - Chew Wai Chuen <p>Strategic Metallurgy, Lepidico's major Shareholder with a relevant interest in 17.34% of Lepidico, has communicated to Lepidico in a letter dated 4 March 2017, that "based on current, publicly available information, Strategic Metallurgy sees no synergistic benefits in Lithium Australia and Lepidico being brought together" and that it "currently has no intention of accepting an offer for its Lepidico shares". Further, Strategic Metallurgy championed Lepidico's management, stating that "Lepidico has an exciting, dynamic future ahead of it based on sound strategy, quality assets and a highly experienced and dynamic management team".</p>
<p><i>"When you lodge a patent application you get confidentiality for 12 months so you can actually develop the product without divulging all of the details to your competitors, and we're in that period."</i></p>	<p>Lithium Australia contends, through its Managing Director, Mr Adrian Griffin, that it does not have to divulge details relating to its technology due to its patent application.</p> <p>Lithium Australia lodged its provisional patent application on 9 February 2016 and this application only lasts one year. During this period, it is true that nothing is published by the patent office and that this time can also be used to refine the technology. However, Lithium Australia is free to publish the application, as the priority date for the invention defined in the provisional patent application is set by the lodgement date of the provisional patent application, and is therefore protected.</p> <p>More importantly though, Lithium Australia is no longer within the referred to patent application period; this expired on 9 February 2017.</p>

Lithium Australia Claim	Lepidico Response
	<p>Lithium Australia subsequently filed an international (or PCT) patent application claiming priority from the provisional patent application on 9 February 2017. Once the PCT application is lodged, the description of the invention in the PCT patent specification can no longer be amended to incorporate any 'new matter' that might relate to refinements or developments of the invention and the publication of the specifications accompanying the PCT application and the provisional application will not impact either application.</p> <p>In any event, Lepidico's Board notes that the patent office will be publishing Lithium Australia's PCT application six months after their lodgement date of 9 February 2017 together with the provisional patent application, unless of course Lithium Australia withdraws its PCT application before this date or applies to remove the priority claim to their provisional patent application.</p> <p>Further, Lepidico Shareholders cannot confidently make a decision in relation to whether or not they should accept the Offer of Lithium Australia Shares for their existing Lepidico Shares without key information on Lithium Australia's Sileach™ technology being disclosed.</p>
<p><i>"Regrettably, the Lepidico Board has:</i></p> <ul style="list-style-type: none"> <i>• made statements calculated to discredit Sileach™ that are false, misleading and designed to invent safety concerns without any proper basis;</i> <i>• expressed mock outrage that Lithium Australia has not disclosed all of its proprietary and confidential technology on the key Sileach™ process to the world at large, which of course no owner of valuable intellectual property would ever contemplate."</i> 	<p>Lithium Australia contends in its 13 March 2017 ASX announcement that Lepidico seeks to "invent safety concerns without any proper basis" and that Lepidico "expressed mock outrage that Lithium Australia has not disclosed all of its proprietary and confidential technology".</p> <p>Lepidico denies these assertions.</p> <p>Lepidico Shareholders need to understand that the Sileach™ process represents a major asset for Lithium Australia and has been heavily promoted by them as a viable processing solution for low-grade lithium product.</p> <p>Lepidico is neither requesting Lithium Australia to disclose all of its proprietary technology, nor is it requesting Lithium Australia to disclose all of its confidential information, it is merely asking Lithium Australia to disclose information which Lepidico Shareholders will need to make a fully informed decision on whether or not to accept Lithium Australia's Offer.</p>
<p><i>Lithium Australia is "well advanced down the commercialisation path" and "dominance in the field of lithium processing."</i></p>	<p>Lithium Australia has neither published a scoping study nor any PFS results. In fact, Lithium Australia's ASX releases and corporate presentations are notable by their lack of detail and substance with regards to its Sileach™ process technology, assets, work programs and the results of those work programs.</p> <p>The announcement by Lithium Australia of its Sileach™ Development Program dated 27 February 2017, is a case in point. Lithium Australia advised the pilot program on spodumene was announced in December 2016 but</p>

Lithium Australia Claim	Lepidico Response
	<p>commenced on 30 January 2017, and was terminated on 2 February 2017 due to mechanical and materials handling issues. Leach extractions ranged from 62% to 73% and only pregnant liquor was produced (no lithium carbonate product), which is poor by industry standards for a commercially viable process.</p> <p>Despite this, Lithium Australia has commissioned the design of a large-scale pilot plant. In your Board's opinion, Lithium Australia's aspirations are clearly out of sync with their technical achievements to date.</p>
<p><i>"Lithium Australia notes that the Bid price is a significant premium to the current trading price."</i></p>	<p>As of Lithium Australia's announcement on 6 February 2017 that it intended to make a takeover bid for your Company, the implied Offer price represented only a 13.2% premium to Lepidico's closing Share price on the trading day immediately preceding this announcement (3 February 2017).</p> <p>Based on BDO's analysis contained in the Independent Expert's Report (see Annexure A of this Target's Statement), this premium is significantly below average takeover premiums typically seen in the Australian market for acquisitions of general mining companies. See also section 1.4 above.</p> <p>Since 7 February 2017, Lepidico's shares have consistently traded above the implied Offer price. Further, Lithium Australia's last traded share price on the day immediately preceding the date of the Offer (16 March 2017) was \$0.150 per Lithium Australia Share. This implies an Offer price of only \$0.011 per Lepidico Share, a 24.5% discount to Lepidico's then Share price of \$0.015 per Share.</p> <p>As of 24 March 2017, Lithium Australia's last traded share price was \$0.135 per Lithium Australia Share. This implies an Offer price of only \$0.0102 per Lepidico Share, a 32.1% discount to Lepidico's Share price of \$0.015 per Share.</p>
<p><i>Lithium Australia has "financing facilities available of \$34,328,000."</i></p>	<p>Lithium Australia's financing facilities are made up of a share agreement with Lanstead Capital LP and from the issuance of \$0.25 partly paid shares (currently 132,850,148 partly paid shares with outstanding calls of \$0.2499 each), the latter contributing the largest amount at approximately \$33 million.</p> <p>As at the date of the Offer, Lithium Australia's Share price was only \$0.15 per share. Lithium Australia has the right to call the balance of these partly paid shares and to forfeit any shares where the call remains unpaid 14 days after the call was payable. Lithium Australia must then offer the shares forfeited for public auction within six weeks of the call becoming payable.</p> <p>Your Board contends it is unlikely a Lithium Australia shareholder will pay the balance of the \$0.25 partly paid shares when the Lithium Australia share price is trading so far below \$0.25 per share. Further, as Lithium Australia is a 'no liability' (NL) company, holders of these partly paid shares have no obligation to pay any call on those shares.</p> <p>In your Board's opinion, this casts doubt on Lithium Australia's actual financing capability.</p>

3. FREQUENTLY ASKED QUESTIONS

This section answers some commonly asked questions about the Offer. It is not intended to address all relevant issues for Lepidico Shareholders. This section should be read together with all other parts of this Target's Statement.

Question	Answer
What is Lithium Australia's Offer for my Lepidico Shares?	Lithium Australia is offering one (1) LIT Share for every thirteen and one quarter (13.25) Lepidico Shares that you hold. You may accept the Offer only in respect of all, and not part, of the Lepidico Shares that you hold.
What choices do I have as a Lepidico Shareholder?	<p>As a Lepidico Shareholder, you have the following choices in respect of your Lepidico Shares:</p> <ul style="list-style-type: none">• reject the Offer by doing nothing; or• accept the Offer; or• sell your Lepidico Shares on the ASX (unless you have previously accepted the Offer and you have not validly withdrawn your acceptance). <p>There are several implications in relation to each of the above choices. A summary of these implications is set out in section 5.10 of this Target's Statement.</p>
What are the Lepidico Directors recommending?	Each Lepidico Director recommends that you REJECT the Offer. The reasons why your Directors are recommending that you REJECT the Offer are set out in section 1 of this Target's Statement.
What do the Directors of Lepidico intend to do with any Lepidico Shares that they hold?	Each Lepidico Director has advised that they intend to REJECT the Offer in respect of any Lepidico Shares that they own or control.
What does the Independent Expert say?	<p>The Independent Expert has concluded that the Offer is NEITHER FAIR NOR REASONABLE.</p> <p>A copy of the Independent Expert's Report is contained in Annexure A of this Target's Statement.</p>
How many Lepidico Shares does Lithium Australia already own?	On the day immediately preceding the date of this Target's Statement Lithium Australia had a Relevant Interest in 310,908,037 Lepidico Shares. Lithium Australia's voting power is therefore 17.76% as at the date of this Target's Statement. See sections 3.8 and 10.1 of the Bidder's Statement for further details on Lithium Australia's interest in Lepidico.
How do I REJECT the Offer?	Simply do nothing. Ignore all documents sent to you by Lithium Australia. Do not fill in or send any documents to Lithium Australia.

Question	Answer
<p>What are the consequences of accepting the Offer now?</p>	<p>If you accept the Offer, unless withdrawal rights are available (see below), you will give up your right to sell your Lepidico Shares on the ASX or otherwise deal with your Lepidico Shares while the Offer remains open.</p> <p>The effect of acceptance is set out in section 6 of Annexure A of the Bidder's Statement. Lepidico Shareholders should read this section in full to understand the effect that acceptance will have on their ability to exercise rights attaching to their Lepidico Shares and the representations and warranties they give by accepting the Offer.</p>
<p>If I accept the Offer, can I withdraw my acceptance?</p>	<p>You only have limited rights to withdraw your acceptance of the Offer.</p> <p>See section 6.8 of this Target's Statement and section 6 of Annexure A of the Bidder's Statement for further details.</p>
<p>When does the Offer close?</p>	<p>The Offer is presently scheduled to close at midnight (AWST) on 18 April 2017 but the Offer Period can be extended in certain circumstances.</p> <p>Please be aware that there is no guarantee that Lithium Australia will extend the Offer Period beyond midnight (AWST) on 18 April 2017.</p> <p>Accordingly, your Lepidico Directors recommend that you should assume that the Offer Period will not be extended beyond this date. See section 6.5 of this Target's Statement for details of the circumstances in which the Offer Period can be extended.</p>
<p>What are the conditions to the Offer?</p>	<p>The Offer is subject to a number of Offer Conditions.</p> <p>The key outstanding Offer Conditions, as at the date of this Target's Statement, are summarised in section 6.2 of this Target's Statement.</p> <p>Unless all of the Offer Conditions are freed or fulfilled, the Offer will not proceed.</p>
<p>What happens if the Offer Conditions are not satisfied or waived?</p>	<p>If the Offer Conditions are not fulfilled or freed (that is, if any of the Offer Conditions are not satisfied or waived) before the Offer closes, the Offer will lapse.</p> <p>You would then be free to deal with your Lepidico Shares even if you had accepted the Offer.</p>
<p>Can Lithium Australia withdraw the Offer?</p>	<p>Lithium Australia may not withdraw the Offer if you have already accepted it. Before you accept the Offer, Lithium Australia may withdraw the Offer with the written consent of ASIC and subject to conditions (if any) specified in such consent.</p>
<p>When will I be sent my consideration if I accept the Offer?</p>	<p>In the usual case, you will be issued your consideration on or before the earlier of:</p> <ul style="list-style-type: none"> the day that is one month after the date of your acceptance or, if at the time of your acceptance the Offer is subject to an

Question	Answer
	<p>Offer Condition, one month after the Offer becomes, or is declared, unconditional; and</p> <ul style="list-style-type: none"> the day that is 21 days after the end of the Offer Period. <p>See section 6.9 of this Target's Statement for further details on when you will be sent your consideration.</p>
<p>What are the tax implications of accepting the Offer?</p>	<p>A general outline of the tax implications of accepting the Offer is set out in section 8 of the Bidder's Statement.</p>
<p>What will happen to Lepidico following the end of the Offer Period?</p>	<p>Lithium Australia has stated that, if the Offer is completed successfully, its present intention in relation to Lepidico is to continue the business of Lepidico in the manner in which it is currently conducted, and to maintain Lepidico's assets and projects in good standing until it can complete the strategic review (outlined in section 7.4(a) of the Bidder's Statement), subject to any variations that Lithium Australia considers necessary in light of its technical and operational experience and expertise and the resources of the combined group.</p> <p>See sections 7.3 to 7.7 of the Bidder's Statement for further details.</p>
<p>Can I participate in the Offer in respect of my Lepidico Options?</p>	<p>No. The Offer does not extend to Lepidico Options. However, the Offer extends to any Lepidico Shares that are issued after the Record Date and during the Offer Period as a result of the exercise of Lepidico Options that are on issue at the Record Date.</p>
<p>Is there a number that I can call if I have further queries in relation to the Offer?</p>	<p>If you have any further queries in relation to the Offer, please call Lepidico's information line on 1300 048 130 for callers within Australia or on +61 3 9415 4656 for callers outside Australia. The information line will be open from Monday to Friday between 9.00am to 5.00pm (Melbourne time).</p>

4. DIRECTORS' RECOMMENDATIONS AND INTENTIONS

4.1 Directors' recommendations

After taking into account each of the matters in this Target's Statement and in the Bidder's Statement, each of the Lepidico Directors recommends that you **REJECT** the Offer and **TAKE NO ACTION**.

The Lepidico Directors' reasons for their above recommendation are set out in section 1 of this Target's Statement.

In considering whether to accept the Offer, the Lepidico Directors encourage you to:

- (a) read the whole of this Target's Statement (including the Independent Expert's Report) and the Bidder's Statement;
- (b) have regard to your individual risk profile, portfolio strategy, tax position and financial circumstances;
- (c) consider the choices available to you as outlined in section 5.10 of this Target's Statement;
- (d) carefully consider section 5.12 of this Target's Statement; and
- (e) obtain financial advice from your broker or financial adviser on the Offer and obtain taxation advice on the effect of accepting the Offer.

4.2 Intentions of the Lepidico Directors in relation to the Offer

Each Lepidico Director who owns Lepidico Shares has advised that they intend to **REJECT** the Offer in respect of any Lepidico Shares that they own or control.

Details of the previously announced direct and indirect holdings of each Lepidico Director in Lepidico Shares are set out in section 8.1 of this Target's Statement.

5. IMPORTANT MATTERS FOR LEPIDICO SHAREHOLDERS TO CONSIDER

5.1 The Offer

Lithium Australia announced its intention to make the Takeover Bid for Lepidico on 6 February 2017. A summary of the Offer is contained in section 6 of this Target's Statement.

The Offer is open for acceptance until **midnight (AWST) on 18 April 2017**, unless it is extended or withdrawn (sections 6.5 and 6.6 of this Target's Statement describe the circumstances in which Lithium Australia can extend or withdraw its Offer).

5.2 Information about Lithium Australia

Lithium Australia was incorporated in Western Australia in 2007. Lithium Australia was listed on the ASX on 30 October 2007 as Midwinter Resources NL and changed its name to Lithium Australia NL on 15 July 2015.

Lithium Australia has been preparing to spin out its graphite projects to a current subsidiary BlackEarth Minerals NL (formerly Graphite Australia NL).

The directors of Lithium Australia are:

- (a) Mr Adrian Griffin (Managing Director);
- (b) Mr George Javier Bauk (Non-Executive Chairman);
- (c) Mr Brian Dixon (Non-Executive Director); and
- (d) Mr Barry Woodhouse (CFO and company secretary).

Section 3 of the Bidder's Statement contains further information regarding Lithium Australia.

5.3 Value of the Offer

For further information on the value of the Offer, see section 1 of this Target's Statement and the Independent Expert's Report attached as Annexure A of this Target's Statement. Lepidico's Directors recommend that you read the Independent Expert's Report in full.

5.4 Minority ownership consequences

Lithium Australia's Offer is not subject to a minimum acceptance condition.

Depending upon the number of Lepidico Shareholders that accept the Offer, this may have a number of implications for Lepidico Shareholders who do not accept the Offer, including:

- (a) Lithium Australia may be in a position to significantly influence the composition of Lepidico's Board and senior management, determine Lepidico's dividend policy and control the strategic direction of the businesses of Lepidico and its subsidiaries;
- (b) the liquidity of Lepidico Shares may be lower than at present;
- (c) there may be limited institutional support for Lepidico Shares;

- (d) if the number of Lepidico Shareholders is less than that required by the ASX Listing Rules to maintain an ASX listing, then the ASX may suspend and/or de-list Lepidico. If this occurs, any remaining Lepidico Shareholders will not be able to sell their Lepidico Shares on market; and
- (e) if the number of Lepidico Shareholders is less than that required by the ASX Listing Rules to maintain an ASX listing, then Lithium Australia may seek to have Lepidico removed from the official list of the ASX. If this occurs, Lepidico Shares will not be able to be bought or sold on the ASX.

5.5 Risks of accepting the Offer

(a) Possibility of a superior proposal emerging

You may consider that a third party may emerge with a superior proposal. If you accept the Offer, you will not be able to accept your Lepidico Shares into any superior proposal such that you will not be able to obtain any potential benefit associated with that superior proposal (if any). Your Directors are not currently aware of any superior proposal.

(b) No interest in equity upside

If you accept the Offer, you will lose your interest and exposure in the future profits and dividends (if any) associated with Lepidico and its projects.

5.6 Lepidico Share price absent the Offer

While there are many factors that influence the market price of Lepidico Shares, your Directors point out that, following the close of the Offer, the market price of Lepidico Shares may fall if Lithium Australia's Offer fails (and there is no alternative to the Offer), if Lithium Australia acquires more than 50% (but less than 90%) of the Lepidico Shares or if the takeover is otherwise unsuccessful.

5.7 Dividend issues for Lepidico's Shareholders

Lepidico's Board has not made any determination as to a dividend policy for Lepidico.

5.8 Other alternatives to the Offer

The Lepidico Board is not aware of any alternatives to the Offer in order to maximise value for Lepidico Shareholders. This includes the potential for rival takeover bids for Lepidico.

At this stage, the Lepidico Board is not in a position to provide Lepidico Shareholders with information in relation to the probability of an alternative transaction arising but will keep Lepidico Shareholders informed of any material developments.

5.9 Taxation consequences of a change in control in Lepidico

The taxation consequences of accepting the Offer depend on a number of factors and will vary depending on your particular circumstances. A general outline of the Australian taxation considerations of accepting the Offer is set out in section 8 of the Bidder's Statement.

You should carefully read and consider the taxation consequences of accepting the Offer. The outline provided in the Bidder's Statement is of a general nature only and you should seek your own specific professional advice as to the taxation implications applicable to your circumstances.

5.10 Your choices as a Lepidico Shareholder

Your Lepidico Directors unanimously recommend that you REJECT the Offer.

However, as a Lepidico Shareholder you have the following choices currently available to you:

(a) Reject the Offer

Lepidico Shareholders who wish to reject the Offer should **TAKE NO ACTION**.

Lepidico Shareholders should note that if Lithium Australia and its Associates have a Relevant Interest in at least 90% of the Lepidico Shares during or at the end of the Offer Period, Lithium Australia will be entitled to compulsorily acquire the Lepidico Shares that it does not already own (see section 6.12 of this Target's Statement for further details).

If Lithium Australia acquires more than 50% but less than 90% of the Lepidico Shares then, assuming all other Offer Conditions are fulfilled or freed, Lithium Australia will acquire a majority shareholding in Lepidico. In these circumstances, Lepidico Shareholders who do not accept the Offer will become minority shareholders in Lepidico. The potential implications of becoming a minority Lepidico Shareholder are discussed in section 5.4 of this Target's Statement.

(b) Accept the Offer

Lepidico Shareholders may elect to accept the Offer. Details of the consideration that will be received by Lepidico Shareholders who accept the Offer are set out in the Bidder's Statement.

You should be aware that if you choose to accept the Offer:

- (i) you will not be able to accept a superior proposal from any other bidder if such an offer is made, or benefit from any higher price in the market;
- (ii) you will lose the opportunity to receive future benefits as a Lepidico Shareholder; and
- (iii) you may incur a tax liability as a result of the sale.

Lepidico Shareholders should be aware that if they accept the Offer, they may be liable for CGT on the disposal of their Lepidico Shares. However, they will not incur a brokerage charge.

The Bidder's Statement contains details of how to accept the Offer in section 4 of Annexure A of the Bidder's Statement.

(c) Sell your Lepidico Shares on market

During a takeover, shareholders of a target company who have not already accepted the bidder's offer may still sell these shares on market for cash.

On 24 March 2017, Lepidico's share price was \$0.015. The latest price for Lepidico's Shares may be obtained from the ASX website: <http://www.asx.com.au/>.

You should be aware that if you choose to sell your Lepidico Shares during the currency of the Offer (that is, other than by way of accepting the Offer):

- (i) you will not be able to accept a superior proposal from any bidder if such an offer is made, or benefit from any higher price in the market;
- (ii) you will lose the opportunity to receive future benefits as a Lepidico Shareholder;
- (iii) you may incur a tax liability as a result of the sale; and
- (iv) you may incur a brokerage charge.

5.11 Lepidico Optionholders

If you are a Lepidico Optionholder, the Offer does not apply to your Lepidico Options. However, the Offer extends to any Lepidico Shares that are issued after the Record Date and during the Offer Period as a result of the exercise of Lepidico Options that are on issue at the Record Date.

5.12 Risk factors

In considering this Target's Statement, Lepidico Shareholders should be aware that there are a number of risks, general and specific, which may affect the future operating and financial performance of Lepidico and the value of Lepidico Shares. Many of these risks are relevant to Lepidico Shareholders today and will be relevant to Lepidico Shareholders who remain as Lepidico Shareholders following the completion of the Offer.

Many of these risks are outside the control of Lepidico and the Lepidico Board. There can be no certainty that Lepidico will achieve its stated objectives or that any forward looking statements will eventuate.

Additional risks and uncertainties not currently known to Lepidico may have a material adverse effect on Lepidico's business and the information set out below does not purport to be, nor should it be construed as representing, an exhaustive list of the risks that may affect Lepidico.

Lepidico Shareholders should read this Target's Statement in its entirety and carefully consider the following risk factors in deciding whether to accept the Offer.

(a) Additional Requirements for Capital

The Company's capital requirements depend on numerous factors. Depending on the Company's ability to generate income from its operations. Any additional equity financing will dilute shareholdings, and debt financing, if available, may involve restrictions on financing and operating activities. If the Company is unable to obtain additional financing as needed, it may be required to reduce the scope of its operations and scale back its exploration programs as the case may be.

(b) Government licences and approvals

Lepidico holds interests in properties in Australia and Canada.

Operations may be affected in varying degrees by government regulations with respect to, but not limited to, restrictions on production, price controls, export controls, foreign currency remittance, income taxes, expropriation of property, foreign investment, maintenance of claims, environmental legislation, land use, land claims of local people, water use and mine safety.

Failure to comply strictly with applicable laws, regulations and local practices relating to mineral rights applications and tenure, could result in loss, reduction or expropriation of entitlements. Outcome in courts in other jurisdictions may be less predictable than in Australia, which could affect the enforceability of contracts entered into.

The occurrence of these various factors and uncertainties cannot be accurately predicted and could have an adverse effect on the operations of Lepidico. Lepidico has made its investment and strategic decisions based on the information currently available to the Directors, however should there be any material change in the political, economic, legal and social environments in Brazil and Canada, the Directors may reassess investment decisions and commitments to assets in these jurisdictions.

(c) Title risk

Interests in exploration licences are governed by the national legislation in the relevant jurisdiction. The licences which grant the title to each property are subject to compliance with certain requirements, including lodgement of reports, payment of royalties and compliance with environmental conditions and environmental legislation. Consequently, as is the case in Australia, Lepidico runs the risk of incurring penalties or loss of title to or its interest in its licences if these requirements are not met.

(d) Joint venture parties, contractors and agents

In conducting its business, the Company relies on continuing existing strategic relationships and has been forming new relationships with other entities in the mineral exploration and mining industry, including joint venture partners, contractors and agents. There can be no assurance that existing relationships will continue to be maintained or that new ones will be successfully formed and the Company could be materially adversely affected by changes to such relationships or difficulties in forming new ones.

The Directors are unable to predict the risk of financial failure or default by a participant in any joint venture to which the Company is, or may become a party, or insolvency or other managerial failure by any of the contractors used by the Company in any of its activities, or insolvency or other managerial failure by any of the other service providers used by the Company for any activity.

(e) Environmental risk

Lepidico's operations will be subject to various regulations regarding environmental matters. Development of each of Lepidico's projects will be dependent on the relevant licences meeting environmental guidelines and gaining approvals by government authorities. Whilst Lepidico intends to conduct its activities in an environmentally responsible manner, risks arise in relation to compliance with these regulations and approvals.

(f) Unforeseen expenditure risk

Expenditure may need to be incurred that has not been taken into account in the preparation of this Target's Statement. If such expenditure is subsequently incurred, this may adversely affect the expenditure proposals by Lepidico.

(g) Governmental policy changes and legal risk

Government action or policy change in relation to access to lands and infrastructure, compliance with environmental regulations, export restrictions, taxation, royalties and subsidies may adversely affect Lepidico's operations and financial performance.

The Lepidico projects will be governed by a series of laws and regulations. Breaches of non-compliance with these laws and regulations can result in penalties and other liabilities. These may have a material adverse impact on the financial position, financial performance, cashflows, growth prospects and share price of Lepidico.

These laws and regulations may be amended from time to time, which may also have a material adverse impact on the financial position, financial performance, cashflows, growth prospects and share price for Lepidico. The legal and political conditions and any changes thereto are outside the control of Lepidico.

The introduction of new legislation or amendments to existing legislation by government, developments in existing common law, or the respective interpretation of the legal requirements in any of the legal jurisdictions which govern Lepidico's operations or contractual obligations, could impact adversely on the assets, operations and, ultimately, the financial performance of Lepidico and the value of Lepidico Shares.

(h) Competition risk

The industry in which the Company is involved is subject to domestic and global competition. While the Company will undertake reasonable due diligence in its business decisions and operations, the Company will have no influence or control over the activities or actions of its competitors, whose activities or actions may, positively or negatively, affect the

operating and financial performance of the Company's projects and businesses.

(i) Management of growth

The ability of Lepidico to implement its strategy requires effective planning and management control systems. Lepidico's plans may place a significant strain on the Company's management, operational, financial and personnel resources. The Company's future growth and prospects will depend on its ability to manage this growth and to continue to expand and improve operational, financial and management information and quality control systems on a timely basis, whilst at the same time maintaining effective cost controls. Any failure to expand and improve operational, financial and management information and quality control systems in line with the Company's growth could have a material adverse effect on the Company's business, financial condition and results of operations.

(j) International operations

Any potential future operations of Lepidico in overseas jurisdictions are subject to a number of risks, including:

- Potential difficulties in enforcing agreements and collecting receivables through foreign local systems;
- Potential difficulties in protecting rights and interests in assets; and
- Restrictive governmental actions, such as imposition of trade quotas, tariffs and other taxes.

Any of these factors could materially and adversely affect Lepidico's business, results of operations and financial condition.

(k) Exploration, geological and development risks

Mineral exploration and development is a speculative and high risk activity that requires large amounts of expenditure over extended periods of time and may be impeded by circumstances and factors beyond Lepidico's control. The Company's ability to succeed in this process involves (amongst other things):

- discovery and proving-up, or acquiring, an economically recoverable mineral resource or reserve;
- access to adequate capital throughout the acquisition/discovery and project development phases of a mineral exploration project;
- securing and maintaining title to such mineral exploration projects;
- obtaining required development consents and approvals necessary for the acquisition, exploration, development and production phases of the project; and

- accessing the necessary experienced operational staff, the applicable financial management and recruiting skilled contractors, consultants and employees.

There can be no assurance that forthcoming exploration programs, or subsequent exploration programs, will result in the realisation of the Company's objectives such as the discovery of an economic mineral resource. Even if an apparently viable mineral resource is identified, there is no guarantee that it can be economically exploited. Further, conclusions drawn during mineral exploration are subject to the uncertainties associated with all sampling techniques and to the risk of incorrect interpretation or geological, geochemical, geophysical, drilling and other data.

(l) Operational and technical risks

The operations of the Company may be affected by various factors, including but not limited to:

- failure to locate or identify mineral deposits;
- failure to achieve predicted grades in exploration and mining;
- operational and technical difficulties encountered in mining;
- insufficient or unreliable infrastructure, such as power, water and transport;
- difficulties in commissioning and operating plant and equipment;
- mechanical failure or plant breakdown;
- unanticipated metallurgical problems which may affect extraction costs;
- adverse weather conditions;
- industrial and environmental accidents;
- industrial disputes and labour shortages; and
- unexpected shortages or increases in the costs of consumables, spare parts, plant and equipment.

(m) New project risk

As part of its business strategy, the Company may make acquisitions of or significant investments in other resource or non-resource projects. Projects may be located in Australia or overseas. Should a suitable new business opportunity be identified, it will then need to be assessed for its technical, legal and commercial suitability. There is no guarantee that any proposed acquisition of a new business or project will be completed or will be successful. Identification of a business or a project can take considerable time and consume significant cash resources.

(n) **No profit to date and uncertainty of future profitability**

Lepidico has incurred losses in the past and it is therefore not possible to evaluate the Company's future prospects based on past performance. Lepidico expects to make losses in the foreseeable future even though the L-Max® Technology might become commercialised. Factors that will determine Lepidico's future profitability are its ability to manage its costs, its ability to execute its development and growth strategies in relation to both exploration and the L-Max® Technology, the success of its activities in a competitive market, the actions of competitors and regulatory developments. As a result, the extent of future profits, if any, and the time required to achieve sustainable profitability, is uncertain. In addition, the level of any such future profitability (or loss) cannot be predicted.

(o) **Pre-feasibility Study results**

The Company has completed a PFS for a Phase 1 L-Max® Plant (**Plant**) located in Canada. However, the PFS contains statements that are only predictions, based on certain assumptions and involve known and unknown risks, uncertainties and other factors, many of which are beyond Lepidico's control. Actual events or results may differ materially from the events or results expected or implied in any forward-looking statement contained in the PFS. The inclusion of such statements in the PFS should not be regarded as a representation, warranty or prediction with respect to the accuracy of the underlying assumptions or that any forward-looking statements will be or are likely to be fulfilled. Lepidico undertakes no obligation to update any forward-looking statement to reflect events or circumstances after the date of the PFS (subject to securities exchange disclosure requirements). The information in the PFS does not take into account the objectives, financial situation or particular needs of any person.

The assumptions set out in the PFS contain reference to broad indicative plant operating parameters (**Parameters**) for the purpose of the DFS which have been developed through scoping level work and subsequent PFS work. For the avoidance of doubt, investors are advised that the Parameters expected to be adopted for the DFS do not constitute a production forecast or target in relation to mineral resources associated with any project owned by the Company. The Company wishes to expressly clarify that any references in the PFS to annual production rates relate to scoping and planning parameters and are not a production target. The Company cautions investors against using any statements made in the PFS which may indicate or amount to the reporting of a production target or forecast financial information, as a basis for making any investment decisions about Shares. The primary purpose of disclosing the DFS Parameters is to inform on the scope of work for the study and provide an estimate of the intended scale of a potential future Phase 1 L-Max® Plant.

Lepidico advises that caution should be exercised in relying on the assumptions in the PFS when analysing the estimates of the potential financial contribution from the Plant. There can be no assurance that statements made in the PFS will prove to be accurate and actual results and future events could differ materially from those anticipated in such statements.

(p) No Definitive Feasibility Study

Lepidico has not completed a DFS and the results of a DFS, if completed, may vary materially from the results contained in the PFS.

(q) Increases in capital and operating costs

The actual capital and operating costs could be significantly higher than the estimates, particularly if there are delays to the construction of the Phase 1 L-Max[®] Plant or significant movements in inflationary factors. There can be no assurance that actual capital costs and operating costs will be as estimated in the PFS.

(r) L-Max[®] Technology Risk

The L-Max[®] Technology is a new process that has only been tested under small, controlled laboratory conditions and at a pilot plant scale. The technology has not been scaled up and tested and may not be technically feasible, may not perform the process as it was designed, may prove uneconomic, unreliable and may not be developed on a timely basis.

Competition in retaining and sustaining protection of intellectual property and the complex nature of intellectual property can lead to expensive and lengthy patent disputes for which there can be no guaranteed outcome.

The L-Max[®] Technology is a proprietary process that is the subject of International Patent Application PCT/AU2015/000608. The patent is pending in 148 countries.

Although the Company is not aware of any third party interests in relation to the L-Max[®] Technology, there is always a risk of third parties claiming involvement in technological discoveries, and if any disputes arise, they could adversely affect the Company.

Although the Company will implement all reasonable endeavours to protect its L-Max[®] Technology, there can be no assurance that these measures have been, or will be sufficient.

(s) Currency Risk

The Company's operations currently incur most expenditures in Australian dollars but also incur expenditures in other currencies. As a result of the use of different currencies, the Company is subject to foreign currency fluctuations which may materially affect its business, results of operations and financial condition.

(t) Conflicts of Interest

Certain directors and officers of the Company are, and may continue to be, involved in the mining and mineral exploration industry through their direct and indirect participation in corporations, partnerships or joint ventures. Situations may arise where the other interests of these Directors and officers may conflict with the interests of the Company. Directors and officers of the Company with conflicts of interest will be subject to and are required to follow the procedures set out in applicable corporate and securities legislation, regulations, rules and policies.

(u) Litigation

Legal proceedings may arise from time to time in the course of the Company's business. There have been a number of cases where the rights and privileges of mining companies have been subject to litigation. The Directors cannot preclude that such litigation may be brought against the Company in the future from time to time or that it may be subject to any other form of litigation.

(v) Risks associated with Lithium Australia

(i) Risks relating to the Offer

(A) Issue of Lithium Australia Shares as consideration

Lepidico Shareholders are being offered specific quantities of LIT Shares as consideration under the Offer. As a result, the value of the consideration will fluctuate depending upon the market value of Lithium Australia Shares at any given time. Accordingly, the market value of the Lithium Australia Shares at the time Lepidico Shareholders receive them may vary significantly from their market value on the date of acceptance of the Offer.

(B) Rollover relief

If Lithium Australia does not acquire a Relevant Interest in at least 80% of Lepidico Shares, scrip-for-scrip CGT rollover relief will not be available to Lepidico Shareholders.

(C) Sale of Lithium Australia Shares

Under the Offer, Lithium Australia will issue a significant number of new LIT Shares. Some holders of Lepidico Shares may not intend to continue holding their Lithium Australia Shares and may wish to sell them. There is a risk that this may adversely impact on the price of and demand for Lithium Australia Shares.

(D) Acquisition of less than 90% of Lepidico Shares

It is possible that Lithium Australia could acquire a Relevant Interest of less than 90% of Lepidico Shares on issue under the Offer. The existence of a minority interest in Lepidico may have an impact on the operations of the Combined Group, although this impact will depend on the ultimate level of Lepidico ownership acquired by Lithium Australia.

(E) Merger integration

If Lithium Australia acquires a substantial interest in Lepidico pursuant to the Offer, integrating Lithium Australia and Lepidico may create some risks, including the integration of management, information systems and work practices. Furthermore, there is no guarantee

that any synergy benefits or costs savings will be achieved on time or at all.

(F) Duty and government charges

Stamp duty and other government charges may be payable by Lithium Australia in relation to the Offer. The amount of these duties and charges may be material.

(G) Forward looking information

Certain information in the Bidder's Statement constitutes forward-looking information that is subject to risks and uncertainties and a number of assumptions, which may cause the actual expenditure of the Combined Group to be different from the expectations expressed or implied in the Bidder's Statement.

(w) General risks

(i) Economic

General economic conditions, movements in interest and inflation rates and currency exchange rates may have an adverse effect on Lepidico's activities, as well as on its ability to fund those activities.

(ii) Market conditions

Share market conditions may affect the value of Lepidico's quoted securities regardless of Lepidico's operating performance. Share market conditions are affected by many factors such as:

- (A) general economic outlook;
- (B) introduction of tax reform or other new legislation;
- (C) interest rates and inflation rates;
- (D) changes in investor sentiment toward particular market sectors;
- (E) the demand for, and supply of, capital; and
- (F) terrorism or other hostilities.

The market price of securities can fall as well as rise and may be subject to varied and unpredictable influences on the market for equities in general. Neither Lepidico nor the Lepidico Directors warrant the future performance of Lepidico or any return on an investment in Lepidico.

(iii) Regulation

Government legislation and policy, both within Australia and internationally, including changes to the taxation system may have an adverse effect on Lepidico's activities.

(iv) Dividends

Any future determination as to the payment of dividends by Lepidico will be at the discretion of the Lepidico Directors and will depend on the availability of distributable earnings and operating results and financial condition of Lepidico, future capital requirements and general business and other factors considered relevant by the Lepidico Directors. No assurance in relation to the payment of dividends or franking credits attaching to dividends can be given by Lepidico.

(v) Taxation

The disposal of Lepidico Shares will have tax consequences which may differ depending on the individual financial affairs of each Lepidico Shareholder. All Lepidico Shareholders are urged to obtain independent financial advice about the consequences of accepting the Offer from a taxation viewpoint and generally.

(vi) Reliance on Key Personnel

The responsibility of overseeing the day-to-day operations and the strategic management of Lepidico depends substantially on its senior management and its key personnel. There can be no assurance given that there will be no detrimental impact on Lepidico if one or more of these employees cease their employment.

6. KEY FEATURES OF THE OFFER

6.1 Consideration payable to Lepidico Shareholders who accept the Offer

The consideration being offered by Lithium Australia under the Offer is one (1) Lithium Australia Share for every thirteen and one quarter (13.25) Lepidico Shares held by the Lepidico Shareholders that Lithium Australia does not already own or control.

6.2 Offer Conditions

Lithium Australia's Offer is subject to a number of Offer Conditions. The Offer Conditions are set out in full in section 9 of Annexure A of the Bidder's Statement.

Subject to section 10 of Annexure A the Bidder's Statement, the Offer and any contract that results from acceptance of the Offer are subject to fulfilment of the following conditions:

- (a) the VWAP of a Lepidico Share does not fall by 40% or greater from the closing price on ASX on the Trading Day before the date of the Offer for a period of two consecutive Trading Days during the Bid Period;
- (b) there being no Material Adverse Change between 6 February 2017 and the end of the Offer Period; and
- (c) there being no Prescribed Occurrence between 6 February 2017 and the end of the Offer Period.

6.3 Notice of Status of Conditions

Lithium Australia must give a Notice of Status of Conditions to the ASX and Lepidico on a date between 14 and 7 days before the end of the Offer Period (subject to variation in accordance with Section 630(2) of the Corporations Act if the Offer Period is extended), and Lithium Australia has nominated 11 April 2017 as the date on which it will give such a notice.

Lithium Australia is required to set out in its Notice of Status of Conditions:

- (a) whether the Offer is free of any or all of the Offer Conditions;
- (b) whether, so far as Lithium Australia knows, any of the Offer Conditions have been fulfilled; and
- (c) Lithium Australia's voting power in Lepidico.

If the Offer Period is extended by a period before the time by which the Notice of Status of Conditions is to be given, the date for giving the Notice of Status of Conditions will be taken to be postponed for the same period. In the event of such an extension, Lithium Australia is required, as soon as practicable after the extension, to give a notice to the ASX and Lepidico that states the new date for the giving of the Notice of Status of Conditions.

If an Offer Condition is fulfilled (so that the Offer becomes free of that condition) during the Offer Period but before the date on which the Notice of Status of Conditions is required to be given, Lithium Australia must, as soon as practicable, give the ASX and Lepidico a notice that states that the particular condition has been fulfilled.

6.4 Offer Period

Unless Lithium Australia's Offer is extended or withdrawn, it is open for acceptance until midnight (AWST) on 18 April 2017.

The circumstances in which Lithium Australia may extend or withdraw its Offer are set out in section 6.5 and section 6.6 respectively of this Target's Statement.

6.5 Extension of the Offer Period

Lithium Australia may extend the Offer Period at any time before giving the Notice of Status of Conditions (referred to in section 6.3 of this Target's Statement) while the Offer is subject to conditions. However, if the Offer is unconditional (that is, all the Offer Conditions are fulfilled or freed), Lithium Australia may extend the Offer Period at any time before the end of the Offer Period.

In addition, there will be an automatic extension of the Offer Period if, within the last 7 days of the Offer Period:

- (a) Lithium Australia improves the consideration offered under the Offer; or
- (b) Lithium Australia's voting power in Lepidico increases to more than 50%.

If either of these two events occurs, the Offer Period is automatically extended so that it ends 14 days after the relevant event occurs.

6.6 Withdrawal of Offer

Lithium Australia may not withdraw the Offer if you have already accepted it. Before you accept the Offer, Lithium Australia may withdraw the Offer with the written consent of ASIC and subject to the conditions (if any) specified in such consent.

6.7 Effect of acceptance

The effect of acceptance of the Offer is set out in section 6 of Annexure A of the Bidder's Statement. Lepidico Shareholders should read these provisions in full to understand the effect that acceptance will have on their ability to exercise the rights attaching to their Lepidico Shares and the representations and warranties which they give by accepting the Offer.

6.8 Your ability to withdraw your acceptance

You only have limited rights to withdraw your acceptance of the Offer.

You may only withdraw your acceptance of the Offer if Lithium Australia varies the Offer in a way that postpones, for more than one month, the time when Lithium Australia needs to meet its obligations under the Offer. This will occur if Lithium Australia extends the Offer Period by more than one month and the Offer is still subject to conditions.

6.9 When you will receive your consideration if you accept the Offer

In the usual case, you will be issued your consideration on or before the later of:

- (a) one month after the date the Offer becomes, or is declared, unconditional; and

- (b) one month after the date you accept the Offer if the Offer is, at the time of acceptance, unconditional,

but, in any event (assuming the Offer becomes, or is declared, unconditional), no later than 21 days after the end of the Offer Period.

However, there are certain exceptions to the above timetable for the issuing of consideration. Full details of when you will be issued your consideration are set out in section 7 of Annexure A of the Bidder's Statement.

6.10 Effect of an improvement in consideration on Lepidico's Shareholders who have already accepted the Offer

If Lithium Australia improves the consideration offered under the Offer, all Lepidico Shareholders, whether or not they have accepted the Offer before that improvement in consideration, will be entitled to the benefit of that improved consideration.

6.11 Lapse of Offer

The Offer will lapse if the Offer Conditions are not freed or fulfilled by the end of the Offer Period, in which case, all contracts resulting from acceptance of the Offer and all acceptances that have not resulted in binding contracts are void. In that situation, you will be free to deal with your Lepidico Shares as you see fit.

6.12 Compulsory acquisition

(a) Compulsory acquisition within one month after the end of the Offer Period

Lithium Australia will be entitled to compulsorily acquire any Lepidico Shares in respect of which it has not received an acceptance of its Offer on the same terms as the Offer if, during or at the end of the Offer Period:

- (i) Lithium Australia and its Related Bodies Corporate acquire a Relevant Interest in at least 90% (by number) of the Lepidico Shares; and
- (ii) Lithium Australia and its Related Bodies Corporate have acquired at least 75% (by number) of the Lepidico Shares that Lithium Australia offered to acquire (excluding Lepidico Shares in which Lithium Australia or its Related Bodies Corporate had a Relevant Interest at the date of the Offer and also excluding Lepidico Shares issued to an Associate of Lithium Australia during the Offer Period).

If these thresholds are met and Lithium Australia wishes to exercise its right to compulsorily acquire any outstanding Lepidico Shares, Lithium Australia will have one month after the end of the Offer Period within which to give compulsory acquisition notices to Lepidico Shareholders who have not accepted the Offer. Lepidico Shareholders have certain rights under the Corporations Act to challenge a compulsory acquisition pursuant to the procedure outlined in the Corporations Act, but a successful challenge will require the relevant Lepidico Shareholder to establish to the satisfaction of a court that the terms of the Offer do not represent 'fair value' for their Lepidico Shares. If compulsory acquisition occurs, Lepidico Shareholders who have their Lepidico Shares compulsorily acquired are likely to be sent their consideration

approximately five to six weeks after the compulsory acquisition notices are dispatched to them.

The Directors of Lepidico who control approximately 18% of the Lepidico Shares on issue intend to REJECT the Offer in respect of the Lepidico Shares held by them or on their own behalf. Accordingly, based on the current Offer, Lithium Australia WILL NOT MEET the above thresholds to compulsorily acquire any outstanding Lepidico Shares within one month after the end of the Offer Period.

(b) Alternative compulsory acquisition regime

It is also possible that Lithium Australia will, at some time during or after the end of the Offer Period, either alone or with a Related Body Corporate, hold full beneficial interests in at least 90% (by number) of all the Lepidico Shares. Lithium Australia would then have rights to compulsorily acquire all of the Lepidico Shares that it does not own within six months of becoming the holder of 90% (by number) of all the Lepidico Shares. The price which Lithium Australia would have to pay to compulsorily acquire all of the remaining Lepidico Shares under this alternative compulsory acquisition regime would have to be considered in a report of an independent expert.

Lepidico Shareholders would have certain rights under the Corporations Act to challenge a compulsory acquisition pursuant to the procedures outlined in the Corporations Act, but a challenge would require people who hold at least 10% of the Lepidico Shares that are proposed to be the subject of the compulsory acquisition to object to the compulsory acquisition. If people holding such number of Lepidico Shares object to the compulsory acquisition, and Lithium Australia still wishes to proceed with the compulsory acquisition, Lithium Australia would be required to establish to the satisfaction of a court that the terms of the compulsory acquisition represent 'fair value' for the Lepidico Shares. In the absence of a challenge by people holding the requisite number of Lepidico Shares, Lepidico Shareholders who have their Lepidico Shares compulsorily acquired under this procedure are likely to be sent their consideration approximately five to six weeks after the compulsory acquisition notices are dispatched to them.

7. INFORMATION REGARDING LEPIDICO

7.1 Background information on Lepidico

Lepidico was incorporated on 1 June 1979 in Western Australia and listed on ASX on 2 May 1994 as Zephyr Minerals NL (ASX: ZPR).

Lepidico Ltd is an ASX-listed Company focused on exploration, development and production of lithium. Lepidico owns L-Max[®], the technology to a metallurgical process that has successfully produced lithium carbonate from non-conventional sources, specifically lithium-rich mica minerals including lepidolite and zinnwaldite.

(a) Exploration projects

Lepidico has interests in the following exploration projects:

- (i) On 23 February 2017, Lepidico announced that it had signed a farm-in agreement with Pioneer Resources Limited for Lepidico to earn a 75% interest in the 'PEG009' lepidolite prospect, located within Pioneer Resources Limited's Pioneer Dome Project, near Norseman in Western Australia.
- (ii) On 9 March 2017, Lepidico announced that it had signed a binding term sheet with Grupo Mota, owner and operator of the Alvarrões lepidolite mine, located near the city of Guarda in northeast Portugal. Lepidico will undertake near-mine drilling at Alvarrões with the aim of delineating JORC Code compliant Mineral Resources as potential feed for future L-Max[®] processing facilities. Under the term sheet Lepidico will spend a minimum of €250,000 on exploration and drilling over an 18-month exclusive period.
- (iii) On 6 February 2017, Lepidico announced entry into a letter of intent with Avalon Materials Inc for an integrated lepidolite mining and lithium carbonate production partnership in Canada. Avalon Materials Inc owns the Separation Rapids lithium deposit situated approximately 70 kilometres by road north of Kenora, Ontario.
- (iv) Lepidico is currently in the process of earning up to 75% of the Lemare Project, located in the James Bay region of Quebec, from Critical Elements Corporation by spending a further C\$350,000 on exploration by 31 August 2017, extended from 31 March 2017 by mutual agreement between the parties. The Lemare Project is home to numerous large lithium deposits and comprises one block totalling 158 claims covering an area of 7,806.82 hectares, with a lateral extent of over 20 kilometres in a southwest-northeast direction.
- (v) Lepidico's 100% owned Euriowie Project consists of 49km² of tenements located 60 kilometres north of Broken Hill, New South Wales and is located close to key infrastructure. Within the tenements, there are three historical mine workings in amblygonite-rich pegmatites. Amblygonite is a lithium-phosphate mineral that has a high lithium content of up to 10% Li₂O. In September 2016, Exploration Licence 8468 was granted in relation to the project area, allowing exploration activities to commence.

- (vi) The Royal Project, located in Canada, comprises five contiguous claims of approximately 286 hectares in area, and represents a virgin lepidolite find within a known lithium district, situated only four kilometres from the Quebec Lithium Mine and 30 kilometres north of Val d'Or. The project is operated by Canadian listed St - Georges Platinum and Base Metals Ltd. Lepidico has a 10% interest in the project and an option to increase its interest to 50%.
- (vii) Lepidico's 100% owned East Pilbara Project, Western Australia comprises Western Australian tenement, E45/3326. Lepidico is currently looking to divest this non-core asset.

(b) Technology

Lepidico's L-Max[®] Technology has the potential to disrupt the lithium market by providing additional lithium supply from alternative sources. The Company currently has results from its PFS for a Phase 1 L-Max[®] Plant, targeting production for 2019. Four potential sources of feed to the planned Phase 1 L-Max[®] Plant are being evaluated, including the Separation Rapids deposit in partnership with its owner Avalon Advanced Materials Inc, the Pioneer Dome project with its owner Pioneer Resources Limited, and the Alvarroes deposit with its owner Grupo Mota.

Lepidico has entered into the following technology agreements:

- (i) Lepidico has granted Lithium Australia L-Max[®] rights.
- (ii) Lepidico has entered into the Cinovec Licence, an agreement between Lepidico and European Metals Holdings Ltd (ASX: EMH) whereby European Metals Holdings Ltd can acquire the use of L-Max[®] by payment of \$30,000 and the issue of 890,215 shares in European Metals Holdings Ltd prior to May 2017, with a 2% gross product royalty.
- (iii) Third Elements Pty Ltd ("**TEM**") was a 50:50 joint venture established in 2016, through which Lepidico and Crusader Resources Limited (ASX: CAS) ("**Crusader**") would investigate opportunities in Brazil, and later Portugal, to leverage Lepidico's L- Max[®] Technology. As part of those activities, TEM lodged an application for an exploration licence ("**Gaia**") in the Guarda area contiguous with the Alvarrões property.

As a result of Lepidico's agreement with Grupo Mota, the TEM joint venture agreement has been replaced with a simplified cooperative structure which is designed to allow both Lepidico and Crusader to leverage their respective strengths and strategic objectives.

Lepidico will focus on the existing mines in the area with a view to lithium mica concentrate supply for export to L-Max[®] plant(s), including with Grupo Mota over the Alvarrões property. Meanwhile Crusader (through TEM) will concentrate on exploration at Gaia (and in Brazil) with a longer-term objective of being able to justify the construction of L-Max[®] plants in Brazil and Portugal.

Eventually, Lepidico will transfer its interest in TEM to Crusader, which will become the sole shareholder of TEM. TEM will maintain

the Gaia application and associated rights on grant, but should Crusader elect to divest, TEM will transfer the application and associated rights to Lepidico. Crusader and/or TEM will have rights to one L-Max[®] licence in each of Portugal and Brazil. Should TEM develop an L-Max[®] plant in Portugal, Lepidico will supply any concentrate from Alvarrões on reasonable commercial terms.

If Crusader and/or TEM develops lithium mica assets in Brazil and produces concentrate for export, Lepidico will have the option to secure an offtake agreement on reasonable commercial terms.

7.2 Directors of Lepidico

As at the date of this Target's Statement, the directors of Lepidico are:

Name	Position
Gary Johnson	Non-Executive Chairman
Julian ("Joe") Walsh	Managing Director
Tom Dukovcic	Executive Director
Mark Rodda	Non-Executive Director

7.3 Publicly available information about Lepidico

Lepidico is a listed disclosing entity for the purposes of the Corporations Act and as such is subject to regular reporting and disclosure obligations. Specifically, as a listed company, Lepidico is subject to the ASX Listing Rules which require continuous disclosure of any information Lepidico has that a reasonable person would expect to have a material effect on the price or value of its securities.

Copies of ASX announcements made by Lepidico are available on the ASX's website at www.asx.com.au (ASX Code: LPD; Prior codes: PLP, ATN, ZPR).

7.4 Financial information and related matters

Lepidico's last published financial statements are for the half year ended 31 December 2016 and were released on the ASX on 22 February 2017.

Copies of these reports may be obtained from ASX's website at www.asx.com.au (ASX: LPD).

So far as the Lepidico Directors are aware:

- (a) the financial position of Lepidico has not materially changed since the date of the financial report for the half year ended 31 December 2016; and
- (b) there has not been any matter or circumstance, other than those referred to in the financial report for the half year ended 31 December 2016 and this Target's Statement that has significantly affected, or may significantly affect the operations or the financial position of Lepidico, the results of

operations of Lepidico, or the state of affairs of Lepidico in future financial years.

Lepidico Shareholders should consider section 9.1 of this Target's Statement in connection with the potential effect of the Offer on Lepidico's financing arrangements and material contracts.

7.5 Forecast financial information for Lepidico

Lepidico has given careful consideration as to whether a reasonable basis exists to produce reliable and meaningful forecast financial information. The Lepidico Directors have concluded that, as at the date of this Target's Statement, it would be misleading to provide forecast financial information for Lepidico, as a reasonable basis does not exist for providing forecasts that would be sufficiently meaningful and reliable as required by applicable law, policy and market practice.

The financial performance of Lepidico in any period will be influenced by various factors that are outside the control of the Lepidico Directors and that cannot, at this time, be predicted with a high level of confidence.

7.6 Lithium Australia's current interests in Lepidico

As at the date of this Target's Statement, Lithium Australia has a Relevant Interest in 310,908,037 Lepidico Shares, representing 17.76% of the Lepidico Shares currently on issue.

Further details regarding Lithium Australia's current interests in Lepidico can be found at section 3.8 of the Bidder's Statement.

7.7 Entitlement Offer

On 16 March 2017, the Company announced a pro-rata non-renounceable entitlement issue of Lepidico Shares on the basis of one (1) new Lepidico Share for every four (4) existing Lepidico Shares held by eligible Lepidico Shareholders at the record date of 21 March 2017 ("**Entitlement Offer**").

Shares under the Entitlement Offer will be offered at \$0.013 per new Lepidico Share. The maximum number of new Lepidico Shares which may be issued under the Entitlement Offer is 437,634,398 Lepidico Shares to raise up to approximately \$5,689,247 (before expenses, based on the current capital structure of the Company).

The receipt of the unsolicited, conditional and inadequate scrip takeover Offer from Lithium Australia, has meant the Company has incurred unbudgeted expenditures, requiring the Company to redirect existing cash reserves to support its takeover defence.

The proceeds of the Entitlement Offer, along with the Company's existing cash reserves, will be deployed to commence the DFS, including certain exploration activities, and for other working capital requirements.

The Entitlement Offer price of \$0.013 per new Lepidico Share represents a 13% discount to the last traded price of Lepidico Shares immediately before the Entitlement Offer was announced (being \$0.015 on 15 March 2017), and a 10% discount to the 30-day volume weighted average price of Lepidico's Shares.

Importantly, the Entitlement Offer price is at a premium to Lithium Australia's implied takeover bid price. As at the date immediately prior to the Entitlement Offer being announced, the takeover bid from Lithium Australia was valued at only \$0.011 per existing Lepidico Share.

Eligible Lepidico Shareholders were sent a copy of the offer document pursuant to which the Entitlement Offer is being made on 22 March 2017.

8. INFORMATION RELATING TO THE LEPIDICO DIRECTORS

8.1 Interests and dealings in Lepidico securities

(a) Interests in Lepidico securities

As at the date of this Target's Statement, the Lepidico Directors had the following Relevant Interests in Lepidico Shares and Lepidico Options:

Director	Lepidico Shares	Lepidico Options
Gary Johnson	303,526,448 ¹	12,500,000 ²
Julian ("Joe") Walsh	6,000,000 ³	52,500,000 ⁴
Tom Dukovcic	3,161,334 ⁵	23,500,000 ⁶
Mark Rodda	Nil	12,500,000 ⁷

Notes

1. Gary Johnson's Lepidico Shares are held by Strategic Metallurgy Pty Ltd, an entity controlled by Mr Johnson.
2. Unlisted options exercisable at 2.5 cents on or before 31 December 2019.
3. Comprising of:
 - a. 6,000,000 Shares held by Fogg Walsh Family Trust Pty Ltd <Fogg Walsh Family Trust>.
4. Comprising of:
 - a. 40,000,000 unlisted Lepidico Options exercisable at 1.815 cents on or before 3 August 2018 held by Alchemy Advisors Pty Ltd, an entity controlled by Mr Walsh; and
 - b. 12,500,000 unlisted Lepidico Options exercisable at 2.5 cents on or before 31 December 2019 held by Fogg Walsh Family Trust Pty Ltd <Fogg Walsh Family Trust>.
5. Comprising of:
 - a. 3,108,000 Shares held directly by Mr Dukovcic; and
 - b. 53,334 Shares held indirectly by Tenacity Resources Pty Ltd, an entity controlled by Mr Dukovcic.
6. Comprising of:
 - a. 2,000,000 unlisted Lepidico Options exercisable at 3 cents on or before 30 September 2017;
 - b. 11,000,000 unlisted Lepidico Options exercisable at 1 cent on or before 31 December 2019; and
 - c. 12,500,000 unlisted Lepidico Options exercisable at 2.5 cents on or before 31 December 2019.
7. Unlisted options exercisable at 2.5 cents on or before 31 December 2019 held indirectly by Sodelu Pty Ltd <Sodelu Trust>, an entity which Mr Rodda is a beneficiary of.

(b) Dealings in Lepidico Shares and Lepidico Options

In the four (4) month period ending on the date immediately before the date of this Target's Statement, the Lepidico Directors have acquired or disposed of a Relevant Interest in Lepidico Shares or Lepidico Options as follows:

- (i) Gary Johnson acquired a Relevant Interest in:
 - (A) 12,500,000 unlisted Lepidico Options exercisable at 2.5 cents on or before 31 December 2019 issued pursuant to shareholder approval at the Company's 2016 AGM on 25 November 2016; and
 - (B) 50,000,000 Lepidico Shares under a voting agreement as disclosed to the Company and the ASX by Strategic Metallurgy Pty Ltd dated 15 March 2017;
- (ii) Julian Walsh acquired a Relevant Interest in:
 - (A) 6,000,000 Lepidico Shares on 14 December 2016 through Fogg Walsh Family Trust Pty Ltd <Fogg Walsh Family Trust>; and
 - (B) 12,500,000 unlisted Lepidico Options exercisable at 2.5 cents on or before 31 December 2019 issued pursuant to shareholder approval at the Company's 2016 AGM on 25 November 2016 through Fogg Walsh Family Trust Pty Ltd <Fogg Walsh Family Trust>;
- (iii) Tom Dukovcic acquired a Relevant Interest in 12,500,000 unlisted Lepidico Options exercisable at 2.5 cents on or before 31 December 2019 issued pursuant to shareholder approval at the Company's 2016 AGM on 25 November 2016; and
- (iv) Mark Rodda acquired a Relevant Interest in 12,500,000 unlisted Lepidico Options exercisable at 2.5 cents on or before 31 December 2019 issued pursuant to shareholder approval at the Company's 2016 AGM on 25 November 2016 through Sodelu Pty Ltd <Sodelu Trust>.

8.2 Interests and dealings in Lithium Australia Group securities

(a) Interests in Lithium Australia Group securities

As at the date immediately before the date of this Target's Statement, no Lepidico Director had a Relevant Interest in any Lithium Australia Group securities.

(b) Dealings in Lithium Australia Group securities

No Lepidico Director has acquired or disposed of a Relevant Interest in any Lithium Australia Group securities in the four (4) month period ending on the date immediately before the date of this Target's Statement.

8.3 Benefits and agreements

(a) Benefits in connection with retirement from office

As a result of the Offer, no person has been or will be given any benefit (other than a benefit which can be given without member approval under the Corporations Act) in connection with the retirement of that person, or someone else, from a board or managerial office of Lepidico or related body corporate of Lepidico.

(b) Agreements connected with or conditional on the Offer

There are no agreements made between any Lepidico Director and any other person in connection with, or conditional upon, the outcome of the Offer other than in their capacity as a holder of Lepidico Shares or Lepidico Options.

(c) Benefits from Lithium Australia Group

None of the Lepidico Directors have agreed to receive, or are entitled to receive, any benefit from any member of the Lithium Australia Group which is conditional on, or is related to, the Offer, other than in their capacity as a holder of Lepidico Shares or Lepidico Options.

(d) Interests of directors in contracts with Lithium Australia

None of the Lepidico Directors have any interest in any contract entered into by any member of the Lithium Australia Group.

9. ADDITIONAL INFORMATION

9.1 Effect of the takeover on Lepidico's financing and material agreements

On 23 February 2017, Lepidico announced that it had signed a farm-in agreement with Pioneer Resources Limited for Lepidico to earn a 75% interest in the 'PEG009' lepidolite prospect located within Pioneer's Pioneer Dome project near Norseman in Western Australia.

Pioneer has a change of control provision in place with Lepidico in this agreement. This provision protects Pioneer from any undesirable aspects associated with a change of control of Lepidico and allows Pioneer to terminate the agreement in this event if they so wish.

9.2 Material litigation

As far as the Lepidico Directors are aware, Lepidico is not involved in any ongoing litigation which is material in the context of Lepidico and its Related Bodies Corporate taken as a whole.

9.3 Lepidico's issued securities

As at the date of this Target's Statement, Lepidico's issued equity securities consisted of:

- (a) 1,750,537,591 Lepidico Shares on issue; and
- (b) 151,750,000 Lepidico Options on issue comprising of:

	Number
Unquoted Options exercisable at \$0.03 on or before 30 September 2017	27,750,000
Unquoted Options exercisable at \$0.01815 on or before 3 August 2018	40,000,000
Unquoted Options exercisable at \$0.01 on or before 31 December 2018	9,000,000
Unquoted Options exercisable at \$0.025 on or before 31 December 2019	50,000,000
Unquoted Options exercisable at \$0.025 on or before 31 December 2019	25,000,000 ¹

Notes

1. 12,500,000 of which are subject to a vesting period. 50% vest on 31 May 2017 and 50% vest on 30 November 2017 except upon a change of control in which case the Options will either vest immediately.

There are no other Lepidico Shares or other securities (including equity securities, debt securities or convertible securities) or options or performance rights or other instruments which are convertible into securities in Lepidico.

Pursuant to an offer document released to ASX on 16 March 2017, the Company is offering up to 437,634,398 new Lepidico Shares to eligible Lepidico Shareholders pursuant to the Entitlement Offer discussed in section 7.7 of this Target's Statement.

If all eligible Lepidico Shareholders take up their entitlements under the Entitlement Offer, the Company will issue a further 437,634,398 Lepidico Shares on settlement of the Entitlement Offer (which is currently scheduled for 12 April 2017).

9.4 Substantial holders

As at the date of this Target's Statement, Lepidico is aware from notices filed with the ASX that the following persons have substantial holdings in Lepidico:

	Name of substantial holder	Number of Lepidico Shares held	% of total Lepidico Shares
1.	Lithium Australia ¹	310,908,037	17.76%
2.	Strategic Metallurgy Pty Ltd	303,526,448	17.34%

Notes

1. Lithium Australia has a relevant interest in 310,908,037 Shares pursuant to the Pre-Bid Acceptance Agreements.

9.5 Effect of Offer on Lepidico Options

The Offer extends to new Lepidico Shares that are issued after the Record Date and during the Offer Period as a result of the exercise of Lepidico Options on issue at the Record Date.

9.6 Continuous disclosure

Lepidico is a disclosing entity under the Corporations Act and is subject to regular reporting and disclosure obligations under the Corporations Act and the ASX Listing Rules. These obligations require Lepidico to notify ASX of information about specified matters and events as they occur for the purpose of making that information available to the market. In particular, Lepidico has an obligation (subject to limited exceptions) to notify ASX immediately on becoming aware of any information which a reasonable person would expect to have a material effect on the price or value of Lepidico Shares.

Copies of the documents filed with ASX may be obtained from the ASX website at www.asx.com.au (ASX: LPD) or from the Lepidico website at www.lepidico.com. In addition, Lepidico will make copies of the following documents available for inspection at Lepidico's offices which are located at Level 1, 254 Railway Parade, West Leederville, Western Australia (between 9.00am and 5.00pm on Business Days):

- (a) Annual Report 2016, lodged with ASX on 25 November 2016; and
- (b) any continuous disclosure document lodged by Lepidico with ASX between the lodgement of its Annual Report 2016 and the date of this Target's Statement.

Copies of documents lodged with ASIC in relation to Lepidico may be obtained from, or inspected at, an ASIC office.

9.7 Consents

Steinepreis Paganin has given, and has not withdrawn before the lodgement of this Target's Statement with ASIC, its written consent to be named in this Target's Statement as Australian legal advisers to Lepidico in the form and context in which it is named. Steinepreis Paganin has not advised on the laws of any foreign jurisdiction, and has provided no tax advice in relation to any jurisdiction. Steinepreis Paganin has not caused or authorised the issue of this Target's

Statement, does not make or purport to make any statement in this Target's Statement or any statement on which a statement in this Target's Statement is based and takes no responsibility for any part of this Target's Statement, other than a reference to its name.

Bacchus Capital Advisers Limited has given, and has not withdrawn before the lodgement of this Target's Statement with ASIC, its written consent to be named in this Target's Statement as the Company's corporate adviser in the form and context in which it is named. Bacchus Capital Advisers Limited has provided no tax advice in relation to any jurisdiction. Bacchus Capital Advisers Limited has not caused or authorised the issue of this Target's Statement, does not make or purport to make any statement in this Target's Statement or any statement on which a statement in this Target's Statement is based and takes no responsibility for any part of this Target's Statement, other than a reference to its name.

BDO Corporate Finance (WA) Pty Ltd has given, and has not withdrawn before the lodgement of this Target's Statement with ASIC, its written consent to be named in the Target's Statement and for the Independent Expert's Report to accompany this Target's Statement, and for the inclusion of any statement said in this Target's Statement or the Independent Expert's Report based on a statement by BDO Corporate Finance (WA) Pty Ltd, in the form and context in which it is included.

BDO Corporate Finance (WA) Pty Ltd:

- (a) has not caused or authorised the issue of this Target's Statement;
- (b) does not make or purport to make any statement in this Target's Statement or any statement on which a statement in this Target's Statement is based, other than as included in the Independent Expert's Report and statements in this Target's Statement based on its Independent Expert's Report; and
- (c) takes no responsibility for any part of this Target's Statement other than the Independent Expert's Report and statements in this Target's Statement based on the Independent Expert's Report and any reference to its name.

R.W. Nice & Assoc. Pty Ltd has given, and has not withdrawn before the lodgement of this Target's Statement with ASIC, its written consent to be named in the Target's Statement and for the Independent Technical Specialist Report to accompany the Independent Expert's Report and this Target's Statement, and for the inclusion of any statement said in this Target's Statement or the Independent Technical Specialist Report based on a statement by R.W. Nice & Assoc. Pty Ltd, in the form and context in which it is included.

R.W. Nice & Assoc. Pty Ltd:

- (a) has not caused or authorised the issue of this Target's Statement;
- (b) does not make or purport to make any statement in this Target's Statement or any statement on which a statement in this Target's Statement is based, other than as included in the Independent Technical Specialist Report and statements in this Target's Statement based on its Independent Technical Specialist Report; and
- (c) takes no responsibility for any part of this Target's Statement other than the Independent Technical Specialist Report and statements in this

Target's Statement based on the Independent Technical Specialist Report and any reference to its name.

Each Lepidico Director has given, and has not withdrawn before the lodgement of this Target's Statement with ASIC, its written consent to the making of statements in this Target's Statement that they intend to reject the Offer in respect of the Lepidico Shares held by them or on their behalf (either only in relation to the parcel of Lepidico Shares that they own, control or represent, or in aggregate with other parcels of Lepidico Shares owned, controlled or represented by other Lepidico Shareholders who also intend to reject, or cause to be rejected, the Offer).

As permitted by ASIC Class Order 13/521 this Target's Statement contains statements which are made in, or based on statements made in, documents lodged with ASIC or given to the ASX. Pursuant to the Class Order, the parties making those statements are not required to consent to, and have not consented to, the inclusion of those statements in this Target's Statement. If you would like to receive a copy of any of these documents, or the relevant parts of the documents containing the statements (free of charge), during the Offer Period, please contact the Company.

9.8 Regulatory and other approval, consent or waiver requirements

Lepidico has not been granted any modifications or exemptions by ASIC from the Corporations Act in connection with the Takeover Bid, nor has Lepidico been granted any waivers from ASX in relation to the Takeover Bid.

9.9 No other material information

This Target's Statement is required to include all the information that Lepidico Shareholders and their professional advisers would reasonably require to make an informed assessment whether to accept the Offer, but:

- (a) only to the extent to which it is reasonable for investors and their professional advisers to expect to find this information in this Target's Statement; and
- (b) only if the information is known to any director of Lepidico.

The Lepidico Directors are of the opinion that the information that Lepidico Shareholders and their professional advisers would reasonably require to make an informed assessment whether to accept the Offer is:

- (a) the information contained in the Bidder's Statement (to the extent that the information is not inconsistent or superseded by information in this Target's Statement);
- (b) the information contained in Lepidico's releases to the ASX, and in the documents lodged by Lepidico with ASIC before the date of this Target's Statement; and
- (c) the information contained in this Target's Statement.

The Lepidico Directors have assumed, for the purposes of preparing this Target's Statement, that the information in the Bidder's Statement is accurate (unless they have expressly indicated otherwise in this Target's Statement). However, the Lepidico Directors do not take any responsibility for the contents of the Bidder's

Statement and are not to be taken as endorsing, in any way, any or all statements contained in it.

In deciding what information should be included in this Target's Statement, the Lepidico Directors have had regard to:

- (a) the nature of the Lepidico Shares;
- (b) the matters that shareholders may reasonably be expected to know;
- (c) the fact that certain matters may reasonably be expected to be known to shareholders' professional advisers; and
- (d) the time available to Lepidico to prepare this Target's Statement.

10. GLOSSARY AND INTERPRETATION

10.1 Glossary

Where the following terms are used in this Target's Statement they have the following meanings:

\$ or **Dollar** means Australian dollars.

€ means Euro.

Acceptance Form means the acceptance form for the Offer accompanying the Bidder's Statement or, as the context requires, any replacement or substitute acceptance form provided by or on behalf of Lithium Australia, which forms part of the Bidder's Statement.

Announcement Date means 6 February 2017, being the day on which the Offer was announced by Lithium Australia with the ASX.

ASIC means Australian Securities & Investments Commission.

Associate has the meaning given to that term in sections 10 to 17 of the Corporations Act.

ASX means ASX Limited (ACN 008 624 691) or the financial market operated by it, as the context requires.

ASX Listing Rules or **Listing Rules** means the official listing rules of ASX.

ASX Settlement Operating Rules means the operating rules of the settlement facility provided by ASX.

AWST means Australian Western Standard Time.

Bid Period has the meaning given to that term in the Corporations Act.

Bidder's Statement means the statement under Part 6.5 of Division 2 of the Corporations Act issued by Lithium Australia in relation to the Offer, as supplemented.

Business Day means a day that is not a Saturday, Sunday or public holiday or bank holiday in Brisbane, Queensland, or Perth, Western Australia.

C\$ means Canadian dollars.

CGT means capital gains tax.

CHESS means Clearing House Electronic Subregister System, as defined in Rule 2.3.1 of the ASX Settlement Operating Rules.

CHESS Holding means a number of Lepidico Shares registered on Lepidico's share register, being a register administered by the ASX Settlement Corporation and that records uncertified holdings of shares.

Combined Group means Lithium Australia and its subsidiaries following the acquisition by Lithium Australia of all, or a portion of, Lepidico Shares on issue.

Competing Proposal has the meaning given to that term in the Bidder's Statement.

Corporations Act means the *Corporations Act 2001 (Cth)*.

DFS means a definitive feasibility study.

Dispose means to sell, offer for sale, transfer, assign, swap, surrender, gift, create or allow to exist an encumbrance, option or trust or otherwise deal with or dispose of that property (or any legal or beneficial interest in it or part of it) or authorise, or agree conditionally or otherwise to do, any of the things referred herein.

Entitlement Offer means the pro-rata, non-renounceable entitlement offer of Lepidico Shares, announced by the Company on 16 March 2017, on the basis of one (1) new Lepidico Share for every four (4) Lepidico Shares held by eligible Lepidico Shareholders on 21 March 2017 at an issue price of \$0.013 per new Lepidico Share.

Foreign Resident means a Lepidico Shareholder who is not a resident of Australia for taxation purposes.

GST means Australian goods and services tax.

GST Act means the *A New Tax System (Goods and Services Tax) Act 1999 (Cth)*.

Independent Expert or **BDO** means BDO Corporate Finance (WA) Pty Ltd.

Independent Expert's Report means the report prepared by the Independent Expert attached as Annexure A.

Independent Technical Specialist Report means the report of R.W. Nice & Assoc. Pty Ltd attached to the Independent Expert's Report.

Issuer Sponsored Holding means a holding of Lepidico Shares on Lepidico's issuer sponsored subregister.

Lepidico or **Company** means Lepidico Ltd (ACN 008 894 442).

Lepidico Board or **Board** means the board of directors of Lepidico.

Lepidico Director or **Director** means a director of Lepidico.

Lepidico Option means an option to acquire a Lepidico Share.

Lepidico Share means a fully paid ordinary share in the capital of Lepidico.

Lepidico Shareholder means a person who is recorded in Lepidico's register of members as the holder of one or more Lepidico Shares.

Lithium Australia, LIT or **Bidder** means Lithium Australia NL (ACN 126 129 413).

Lithium Australia Group means Lithium Australia and its Related Bodies Corporate.

Lithium Australia Shares or **LIT Shares** means fully paid ordinary shares in the issued capital of Lithium Australia.

Lithium Australia Performance Right or **LIT Performance Right** means a performance right that entitles the holder to a Lithium Australia Share subject to satisfaction of applicable performance hurdles and vesting conditions.

L-Max[®] Process or **L-Max[®] Technology** means the lithium process technology owned by Li-Technology Pty Ltd (a subsidiary of Lepidico) for the recovery of lithium and other heavy by-products from various mica bearing ores and concentrates by way of a sulphuric acid leaching step followed by purification of the resulting leach liquors and then recovery of the lithium product and other by-products.

Material Adverse Change means any matter, event or circumstance that has, or is reasonably likely, in the opinion of Lithium Australia, to have, a materially adverse effect on the business, assets, liabilities, material contracts, financial position, performance or prospects of Lepidico or any of its Subsidiaries or their respective businesses or affairs, that, individually or when aggregated together, would reasonably be expected to result in a diminution of the net assets of Lepidico by more than \$500,000 other than:

- (a) matters that are required to be undertaken in order to implement the Takeover Bid; or
- (b) matters that Lepidico fully and fairly disclosed to Lithium Australia or in an announcement made to the ASX prior to the Announcement Date where the relevant disclosure is not, and is not likely to be, incomplete, incorrect, untrue, or misleading.

Notice of Status of Conditions means Lithium Australia's notice disclosing the status of the conditions to the Offer which is required to be given by Section 630(3) of the Corporations Act.

Offer or **Lithium Australia's Offer** or **LIT's Offer** means the offer to acquire Lepidico Shares made by Lithium Australia in connection with the Takeover Bid.

Offer Conditions means the conditions to the Offer summarised in section 6.2 of this Target's Statement.

Offer Period means the period during which the Offer is open for acceptance.

PCT means Patent Cooperation Treaty.

PFS means a pre-feasibility study.

Phase 1 L-Max[®] Plant or **Plant** means Lepidico's proposed plant at Kenora, Ontario in Canada.

Pre-Bid Acceptance Agreement means the agreements between Lithium Australia and the Lepidico Shareholders who have agreed to accept the Offer subject to certain conditions dated 3 February 2017 and 6 February 2017.

Prescribed Occurrence means the occurrence of any of the following:

- (a) Lepidico converting all or any of the Lepidico Shares into a larger or smaller number of Shares under Section 254H of the Corporations Act;
- (b) Lepidico or a Subsidiary of Lepidico resolving to reduce its share capital in any way or reclassifying, combining, splitting or redeeming or repurchasing directly or indirectly any of its shares;

- (c) Lepidico or a Subsidiary of Lepidico:
 - (i) entering into a buy-back agreement; or
 - (ii) resolving to approve the terms of a buy-back agreement under the Corporations Act;
- (d) Lepidico declaring, paying or distributing any dividend, bonus or other share of its profits or assets that has not been declared on or before 1 July 2013;
- (e) Lepidico or a Subsidiary of Lepidico issuing shares, or granting an option over its shares, or agreeing to make such an issue or grant such an option;
- (f) Lepidico or a Subsidiary of Lepidico issuing or agreeing to issue, securities convertible into Lepidico Shares or debt securities;
- (g) Lepidico or a Subsidiary of Lepidico making any change to its constitution;
- (h) Lepidico or a Subsidiary of Lepidico disposing, or agreeing to dispose, of the whole, or a part, of its business or property;
- (i) Lepidico or a Subsidiary of Lepidico creating, or agreeing to create, any security interest, over the whole or a substantial part, of its business or property;
- (j) Lepidico or a Subsidiary of Lepidico resolving that it be wound up;
- (k) a liquidator or provisional liquidator of Lepidico or of a Subsidiary of Lepidico being appointed;
- (l) the court making an order for the winding up of Lepidico or of a Subsidiary of Lepidico;
- (m) an administrator of Lepidico or of a Subsidiary of Lepidico being appointed under the Corporations Act;
- (n) Lepidico or a Subsidiary of Lepidico being deregistered as a company or otherwise dissolved;
- (o) Lepidico or a Subsidiary of Lepidico executing a deed of company arrangement;
- (p) a receiver, or a receiver and manager, being appointed in relation to the whole, or a substantial part, of the property of Lepidico or of a Subsidiary of Lepidico.

Record Date means 3 March 2017.

Regulatory Authority includes:

- (a) a government or governmental, semi-governmental, administrative, fiscal or judicial entity or authority;
- (b) a minister, department, office, commission, delegate, instrumentality, tribunal, agency, board, authority or organisation of any government;

- (c) any regulatory organisation established under a statute; and
- (d) in particular, ASX and ASIC.

Related Bodies Corporate has the meaning given in the Corporations Act.

Related Entities has the meaning given in Section 9 of the Corporations Act.

Relevant Interest has the meaning given in Section 608 and Section 609 of the Corporations Act.

Sileach™ is a proprietary process for extracting and recovering lithium values from lithium bearing materials that is the subject of PCT/AU2017/050104 under the Patent Cooperation Treaty. The priority date for this application is 9 February 2016, the date of its original lodgement.

Subsidiary means a subsidiary within the meaning given to that term in Section 9 of the Corporations Act.

Strategic Metallurgy means Strategic Metallurgy Pty Ltd (ACN 144 944 589).

Takeover Bid means the off-market takeover bid made by Lithium Australia for all of the Lepidico Shares that Lithium Australia does not currently own or control.

Target's Statement means this document (including the attachments and annexure), being the statement under Part 6.5 Division 3 of the Corporations Act issued by Lepidico in relation to the Offer.

Third Party means a party other than Lepidico and any subsidiary of Lepidico, and Lithium Australia and any subsidiary of Lithium Australia.

Trading Day means a day designated as a trading day by ASX or any other prescribed financial market on which Lithium Australia Shares are quoted.

US\$ means US dollars.

Voting Power has the meaning given in section 9 of the Corporations Act.

VWAP means the volume weighted average price as defined in Chapter 19 of the ASX Listing Rules.

10.2 Interpretation

In this Target's Statement:

- (a) other words and phrases have the same meaning (if any) given to them in the Corporations Act;
- (b) words of any gender include all genders;
- (c) words indicating the singular include the plural and vice versa.
- (d) an expression indicating a person includes any company, partnership, joint venture, association, corporation or other body corporate and vice versa;

- (e) a reference to a section, clause, attachment and schedule is a reference to a section of, clause of and an attachment and schedule to this Target's Statement as relevant;
- (f) a reference to any legislation includes all delegated legislation made under it and amendments, consolidations, replacements or re-enactments of any of them;
- (g) headings and bold type are for convenience only and do not affect the interpretation of this Target's Statement; and
- (h) a reference to time is a reference to AWST unless otherwise indicated.

11. **AUTHORISATION**

This Target's Statement has been approved by a unanimous resolution passed by the Directors of Lepidico.

Signed for and on behalf of Lepidico Ltd

A handwritten signature in black ink, appearing to read 'G. Johnson', followed by a long horizontal flourish.

**Gary Johnson
Non-Executive Chairman
LEPIDICO LTD**



LEPIDICO LTD
Independent Expert's Report

27 March 2017



Financial Services Guide

27 March 2017

BDO Corporate Finance (WA) Pty Ltd ABN 27 124 031 045 ('we' or 'us' or 'ours' as appropriate) has been engaged by Lepidico Ltd ('Lepidico' or the 'Company') to provide an independent expert's report on the conditional off-market takeover offer received from Lithium Australia NL. You will be provided with a copy of our report as a retail client because you are a shareholder of Lepidico.

Financial Services Guide

In the above circumstances we are required to issue to you, as a retail client, a Financial Services Guide ('FSG'). This FSG is designed to help retail clients make a decision as to their use of the general financial product advice and to ensure that we comply with our obligations as financial services licensees.

This FSG includes information about:

- ◆ Who we are and how we can be contacted;
- ◆ The services we are authorised to provide under our Australian Financial Services Licence, Licence No. 316158;
- ◆ Remuneration that we and/or our staff and any associates receive in connection with the general financial product advice;
- ◆ Any relevant associations or relationships we have; and
- ◆ Our internal and external complaints handling procedures and how you may access them.

Information about us

BDO Corporate Finance (WA) Pty Ltd is a member firm of the BDO network in Australia, a national association of separate entities (each of which has appointed BDO (Australia) Limited ACN 050 110 275 to represent it in BDO International). The financial product advice in our report is provided by BDO Corporate Finance (WA) Pty Ltd and not by BDO or its related entities. BDO and its related entities provide services primarily in the areas of audit, tax, consulting and financial advisory services.

We do not have any formal associations or relationships with any entities that are issuers of financial products. However, you should note that we and BDO (and its related entities) might from time to time provide professional services to financial product issuers in the ordinary course of business.

Financial services we are licensed to provide

We hold an Australian Financial Services Licence that authorises us to provide general financial product advice for securities to retail and wholesale clients.

When we provide the authorised financial services we are engaged to provide expert reports in connection with the financial product of another person. Our reports indicate who has engaged us and the nature of the report we have been engaged to provide. When we provide the authorised services we are not acting for you.

General Financial Product Advice

We only provide general financial product advice, not personal financial product advice. Our report does not take into account your personal objectives, financial situation or needs. You should consider the appropriateness of this general advice having regard to your own objectives, financial situation and needs before you act on the advice.

Fees, commissions and other benefits that we may receive

We charge fees for providing reports, including this report. These fees are negotiated and agreed with the person who engages us to provide the report. Fees are agreed on an hourly basis or as a fixed amount depending on the terms of the agreement. The fee payable to BDO Corporate Finance (WA) Pty Ltd for this engagement is approximately \$48,000.

Except for the fees referred to above, neither BDO, nor any of its directors, employees or related entities, receive any pecuniary benefit or other benefit, directly or indirectly, for or in connection with the provision of the report.

Remuneration or other benefits received by our employees

All our employees receive a salary. Our employees are eligible for bonuses based on overall productivity but not directly in connection with any engagement for the provision of a report. We have received a fee from Lepidico for our professional services in providing this report. That fee is not linked in any way with our opinion as expressed in this report.

Referrals

We do not pay commissions or provide any other benefits to any person for referring customers to us in connection with the reports that we are licensed to provide.

Complaints resolution

Internal complaints resolution process

As the holder of an Australian Financial Services Licence, we are required to have a system for handling complaints from persons to whom we provide financial product advice. All complaints must be in writing addressed to The Complaints Officer, BDO Corporate Finance (WA) Pty Ltd, PO Box 700 West Perth WA 6872.

When we receive a written complaint we will record the complaint, acknowledge receipt of the complaint within 15 days and investigate the issues raised. As soon as practical, and not more than **45 days** after receiving the written complaint, we will advise the complainant in writing of our determination.

Referral to External Dispute Resolution Scheme

A complainant not satisfied with the outcome of the above process, or our determination, has the right to refer the matter to the Financial Ombudsman Service ('FOS'). FOS is an independent organisation that has been established to provide free advice and assistance to consumers to help in resolving complaints relating to the financial service industry. FOS will be able to advise you as to whether or not they can be of assistance in this matter.

Our FOS Membership Number is 12561. Further details about FOS are available at the FOS website www.fos.org.au or by contacting them directly via the details set out below.

Financial Ombudsman Service
GPO Box 3
Melbourne VIC 3001
Toll free: 1300 78 08 08
Facsimile: (03) 9613 6399
Email: info@fos.org.au

Contact details

You may contact us using the details set out on page 1 of the accompanying report.

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27 March 2017

The Directors
Lepidico Ltd
Level 1, 254 Railway Parade
West Leederville WA 6065

Dear Directors

INDEPENDENT EXPERT'S REPORT

1. Introduction

On 6 February 2017, Lithium Australia NL (**'Lithium Australia'**) announced that it intends to make a conditional off-market scrip bid for all of the fully paid ordinary shares in Lepidico Ltd (**'Lepidico'** or the **'Company'**).

On 2 March 2017, Lepidico received the Bidder's Statement from Lithium Australia in relation to the offer to acquire all the ordinary shares in Lepidico (**'Bidder's Statement'**). The consideration offered by Lithium Australia is one (1) Lithium Australia Share (**'Offer Consideration'**) for every 13.25 Lepidico Shares (the **'Offer'**). Lithium Australia does not intend to make an offer in respect to the current Lepidico Options that are on issue. If holders of the Lepidico Options exercise their Options and are issued Lepidico Shares during the Bid Period, however, the Offer will extend to those Lepidico Shares.

Lithium Australia is an Australian incorporated company listed on the Official List of the Australian Securities Exchange (**'ASX'**). As at the date of our report, Lithium Australia has entered into Pre-Bid Acceptance Agreements with Lepidico Shareholders representing 17.76% Lepidico's issued share capital. We note that the Offer is not subject to a minimum acceptance condition.

2. Summary and Opinion

2.1 Purpose of the report

The directors of Lepidico have requested that BDO Corporate Finance (WA) Pty Ltd (**'BDO'**) prepare an independent expert's report (**'our Report'**) to express an opinion as to whether or not the Offer is fair and reasonable to the shareholders of Lepidico (**'Shareholders'**).

Although there is no legal requirement for an independent expert's report pursuant to section 640 of the Corporations Act 2001 (Cth) (**'Corporations Act'** or **'the Act'**), as Lepidico and Lithium Australia do not share common directors or Lithium Australia does not hold greater than 30% of Lepidico's voting shares, the directors of Lepidico have requested that BDO prepare this Report as if it were an independent expert's report pursuant to section 640 of the Corporations Act, and to provide an opinion on whether the Offer is fair and reasonable to Shareholders. Our Report is to be included in the Target's Statement for Lepidico in order to assist the Shareholders in their decision whether to accept the Offer.

2.2 Approach

Our Report has been prepared having regard to Australian Securities and Investments Commission ('ASIC') Regulatory Guide 111 'Content of Expert's Reports' ('RG 111') and Regulatory Guide 112 'Independence of Experts' ('RG 112').

In arriving at our opinion, we have assessed the terms of the Offer as outlined in the body of this Report. We have considered:

- How the value of 13.25 Lepidico Shares prior to the Offer on a control basis compares to the value of the Offer Consideration, being 1 Lithium Australia Share;
- The likelihood of a superior alternative offer being available to Lepidico;
- Other factors which we consider to be relevant to the Shareholders in their assessment of the Offer; and
- The position of Shareholders should the Offer not be successful.

2.3 Opinion

We have considered the terms of the Offer as outlined in the body of this Report and have concluded that the Offer is neither fair nor reasonable to Shareholders.

We consider that the Offer is not fair as the value range of 13.25 Lepidico Shares, on a control basis, is greater than the value range of the Offer Consideration. We consider that the Offer is not reasonable due to the disadvantages of the Offer outweighing the advantages.

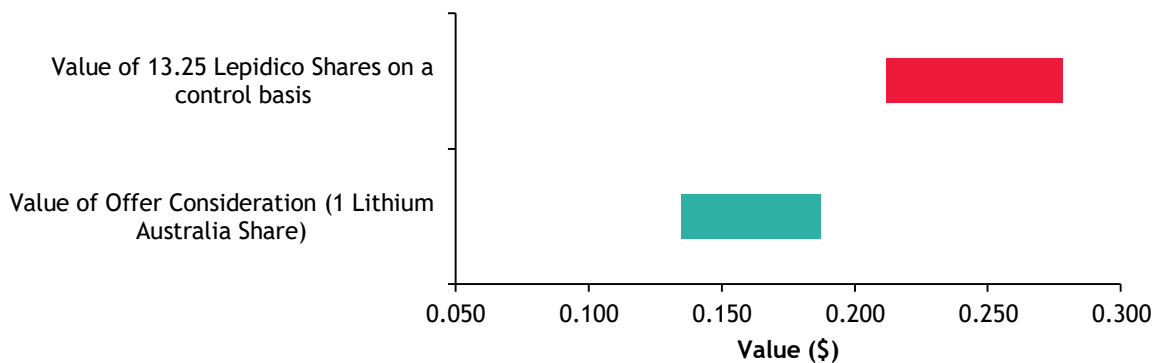
2.4 Fairness

In section 12, we determined that the value of 13.25 Lepidico Shares on a control basis compares to the value of the Offer Consideration, being 1 Lithium Australia Share, as detailed below.

	Ref	Low \$	Preferred \$	High \$
Value of 13.25 Lepidico Shares on a control basis	10.3	0.212	0.239	0.278
Value of Offer Consideration (1 Lithium Australia Share)	11.3	0.135	0.161	0.187

Source: BDO analysis

The above valuation ranges are graphically presented below:



The above pricing indicates that the Offer is not fair for Shareholders.

2.5 Reasonableness

We have considered the analysis in section 13 of this Report, in terms of both:

- advantages and disadvantages of the Offer; and
- other considerations, including the practical level of control of Lithium Australia if the Offer is successful and the position of Shareholders if the Offer is not successful.

In our opinion, the position of Shareholders if the Offer is successful is less advantageous than the position if the Offer is not successful. Accordingly, in the absence of any other relevant information we believe that the Offer is not reasonable for Shareholders.

The respective advantages and disadvantages considered are summarised below:

ADVANTAGES AND DISADVANTAGES			
Section	Advantages	Section	Disadvantages
Lithium Australia acquires control of Lepidico			
13.1	Creation of a combined group with a stronger cash position and market capitalisation	13.2	The Offer is not fair
13.1	Creation of a combined group with a larger and more diversified portfolio of assets	13.2	Dilution of existing Shareholders' interests
13.1	Lithium Australia intends to combine the commercialisation of both L-Max [®] and Sileach [™]	13.2	Lepidico will have to share any upside potential of its assets with Lithium Australia
13.1	Access to potential cost saving synergies	13.2	Shareholders will forego revenue to be received under the L-Max [®] Licence Agreements with Lithium Australia
13.1	If Shareholders don't accept the Offer they may be left with an illiquid market to dispose of their Lepidico Shares	13.2	No offer for Lepidico Options
		13.2	Acceptance of Offer could trigger additional payments to Lithium Australia advisors
		13.2	Potential tax consequences
Lithium Australia does not acquire control of Lepidico			
		13.2	Shareholders will no longer hold a direct interest in Lepidico's assets

ADVANTAGES AND DISADVANTAGES

Section	Advantages	Section	Disadvantages
		13.2	Shareholders will effectively become Lithium Australia shareholders which may bring with it certain risks.

Other key matters we have considered include:

Section	Description
13.3.1	Likelihood of alternative offers
13.3.2	Practical level of control
13.3.3	Liquidity of Lepidico and Lithium Australia shares
13.3.4	Movement in Lepidico's share price following the Offer
13.3.5	Risks of becoming a minority shareholder in Lepidico

3. Scope of the Report

3.1 Purpose of the Report

Lithium Australia has prepared a Bidder's Statement in accordance with section 636 of the Corporations Act. Under section 633 item 10 of the Corporations Act, Lepidico is required to prepare a Target's Statement in response to the Bidder's Statement.

Section 640 of the Corporations Act requires the Target's Statement to include an independent expert's report to shareholders if:

- The bidder's voting power in the target is 30% or more; or
- The bidder and the target have a common director or directors.

As Lithium Australia neither has common directors with Lepidico nor holds 30% of Lepidico's voting shares, there is no requirement under the Corporations Act for Lepidico to engage an independent expert in relation to the Offer.

Notwithstanding the fact that there is no legal requirement to engage an independent expert to report on the Offer, the Directors of Lepidico have requested that BDO prepare this Report as if it were an independent expert's report pursuant to section 640 of the Corporations Act, and to provide an opinion as to whether, in the absence of a superior proposal, the Offer is fair and reasonable to Shareholders.

3.2 Regulatory guidance

Neither the ASX Listing Rules nor the Corporations Act defines the meaning of 'fair and reasonable'. In determining whether the Offer is fair and reasonable, we have had regard to the views expressed by ASIC

in RG 111. This regulatory guide provides guidance as to what matters an independent expert should consider to assist security holders to make informed decisions about transactions.

This regulatory guide suggests that where the transaction is a control transaction, the expert should focus on the substance of the control transaction rather than the legal mechanism to affect it. RG 111 suggests that where a transaction is a control transaction, it should be analysed on a basis consistent with a takeover bid.

In our opinion, the Offer is a control transaction as defined by RG 111 and we have therefore assessed the Offer as a control transaction to consider whether, in our opinion, it is fair and reasonable to Shareholders. We do not consider the Offer to be a merger of equals as there will not be an equal shareholding between both parties if the Offer is fully accepted. As there is no minimum acceptance, the final shareholdings, as a result of the Offer, is also unknown at this stage.

3.3 Adopted basis of evaluation

RG 111 states that a transaction is fair if the value of the offer price or consideration is greater than the value of the securities subject of the offer. This comparison should be made assuming a knowledgeable and willing, but not anxious, buyer and a knowledgeable and willing, but not anxious, seller acting at arm's length. When considering the value of the securities subject of the offer in a control transaction the expert should consider this value inclusive of a control premium. Further to this, RG 111 states that a transaction is reasonable if it is fair. It might also be reasonable if despite being 'not fair' the expert believes that there are sufficient reasons for security holders to accept the offer in the absence of any higher bid.

Having regard to the above, BDO has completed this comparison in two parts:

- A comparison between the value of 13.25 Lepidico Shares prior to the Offer on a control basis and the value of the Offer Consideration, being 1 Lithium Australia Share (fairness - see section 12 'Is the Offer fair?'); and
- An investigation into other significant factors to which Shareholders might give consideration, prior to accepting the Offer, after reference to the value derived above (reasonableness - see section 13 'Is the Offer reasonable?').

This assignment is a Valuation Engagement as defined by Accounting Professional & Ethical Standards Board professional standard APES 225 'Valuation Services' ('APES 225').

A Valuation Engagement is defined by APES 225 as follows:

'an Engagement or Assignment to perform a Valuation and provide a Valuation Report where the Valuer is free to employ the Valuation Approaches, Valuation Methods, and Valuation Procedures that a reasonable and informed third party would perform taking into consideration all the specific facts and circumstances of the Engagement or Assignment available to the Valuer at that time.'

This Valuation Engagement has been undertaken in accordance with the requirements set out in APES 225.

4. Outline of the Offer

On 6 February 2017, Lithium Australia announced that it intended to make a conditional off-market scrip bid for all of the fully paid ordinary shares in Lepidico. On 2 March 2017, Lepidico received the Bidder's Statement from Lithium Australia. The consideration offered by Lithium Australia is one (1) Lithium Australia Share for every 13.25 Lepidico Shares.

As announced on 16 March 2017, Lepidico's largest Shareholder, Strategic Metallurgy Pty Ltd which holds a 17.34% interest in the Company, has advised that it will reject the Offer when it is formally put to Shareholders. If Lithium Australia is unable to acquire the shares held by Strategic Metallurgy Pty Ltd, it would only be able to acquire a maximum of 82.66% of Lepidico under the Offer. On the same date, the Company also announced a pro-rata non-renounceable entitlement offer of fully paid ordinary shares in the capital of the Company. The entitlement offer is on the basis of one (1) new share for every four (4) existing shares held at the record date of 21 March 2017, at an entitlement offer price of \$0.013 per new share ('Entitlement Offer'). The maximum number of New Shares which will be issued under the Entitlement Offer is 437,634,398 to raise approximately \$5,689,247, before expenses.

The Offer is subject to the fulfilment of the following conditions:

i. Lepidico Share Price Fall

The Volume Weighted Average Price ('VWAP') of a Lepidico Share does not fall by 40% or greater than the closing price on the ASX on the Trading Day before the date of the Offer for a period of two consecutive Trading Days during the Bid Period.

ii. Material Adverse Change

There being no Material Adverse Change between 6 February 2017 and the end of the Offer Period. Details of what defines a Material Adverse Change are set out in the Bidder's Statement.

iii. Prescribed Occurrence

There being no Prescribed Occurrence between 6 February 2017 and the end of the Offer Period. Details of what defines a Prescribed Occurrence are set out in the Bidder's Statement.

Lithium Australia may free this Offer, and any contract resulting from its acceptance, from all or any of the above conditions by giving notice to Lepidico declaring the Offer to be free from the relevant conditions specified in accordance with section 650F of the Corporations Act. This notice may not be giving less than 7 days before the end of the Offer Period.

If by reason of accepting the Offer the number of Lithium Australia Shares to which you would otherwise be entitled would constitute an unmarketable parcel (less than \$500), you will not be entitled to receive Lithium Australia Shares as consideration and Lithium Australia will pay you an amount of cash equal to the market value of the Lithium Australia Shares that you would otherwise have been entitled to receive.

Lithium Australia's intentions if the Offer is accepted

The intentions of Lithium Australia have been disclosed in the Bidder's Statement and have been set out below under three scenarios:

- i. Intentions upon Lithium Australia acquiring 90% or more of Lepidico;
- ii. Intentions upon Lithium Australia acquiring control but less than 90% of Lepidico; and
- iii. Intentions upon Lithium Australia not acquiring control of Lepidico.

Intentions upon acquisition of 90% or more of Lepidico

If, as a result of the Offer, Lithium Australia acquires a relevant interest in 90% or more of Lepidico Shares, and so becomes entitled to proceed to compulsorily acquisition of outstanding Lepidico Shares, Lithium Australia's stated intentions are as follows:

- Lithium Australia intends to undertake a detailed review of Lepidico's activities, assets and liabilities, in order to evaluate its prospects, strategic relevance, funding requirements and financial and technical performance;
- Lithium Australia's plan is to combine the commercialisation of both SileachTM and L-Max[®], in order to gain synergies in the testing and commercialization process for both technologies;
- Lithium Australia will re-evaluate the Lepidico exploration database and expenditure requirements in order to prioritise exploration and expenditure on areas regarded by Lithium Australia as being the most prospective tenements held;
- Lithium Australia intends to replace all of the members of the board of directors of Lepidico with the current directors of Lithium Australia;
- Lithium Australia intends to proceed to compulsory acquisition, arrange for Lepidico to be removed from the Official List of the ASX and amend the constitution of Lepidico to reflect its status as a wholly-owned subsidiary of Lithium Australia;
- Subject to a strategic review, Lithium Australia intends to continue conducting the Lepidico business in the ordinary course. Lithium Australia will, however, consider centralising the corporate head office of Lepidico by incorporating those functions performed by it into the administrative structure of Lithium Australia;
- As part of the strategic review, Lithium Australia intends to undertake a specific review of Lepidico's assets and liabilities, and the possible synergies between and benefits of Lithium Australia and Lepidico; and
- Lithium Australia intends to conduct a review of Lepidico's accounting policies and is expected to adopt Lithium Australia's accounting policies. Particular attention will be paid to the valuation of Intangibles and Lithium Australia's accounting policy will be applied at the next balance date.

Intentions upon gaining control but less than 90% of Lepidico

On completion of the Offer, Lithium Australia may hold a sufficient number of Lepidico Shares to exercise control over the management and operations of Lepidico, but may not be entitled to compulsory acquire all outstanding Lepidico Shares. Lithium Australia's stated intentions are as follows:

- Lithium Australia will implement the intentions described upon acquisition of 90% or more of Lepidico to the extent possible and economically feasible, and subject to the requirements of the Corporations Act and any other applicable laws or regulations;
- Lithium Australia intends, subject to the Corporations Act and the constitution of Lepidico, to seek to replace some or all of the members of the board of directors of Lepidico. The majority would be replaced with the current directors of Lithium Australia;
- Lithium Australia intends to maintain Lepidico's listing on the Official List of the ASX, while it continues to meet its ASX listing requirements. If Lithium Australia obtains effective control of Lepidico and there is limited spread or volume of Lepidico shareholders remaining at the end of the Offer Period, Lithium Australia may seek to procure the removal of Lepidico from the Official List of the ASX. Further, if Lithium Australia becomes entitled to exercise the general compulsory acquisition power under Part 6A.2 of the Corporations Act in the future it intends to exercise that power;

- To the extent that activities and functions, including management, presently carried out by Lithium Australia and Lepidico will be duplicated, such duplication will be eliminated where it is economically efficient to do so;
- It is possible that, even if Lithium Australia is not entitled to proceed to compulsory acquisition of minority holdings after the end of the Offer Period under Part 6A.1 of the Corporations Act, it may subsequently become entitled to exercise rights of general compulsory acquisition under Part 6D.2 of the Corporations Act (for example, as a result of acquisitions of Lepidico Shares in reliance of the '3% creep' exception). If so, it intends to exercise those rights.

Intentions if effective control of Lepidico is not acquired

Lithium Australia's intentions if Lithium Australia does not gain effective control of Lepidico are as follows:

- Lithium Australia does not expect to be in a position to give effect to the intentions set out in the above two scenarios; and
- Lithium Australia would have regard to the circumstances at the time and consider the appropriate courses of action that are in the best interest of Lithium Australia shareholders.

Capital structure

As at the date of this Report, Lithium Australia does not hold any shares in Lepidico however, as disclosed in the Bidder's Statement, it has entered into Pre-Bid Acceptance Agreements with Lepidico Shareholders representing 17.76% of Lepidico's issued share capital. The following table summarises the number of shares the respective companies have on issue, the number of shares that Lithium Australia would need to issue to Lepidico Shareholders and the number of shares on issue upon full acceptance of the Offer by Lepidico Shareholders.

Summary of Shares on issue following full acceptance of the Offer		Number
Number of shares Lepidico has on issue*		1,750,537,591
Number of Lepidico shares on issue held by Lithium Australia		-
Total shares on issue subject to the Offer		1,750,537,591
Exchange ratio, number of Lepidico shares for each Lithium Australia share		13.25
Number of Lithium Australia shares to be issued under the Offer		132,116,045
Lithium Australia following the Offer		
Number of shares Lithium Australia currently has on issue		257,832,829
Number of Lithium Australia shares to be issued to Lepidico shareholders under the Offer		132,116,045
Number of Lithium Australia shares on issue on completion of the Offer		389,948,874
Interest held by Lepidico shareholders		33.88%
Interest held by existing Lithium Australia shareholders		66.12%
		100.00%
* This number excludes any shares to be issued under the Entitlement Offer announced on 16 March 2017		

The above table shows the number of shares on issue upon full acceptance of the Offer by Lepidico Shareholders. However, as there is no minimum acceptance condition under the Offer, these percentages will vary depending on how many Lepidico Shareholders accept the Offer. The number of Lithium Australia shares on issue following the Offer does not include Partly Paid Shares and assumes no Lithium Australia

Shares are issued during the Bid Period through the exercise of Options or the vesting of Performance Rights.

Lithium Australia currently has the following Options and Performance Rights on issue.

Current Options and Performance Rights on Issue	Number
Options exercisable at \$0.15 on or before 1 July 2019	4,316,666
Options exercisable at \$0.20 on or before 1 July 2019	7,875,000
Options exercisable at \$0.30 on or before 1 July 2019	9,200,000
Performance rights expiring 1 July 2019	10,340,000
Performance rights expiring 1 July 2021	16,250,000

Source: Bidder's Statement dated 2 March 2017

Lithium Australia also has 132,850,148 Partly Paid Shares on issue, paid up to \$0.0001 each with an unpaid amount of \$0.2499.

Lithium Australia has also entered into an agreement with its corporate advisor, Xavier Group, which includes a success fee upon Lithium Australia acquiring 30% or greater shareholding in Lepidico of 1% of the transaction value (being target market capitalisation based on the Offer consideration) paid as to 34% in cash and 66% in Lithium Australia Shares. The portion of the success fee to be satisfied in Lithium Australia Shares has not been included in the number of Lithium Australia shares on issue following the Offer.

Lepidico Option holders

Lithium Australia does not intend to make an offer in respect to the current Lepidico Options that are on issue. If holders of the Lepidico Options exercise their Options and are issued Lepidico Shares during the Bid Period, however, the Offer will extend to those Lepidico Shares.

As at the date of this Report, Lepidico has the following Options on issue:

Current Options on issue	Number
Options exercisable at \$0.03 on or before 30 September 2017	27,750,000
Options exercisable at \$0.01815 on or before 3 August 2018	40,000,000
Options exercisable at \$0.01 on or before 31 December 2018	9,000,000
Options exercisable at \$0.025 on or before 31 December 2019	75,000,000

Source: Appendix 3B announced 16 March 2017

5. Profile of Lepidico

5.1 History

Lepidico, formerly known as Platypus Minerals Limited ('Platypus') and Ashburton Minerals Limited, was officially listed on the ASX on 19 April 1994 and is a lithium company focussed on the development of its L-Max[®] technology ('L-Max[®]') and the exploration, development and operation of lithium assets. Following the Company's acquisition of Lepidico Holdings Pty Ltd and its subsequent Annual General Meeting, Platypus changed its name to Lepidico.

Current exploration assets of the Company include options over the Lemare Project and the Royal Project located in Quebec, Canada and ownership of the Euriovie project located near Broken Hill in New South

Wales, Australia. Furthermore, the Company also has a joint venture agreement with ASX-listed Crusader Resources Limited in Brazil.

In addition to the ASX, Lepidico shares are also traded in Germany on the Frankfurt, Hamburg, Munich, Stuttgart, Xetra and Tradegate stock exchanges.

The current directors and senior management of Lepidico are:

- Mr Gary Johnson, Non-Executive Chairman;
- Mr Julian Walsh, Executive Managing Director;
- Mr Tom Dukovic, Executive Director;
- Mr Mark Rodda, Non-Executive Director;
- Mr Gavin Becker, General Manager - Business Development;
- Ms Shontel Norgate, Chief Financial Officer and Joint Company Secretary; and
- Mr Alex Neuling, Joint Company Secretary.

The Company's major asset is its L-Max[®] technology, a process allowing the extraction and recovery of lithium bearing micas such as lepidolite and zinnwaldite. The L-Max[®] technology was acquired as part of a 100% acquisition of Lepidico Holdings Pty Ltd on 30 May 2016. The consideration for the acquisition was the issue of 750 million shares in the Company.

Lepidico has entered into commercial arrangements with two companies in relation to licensing of the L-Max[®] technology, those companies being Lithium Australia and European Metals Holdings Limited. Under the option agreement dated 30 June 2015, Lithium Australia was granted options to take up licences for L-Max[®] for a project in Western Australia generally and two further projects anywhere in the world.

Before a licence can be granted, the option agreement requires Lepidico and Lithium Australia to agree on certain key terms (e.g. the definition of the project(s), reference price mechanisms, etc) and sign a Licence Agreement incorporating those terms in respect of each project where L-Max[®] will be used.

As at the date of this Report, the only signed licence agreement between Lepidico and Lithium Australia is International Licence No.1. That licence is currently waiting to be "re-used" following Lithium Australia's withdrawal from negotiations in 2016 in relation to a potential project in Europe.

On 27 February 2017, the Company announced it had received the results of the Phase 1 Plant Pre-Feasibility Study ('PFS'). The PFS was based on a small scale commercial L-Max[®] plant processing a lithium-mica concentrate feed at a rate of 3.6 tonnes per hour to produce approximately 3,000 tonnes per annum of battery grade lithium carbonate and a suite of valuable by-products.

On 16 March 2017, the Company announced the Entitlement Offer on the basis of one (1) new share for every four (4) existing shares held at the record date of 21 March 2017, at an offer price of \$0.013 per new share. The maximum number of New Shares which will be issued under the Entitlement Offer is 437,634,398 to raise approximately \$5,689,247, before expenses.

5.2 Historical Statement of Financial Position

Statement of Financial Position	Reviewed as at 31-Dec-16 \$	Audited as at 30-Jun-16 \$	Audited as at 30-Jun-15 \$
CURRENT ASSETS			
Cash and cash equivalents	2,091,569	666,263	53,472
Trade and other receivables	348,321	3,870,272	3,813
TOTAL CURRENT ASSETS	2,439,890	4,536,535	57,285
NON-CURRENT ASSETS			
Trade and other receivables	36,003	-	-
Property, plant and equipment	10,955	3,743	8,904
Exploration expense capitalised	1,586,694	562,762	677,770
Intangible asset	16,340,566	16,203,762	-
Other assets	-	52,035	-
Available for sale assets	100,000	100,000	807,513
Investment in Associate	3,529	-	-
TOTAL NON-CURRENT ASSETS	18,077,747	16,922,302	1,494,187
TOTAL ASSETS	20,517,637	21,458,837	1,551,472
CURRENT LIABILITIES			
Trade and other payables	531,457	614,028	105,010
Interest bearing liability	-	-	114,657
Provisions	71,328	32,781	40,080
TOTAL CURRENT LIABILITIES	602,785	646,809	259,747
TOTAL LIABILITIES	602,785	646,809	259,747
NET ASSETS	19,914,852	20,812,028	1,291,725
EQUITY			
Issued capital	27,846,317	27,274,170	5,630,642
Reserves	1,875,333	555,750	415,750
Accumulated losses	(9,806,798)	(7,017,892)	(4,754,667)
TOTAL EQUITY	19,914,852	20,812,028	1,291,725

Source: Lepidico's audited financial statements as at 30 June 2015, 30 June 2016 and reviewed financial statements as at 31 December 2016

Commentary on Historical Statement of Financial Position

We note that for the half year ended 31 December 2016, Lepidico's auditor issued an emphasis of matter paragraph in the review report. The auditor described the effect the share price at acquisition date had in determining the consideration paid, and therefore the fair value of the intangible asset acquired and reported at balance date relating to the L-Max[®] technology. The auditor also emphasised the ongoing lawsuit between Li-Technology Pty Ltd, a subsidiary of the Company, and Lithium Australia over intellectual property rights relating to the L-Max[®] technology. The auditor outlined that while the future outcome of the lawsuit is uncertain; their conclusion is not modified in respect to these matters. We note that on 27 February 2017, Lithium Australia announced that the litigation matter between Lithium Australia and Lepidico was settled by mutual agreement.

We note the following in relation to Lepidico's historical statement of financial position:

- Exploration expense increased from \$0.56 million as at 30 June 2016 to \$1.59 million as at 31 December 2016. During this period, the Company completed its first exploration program at the Lemare Project which consisted of 16 diamond drill holes.
- Intangible assets comprised the Company's L-Max[®] technology which was acquired on 30 May 2016 and has a carrying value of \$16.34 million as at 31 December 2016. The consideration was satisfied by the issue of 750 million shares in the Company with the value of the consideration determined by the share value on the date of acquisition. The fair value of the L-Max[®] technology on acquisition was deemed to be the excess consideration paid over the carrying value of the net tangible assets acquired. The recoverability of the carrying amount of the L-Max[®] technology is dependent of the successful development and commercial exploitation or sale of the asset.
- Available for sale assets as at 30 June 2015 wholly related to investments in unlisted companies, representing an investment in a private Peruvian company. During the year ended 30 June 2016, the company divested its interests in the Peruvian project. Available for sale assets of \$0.10 million as at 30 June 2016 and 31 December 2016 related to 2 million shares held in Jervois Mining Limited, an ASX listing company.
- Trade and other payables related to trade payables, sundry payables and accrued expenses.
- Interest bearing liability of \$0.11 million as at 30 June 2015 was wholly attributable to an unsecured loan from Rick Crabb. The loan was unsecured with interest paid at commercial terms (8% fixed) and capitalised monthly.
- Issued capital movements from \$5.63 million as at 30 June 2015 to \$27.27 million as at 30 June 2016 was attributable to the fair value of shares issued on acquisition of Lepidico by Platypus. Issued capital increased to \$27.85 million as at 31 December 2016 as a result of the issue of 18,514,939 Shares to Critical Elements Corporation as per the terms of the Lemare Option Agreement.

5.3 Historical Statement of Profit or Loss and Other Comprehensive Income

Statement of Profit or Loss and Other Comprehensive Income	Reviewed for the half year ended 31-Dec-16 \$	Audited for the year ended 30-Jun-16 \$	Audited for the year ended 30-Jun-15 \$
Revenue	-	115,836	9,090
Other income	89,214	8,041	1,510
Expenses			
Accounting fees	-	(93,383)	(97,862)
Corporate costs	(429,609)	(63,584)	(76,136)
Depreciation expense	(2,876)	(6,161)	(4,907)
Employee benefit expense	(363,109)	(338,039)	(116,065)
Exploration expenditure written off	(310,551)	(415,004)	(16,114)
Finance costs	(2,364)	(13,086)	(19,773)
Occupancy costs	(44,428)	(76,558)	(70,522)
Public relations	-	(45,732)	(94,460)
Impairment of available for sale asset	-	(887,513)	-
Loss from Associate	(6,471)	-	-
Share based payments	(1,352,083)	-	-
Other expenses	(366,629)	(448,042)	(559,107)
Loss from continuing operations before income tax	(2,788,906)	(2,263,225)	(1,044,346)
Income tax expense	-	-	-
Total comprehensive loss for the year	(2,788,906)	(2,263,225)	(1,044,346)

Source: Lepidico's audited financial statements for the years ended 30 June 2015 and 30 June 2016, and reviewed financial statements for the half year ended 31 December 2016

Commentary on Historical Statement of Profit or Loss and Other Comprehensive Income

We note the following in relation to Lepidico's historical statement of profit or loss and other comprehensive income:

- Other income for the years ended 30 June 2015 and 30 June 2016 wholly comprised interest received from non-operating activities. Other income of \$0.09 million for the half year ended 31 December 2016 comprised \$0.07 million relating to the sale of Lepidico's rights to the Gobbos project, and \$0.02 million of interest received.
- Corporate costs of \$0.43 million for the half-year ended 31 December 2016 comprised ASIC and ASX costs, share registry fees, accounting fees and business development costs. For the half-year ended 31 December 2016, the Company also combined accounting fees and public relations costs into corporate costs while for the years ended 30 June 2016 and 30 June 2015 these were separate items.
- Impairment of available for sale asset of \$0.88 million for the year ended 30 June 2016 related to impairment of the Matriz Project.
- The Company recorded a share based payments expense of \$1.35 million for the half year ended 31 December 2016, which related to options issued over the period.

5.4 Capital Structure

The share structure of Lepidico as at 14 March 2017 is outlined below:

	Number
Total ordinary shares on issue	1,750,537,591
Top 20 shareholders	889,958,989
Top 20 shareholders - % of shares on issue	50.84%

Source: Lepidico Management

The range of shares held in Lepidico as at 14 March 2017 is as follows:

Range of Shares Held	Number of Ordinary Shareholders	Number of Ordinary Shares	Percentage of Issued Shares (%)
1 - 1,000	929	231,883	0.01%
1,001 - 5,000	352	923,834	0.05%
5,001 - 10,000	154	1,146,609	0.07%
10,001 - 100,000	1,047	54,004,788	3.09%
100,001 - and over	1,188	1,694,230,477	96.78%
TOTAL	3,670	1,750,537,591	100.00%

Source: Lepidico Management

The ordinary shares held by the most significant shareholders as at 16 March 2017 are detailed below:

Name	Number of Ordinary Shares Held	Percentage of Issued Shares (%)
Strategic Metallurgy PL	303,526,448	17.34%
Potash West NL	96,977,330	5.54%
Citicorp Nom PL	77,821,727	4.45%
Horn Res PL	61,594,356	3.52%
Subtotal	539,919,861	30.84%
Others	1,210,617,730	69.16%
Total ordinary shares on Issue	1,750,537,591	100.00%

Source: Lepidico Management

The options held in Lepidico as at 14 March 2017 are outlined below:

Current Options on issue	Number
Options exercisable at \$0.03 on or before 30 September 2017	27,750,000
Options exercisable at \$0.01815 on or before 3 August 2018	40,000,000
Options exercisable at \$0.01 on or before 31 December 2018	9,000,000
Options exercisable at \$0.025 on or before 31 December 2019	75,000,000

Source: Lepidico Management

6. Profile of Lithium Australia

6.1 History

Lithium Australia, previously known as Cobre Montana NL ('Cobre Montana') and Midwinter Resources NL, is an ASX-listed company focussed on the acquisition, mineral exploration and process development of lithium. Lithium Australia is the owner of the Sileach™ process for the recovery of lithium from silicates, and has also developed an alkaline-based lithium extraction method called LieNa™. In addition to Sileach™ and LieNa™, Lithium Australia has been granted options to take up licences for L-Max® by Lepidico.

Under the option agreement dated 30 June 2015, Lithium Australia was granted options to take up licences for L-Max® for a project in Western Australia generally and two further projects anywhere in the world.

Before a licence can be granted, the option agreement requires Lepidico and Lithium Australia to agree on certain key terms (e.g. the definition of the project(s), reference price mechanisms, etc) and sign a Licence Agreement incorporating those terms in respect of each project where L-Max® will be used.

As at the date of this Report, the only signed licence agreement between Lepidico and Lithium Australia is International Licence No.1. That licence is currently waiting to be "re-used" following Lithium Australia's withdrawal from negotiations in 2016 in relation to a potential project in Europe.

The current directors and senior management of Lithium Australia are:

- Mr George Bauk, Non-Executive Chairman;
- Mr Adrian Griffin, Managing Director;
- Mr Bryan Dixon, Non-Executive Director; and
- Mr Barry Woodhouse, Chief Financial Officer and Company Secretary.

In addition to the development of Sileach™, Lithium Australia is also focussed on the development of a number of projects. These projects include Pilgangoora and Yilgarn Craton located in Western Australia, and the Electra project located in Mexico. The Yilgarn Craton comprises four projects, the Coolgardie Rare Metals Venture with Focus Minerals Limited, Ravensthorpe Lithium Project, the Seabrook Rare Metals Venture with Tungsten Mining NL and the Greenbushes Project.

During the year ended 30 June 2015, Lithium Australia identified a potential opportunity for the commercial extraction of lithium group metals from certain ores. As a result, Lithium Australia entered into numerous agreements with third parties with the aim of securing access to prospective ground as well as to lithium extraction technologies. Events such as the acquisition of an option to purchase an exploration license in the Ravensthorpe mineral field in Western Australia, and a strategic alliance with Focus Minerals Limited to explore for lithium and rare metals in Western Australia, solidified Lithium Australia's move towards lithium.

On 4 November 2016, Lithium Australia advised the market of an update on the L-Max® Licence Agreement. Lithium Australia had previously sought and obtained an exclusive L-Max® licence for potential use in the Cinovec Project and also for other projects. Lithium Australia further detailed that it had lodged an application seeking a number of declarations from the Supreme Court of Western Australia including the current agreements remain valid and enforceable, and a declaration that the Sileach™ process does not infringe the proprietary rights of the owner of the L-Max® process. On 27 February 2017, Lithium Australia announced it had settled its litigation with Lepidico by mutual agreement.

6.2 Historical Statement of Financial Position

Statement of Financial Position	Reviewed as at	Audited as at	Audited as at
	31-Dec-16	30-Jun-16	30-Jun-15
	\$	\$	\$
CURRENT ASSETS			
Cash and cash equivalents	6,076,617	5,756,645	852,685
Trade and other receivables	432,970	317,221	91,328
Financial assets	819,371	3,385,822	-
Other current assets	-	-	9,375
TOTAL CURRENT ASSETS	7,328,958	9,459,688	953,388
NON-CURRENT ASSETS			
Property, plant and equipment	84,473	23,292	3,365
Exploration expenditure	2,465,994	147,050	22,000
Intangible assets	2,211,288	703,118	-
Financial assets	784,540	288,496	3,322
TOTAL NON-CURRENT ASSETS	5,546,295	1,161,956	28,687
TOTAL ASSETS	12,875,253	10,621,644	982,075
CURRENT LIABILITIES			
Trade and other payables	1,097,693	569,017	425,535
TOTAL CURRENT LIABILITIES	1,097,693	569,017	425,535
TOTAL LIABILITIES	1,097,693	569,017	425,535
NET ASSETS	11,777,560	10,052,627	556,540
EQUITY			
Issued capital	25,471,100	20,936,454	10,565,467
Reserves	650,905	814,791	35,583
Accumulated losses	(14,249,585)	(11,698,618)	(10,044,510)
Non-controlling interest	(94,860)	-	-
TOTAL EQUITY	11,777,560	10,052,627	556,540

Source: Lithium Australia's audited financial statements as at 30 June 2015, 30 June 2016 and reviewed financial statements as at 31 December 2016

Commentary on Historical Statement of Financial Position

We note the following in relation to Lithium Australia's historical statement of financial position:

- Cash and cash equivalents increased from \$0.85 million as at 30 June 2015 to \$5.76 million as at 30 June 2016 primarily due to an increase in the proceeds from issue of shares and options over the period.
- Trade and other receivables comprised other debtors and goods and services tax receivable.
- Current financial assets of \$3.39 million as at 30 June 2016 comprised warrants at fair value and equity swap at fair value. The equity swap at fair value related to the equity swap agreement entered into by Lithium Australia and Lanstead on 11 January 2016, whereby Lithium Australia would retain the economic interest in the 28.57 million shares Lanstead subscribed for.
- Intangible assets of \$0.70 million as at 30 June 2016, related to a license agreement entered into by Lithium Australia for lithium processing technology of \$0.11 million and \$0.60 million spent on development costs relating to the new lithium processing technology. As at 31 December 2016,

intangible assets increased to approximately \$2.21 million as Lithium Australia spent an additional \$1.51 million on development costs relating to the new lithium processing technology.

- Non-current financial assets of \$0.29 million as at 30 June 2016 comprised available for sale Australian listed shares of \$0.06 million and available for sale Canadian listed shares of \$0.23 million.
- Trade and other payables of \$0.57 million as at 30 June 2016 largely comprised unsecured trade creditors of \$0.36 million, unsecured other creditors and accrued expenses of \$0.13 million and amounts payable to key management personnel related entities of \$0.08 million.
- Non-controlling interest of \$0.09 million as at 31 December 2016 related to the total comprehensive loss of subsidiary for the period, adjusted for non-controlling interest arising on the incorporation of subsidiary.

6.3 Historical Statement of Profit or Loss and Other Comprehensive Income

Statement of Profit or Loss and Other Comprehensive Income	Reviewed for the half year ended 31-Dec-16 \$	Audited for the year ended 30-Jun-16 \$	Audited for the year ended 30-Jun-15 \$
Revenue			
Interest income	22,064	28,628	3,864
Other income	879,161	-	368
Expenses			
Occupancy costs	(44,726)	(78,927)	(38,500)
Professional fees	(155,120)	(119,587)	(189,735)
Corporate fees	(387,180)	(326,632)	(152,098)
Employee benefits expense	(743,129)	(1,829,401)	(555,651)
Share based payments	(140,545)	-	(8,692)
Administration costs	(180,285)	(166,382)	(82,930)
Fair value of investments adjustment	(40,040)	27,005	(2,478)
Realised gains on financial assets	96,905	560,952	-
Unrealised gains on financial assets	(1,395,714)	1,045,714	-
Impairment on exploration right for Piedrecillas Chile	-	-	(196,239)
Depreciation and amortisation	(12,432)	(15,948)	-
Loss on disposal of subsidiary	-	(90,191)	-
Exploration and evaluation costs written off	(548,936)	(809,677)	(195,341)
Loss from continuing operations before income tax	(2,649,977)	(1,774,446)	(1,417,432)
Income tax expense	-	-	-
Loss from continuing operations after income tax	(2,649,977)	(1,774,446)	(1,417,432)
Exchange differences on translating foreign operation	-	91,890	(52,833)
Net fair value gain on available for sale financial assets	(321,319)	125,980	-
Foreign exchange translation of subsidiary disposed of	-	-	-
Total comprehensive loss for the year	(2,971,296)	(1,556,576)	(1,470,265)

Source: Lithium Australia's audited financial statements for the years ended 30 June 2015 and 30 June 2016, and reviewed financial statements for the half year ended 31 December 2016

Commentary on Historical Statement of Profit or Loss and Other Comprehensive Income

We note the following in relation to Lithium Australia's historical statement of profit or loss and other comprehensive income:

- Other revenue of \$0.88 million for the half year ended 31 December 2016 related to the sale of gold and nickel exploration rights at Mount Day, totalling \$0.72 million, and a research and development government grant of \$0.16 million.
- Impairment on exploration right for Piedrecillas Chile of \$0.20 million for the year ended 30 June 2015 related to Lithium Australia's change of focus from Piedrecillas copper and silver deposit in Chile to its lithium project and processing technology. As a result, the Piedrecillas Chile exploration right was impaired.
- Loss on disposal of subsidiary of \$0.09 million related to a subsidiary of Lithium Australia, Capricorn Iron Limited, transferring its 70% interest to existing shareholders therefore resulting in Capricorn Iron Pty Ltd no longer existing as a subsidiary of Capricorn Iron Limited.

6.4 Capital Structure

The fully paid ordinary share structure of Lithium Australia as at 27 February 2017 is outlined below:

	Number
Total fully paid ordinary shares on issue	257,832,829
Top 20 shareholders	71,135,645
Top 20 shareholders - % of fully paid ordinary shares on issue	27.59%

Source: Bidder's Statement dated 2 March 2017

The partly paid share structure of Lithium Australia as at 27 February 2017 is outlined below:

	Number
Total partly paid shares on issue	132,850,148
Top 20 shareholders	51,615,207
Top 20 shareholders - % of partly paid shares on issue	38.85%

Source: Bidder's Statement dated 2 March 2017

The substantial fully paid ordinary shareholders as at 27 February 2017 are detailed below:

Name	Number of Fully Paid Ordinary Shares Held	Percentage of Issued Fully Paid Ordinary Shares (%)
Mr Adrian Christopher Griffin	8,562,842	3.32%
Mr P & Mrs MC Bevilacqua	8,250,000	3.20%
JP Morgan Nominees Limited	7,843,731	3.04%
Citicorp Nominees Pty Limited	7,671,333	2.98%
Subtotal	32,327,906	12.54%
Others	225,504,923	87.46%
Total fully paid ordinary shares on issue	257,832,829	100.00%

Source: Bidder's Statement dated 2 March 2017

The substantial partly paid shareholders as at 27 February 2017 are detailed below:

Name	Number of Partly Paid Shares Held	Percentage of Issued Partly Paid Shares (%)
Citicorp Nominees Pty Limited	7,333,539	5.52%
Mr Dennis Bell	6,867,628	5.17%
Mr Adrian Christopher Griffin	5,291,718	3.98%
TR Nominees Pty Ltd	4,000,000	3.01%
Subtotal	23,492,885	17.68%
Others	109,357,263	82.32%
Total partly paid shares on Issue	132,850,148	100.00%

Source: Bidder's Statement dated 2 March 2017

The Options and Performance Rights held in Lithium Australia are detailed below:

Current Options and Performance Rights on Issue	Number
Options exercisable at \$0.15 on or before 1 July 2019	4,316,666
Options exercisable at \$0.20 on or before 1 July 2019	7,875,000
Options exercisable at \$0.30 on or before 1 July 2019	9,200,000
Performance rights expiring 1 July 2019	10,340,000
Performance rights expiring 1 July 2021	16,250,000

Source: Bidder's Statement dated 2 March 2017

7. Economic analysis

Overall, the global economy is continuing to grow at a moderate level, entering 2017 with more momentum than originally expected. Labour market conditions in advanced economies have improved over the past year but growth in global industrial production and trade remains subdued. The improvement in the global economy has contributed to the recovery of commodity prices.

In China, growth was stronger over the second half of 2016 which was supported by higher spending on infrastructure and property construction. This has come as a result of China shifting away from an economy dependent on manufacturing, to one driven by consumer demand.

Global financial markets have seen improved sentiment following a period of increased volatility. However, uncertainty regarding the global economic outlook and policy settings for major jurisdictions continues. Globally, monetary policy remains accommodative.

Commodity prices

Commodity prices have increased in recent months, following a steep decline over the past few years. The increase in commodity prices is partly attributable to factors such as increased Chinese demand for bulk commodities. Chinese authorities have also restricted domestic production to reduce overcapacity, which has further contributed to the appreciation of prices.

The increase in commodity prices has seen a consequent increase in Australia's terms of trade. The increase bucks a declining trend in Australia's terms of trade, which have steadily declined over the past four years.

Domestic growth

In Australia, the available information suggests that the economy is growing moderately. The Australian economy has experienced a large decline in mining investment. However, this is being offset by growth in other areas such as residential construction, government expenditure and exports.

It is expected that global inflation will remain relatively low over the coming years, suggesting there is still downwards pressure on inflation in Australia.

Credit growth

Credit growth has picked up over the last three months, partly due to a number of large privatisations being financed by business credit. Furthermore, loan approvals data suggests that lending to investors has risen over the past few months, which is consistent with the increase in investor housing loan approvals. An increase in supervisory measures has also contributed to some strengthening of lending standards.

Overall conditions in the established housing market have strengthened recently, although there is substantial variation across the country. In some markets, conditions are strong and prices are rising rapidly, whilst in other markets prices are declining. In the eastern capital cities, additional supply of apartments is scheduled to come onto the market over the next few years.

Financial conditions remain accommodative globally, with funding costs for creditworthy borrowers markedly low.

Currency movements

An overall depreciating Australian dollar since 2013 has assisted the ongoing adjustment of the economy towards non-resource sectors following the end of the mining boom. However, over the last few months, the Australian dollar has gradually appreciated due to Australia's rise in the terms of trade.

Source: www.rba.gov.au Statement by Philip Lowe, Governor: Monetary Policy Decision 7 March 2017

8. Industry analysis

8.1 Lithium overview

Lithium is a soft, silver-white metal belonging to the alkali metal group of chemical elements. It is approximately half as dense as water and is the lightest of all metals. It is highly reactive and is not found as a metal in nature. Once processed, lithium becomes a soft, silver-white metal that is used in several industrial applications. Lithium is extracted from ores of petalite, lepidolite, spodumene and subsurface brines and is the world's 25th most abundant element. In the extraction of lithium from brines, the salt-rich waters are pumped to the surface into evaporation ponds where solar evaporation occurs over approximately 18 to 24 months per batch.

Lithium has many different uses, the most prominent being in that of batteries for phones, laptops and electric vehicles. According to the United States Geological Survey ('USGS'), global-end use markets for lithium are estimated at 39% for batteries, 30% for ceramics and glass, 8% for lubricating greases, 5% for continuous casting mold flux powders, 5% for polymer production, 3% for air treatment and 10% for other uses. Lithium can also be used to strengthen and improve resistance in glasses and ceramics, along with being alloyed with aluminium and copper to reduce weight in airframe structural components.

8.2 Lithium demand

Demand for lithium is being driven by the growth in demand for rechargeable batteries as lithium supply security has become a top priority for technology companies in the United States of America ('USA') and Asia.

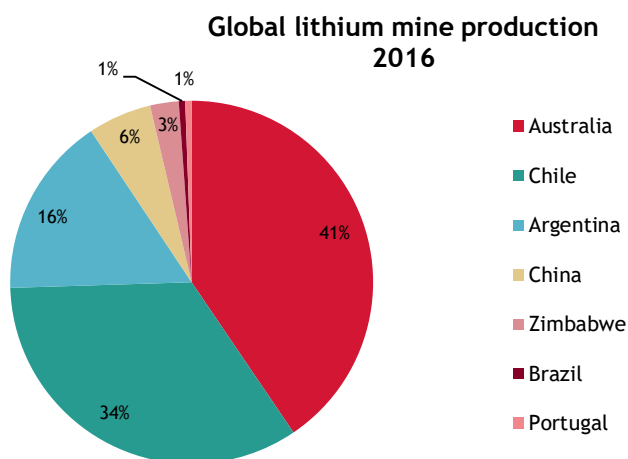
Demand for rechargeable lithium batteries exceeds that of other rechargeable batteries such as nickel-metal hydride batteries because of their higher power output, greater durability and cost advantages. The majority of this demand is driven by electric vehicles, energy grids, smartphones and tablet computers.

The growth in the electric car manufacturing industry is a key driver for lithium demand with leading manufacturers, as major players within the industry seek to start up big projects in the near future. It is said some factories are expected to produce 500,000 cars per year in the latter half of this decade, which would alone require the majority of the entire worldwide production of lithium ion batteries.

8.3 Lithium production and reserves

Since the late 1990s, subsurface brines have become the dominant raw material for lithium carbonate production worldwide. Subsurface brines offer lower production costs compared with the mining and processing of hard-rock ores. According to the USGS, two brine operations in Chile and a spodumene operation in Australia accounted for the large majority of world lithium production.

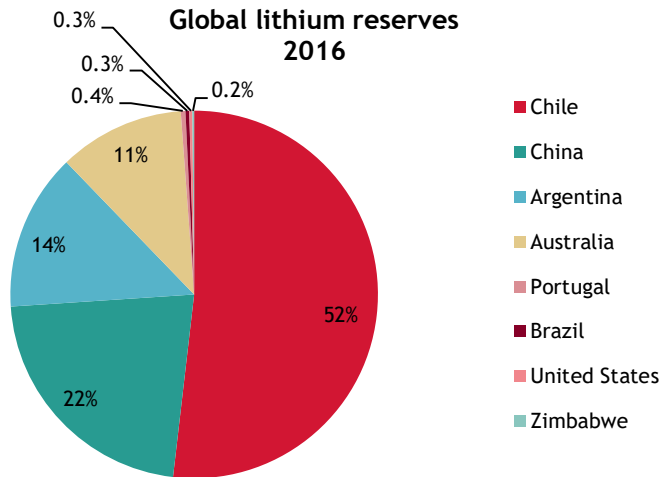
As depicted in the figure below, Australia and Chile accounted for 41% and 34% of global lithium production in 2016, respectively. Argentina also accounted for approximately 16% of global lithium production, with production in 2016 increasing by almost 60%. This increase was primarily attributable to a new brine operation in the country.



Source: USGS

Global lithium extraction is dominated by four large companies; being Albemarle Corporation, FMC Lithium Corporation, Sociedad Quimica y Minera de Chile S.A. ('SQM') and Tianqi Lithium Corporation. According to Bloomberg Intelligence, together, these four companies account for approximately 85% of the world's lithium supply. Albemarle, SQM and FMC Corporation recover lithium from subsurface brines in both Chile and Argentina, and Talison Lithium Pty Ltd which is jointly owned by Albemarle and Tianqi Lithium Corporation extract lithium carbonate concentrate from hard-rock ore in Australia.

According to the USGS, global lithium resources have increased significantly due to continued exploration. As depicted in the figure below, Chile accounted for approximately 52% of global lithium reserves, followed by China at 22% and Argentina at 14%.



Source: USGS

8.4 Lithium prices

Lithium trade is usually confined to a small number of producers and their customers, and as such, contract terms such as pricing are privately negotiated. Furthermore, there are an extensive range of products that can be made from lithium which leads to a range of prices that are dependent on the product and its' purity.

The strong Australian dollar reduced export values within Australia from 2010 through to 2012 however, export prices benefited from strong Chinese demand for lithium from 2012-13 and the weaker Australian dollar over recent times through to 2016.

The lithium market has experienced worldly change due to the current growth in demand for electric vehicles and the potential for static power storage devices. Research suggests that the lithium price may decline in the short to medium term as new lithium supply is brought into production.

8.5 Lithium outlook

Battery applications are expected to be the driving force behind growth within the lithium industry going forward. The development of electric vehicles will head this growth, underpinned by use of portable electronics due the use of lithium-ion technology. The recycling of batteries is also said to play a key role in the supply of lithium in the medium to long term. As lithium is a resource with the ability to be recycled repeatedly, it reduces the need for new sources of lithium in the future.

According to Bloomberg Intelligence, traditional industrial demand for lithium is expected to rise in line with global gross domestic product ('GDP'). Furthermore, additional supply from the main industry operators plus new entrants in both Argentina and Australia is expected to keep the lithium market balanced as 2017 unfolds.

Source: USGS, Bloomberg Intelligence and IBIS World

9. Valuation approach adopted

There are a number of methodologies which can be used to value a business or the shares in a company. The principal methodologies which can be used are as follows:

- Capitalisation of future maintainable earnings ('FME')
- Discounted cash flow ('DCF')
- Quoted market price basis ('QMP')
- Net asset value ('NAV')
- Market based assessment

A summary of each of these methodologies is outlined in Appendix 2.

Different methodologies are appropriate in valuing particular companies, based on the individual circumstances of that company and available information.

9.1 Valuation of a Lepidico Share

In our assessment of the value of Lepidico shares we have chosen to employ the following methodologies:

- QMP method as our primary approach as this represents the value that a Shareholder can receive for a share if sold on the market; and
- Sum-of-parts method, as our secondary approach, which estimates the market value of a company by separately valuing each asset and liability of the Company. The value of each asset may be determined using different methods. The component parts of Lepidico are valued using the DCF and NAV methods.

We have chosen these methodologies for the following reasons:

- We consider the QMP methodology to be relevant given Lepidico's shares are listed on the ASX. Therefore, there is a regulated and observable market where Lepidico's shares can be traded. However, in order for the QMP methodology to be considered appropriate, Lepidico's shares should be liquid and the market should be fully informed as to its activities. We have considered these factors in section 10.1 of our Report;
- We have adopted the sum-of-parts combined with the NAV and DCF approach as our secondary valuation method. The Company's main asset is the intellectual property that it holds, being the L-Max[®] technology, and the Company has recently completed its PFS. We consider that we have a reasonable basis under *Regulatory Guide 170 Prospective financial information* ('RG 170') to apply the DCF methodology and have instructed RW Nice & Associates Pty Ltd ('RW Nice') to act as an independent specialist to perform a review of the technical project assumptions contained in the cash flow model prepared by the Company, this has been adopted as our high valuation. We note that this is only based on Lepidico developing L-Max[®] at Kenora as we do not have reasonable grounds for further developments or royalties payable by other parties. As a secondary method we have also considered the adjusted historical acquisition cost of the L-Max[®] technology as a low valuation case. As the acquisition completed on 30 May 2016 was as a result of an arm's length negotiation we believe it provides a floor value which can be considered in our valuation range. In considering this value we have looked at the events that have occurred since acquisition

to ensure that there are no indications that this value would be impaired. The remaining assets and liabilities of Lepidico are valued using the NAV methodology; and

- The FME approach is most commonly applicable to profitable businesses with relatively stable growth histories and forecasts. However, we have been unable to use this approach with regard to the valuation of Lepidico, given that the business has been operating at a loss historically due to the stage of development of the Company and its technology. This implies that we do not currently have a reasonable basis to assess future maintainable earnings of Lepidico at this point in time.

9.2 Valuation of the Offer Consideration

Under the terms of the Offer, the consideration is one (1) Lithium Australia Share for every 13.25 Lepidico Shares.

When assessing non-cash consideration in control transactions, RG 111.31 suggests that a comparison should be made between the value of the securities being offered (allowing for a minority discount) and the value of the target entity's securities, assuming 100% of the securities are available for sale. This comparison reflects the fact that:

- (a) the acquirer is obtaining or increasing control of the target; and
- (b) the security holders in the target will be receiving scrip constituting minority interests in the combined entity.

RG 111.32 suggests that if we use the quoted market price of securities to value the offered consideration, then we must consider and comment on:

- (a) the depth of the market for those securities;
- (b) the volatility of the market price; and
- (c) whether or not the market value is likely to represent the value if the takeover bid is successful.

Under RG 111.34 it is noted that if, in a scrip bid, the target is likely to become a controlled entity of the bidder, the bidder's securities can also be valued using a notionally combined entity. However, it should still be noted that the accepting holders are likely to hold minority interests in that combined entity.

We note that the Offer is not subject to a minimum acceptance condition and as at the date of our Report, Lithium Australia has entered into Pre-Bid Acceptance Agreements with Lepidico Shareholders representing only 17.76% Lepidico's issued share capital. Therefore we cannot, at this stage, conclude that Lepidico is likely to become a controlled entity of Lithium Australia and as we do not have access to the underlying books and records of Lithium Australia, in particular information in relation to exploration expenditure and intangible assets, our valuation of the Offer Consideration has not been based on a notionally combined entity.

In our assessment of the value of the Offer Consideration, we have chosen to employ the following methodologies:

- QMP following the announcement of the Offer, as our primary approach as this represents the value that a Shareholder who accepts the Offer can receive for a Lithium Australia Share if sold on the market; and
- NAV of Lithium Australia on a minority interest basis, as our secondary approach.

We have chosen these methodologies for the following reasons:

- We consider the QMP methodology to be relevant given Lithium Australia's shares are listed on the ASX. Therefore, there is a regulated and observable market where Lithium Australia's shares can be traded. However, in order for the QMP methodology to be considered appropriate, Lithium Australia's shares should be liquid and the market should be fully informed as to its activities. RG 111.32 suggests that if we use the quoted market price of securities to value the offered consideration, then we must consider and comment on
 - a. the depth of the market for those securities;
 - b. the volatility of the market price; and
 - c. whether or not the market value is likely to represent the value if the takeover bid is successful.

We have considered these factors in section 11.1 of our Report;

- We have adopted the NAV methodology as our secondary approach however we have only been able to rely on the most recent financial statements disclosed on the ASX as our basis for this valuation as we do not have access to the underlying books and records of Lithium Australia, in particular information in relation to exploration expenditure and intangible assets, which would allow us to have an independent specialist provide a valuation; and
- The FME approach is most commonly applicable to profitable businesses with relatively stable growth histories and forecasts. However, we have been unable to use this approach with regard to the valuation of Lithium Australia, given that the financial information that is available to us indicates that Lithium Australia has been operating at a loss historically. This implies that we do not currently have a reasonable basis to assess future maintainable earnings of Lithium Australia at this point in time.

10. Valuation of Lepidico

10.1 Quoted Market Prices for a Lepidico Share

The quoted market value of a company's shares is reflective of a minority interest. A minority interest is an interest in a company that is not significant enough for the holder to have an individual influence in the operations and value of that company.

RG 111.11 suggests that when considering the value of a company's shares the expert should consider a premium for control. An acquirer could be expected to pay a premium for control due to the advantages they will receive should they obtain 100% control of another company. These advantages include the following:

- control over decision making and strategic direction;
- access to underlying cash flows;
- control over dividend policies; and
- access to potential tax losses.

Whilst Lithium Australia may not obtain 100% of Lepidico, RG 111 states that the expert should calculate the value of a target's shares as if 100% control were being obtained. RG 111.13 states that the expert

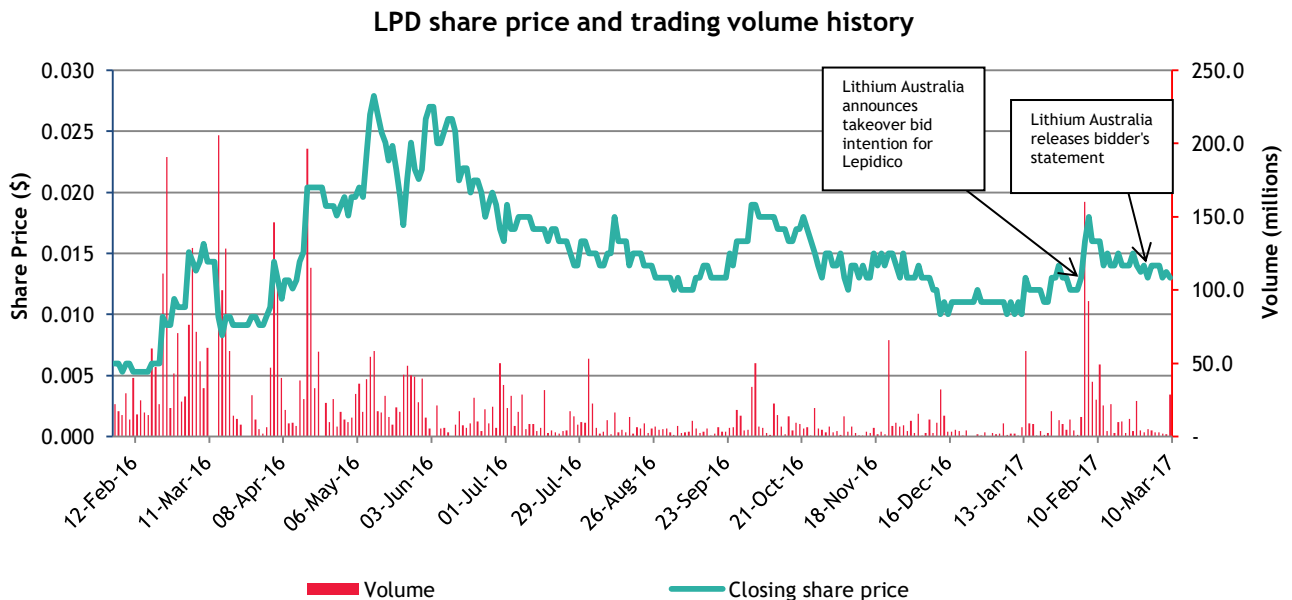
can then consider an acquirer’s practical level of control when considering reasonableness. Reasonableness has been considered in section 13.

Therefore, our calculation of the quoted market price of a Lepidico share including a premium for control has been prepared in two parts. The first part is to calculate the quoted market price on a minority interest basis. The second part is to add a premium for control to the minority interest value to arrive at a quoted market price value that includes a premium for control.

Minority interest value

Our analysis of the quoted market price of a Lepidico share is based on the pricing prior to Lithium Australia’s announcement of its intention to make a conditional off-market scrip bid for Lepidico. This is because the share price of Lepidico following Lithium Australia’s announcement may effectively represent the markets view of the value that a Lepidico shareholder will receive per share if the Offer is accepted. As such, this may not be reflective of a Lepidico share on a standalone basis.

Lithium Australia first announced its intention to make an off-market scrip bid for Lepidico on 6 February 2017. The following chart therefore provides a summary of the share price movement over the 12 months to 3 February 2017, being the last trading day prior to the announcement, as well as the period from 6 February 2017 to 10 March 2017 to illustrate the impact resulting from the release of the Bidder’s Statement. Other announcements following Lithium Australia’s intention to make an off-market scrip bid for Lepidico also included the Alvarroes Lepidolite Mine Ore Access Agreement on 9 March 2017, completion of the L-Max® Plant PFS and the litigation settlement with Lithium Australia on 27 February 2017 and the farm-in agreement signed with Pioneer Resources Limited on 23 February 2017. We note from the graph below, these announcements did not have a material effect on the Lepidico share price.



Source: Bloomberg, BDO analysis

The daily price of Lepidico shares from 5 February 2016 to 3 February 2017 has ranged from a low of \$0.005 on 16 February 2016 to a high of \$0.030 on 16 May 2016. From February 2016 to July 2016, the Company’s shares exhibited an overall upwards trend, followed by a decreasing trend to October 2016 and stabilising over November and December 2016.

Large volumes of Lepidico shares were traded in February and March 2016 with the highest single day of trading occurring on 16 March 2016 where 205,719,688 shares were traded.

During this period a number of announcements were made to the market. The key announcements are set out below:

Date	Announcement	Closing Share Price Following Announcement			Closing Share Price Three Days After Announcement		
		\$	(movement)	%	\$	(movement)	%
06/02/2017	Lithium alliance with Avalon Advanced Materials Inc.	0.013	▲	8.3%	0.016	▲	23.1%
31/01/2017	Quarterly Activities and Cashflow Reports	0.013	▶	0.0%	0.012	▼	7.7%
25/01/2017	L-Max [®] Delivers High Recoveries and Battery Grade Lithium Ca	0.013	▲	18.2%	0.013	▶	0.0%
16/01/2017	L-Max [®] Produces Battery Grade Lithium Carbonate	0.013	▲	30.0%	0.012	▼	7.7%
13/12/2016	Counterclaim Lodged Against LIT	0.012	▶	0.0%	0.010	▼	16.7%
06/12/2016	Euriowie Exploration Update	0.014	▲	7.7%	0.013	▼	7.1%
24/11/2016	High Grade Lithium Drill Results at Lemare	0.015	▲	7.1%	0.013	▼	13.3%
18/11/2016	Lithium Alliance with Argo Metals and Viking Mines	0.015	▲	15.4%	0.014	▼	6.7%
26/10/2016	Quarterly Activity and Cashflow Reports	0.016	▼	5.9%	0.013	▼	18.8%
05/10/2016	Response to ASX Price Query	0.019	▶	0.0%	0.018	▼	5.3%
30/09/2016	Clarification and Retraction	0.016	▶	0.0%	0.019	▲	18.8%
27/09/2016	Pre-Feasibility Study Commences for Phase 1 L-Max [®] Plant	0.014	▼	6.7%	0.016	▲	14.3%
26/09/2016	Euriowie Exploration Licence Granted	0.015	▲	15.4%	0.016	▲	6.7%
23/09/2016	Appointment of Managing Director and Board Changes	0.013	▶	0.0%	0.016	▲	23.1%
12/09/2016	Drilling Commences at Lemare Lithium Project	0.012	▶	0.0%	0.014	▲	16.7%

Source: Bloomberg, BDO analysis

On 6 February 2017, prior to the announcement of Lithium Australia's intention to make an off-market scrip bid takeover offer for Lepidico, the Company announced that it had entered into a Letter of Intent with Avalon Advanced Materials Inc. for an integrated lepidolite mining and lithium carbonate production partnership in Canada. On the date of the announcement, the market responded positively with the share price increasing by 8.3% to close at \$0.013. Furthermore, over the subsequent three trading days the share price continued to increase by 23.1% to close at \$0.016. We note that as Lithium Australia's intention to make an offer for Lepidico was announced on the same date, the price increase over the three subsequent trading days may also be reflective of this announcement.

On 31 January 2017, the Company released its Quarterly Activities Report for the December 2016. The Report highlighted that the PFS on the Phase 1 commercial L-Max[®] Plant was on track for completion in the March 2017 quarter. On the date of the announcement, the share price remained unchanged. However, over the subsequent three trading days the market responded negatively with the share price decreasing by 7.7% to close at \$0.012.

On 25 January 2017, the Company announced that it had produced battery grade lithium carbonate grading 99.88% using its L-Max[®] technology as part of the ongoing PFS test work programme. On the date of the announcement, the market responded positively with the share price increasing by 18.2% to close at \$0.013. The share price remained unchanged over the subsequent three trading days.

On 16 January 2017, the Company announced that it had produced battery grade lithium carbonate grading 99.75% using its L-Max[®] technology, as part of the ongoing PFS test work programme. On the date of the announcement, the market responded positively with the share price increasing by 30% to close at \$0.013 however over the subsequent three trading days, the share price decreased by 7.7% to close at \$0.012.

On 13 December 2016, the Company announced that it would undertake vigorous defence, through its subsidiary, of the Supreme Court proceedings instituted by Lithium Australia on 4 November 2016. In summary the counterclaim alleged that Sileach[™] was developed, without authorisation, using the Company's intellectual property in the L-Max[®] technology and/or L-Max[®] confidential disclosed to Lithium Australia and that Lithium Australia had breached a number of clauses under a Licence Agreement entered into with a Lepidico subsidiary. On the date of the announcement, the share price remained unchanged however over the subsequent three trading days the share price decreased by 16.7% to close at \$0.010.

On 6 December 2016, the Company presented an update on its recent exploration completed at the Euriowie Lithium Project, detailing a new amblygonite occurrence. On the date of the announcement, the market reacted positively with the Lepidico share price increasing by 7.7% to close at \$0.014. However, over the three subsequent trading days the share price decreased by 7.1% to close at \$0.013.

On 24 November 2016, the Company announced positive results from the Stage 1 exploration program recently completed at the Lemare Project. On the date of the announcement, the Lepidico share price increased by 7.1% to close at \$0.015 however over the three subsequent trading days, the share price decreased by 13.3% to a close of \$0.013.

On 18 November 2016, the Company announced that it had signed a Memorandum of Understanding with unlisted public company Argo Metals Group Limited that contemplates the development of a small commercial scale L-Max[®] plant to process lepidolite concentrate sourced from the Reung Kiet Lithium Project in Thailand. On the date of the announcement, the market reacted positively with the share price increasing by 15.4% to close at \$0.015 however over the three subsequent trading days the share price decreased by 6.7% to close at \$0.014.

On 26 October 2016, the Company released its Quarterly Activities and Cashflow Report for September 2016. The market responded negatively, with the share price declining by 5.9% to \$0.016 on the date of the announcement. Over the three subsequent trading days, Lepidico's share price declined by 18.8%, to close at \$0.013.

On 5 October 2016, the Company released a statement responding to a Price and Volume Query from the ASX. The query was prompted due to a significant increase in the Company's share price and increased volume of trading over the period 3 October 2016 to 5 October 2016. Lepidico's response stated that it was unaware of any specific reasons as to why there would have been an increase in the trading of the Company's securities; however its recent announcement regarding the L-Max[®] PFS may have been a contributing factor. On the date of the announcement, the Lepidico share price remained unchanged at \$0.019 however declined by 5.3% over the subsequent three trading days to close at \$0.018.

On 30 September 2016, the Company released a clarification and retraction statement in regards to its announcements dated 27 September 2016. The statement detailed that the announcements made reference to broad indicative plant operating parameters for the purpose of a PFS which had been developed through scoping level work, and as such, did not constitute a production forecast or target in relation to mineral resources associated with any project owned by Lepidico. As a result, Lepidico retracted its statement relating to the scoping parameters. On the date of the announcement, the

Company's share price remained unchanged however over the subsequent three trading days the share price increased by 18.8% to close at \$0.019.

On 27 September 2016, the Company announced that it had commenced a PFS for a commercial L-Max[®] plant of minimum scale. The announcement further detailed that the PFS was a key step to commercialising the L-Max[®] technology. On the date of the announcement, the Lepidico share price declined by 6.7% to close at \$0.014. However, over the three subsequent trading days the share price increased by 14.3% to close at \$0.016.

On 26 September 2016, the Company announced that its application for an exploration licence over the Euriowie Lithium Project had been granted. Lepidico's share price on the date of the announcement closed 15.4% higher at \$0.015 and increased by a further 16.7% in the three trading days subsequent to the announcement to close at \$0.016.

On 23 September 2016, the Company announced that Mr Joe Walsh had been appointed as Managing Director of Lepidico. This appointment came as part of the Company's strategy to become a lithium producer by 2019 via the commercialisation of its L-Max[®] technology. On the date of the announcement, the Lepidico share price remained unchanged. However, over the subsequent three trading days the market responded positively and the share price increased by 23.1% to close at \$0.016.

On 12 September 2016, the Company announced that a diamond drill rig had commenced drilling at the Lemare Lithium Project located in Quebec, Canada. The announcement further detailed that the drill program would evaluate the mineralogy, grade and dimensions of the Lemare spodumene pegmatite with a view to defining a Joint Ore Reserves Committee ('JORC') code-compliant Mineral Resource estimate upon completion. On the date of the announcement, the Lepidico share price remained unchanged however over the subsequent three trading days, the market responded positively with the share price increasing by 16.7% to close at \$0.014.

To provide further analysis of the market prices for a Lepidico share, we have also considered the weighted average market price for 10, 30, 60 and 90 day periods to 3 February 2017. We consider a 90 day period to be the most reliable estimate of the market price for a Lepidico share.

Share Price per unit	03-Feb-17	10 Days	30 Days	60 Days	90 Days
Closing price	\$0.012				
Volume weighted average price (VWAP)		\$0.013	\$0.012	\$0.013	\$0.015

Source: Bloomberg, BDO analysis

The above weighted average prices are prior to the date of the announcement of Lithium Australia of its intention to make a takeover bid for Lepidico in order to avoid the influence of any increase in price of Lepidico shares that has occurred since the intention was announced.

An analysis of the volume of trading in Lepidico shares for the 90 days to 3 February 2017 is set out below:

Trading days	Share price low	Share price high	Cumulative volume traded	As a % of issued capital
1 Day	\$0.012	\$0.013	999,000	0.06%
10 Days	\$0.011	\$0.015	61,826,410	3.53%
30 Days	\$0.010	\$0.015	173,459,517	9.91%
60 Days	\$0.010	\$0.019	412,969,894	23.59%
90 Days	\$0.010	\$0.022	683,449,345	39.04%

Source: Bloomberg, BDO analysis

This table indicates that Lepidico's shares display a high level of liquidity, with 39.04% of the Company's current issued capital being traded in a 90 day period. For the quoted market price methodology to be reliable there needs to be a 'deep' market in the shares. RG 111.69 indicates that a 'deep' market should reflect a liquid and active market. We consider the following characteristics to be representative of a deep market:

- Regular trading in a company's securities;
- Approximately 1% of a company's securities are traded on a weekly basis;
- The spread of a company's shares must not be so great that a single minority trade can significantly affect the market capitalisation of a company; and
- There are no significant but unexplained movements in share price.

A company's shares should meet all of the above criteria to be considered 'deep', however, failure of a company's securities to exhibit all of the above characteristics does not necessarily mean that the value of its shares cannot be considered relevant.

In the case of Lepidico, shares have been traded regularly over the assessed period. Furthermore, the volume of trades is at a level greater than 1% of the Company's issued capital, on a weekly basis, which indicates that there is a sufficiently deep market for the Company's shares.

Our assessment is that a range of values for Lepidico shares based on market pricing, after disregarding post announcement pricing, is between \$0.012 and \$0.015.

We note that on 16 March 2017, the Company announced the Entitlement Offer. The maximum number of New Shares which will be issued under the Entitlement Offer is 437,634,398, at an entitlement offer price of \$0.013 per share, to raise approximately \$5,689,247, before expenses. This price represents a 13.33% discount to the last traded price of Lepidico shares immediately prior to the announcement, being \$0.015 on 15 March 2017. As the Entitlement Offer is not underwritten and has not yet commenced, we are unable to consider the market price for a Lepidico share as a result of the Entitlement Offer. However, if there are acceptances of the Entitlement Offer, this would indicate an approximation of the market value of a Lepidico share on a minority interest basis.

Control Premium

We have reviewed the control premiums paid by acquirers of all general mining companies listed on the ASX. We have summarised our findings below:

Year	Number of Control Transactions	Average Deal Value (AU\$m)	Average Control Premium (%)
2016	8	55.43	64.10
2015	14	177.66	54.08
2014	15	107.78	43.81
2013	19	40.76	64.64
2012	25	117.78	52.29
2011	22	563.27	48.88
2010	32	578.65	46.75
2009	34	74.38	49.93
2008	11	418.14	38.87
		Mean	51.48
		Median	49.93

Source: Bloomberg, BDO analysis

The mean and median figures above are calculated based on the average deal value and control premium for each respective year. To ensure our data is not skewed, we have also calculated the mean and median of the entire data set comprising control transactions for general mining companies from 2008 onwards, as set out below:

Entire Data Set Metrics	Average Deal Value (AU\$m)	Average Control Premium (%)
Mean	257.24	50.81
Median	30.29	41.51

In arriving at an appropriate control premium to apply we note that observed control premiums can vary due to the:

- nature and magnitude of non-operating assets;
- nature and magnitude of discretionary expenses;
- perceived quality of existing management;
- nature and magnitude of business opportunities not currently being exploited;
- ability to integrate the acquiree into the acquirer's business;
- level of pre-announcement speculation of the transaction;
- level of liquidity in the trade of the acquiree's securities.

The tables above indicate that the long term average of announced control premiums paid by acquirers of general mining companies on the ASX is approximately 50%. However, in assessing the sample of the transactions that were included in the table, we noted transactions within the list that appear to be extreme outliers. These outliers include 15 transactions in which the announced control premium was in excess of 100%. We note that we have excluded transactions where the acquirer obtained a controlling interest at a discount (i.e. less than 0%).

In a sample where there are extreme outliers, the median often represents a superior measure of central tendency compared to the mean. We note that the median announced control premium over the review period was 41.51%.

From 2013 to 2015, the control premium exhibited an overall downwards trend from 64.64% in 2013 to 43.81% in 2014 albeit slightly increasing to 54.08% in 2015. Although 2016 had a considerably higher average control premium, we note that the number of control transactions was relatively low compared to other years. Furthermore, the data set for 2016 contained a large outlier with an announced premium of 241.86% which we have excluded from the calculation of our average control premium. Therefore, we consider that an appropriate premium for control to apply is between 30% and 40%.

Quoted market price including control premium

Applying a control premium to Lepidico's quoted market share price results in the following quoted market price value including a premium for control:

	Low \$	Midpoint \$	High \$
Quoted market price value	0.012	0.013	0.015
Control premium	30%	35%	40%
Quoted market price valuation including a premium for control	0.016	0.018	0.021

Source: BDO analysis

Therefore, our valuation of a Lepidico share based on the quoted market price method and including a premium for control is between \$0.016 and \$0.021, with a midpoint value of \$0.018.

10.2 Sum-of-parts valuation of a Lepidico Share

The sum-of-parts valuation of a Lepidico share is reflected in our valuation below:

	Notes	31-Dec-16 \$	Low value \$	High value \$
CURRENT ASSETS				
Cash and cash equivalents	1	2,091,569	2,091,569	63,091,569
Trade and other receivables		348,321	348,321	348,321
TOTAL CURRENT ASSETS		2,439,890	2,439,890	63,439,890
NON-CURRENT ASSETS				
Trade and other receivables		36,003	36,003	36,003
Property, plant and equipment		10,955	10,955	10,955
Exploration expense capitalised	2	1,586,694	1,586,694	1,586,694
Intangible asset	3	16,340,566	16,620,000	60,349,612
Available for sale assets	4	100,000	100,000	100,000
Investment in Associate		3,529	3,529	3,529
TOTAL NON-CURRENT ASSETS		18,077,747	18,357,181	62,086,793
TOTAL ASSETS		20,517,637	20,797,071	125,526,683
CURRENT LIABILITIES				
Trade and other payables		531,457	531,457	531,457
Provisions		71,328	71,328	71,328
TOTAL CURRENT LIABILITIES		602,785	602,785	602,785
TOTAL LIABILITIES		602,785	602,785	602,785
NET ASSETS		19,914,852	20,194,286	124,923,898
Shares on issue (number)	5		1,750,537,591	7,694,982,035
Value per share (\$)			\$0.012	\$0.016

Source: BDO analysis

We have been advised that there has not been a significant change in the net assets of the Company since 31 December 2016 apart from those adjustments discussed below. Other than those items discussed below, we have determined that the fair market value of the assets and liabilities as at 31 December 2016 are equal to the carrying values as set out in the above statement of financial position.

The table above indicates the net asset value of a Lepidico Share is in the range of \$0.012 and \$0.016. The following adjustments were made to the net assets of Lepidico as at 31 December 2016 in arriving at our valuation.

Note 1: Cash and cash equivalents

We are required by RG111.15 to assess the funding requirements for a company that is not in financial distress when considering its value, especially when using the DCF methodology. Therefore, we have included a notional capital raising that will be required to fund the development of the Project, as if the Offer was not accepted.

We have assumed a 100% equity structure to represent the funding for the Project, whilst it is likely that the project will be debt funded to an extent we do not have information in relation to debt financing which provides reasonable grounds at this point in time. Accordingly we have adopted a 100% equity funded scenario. .

The notional capital raising amount is based on the recently completed PFS and updated for refining of capital costs. This concluded that the Project's total project investment would be US\$44.2 million (A\$61 million), including a contingency amount at 20%. Assuming a 100% equity raising, the required equity funds to be raised is approximately US\$46.5 million (A\$64.2 million), which includes a notional 5.0% placement fee to account for a potential underwriter's or broker's fee. Therefore, the net cash that would be received from the notional capital raising is A\$61 million.

In order to determine the likely price at which Lepidico would have to place its shares to a third party or current shareholder under a rights issue to raise the capital required, we considered the VWAP of Lepidico's shares and the discount at which shares have been issued by ASX listed companies when compared to the respective companies' share price the day prior to the announcement of the placement. We considered the discount at which shares have been issued since January 2015 by ASX listed mining companies to raise capital.

From our analysis, the average discount for ASX listed mining companies was 17.0%.

Given that the size of the notional capital raising would be in excess of 200% of Lepidico's market capitalisation, we applied a discount of 20% to provide a sufficient incentive for investors to participate in a notional raising by Lepidico to equity fund 100% of the project.

In section 10.1 of our Report we consider the QMP of Lepidico's shares. From this analysis, we assessed that the value for a Lepidico share, based on market pricing, was A\$0.0135. Applying a discount of 20% to the assessed value of a Lepidico share prior to the announcement of the Proposed Takeover results in an assumed notional capital raising price of A\$0.0108 per share. We note that this is below the rights issue price, we are unable to rely on the rights issue price in adopting a QMP value as the take-up of the rights issue is unknown as at the date of our report. Should the rights issue be widely taken up then it would be reasonable to use this as the price on which to base the discount for the notional capital raising which is of a greater magnitude than the rights issue. We also note that it is likely that Lepidico would undertake periodic capital raisings to attempt to limit dilution by seeking to raise capital following the achievement of milestones that are expected to result in share price increases.

To raise an equivalent US million required to fund the development of the Project, approximately 5,944,444 new Lepidico shares will need to be issued resulting in a total of 7,694,982,035 Lepidico shares on issue.

The table set out below details the adjusted cash balances for each scenario.

Cash and cash equivalents	Low value A\$m	High value A\$m
Balance as at 31-Dec-16	2,091,569	2,091,569
Notional capital raising	-	61,000,000
Total	2,091,569	63,091,569

Source: BDO analysis

Note 2: Exploration expense capitalised

The Company's mineral assets are in very early stages of exploration and to date no resources have been declared in accordance with the JORC Code. Between the period 1 July 2016 and 31 December 2016, the Company capitalised exploration costs of approximately \$1.02 million relating to the completion its first exploration program at the Lemare Project which consisted of 16 diamond drill holes. The recoverability of the carrying amount of exploration assets is dependent on the successful development and commercial exploitation or sale of the respective mining permits

Therefore, for the purposes of our Report, we consider the market value of the Company's exploration assets to approximate the current carrying value of \$1.59 million. We also consider that the value of each individual exploration asset held by the Company to be immaterial.

Note 3: Intangible asset

We have chosen to value the L-Max[®] technology using the following valuation methodologies:

- Historical cost; and
- Discounted cash flows.

Historical cost

We consider the historical cost of acquisition of the L-Max[®] technology provides us with a floor value from which to base our secondary valuation range.

L-Max[®] was acquired via the issue of 750 million shares in Platypus (which was renamed to be Lepidico). The potential transaction was announced on 1 February 2016 and completed on 30 May 2016 following the approval of shareholders. The table below shows key dates of the acquisition and the value based on the closing price and daily VWAP of that day.

Date	Closing price	VWAP	Announcement	Value	
				Closing price	Value VWAP
01-Feb-16	0.0045	0.0045	Potential transaction announced	\$3,375,000	\$3,375,000
16-Mar-16	0.0098	0.0107	Binding term sheet announced	\$7,350,000	\$8,025,000
21-Apr-16	0.0204	0.0210	Share sale agreement executed	\$15,300,000	\$15,750,000
30-May-16	0.0219	0.0234	Shareholder approval and completion	\$16,425,000	\$17,550,000

Source: BDO analysis

Based on our assessment of the trading during the period we have adopted a value of \$15.3 million to \$17.55 million based on an underlying share price range of \$0.0204 to \$0.0234. We note that pricing was in this range for a reasonable period post completion of the acquisition.

As the acquisition included other assets, we have deducted the fair value of the other assets acquired at their fair values, as disclosed in the year end and half year accounts. We added to this the subsequent expenditure on L-Max[®] since acquisition to arrive at a value based on acquisition cost.

Acquisition cost	Low value \$	Midpoint value \$	High value \$
Value range adopted	15,300,000	16,425,000	17,550,000
Less:			
Other assets acquired at fair value	(258,263)	(258,263)	(258,263)
Plus:			
Subsequent expenditure:			
to 30-Jun-16	62,025	62,025	62,025
to 31-Dec-16	390,513	390,513	390,513
Total value of L-Max[®]	15,494,275	16,619,275	17,744,275

Source: BDO analysis

Based on the above analysis, we consider the acquisition cost of the L-Max[®] technology to be in the range of \$15.49 million and \$17.74 million with a preferred value of \$16.62 million. We have adopted the midpoint value in the Low end of our valuation range of a Lepidico share.

Discounted cash flow methodology

A detailed cash flow model for the Project was prepared by the directors of Lepidico with the assistance of advisors ('the Model'). The Model was prepared as part of the Pre-feasibility Study ('PFS') for the L-Max[®] technology and estimates the future cash flows expected from operation of the processing plant to be based in Kenora. The Model depicts forecasts of real post-tax cash flows over the life of the plant on an annual basis. We have reviewed the Model and the material assumptions that underpin it.

BDO has made certain adjustments to the Model where it was considered appropriate to arrive at an adjusted model ('the Adjusted Model'). In particular, we have adjusted the Model to reflect any changes to the technical assumptions as a result of R.W. Nice & Assoc. Pty Ltd's ('RW Nice') review and any changes to the economic and other input assumptions from our analysis. We have considered the Adjusted Model to reflect cash flows on a real basis. The Model was prepared based on estimates of production throughput of the plant, operating costs, corporate overhead costs and capital expenditure.

The main assumptions underlying the Model include:

- Processing plant throughput volumes;
- Commodity prices;
- Purchase price of lithium concentrate;
- Operating costs;
- Capital expenditure; and
- Discount rate.

We undertook the following analysis on the Model:

- Instructed RW Nice as technical expert to review, and where required, provide changes to the technical assumptions underlying the Model, including the timing of the completion of the feasibility study as noted by RW Nice;
- Conducted independent research on certain economic and other inputs such as commodity prices, inflation and discount rate applicable to the future cash flows of the Project;

- Held discussions with Lepidico's management regarding the preparation and support of the forecasts in the Model; and
- Performed a sensitivity analysis on the value of the Project as a result of flexing selected assumptions and inputs.

We have not undertaken a review of the cash flow forecasts in accordance with Australian Auditing Standard AUS 804 'The Audit of Prospective Financial Information' and do not express an opinion on the reasonableness of the assumptions or their achievability. However, nothing has come to our attention as a result of our procedures to suggest that the assumptions on which the Model has been based have not been prepared on a reasonable basis.

Economic assumptions

Denominations of cash flows

The cash flows contained in Lepidico's Model were prepared in USD with the NPV calculated in USD. We converted the NPV to AUD as at the valuation date of 31 December 2016.

Inflation

We note that all cash flows contained in Lepidico's Model were calculated on a real basis.

In our assessment of the inflation rate, we have considered forecasts prepared by economic analysts and other publicly available information including broker consensus to arrive at our inflation rate assumptions. From our analysis, the long-term inflation outlook for Canada and Australia are similar at approximately 2.0%.

On this basis, we have assumed an annual inflation rate of 2.0% over the life of the Project.

Revenue assumptions

The Project receives revenue from the sale of Lithium carbonate, Potassium sulphate, sodium silicate, caesium and tantalum.

We refer to the RW Nice report in Appendix 4 for further analysis of the pricing adopted in the Project.

Lithium carbonate

Lepidico engaged an independent specialist to provide forecast lithium carbonate benchmark pricing for the PFS. We consider the specialist to be technically competent in providing advice on forecast pricing in this industry. We also conducted our own analysis of the forecast lithium carbonate pricing and concluded that the pricing schedule assumed for the Project to be reasonable, therefore we have relied on the forecast pricing provided in the Model.

The Adjusted Model assumes a real forecast price of US\$8,000 per tonne of lithium carbonate over the life of the L-Max[®] processing plant.

Potassium sulphate

We considered potassium sulphate pricing data available publicly and conclude the forecast pricing assumed by Lepidico in the Model of US\$600 per tonne to be reasonable.

We have not adjusted the forecast pricing for potassium sulphate in our Adjusted Model.

Sodium silicate

Lepidico analysed pricing from competitors that offer comparable quality sodium silicate and have adopted the same pricing for use in the Model. We consider this to be reasonable and have assumed the same pricing in the Adjusted Model being a real forecast price of US\$689 per tonne over the life of the Project.

Caesium

Lepidico engaged an independent specialist to provide forecast caesium benchmark pricing for the PFS. We consider the specialist to be technically competent in providing advice on forecast pricing in this industry. We also conducted our own analysis of the forecast caesium pricing and concluded that the pricing schedule assumed for the Project to be reasonable, therefore we have relied on the forecast pricing provided in the Model.

The Adjusted Model assumes a real forecast price of US\$15,000 per tonne of caesium over the life of the L-Max[®] processing plant.

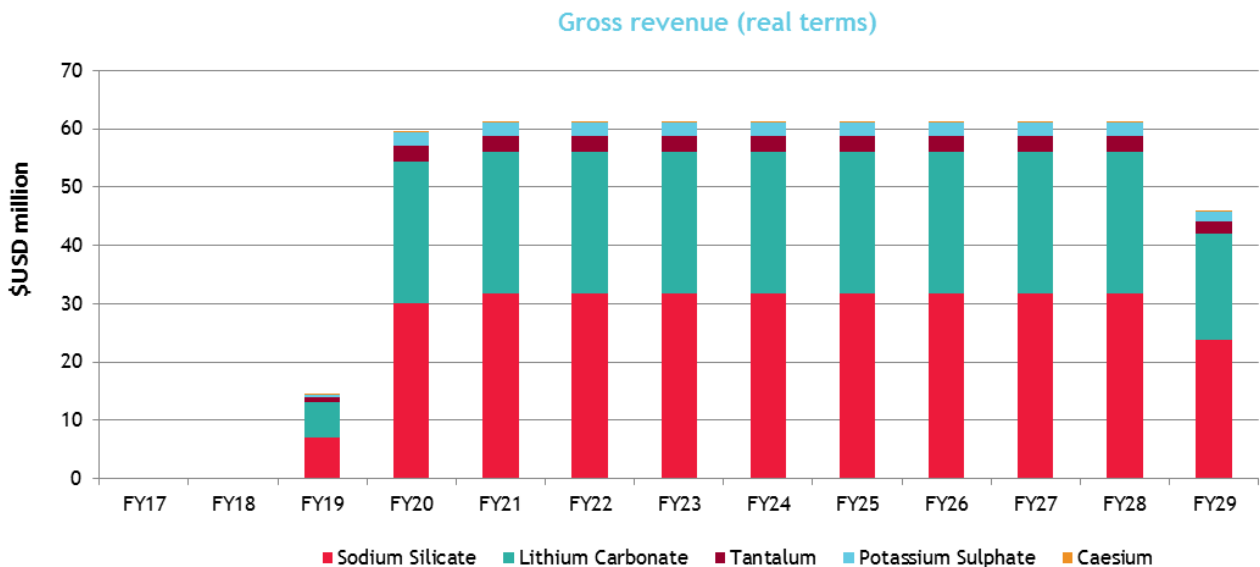
Tantalum

Lepidico engaged an independent specialist to provide forecast tantalum benchmark pricing for the PFS. We consider the specialist to be technically competent in providing advice on forecast pricing in this industry.

We have not adjusted the forecast pricing for tantalum in our Adjusted Model. The Adjusted Model assumes a real forecast price of US\$120,000 per tonne of tantalum over the life of the L-Max[®] processing plant.

Revenue

The graph below shows the forecast revenues from the sale of all commodities to be received over the life of the Project.



Source: Adjusted Model, BDO analysis

Processed physicals

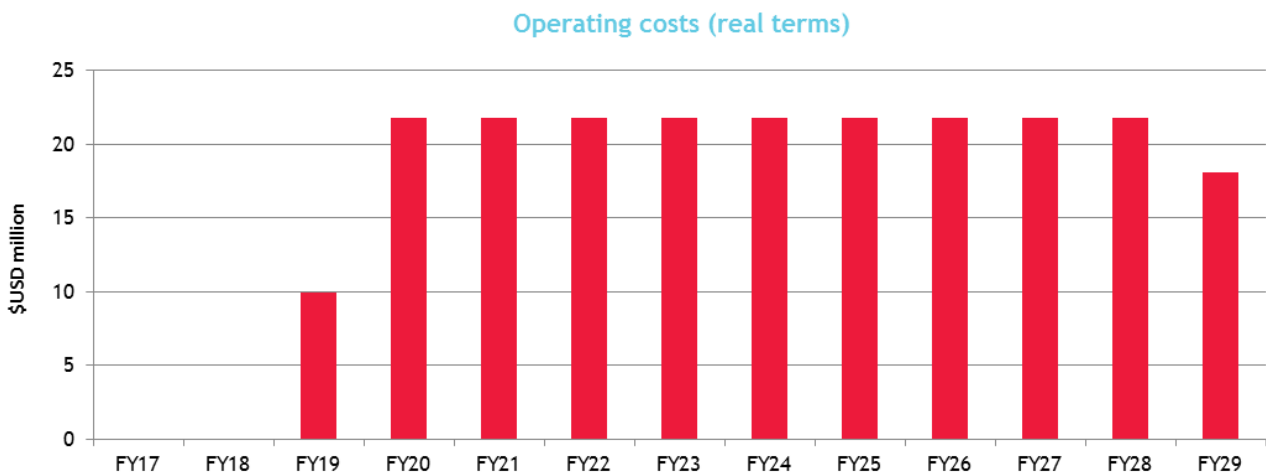
The graph below outlines the forecast ore to be processed through the plant over the Project life as per the Adjusted Model. Lepidico has identified multiple sources of ore, including exploration ground held by Avalon Advanced Materials Inc, Tailings material in Africa and an operating mine in Portugal. We note that the Avalon Advanced Materials Inc project does not have a JORC resource and as such we have not relied on this in isolation to provide feed material and due to the other potential sources of ore we are of the view that reasonable grounds exist to expect that source material will be available in FY19 when operations are scheduled to begin.



Source: Adjusted Model, BDO analysis

Operating expenditure

Key operating expenditure included in the Adjusted Model consists of processing costs, total concentrate, transport and treatment charges and general administrative costs. The graph below outlines the forecast operating costs per annum for the Project life, on a real basis.



Source: Adjusted Model, BDO analysis

Capital expenditure

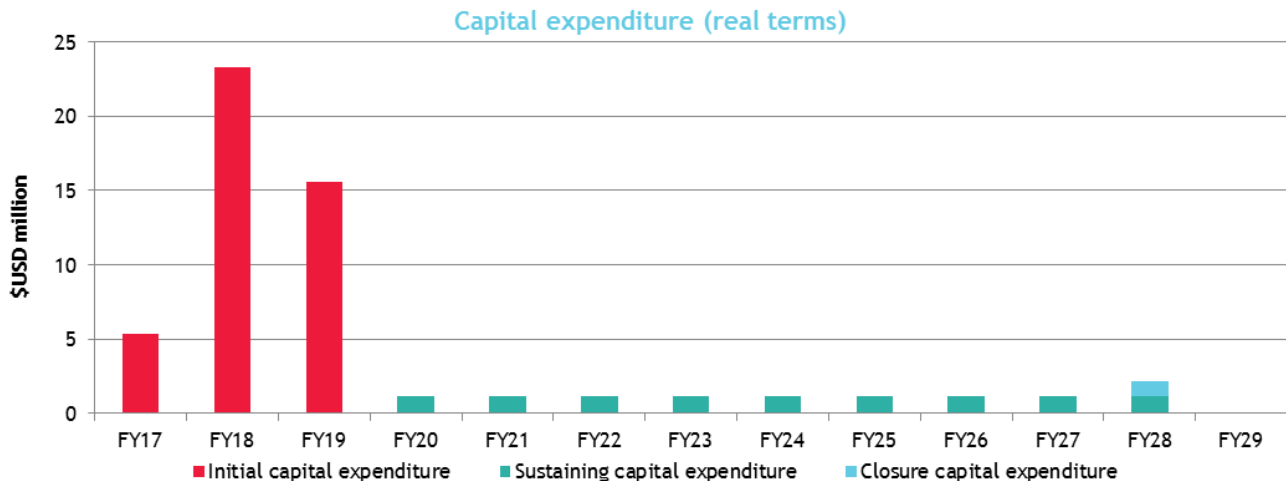
The Project requires an upfront investment of approximately US\$41.1 million (A\$57 million), not including corporate overheads, to be developed over a three year period, expressed in real terms.

The upfront capital expenditure, in real terms, comprises US\$5.0 million for the definitive feasibility study, US\$23.4 million in plant and infrastructure costs, US\$6.7 million in indirect costs and a contingency of US\$6.0 million.

Sustaining capital costs are expected to be US\$1.1 million over the operating life of the Project.

Closure costs of US\$1.0 million are expected at conclusion of the Project and have been capitalised in the Model. We consider this to be a conservative measure in terms of cash flow and have not adjusted in the Adjusted Model.

We considered the analysis undertaken by RW Nice in the report found in Appendix 4 which states that the upfront capital expenditure should be increased by 7.5%. We have adopted the views of RW Nice and accounted for the increase in capital expenditure in the Adjusted Model.



Source: Adjusted Model, BDO analysis

Taxation

Corporate tax

Tax has been applied to the Model in accordance with the relevant legislation, which is applicable to Canada. The corporate tax rate of 25% in Canada has been applied in the Model.

Corporate head office charge

The Model did not incorporate an annual corporate overhead charge. Lepidico management have advised that an annual charge of A\$2.0 million should be applied, which is slightly higher than historical levels of approximately A\$1.5 million. We consider these forecast costs to be reasonable.

Discount Rate

The Adjusted Model assumes that the Project is funded through 100% equity structure. We have assumed a notional capital raising for the 100% equity funding. Given that we have assumed no debt, the cash flows

we have discounted are the cash flows to equity holders. We have selected a real after tax discount rate of 12% which represents our assessment of the appropriate cost of equity to discount the forecast cash flows to their present value.

In selecting our range of discount rates we considered the following:

- the rates of return for comparable ASX and TSX companies exposed to the lithium and mining services industries;
- The funding structure of Lepidico if the Offer is not accepted;
- The risk profile of Lepidico compared to other listed companies with similar operations; and
- the Adjusted Model contains real cash flows.

The post-tax real discount rate applied to the Adjusted Model is 12%. A detailed consideration of how we arrived at the adopted discount range is shown in Appendix 3.

Valuation

On the basis of the assumptions noted above, we conclude that the value of the Project is between US\$39.5 million and US\$47.5 million (A\$54.8 million and A\$65.9 million) with a preferred value of \$43.5m (A\$60.4m).

Sensitivity Analysis

The estimated equity value of the Project is derived under the DCF approach. Our valuation is highly sensitive to change in the key assumptions underlying the Adjusted Model. We have therefore included an analysis to consider the value of the Project under various pricing scenarios and in applying:

- a change of +/- 15% to the lithium concentrate processed;
- a change of +/- 15% to the lithium carbonate sale price;
- a change of +/- 15% to the sodium silicate sale price;
- a change of +/- 15% to the lithium concentrate purchase price;
- a change of +/- 15% to the operating costs;
- a change of +/- 15% to the capital expenditure; and
- a discount rate in the range of 9% to 15%.

	Sensitivity analysis					
	NPV (US\$m)	NPV (US\$m)	NPV (US\$m)	NPV (US\$m)	NPV (US\$m)	NPV (US\$m)
Flex	Concentrate produced	Lithium carbonate pricing	Sodium silicate pricing	Concentrate purchase costing	Operating costs	Capital expenditure
-15%	35.98	32.48	29.29	48.11	58.63	48.37
-12%	37.49	34.69	32.15	47.19	55.61	47.40
-9%	38.99	36.89	34.99	46.27	52.58	46.43
-6%	40.50	39.10	37.83	45.35	49.56	45.46
-3%	42.01	41.31	40.67	44.43	46.54	44.49
0%	43.51	43.51	43.51	43.51	43.51	43.51
3%	45.02	45.72	46.35	42.59	40.49	42.54
6%	46.53	47.93	49.19	41.68	37.47	41.57
9%	48.03	50.13	52.04	40.76	34.44	40.60
12%	49.54	52.34	54.88	39.84	31.41	39.62
15%	51.05	54.55	57.72	38.92	28.36	38.65

Source: BDO analysis

Discount rate sensitivity analysis							
Discount rate (%)	9%	10%	11%	12%	13%	14%	15%
NPV (US\$m)	60.15	54.07	48.54	43.51	38.93	34.76	30.95

Source: BDO analysis

Note 4: Available for sale financial assets

Available for sale assets as at 31 December 2016 related to 2 million shares held in Jervois Mining Limited, an ASX listing company. As at the date of our Report, we do not consider the market value to be materially different to the carrying value as at 31 December 2016, being \$100,000.

Note 5: Shares on issue

As part of the DCF valuation methodology, we have included a notional capital raising to fund development of the Project. As discussed in Note 1 above, approximately 5.94 billion Lepidico shares will need to be issued. The table below details the number of shares outstanding. We note that the notional capital raising is only required for the high valuation as this is based on a development scenario whereas the low range is based on a sale scenario.

	Low value \$m	High value \$m
Shares outstanding		
Current shares outstanding	1,750,537,591	1,750,537,591
Notional capital raising	-	5,944,444,444
Total	1,750,537,591	7,694,982,035

Source: BDO analysis

10.3 Assessment of the value of 13.25 Lepidico Shares

The results of the valuations performed are summarised in the table below:

	Low	Preferred	High
	\$	\$	\$
Value of 1 Lepidico Share - QMP methodology (section 10.1)	0.016	0.018	0.021
Value of 1 Lepidico Share - Sum-of-parts methodology (section 10.2)	0.012	0.014	0.016

Source: BDO analysis

We note that from our analysis of the quoted market price of a Lepidico share, that 39.04% of the Company's current issued capital has been traded in a 90 day period up until Lithium Australia's announcement of its intention to make an off-market scrip bid for Lepidico. This level of trading representing a deep level of liquidity in Lepidico shares and there also appears to be regular trading over this period and no single trades from significant holders that materially affect the share price. As a result, we consider that the QMP methodology can be relied on in determining the value of a Lepidico share.

The sum-of-parts methodology takes into account the value of Lepidico's L-Max[®] technology that it holds in its balance sheet for which we have valued independently with the assistance of technical specialists. We have used the sum-of-parts methodology as a cross check to our QMP methodology and as the sum-of-parts valuation range overlaps our QMP valuation range we consider this further supports the use of the QMP methodology.

Based on the results above we consider the value of a Lepidico Share to be between \$0.016 and \$0.021, with a preferred value of \$0.018.

	Low	Preferred	High
	\$	\$	\$
Value of 1 Lepidico Share	0.016	0.018	0.021
Value of 13.25 Lepidico Shares	0.212	0.239	0.278

Based on the results above we consider the value of 13.25 Lepidico Shares to be between \$0.212 and \$0.278, with a preferred value of \$0.239.

11. Valuation of Offer Consideration

11.1 Quoted Market Price for a Lithium Australia Share

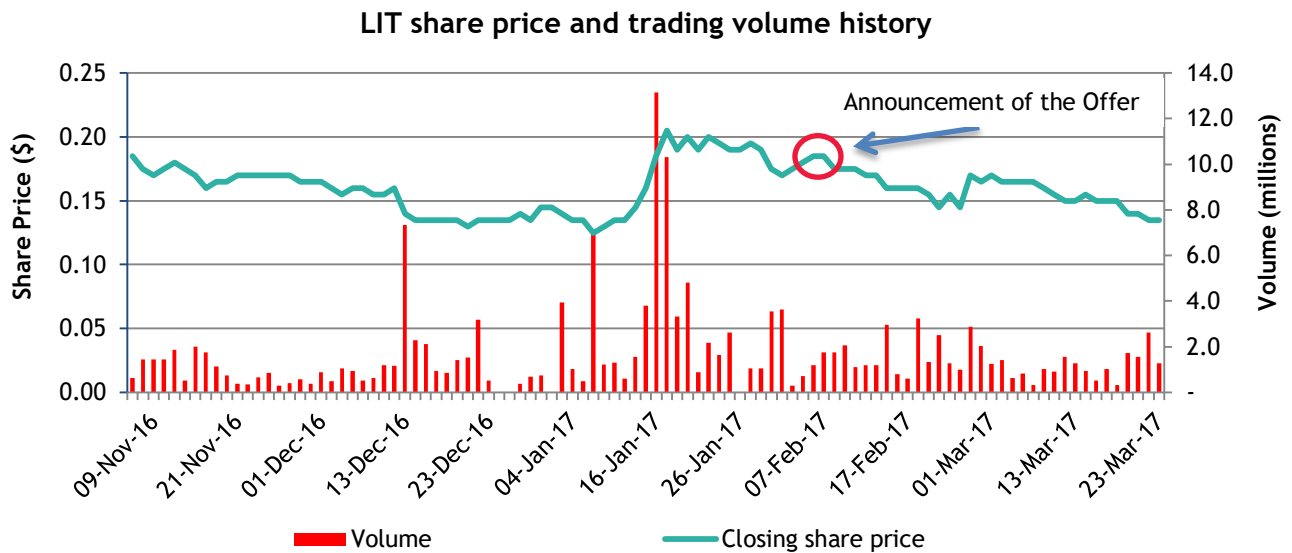
As our primary methodology for valuing the Offer Consideration, we have assessed the quoted market price for a Lithium Australia share. As noted in section 9.2, we consider that a Lithium Australia share represents the value of the Offer Consideration to Shareholders. If Shareholders accept the Offer, it is likely they will become minority shareholders in Lithium Australia. Therefore, the Lithium Australia shares issued to Lepidico Shareholders under the Offer will represent a minority interest in Lithium Australia.

The quoted market value of a company’s shares is reflective of a minority interest. A minority interest is an interest in a company that is not significant enough for the holder to have an individual influence in the operations and value of that company.

Minority interest value

Our analysis of the quoted market price of a Lithium Australia share is based on pricing both prior to, and following the announcement of the Offer. We note that value of a Lithium Australia share following the announcement may include the effects of any change in value as a result of the Offer.

The following chart provides a summary of the share price movement over the 90 days prior to the announcement of the Offer, from 7 November 2016 to 3 February 2017, being the last full trading day prior to the announcement of the Offer (**‘Pre-announcement Period’**), in addition to the period following the announcement from 6 February 2017 to 23 March 2017 (**‘Post-announcement Period’**).



Source: Bloomberg

Pre-announcement Period Pricing

The daily share price of Lithium Australia shares during the Pre-announcement Period ranged from a low of \$0.125 on 6 January 2017 to a high of \$0.205 on 17 January 2017. From November 2016 through to early January 2017, Lithium Australia’s share price exhibited a downward trend, reaching a low of \$0.125 on 6 January 2017. On 13 January 2017 Lithium Australia released a positive update on its Electra Project, which saw the share price enter an upswing. The share price continued to increase and reached a high of \$0.205 on 17 January 2017 after the company announced the production of battery grade lithium carbonate. Lithium Australia’s share price subsequently trended downward to close at \$0.180 on 3 February 2017, being the last full trading day before the announcement of the Offer.

To provide further analysis of the market prices for Lithium Australia over the Pre-announcement Period, we have also considered the VWAP of a Lithium Australia share for 10, 30, 60 and 90 trading day periods prior to 3 February 2017.

Share Price per unit	3 Feb 2017	10 Days	30 Days	60 Days	90 Days
Closing price	\$0.180				
Volume weighted average price		\$0.187	\$0.173	\$0.166	\$0.172

Source: Bloomberg

The above weighted average prices are prior to the date of the announcement of the Offer, to avoid the influence of any changes in the price of Lithium Australia shares that has occurred since the Offer was announced.

Based on the above analysis, our assessment is that a range of values for Lithium Australia's shares for the Pre-announcement Period, based on market pricing, is between \$0.187 and 0.173, with a midpoint of \$0.180.

Post-announcement Period Pricing

Since the Offer was announced on 6 February 2017, Lithium Australia's shares price has steadily declined from \$0.187 to reach \$0.135 on 23 March 2017. During the Post-announcement Period, a number of announcements related to the Offer were made to the market. The key announcements are set out below:

Date	Announcement	Closing Share Price Following Announcement \$ (movement)	Closing Share Price Three Days After Announcement \$ (movement)
20/03/2017	LIT advises dispatch of Bidders Statement for Lepidico Ltd	0.140 ▼ 6.7%	0.135 ▼ 3.6%
09/03/2017	Half Year Accounts	0.155 ▼ 3.1%	0.155 ▶ 0.0%
02/03/2017	Becoming a substantial holder for LPD	0.165 ▼ 2.9%	0.165 ▶ 0.0%
02/03/2017	Bidder's Statement	0.165 ▼ 2.9%	0.165 ▶ 0.0%
28/02/2017	Tin International and LIT agree to joint venture in Germany	0.165 ▼ 3%	0.165 ▶ 0%
27/02/2017	Sileach development programme update	0.170 ▲ 17%	0.165 ▼ 3%
27/02/2017	LPD: Lepidico confirms L-Max® IP Rights Secure	0.170 ▲ 17%	0.165 ▼ 3%
27/02/2017	Lithium Australia and Lepidico settle litigation	0.170 ▲ 17%	0.165 ▼ 3%
23/02/2017	MetalsTech IPO imminent	0.155 ▲ 7%	0.165 ▲ 6%
23/02/2017	Proposed LPD Takeover Bid and Pre Bid Acceptance Update	0.155 ▲ 7%	0.165 ▲ 6%
23/02/2017	LIT RIU Explorers Conference Presentation	0.155 ▲ 7%	0.165 ▲ 6%
13/02/2017	Update on Sileach process patent application	0.170 ▼ 3%	0.160 ▼ 6%
08/02/2017	LPD: Substantial Shareholder Notice Concerns	0.175 ▼ 5%	0.170 ▼ 3%
06/02/2017	LPD: Receipt of unsolicited intention to make takeover offer	0.185 ▲ 3%	0.175 ▼ 5%
06/02/2017	PWN:PWN Enters Agreement with LIT Regarding LPD Shareholding	0.185 ▲ 3%	0.175 ▼ 5%
06/02/2017	Lithium Australia takeover bid for Lepidico	0.185 ▲ 3%	0.175 ▼ 5%
06/02/2017	LIT update to Lake Johnston Project WA with POS and LEX	0.185 ▲ 3%	0.175 ▼ 5%

Source: Bloomberg and ASX

On 6 February 2017, Lithium Australia announced the Offer and released an update on the Johnston Project. The market responded positively to this information, with the share price increasing by 3.0% to close at \$0.185.

On 8 February 2017, Lepidico announced that Lithium Australia's substantial shareholders notice for Lepidico appeared to be incorrectly overstated. Lithium Australia's share price subsequently declined by 5.0% on the day of the announcement.

On 23 February 2017, Lithium Australia made an announcement in relation to the proposed takeover bid for Lepidico, stating that the company had received pre-bid acceptance from holders representing 17.76% of Lepidico's shares. On the same day, Lithium Australia released its presentation from the RIU Explorers Conference, and announced MetalsTech Limited's IPO was imminent. The market reacted positively to these announcements, with the share price increasing by 7.0% to \$0.155 on the day of the announcements and a further 6.0% in the three days after to close at \$0.165.

On 27 February 2017, Lithium Australia announced that it had settled litigation with Lepidico and it provided a development update on the Sileach program. The share price of Lithium Australia increased by 17.2% on the day of the announcements to close at \$0.170.

On 28 February 2017, Lithium Australia announced that it had agreed to form a joint venture with Tin International AG. Lithium Australia's share price declined by 2.9% on the day of the announcement to close at \$0.165.

On 2 March 2017, Lithium Australia issued its Bidder's statement in respect of the takeover bid for all of the ordinary shares in Lepidico. The share price of Lithium Australia declined by 2.9% that day to close at \$0.165.

On 9 March 2017, Lithium Australia released its half year accounts for 31 December 2016. The market responded negatively, with the share price declining by 3.1% to \$0.155 on the day of the announcement and a further 3.2% in the following three days to close at \$0.150.

On 20 March 2017, Lithium Australia announced that it had dispatched its Bidder's Statement for Lepidico. The share price declined by 6.7% to \$0.140 on the day of the announcement and a further 3.6% over the subsequent three days to close at \$0.135.

To provide further analysis of the market prices for Lithium Australia over the Post-announcement Period, we have also considered the VWAP of a Lithium Australia share for the 10, 30 and 34 trading day periods prior to 23 March 2017.

Share Price per unit	23-Mar-17	10 Days	30 Days	34 Days
Closing price	\$0.135			
Volume weighted average price (VWAP)		\$0.145	\$0.156	\$0.160

Source: Bloomberg

The above weighted average prices include Offer related announcements and may include the risk that Lepidico may not become a controlled entity of Lithium Australia. However, we consider the Post-announcement Period trading provides an indication of the current value of a Lithium Australia share, which represents materially the Offer Consideration.

Based on the above analysis, our assessment is that a range of values for Lithium Australia’s shares for the Post-announcement Period, based on market pricing, is between \$0.135 and 0.160, with a midpoint of \$0.148.

Reliability of market price methodology

For the quoted market price methodology to be reliable there needs to be a ‘deep’ market in the shares. RG 111.69 indicates that a ‘deep’ market should reflect a liquid and active market. We consider the following characteristics to be representative of a deep market:

- regular trading in a company’s securities;
- approximately 1% of a company’s securities are traded on a weekly basis;
- the spread of a company’s shares must not be so great that a single minority trade can significantly affect the market capitalisation of a company; and
- there are no significant but unexplained movements in the share price.

A company’s shares should meet all of the above criteria to be considered ‘deep’ however, failure of a company’s securities to exhibit all of the above characteristics does not necessarily mean that the value of its shares cannot be considered relevant.

An analysis of the volume of trading in Lithium Australia for the 90 days to 23 March 2017, is set out below:

Trading days	Share price low	Share price high	Cumulative volume traded	As a % of Issued capital
1 Day	\$0.135	\$0.140	1,282,597	0.50%
10 Days	\$0.135	\$0.165	12,848,507	4.98%
30 Days	\$0.135	\$0.175	41,258,477	16.00%
60 Days	\$0.120	\$0.210	48,025,776	18.63%
90 Days	\$0.120	\$0.210	151,603,896	58.80%

Source: Bloomberg

The tables above indicate that Lithium Australia’s shares display a high level of liquidity, with 58.80% of Lithium Australia’s current issued capital on the ASX being traded in a 90 day period.

Given that the market for the securities of Lithium Australia is deep, the quoted market price of Lithium Australia can be relied upon as a measure of the value of the Offer Consideration.

Conclusion on Quoted Market Price for Lithium Australia

Having considered the trading activity of a Lithium Australia share during both the Pre-announcement Period and the Post-announcement Period, our assessment is that a range of values for Lithium Australia’s shares, based on market pricing, is between \$0.135 and \$0.187, with a midpoint value of 0.161. The results of our QMP analysis are summarised in the table below:

Quoted market price valuation of Lithium Australia	Low	Midpoint	High
	\$	\$	\$
Pre-announcement Period Quoted Market Price	0.173	0.180	0.187
Post-announcement Period Quoted Market Price	0.135	0.148	0.160
Quoted market price valuation of the Offer Consideration	0.135	0.161	0.187

Source: Bloomberg and BDO analysis

11.2 Net Asset Value of a Lithium Australia Share

The net asset value of a Lithium Australia share on a going concern basis is reflected in our valuation below:

	31-Dec-16
	\$
CURRENT ASSETS	
Cash and cash equivalents	6,076,617
Trade and other receivables	432,970
Financial assets	819,371
TOTAL CURRENT ASSETS	7,328,958
NON-CURRENT ASSETS	
Property, plant and equipment	84,473
Exploration expenditure	2,465,994
Intangible assets	2,211,288
Financial assets	784,540
TOTAL NON-CURRENT ASSETS	5,546,295
TOTAL ASSETS	12,875,253
CURRENT LIABILITIES	
Trade and other payables	1,097,693
TOTAL CURRENT LIABILITIES	1,097,693
TOTAL LIABILITIES	1,097,693
NET ASSETS	11,777,560
Shares on issue (number)	257,832,829
Value per share (\$)	\$0.046

Source: Lithium Australia's reviewed financial statements for the half year ended 31 December 2016

We do not have access to the underlying books and records of Lithium Australia, in particular information in relation to exploration expenditure and intangible assets, which would allow us to have an independent specialist provide a valuation. Therefore we have only been able to rely on the most recent financial statements disclosed on the ASX as our basis for this valuation.

The table above indicates the net asset value of a Lithium Australia Share is \$0.046.

11.3 Assessment of value of Offer Consideration

The results of the valuations performed are summarised in the table below:

	Low	Preferred	High
	\$	\$	\$
Value of 1 Lithium Australia Share - QMP methodology (section 11.1)	0.135	0.161	0.187
Value of 1 Lithium Australia Share - NAV methodology (section 11.2)	0.046	0.046	0.046

Source: BDO analysis

As we do not have access to the underlying books and records of Lithium Australia, in particular information in relation to exploration expenditure and intangible assets that it holds which would allow us

to have an independent specialist provide a valuation, we do not consider the NAV methodology to represent a reliable valuation of a Lithium Australia share. Our analysis of the quoted market price of a Lithium Australia share, indicates that 58.80% of the Company’s current issued capital has been traded in a 90 day period up until 23 March 2017. This level of trading representing a deep level of liquidity in Lithium Australia shares and as a result, we consider that the QMP methodology can be relied on in determining the value of a Lithium Australia share.

Based on the results above we consider the value of the Offer Consideration to be between \$0.135 and \$0.187, with a preferred value of \$0.161.

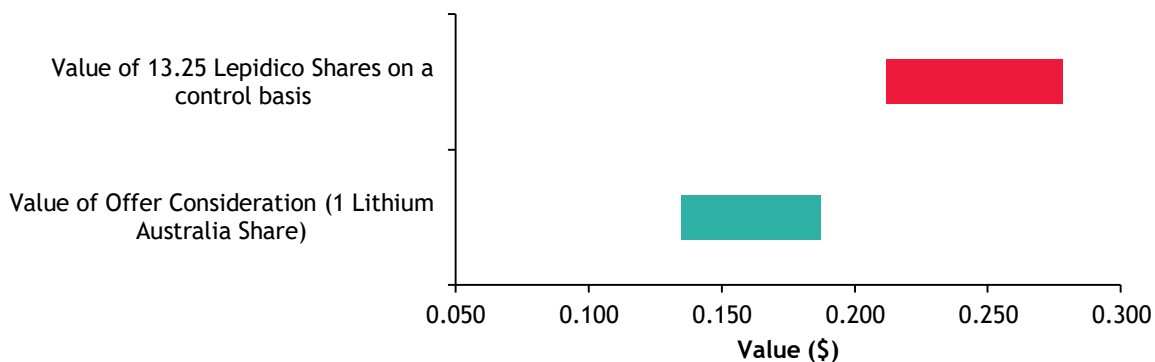
12. Is the Offer fair?

We have determined that the value of 13.25 Lepidico Shares on a control basis compares to the value of the Offer Consideration, being 1 Lithium Australia Share, as detailed below.

	Ref	Low \$	Preferred \$	High \$
Value of 13.25 Lepidico Shares on a control basis	10.3	0.212	0.239	0.278
Value of Offer Consideration (1 Lithium Australia Share)	11.3	0.135	0.161	0.187

Source: BDO analysis

The above valuation ranges are graphically presented below:



The above pricing indicates that the Offer is not fair for Shareholders.

13. Is the Offer reasonable?

13.1 Advantages of accepting the Offer

The Offer is not subject to a minimum acceptance condition meaning Lithium Australia may potentially obtain a controlling stake in Lepidico, as a result of the Offer. In the Bidder’s Statement, Lithium Australia has provided its intentions following the Offer under the following scenarios:

- Intentions upon Lithium Australia acquiring 90% or more of Lepidico;
- Intentions upon Lithium Australia acquiring control but less than 90% of Lepidico; and

- Intentions upon Lithium Australia not acquiring control of Lepidico.

We consider that there will be different advantages for Shareholders dependant on the level of control that Lithium Australia achieves under the Offer. Therefore, we have presented the relative advantages of the Offer under the following two scenarios:

- If Lithium Australia obtains control of Lepidico under the Offer; and
- If Lithium Australia does not obtain control of Lepidico under the Offer.

Shareholders should understand that there are varying levels of control that Lithium Australia may obtain under the Offer and this will have an impact on Lithium Australia’s ability to implement their stated intentions as disclosed in the Bidder’s Statement.

We have considered the following advantages, if Lithium Australia acquires control of Lepidico, when assessing whether the Offer is reasonable:

Lithium Australia acquires control of Lepidico	
Advantage	Description
Creation of a combined group with a stronger cash position and market capitalisation	<p>If Shareholders accept the Offer and Lithium Australia acquires control of Lepidico, the combined group will have a stronger balance sheet and cash position with approximately \$8.17 million in cash as at 31 December 2016.</p> <p>We note for the quarter ending 31 March 2017, Lepidico is estimating cash outflows of \$1.06 million and Lithium Australia is estimating cash outflows of \$2.15 million, as disclosed in each company’s announced Appendix 5B. On 16 March 2017, Lepidico announced the Entitlement Offer to raise approximately \$5.69 million. The combined group will be in a stronger cash position in order to meet their estimated cash outflows.</p> <p>Whilst it is generally the case that companies with a larger market capitalisation have improved access to capital, the availability of capital will also depend on the combined group providing a clear understanding of the rationale of having and utilising two technologies, L-Max[®] and Sileach[™], that both process lithium-mica concentrates.</p>
Creation of a combined group with a larger and more diversified portfolio of assets	<p>If Shareholders accept the Offer and Lithium Australia acquires control of Lepidico, the combined group will have ownership of:</p> <ul style="list-style-type: none"> • The intellectual property for both the L-Max[®] and Sileach[™] processes; and • A number of exploration interests and licences in Australia, Canada, Portugal and Brazil. <p>A more diversified portfolio of assets may reduce the overall risk of the combined group, however we note that none of the exploration assets held by either Lepidico or Lithium Australia have a defined resource in accordance with the JORC Code and holding costs will be incurred of these exploration assets.</p>

Lithium Australia acquires control of Lepidico

Advantage	Description
<p>Lithium Australia intends to combine the commercialisation of both L-Max[®] and Sileach[™]</p>	<p>If Shareholders accept the Offer and Lithium Australia acquires control of Lepidico, Lithium Australia has stated in its Bidder's Statement that it intends to combine the commercialisation of both Sileach[™] and L-Max[®] in order to gain synergies and save capital costs by creating processing plants that can utilise both L-Max[®] and Sileach[™] processing streams on a fit for product basis.</p> <p>We note the Bidder's Statement does not quantify any of these capital cost savings nor does it outline how or when these potential costs savings will be achieved if the Offer is accepted.</p>
<p>Access to potential cost saving synergies</p>	<p>If Shareholders accept the Offer and Lithium Australia acquires 90% or more of Lepidico, Lithium Australia intends to proceed to compulsory acquisition under Part 6A.1 of the Corporations Act and intends to remove Lepidico from the Official List of the ASX. It will consider centralising the corporate head office of Lepidico by incorporating those functions performed by it into the administrative structure of Lithium Australia.</p> <p>It is proposed that functions such as company secretarial, financial management and accounting will be centralised. If this were to occur, there is the potential to realise certain cost synergies such as ASX listing costs, corporate overheads and rationalisation of management structures in the combined group. However, we note that any potential costs savings were not quantified in the Bidder's Statement.</p> <p>If Shareholders accept the Offer and Lithium Australia obtains control but less than 90% of Lepidico, Lithium Australia intends to eliminate the duplicate functions in each entity which may have a cost savings impact on the combined group. However, we note that any potential costs savings were not quantified in the Bidder's Statement.</p>
<p>If Shareholders don't accept the Offer they may be left with an illiquid market to dispose of their Lepidico Shares</p>	<p>If Shareholders do not accept the Offer and Lithium Australia acquires control but less than 90% of Lepidico, those Shareholders may find that the market for Lepidico Shares is less liquid than it currently is.</p> <p>If Lithium Australia acquires 90% or more of Lepidico, it intends to proceed to compulsory acquisition under Part 6A.1 of the Corporations Act.</p>

If Lithium Australia does not acquire control of Lepidico, Lithium Australia has stated they will have regard to the circumstances at the time and consider the appropriate courses of action that are in the best interests of Lithium Australia shareholders. Such courses of action might include, but not be limited to, disposing of its shareholding in Lepidico, acquiring further Lepidico shares as permitted by law, seeking representation on the Lepidico board through the appointment of one or more of the Lithium Australia directors and exercising its voting rights as a major shareholder as it deems fit.

Based on the above, if Lithium Australia does not acquire control of Lepidico, we do not consider there to be any advantages to Shareholders who accept the Offer.

13.2 Disadvantages of accepting the Offer

The Offer is not subject to a minimum acceptance condition meaning Lithium Australia may potentially obtain a controlling stake in Lepidico, as a result of the Offer. In the Bidder’s Statement, Lithium Australia has provided its intentions following the Offer under the following scenarios:

- Intentions upon Lithium Australia acquiring 90% or more of Lepidico;
- Intentions upon Lithium Australia acquiring control but less than 90% of Lepidico; and
- Intentions upon Lithium Australia not acquiring control of Lepidico.

We consider that there will be different disadvantages for Shareholders dependant on the level of control that Lithium Australia achieves under the Offer. Therefore, we have presented the relative disadvantages of accepting the Offer under the following two scenarios:

- i. If Lithium Australia obtains control of Lepidico under the Offer; and
- ii. If Lithium Australia does not obtain control of Lepidico under the Offer.

If the Offer is accepted and Lithium Australia acquires control of Lepidico, the potential disadvantages to Shareholders include those listed below:

Lithium Australia acquires control of Lepidico	
Disadvantage	Description
The Offer is not fair	As set out in section 12, the Offer is not fair. RG 111 states that an Offer is reasonable if it is fair - in this case it is not fair.
Dilution of existing Shareholders’ interest	<p>Prior to the Offer, Lepidico shareholders owned 100% of the Company with Lithium Australia owning nil. If Shareholders accept the Offer and Lithium Australia acquires 90% or more of Lepidico, Lithium Australia intends to proceed to compulsory acquisition under Part 6A.1 of the Corporations Act. If compulsory acquisition under Part 6A.1 of the Corporations Act were to occur, Lepidico shareholders’ interests will be diluted to 33.88% of the combined group.</p> <p>This calculation does not include Partly Paid Shares on issue in Lithium Australia and assumes no Lithium Australia Shares are issued during the Bid Period through the exercise of Options or the vesting of Performance Rights. If this were to occur, Lepidico shareholders’ interests will be further diluted.</p> <p>If Shareholders accept the Offer and Lithium Australia acquires control but less than 90% of Lepidico, Lithium Australia will have control over the future decisions relating to Lepidico and these may or may not be in line with current Lepidico Shareholders best interests.</p>
Lepidico will have to share any	If Shareholders accept the Offer and Lithium Australia acquires control

Lithium Australia acquires control of Lepidico

Disadvantage	Description
<p>upside potential of its assets with Lithium Australia</p>	<p>Lepidico, Shareholders' will hold a diluted interest in the combined group's assets and will have to share any development upside in its asset portfolio, particularly the L-Max[®] technology, with Lithium Australia.</p> <p>Lepidico has recently announced the results of its PFS and the Lepidico board has approved full commencement of a Definitive Feasibility Study ('DFS'), once funding is secured. On 16 March 2017, the Company announced the Entitlement Offer to raise approximately \$5.69 million to advance the DFS.</p> <p>In comparison, Lithium Australia has commenced pilot testing of Sileach[™] which is only the first step towards commercialising the process.</p>
<p>Shareholders will forego revenue to be received under the L-Max[®] Licence Agreements with Lithium Australia</p>	<p>Lepidico has granted Lithium Australia three L-Max[®] licences. One licence is valid for the state of Western Australia and the other two licences can be applied to two projects anywhere in the world. The licences were acquired for a cash payment of \$100,000 and include a 2% Gross Product Royalty. The Company has already received the \$100,000 cash payment from Lithium Australia.</p> <p>If Shareholders accept the Offer and Lithium Australia controls Lepidico, any revenue to be paid between Lepidico and Lithium Australia will remain within the combined group and be eliminated upon consolidation. If Lepidico were to remain a stand-alone entity it will still receive the 2% Gross Product Royalty, this is in effect a negative synergy.</p>
<p>No offer for Lepidico Options</p>	<p>Lithium Australia does intend to make an offer in respect to the current Lepidico Options that are on issue. If Shareholders who are also holders of the Lepidico Options exercise their Options and are issued Lepidico Shares during the Bid Period, however, the Offer will extend to those Lepidico Shares.</p> <p>As at the date of this Report, Lepidico has the following Options on issue:</p> <ul style="list-style-type: none"> • 27,750,000 Options exercisable at \$0.03 each on or before 30 September 2017; • 40,000,000 Options exercisable at \$0.01815 each on or before 2 August 2018; • 9,000,000 Options exercisable at \$0.01 each on or before 31 December 2018; and • 75,000,000 Options exercisable at \$0.025 each on or before 31 December 2019. <p>In the instance where the Shareholders who are also Option holders do not exercise their Options and Lithium Australia obtain enough acceptances and</p>

Lithium Australia acquires control of Lepidico

Disadvantage	Description
	<p>proceed to de-list Lepidico from the ASX, there is unlikely to be an active market for any Lepidico shares issued to Lepidico Option holders on the exercise of their Lepidico Options.</p>
Acceptance of Offer could trigger additional payments to Lithium Australia advisors	<p>As disclosed in the Bidder's Statement, Lithium Australia has entered into an agreement with its corporate advisor, Xavier Group, which includes a success fee upon Lithium Australia acquiring 30% or greater shareholding in Lepidico of 1% of the transaction value (being target market capitalisation based on the Offer consideration) paid as to 34% in cash and 66% in Lithium Australia Shares.</p> <p>As at the date of this Report, Lithium Australia does not hold any shares in Lepidico however, it has entered into Pre-Bid Acceptance Agreements with Lepidico Shareholders representing 17.76% Lepidico's issued share capital. Therefore, if Lithium Australia acquires an additional 12.24% this success fee will be payable which will dilute any accepting Lepidico Shareholder's interest and reduce the cash balance of Lithium Australia.</p>
Potential tax consequences	<p>The taxation consequences for Shareholders will differ depending on their individual circumstances. Consideration for the Offer is in the form of scrip. Where scrip consideration is received, eligibility for capital gains tax scrip-for-scrip roll-over relief may be available if certain circumstances are met, in particular if the purchaser becomes the owner of 80% or more of the voting shares in the target.</p> <p>As there is no minimum acceptance condition to the Offer, this condition may or may not be met resulting in a potential tax liability for individual shareholders who accept the Offer and the Offer becoming unconditional.</p>

If the Offer is accepted and Lithium Australia does not obtain control of Lepidico, the potential disadvantages to Shareholders include those listed below:

Lithium Australia does not acquire control of Lepidico

Disadvantage	Description
Shareholders will no longer hold a direct interest in Lepidico's assets	<p>If Shareholders accept the Offer, and Lithium Australia does not obtain control of Lepidico, those Shareholders will only retain an indirect interest in the Lepidico assets through Lithium Australia's investment in the Company.</p> <p>Lithium Australia has stated that if they do not obtain control of Lepidico under the Offer they will have regard to the circumstances at the time and</p>

Lithium Australia does not acquire control of Lepidico

Disadvantage	Description
Shareholders will effectively become Lithium Australia shareholders which may bring with it certain risks	<p>consider the appropriate courses of action that are in the best interests of Lithium Australia shareholders. Such courses of action might include, but not be limited to, disposing of its shareholding in Lepidico, acquiring further Lepidico shares as permitted by law, seeking representation on the Lepidico board through the appointment of one or more of the Lithium Australia directors and exercising its voting rights as a major shareholder as it deems fit.</p> <p>Therefore, Shareholders' interest in Lepidico, and any upside on the development of Lepidico's assets, is relatively unknown under this scenario.</p> <p>If Shareholders accept the Offer and Lithium Australia does not obtain control of Lepidico, those Shareholders will become shareholders of Lithium Australia. Although Lithium Australia operates in the same industry as Lepidico, its process, Sileach™, is seen as an alternative technology to L-Max® and therefore may have additional risks Shareholders will need to be aware of prior to accepting the Offer.</p>

13.3 Other considerations

13.3.1. Likelihood of alternative offers

We are unaware of any alternative proposal that might offer the Shareholders of Lepidico a premium over the value ascribed to, resulting from the Offer.

13.3.2. Practical level of control

There is no condition on the Offer in regard to the minimum level of acceptances by Shareholders. Therefore, Lithium Australia may acquire an interest of between nil and 100% of the Company. As disclosed in the Bidder's Statement, Lithium Australia has entered into Pre-Bid Acceptance Agreements with Lepidico Shareholders representing 17.76% Lepidico's issued share capital.

When shareholders are required to approve an issue that relates to a company there are two types of approval levels. These are general resolutions and special resolutions. A general resolution requires 50% of shares to be voted in favour to approve a matter and a special resolution required 75% of shares on issue to be voted in favour to approve a matter.

If Lithium Australia acquires more than 25% and up to 50% of Lepidico shares it will be able to block special resolutions, but would not be able to block general resolutions, or pass general or special resolutions.

Should Lithium Australia acquire 90% or more of shares in Lepidico then Lithium Australia would be able to pass general and special resolutions. In this scenario Lithium Australia's current intentions, among others, include:

- Proceed to compulsory acquisition, arrange for Lepidico to be removed from the Official List of the ASX and amend the constitution of Lepidico to reflect its status as a wholly-owned subsidiary of Lithium Australia;
- Undertake a detailed review of Lepidico's activities, assets and liabilities, in order to evaluate its prospects, strategic relevance, funding requirements and financial and technical performance;
- Combine the commercialisation of both Sileach[™] and L-Max[®];
- Re-evaluate the Lepidico exploration database and expenditure requirements in order to prioritise exploration and expenditure on areas regarded by Lithium Australia as being the most prospective tenements held;
- Replace all of the members of the board of directors of Lepidico with the current directors of Lithium Australia;
- Continue conducting the Lepidico business in the ordinary course. Lithium Australia will, however, consider centralising the corporate head office of Lepidico by incorporating those functions performed by it into the administrative structure of Lithium Australia;
- Undertake a specific review of Lepidico's assets and liabilities, and the possible synergies between and benefits of Lithium Australia and Lepidico; and
- Review Lepidico's accounting policies and adopt Lithium Australia's accounting policies. Particular attention will be paid to the valuation of Intangibles and Lithium Australia's accounting policy will be applied at the next balance date.

If Lithium Australia acquires more than 50.1% but less than 90% of Lepidico shares then Lithium Australia would be able to pass general resolutions and block special resolutions, and may be able to pass special resolutions (if over 75%). In this scenario Lithium Australia's current intentions, among others, include:

- Lepidico will become a controlled entity of Lithium Australia;
- Implement the intentions described upon acquisition of 90% or more of Lepidico to the extent possible and economically feasible, and subject to the requirements of the Corporations Act and any other applicable laws or regulations;
- Replace some or all of the members of the board of directors of Lepidico. The majority would be replaced with the current directors of Lithium Australia;
- Maintain Lepidico's listing on the Official List of the ASX, while it continues to meet its ASX listing requirements. If Lithium Australia obtains effective control of Lepidico and there is limited spread or volume of Lepidico shareholders remaining at the end of the Offer Period, Lithium Australia may seek to procure the removal of Lepidico from the Official List of the ASX. Further, if Lithium Australia becomes entitled to exercise the general compulsory acquisition power under Part 6A.2 of the Corporations Act in the future it intends to exercise that power;
- To the extent that activities and functions, including management, presently carried out by Lithium Australia and Lepidico will be duplicated, such duplication will be eliminated where it is economically efficient to do so; and
- It is possible that, even if Lithium Australia is not entitled to proceed to compulsory acquisition of minority holdings after the end of the Offer Period under Part 6A.1 of the Corporations Act, it may subsequently become entitled to exercise rights of general compulsory acquisition under Part 6D.2

of the Corporations Act (for example, as a result of acquisitions of Lepidico Shares in reliance of the ‘3% creep’ exception). If so, it intends to exercise those rights.

If Lithium Australia acquires less than 50.1% of Lepidico shares then Lithium Australia may be able to block special resolutions (if over 25%). If Lithium Australia does not achieve a relevant interest in Lepidico of 50.1%, Lithium Australia will have regard to the circumstances at the time and consider the appropriate course of action that are in the best interests of Lithium Australia.

Lithium Australia’s control of Lepidico following the Offer may be significant when compared to all other Shareholders depending on the level of acceptance of the Offer by Shareholders. As such, Lithium Australia should be expected to pay a premium for control of Lepidico.

13.3.3. Liquidity of Lepidico shares and Lithium Australia shares

An analysis of the volume of trading in Lepidico shares for the 90 days to 23 March 2017 is set out below:

Trading days	Share price low	Share price high	Cumulative volume traded	As a % of Issued capital
1 Day	\$0.015	\$0.016	300,209	0.02%
10 Days	\$0.013	\$0.018	131,611,375	7.52%
30 Days	\$0.013	\$0.018	351,951,740	20.11%
60 Days	\$0.010	\$0.020	862,291,764	49.26%
90 Days	\$0.009	\$0.020	1,101,102,101	62.90%

Source: BDO analysis, Bloomberg

An analysis of the volume of trading in Lithium Australia shares for the 90 days to 23 March 2017 is set out below:

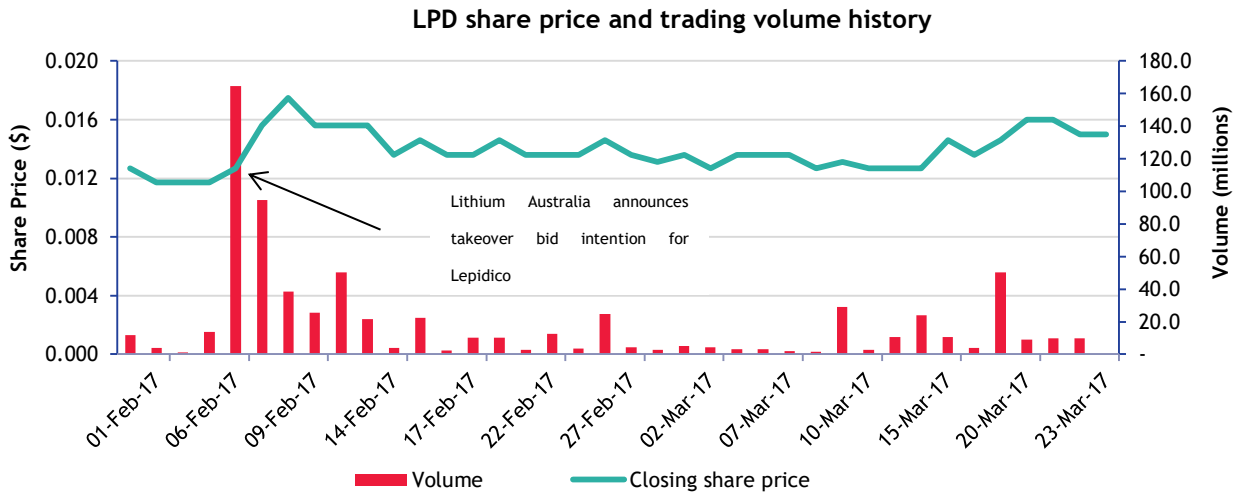
Trading days	Share price low	Share price high	Cumulative volume traded	As a % of Issued capital
1 Day	\$0.135	\$0.140	1,282,597	0.50%
10 Days	\$0.135	\$0.165	12,848,507	4.98%
30 Days	\$0.135	\$0.175	41,258,477	16.00%
60 Days	\$0.120	\$0.210	48,025,776	18.63%
90 Days	\$0.120	\$0.210	151,603,896	58.80%

Source: BDO analysis, Bloomberg

The tables above indicate that both Lepidico and Lithium Australia’s shares display a high level of liquidity, with 62.90% and 58.80% of the respective company’s current issued capital being traded in a 90 day period up until 23 March 2017.

13.3.4. Movement in Lepidico’s share price following the Offer

We have analysed movements in Lepidico’s share price since Lithium Australia first announced its intention to make the Offer for Lepidico on 6 February 2017. A graph of Lepidico’s share price following the announcement is set out below.



Source: BDO analysis, Bloomberg

On the last full trading day prior to the announcement, Lepidico’s share price closed at \$0.012. On the date Lithium Australia announced its intention to make the Offer, Lepidico’s share price closed at \$0.013 before increasing again to close at \$0.016 on the day following. On 23 March 2017, Lepidico shares closed at \$0.015.

13.3.5. Risks of becoming a minority shareholder in Lepidico

If the Offer is accepted by a significant proportion of Shareholders then there is a risk that Shareholders that reject the Offer will become a collective minority shareholder in a company that is controlled by Lithium Australia.

It is likely that Lepidico shares traded on the ASX would have a reduced level of liquidity in this scenario. As noted in section 10.1, the liquidity of Lepidico shares is considered to be high based on the current level of trading on the ASX.

Depending on the level of acceptance of the Offer by Shareholders, if the number of remaining shareholders falls below a certain level then the Company may no longer be eligible to remain listed on the ASX. Under the ASX listing requirements a listed company must have a minimum of:

- 300 non-affiliated security holders @ \$2,000

Shareholders should be aware that there may be a reduced likelihood of a subsequent takeover bid for Lepidico if the Company is delisted or if the Company remains listed but Lithium Australia holds a significant portion of Lepidico shares.

14. Conclusion

We have considered the terms of the Offer as outlined in the body of this Report and have concluded that the Offer is neither fair nor reasonable to the Shareholders of Lepidico.

15. Sources of information

This report has been based on the following information:

- Draft Target’s Statement on or about the date of this Report;

- Bidder's Statement dated 2 March 2016;
- Reviewed financial statements of Lepidico for the half year ended 31 December 2016 and audited financial statements for the years ended 30 June 2016 and 30 June 2015;
- Unaudited management accounts of Lepidico for the period ended 28 February 2017;
- Reviewed financial statements of Lithium Australia for the half year ended 31 December 2016 and audited financial statements for the years ended 30 June 2016 and 30 June 2015;
- Independent Technical Report prepared by RW Nice in relation to Lepidico's intangible assets dated on or around the date of this Report;
- Detailed cash flow model for the L-Max[®] technology prepared by the management of Lepidico with the assistance of advisors;
- Lepidico Lithium AP1205 Pre-Feasibility Study Basis of Estimate, February 2017;
- Technical Report Phase 1 L-Max[®] Plant Pre-Feasibility Study Results and Key Findings, 24 February 2017;
- Share registry information of Lepidico;
- Discussions with Directors and Management of Lepidico; and
- ASX announcements from Lithium Australia and Lepidico.

16. Independence

BDO Corporate Finance (WA) Pty Ltd is entitled to receive a fee of \$48,000 (excluding GST and reimbursement of out of pocket expenses). The fee is not contingent on the conclusion, content or future use of this Report. Except for this fee, BDO Corporate Finance (WA) Pty Ltd has not received and will not receive any pecuniary or other benefit whether direct or indirect in connection with the preparation of this report.

BDO Corporate Finance (WA) Pty Ltd has been indemnified by Lepidico in respect of any claim arising from BDO Corporate Finance (WA) Pty Ltd's reliance on information provided by the Lepidico, including the non-provision of material information, in relation to the preparation of this report.

Prior to accepting this engagement BDO Corporate Finance (WA) Pty Ltd has considered its independence with respect to Lepidico and Lithium Australia and any of their respective associates with reference to ASIC Regulatory Guide 112 'Independence of Experts'. In BDO Corporate Finance (WA) Pty Ltd's opinion it is independent of Lepidico and Lithium Australia and their respective associates.

Neither the two signatories to this report nor BDO Corporate Finance (WA) Pty Ltd, have had within the past two years any professional relationship with Lepidico, or their associates, other than in connection with the preparation of this report.

A draft of this report was provided to Lepidico and its advisors for confirmation of the factual accuracy of its contents. No significant changes were made to this report as a result of this review.

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BDO (Australia) Ltd, an Australian company limited by guarantee, is a member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of Independent Member Firms. BDO in Australia, is a national association of separate entities (each of which has appointed BDO (Australia) Limited ACN 050 110 275 to represent it in BDO International).

17. Qualifications

BDO Corporate Finance (WA) Pty Ltd has extensive experience in the provision of corporate finance advice, particularly in respect of takeovers, mergers and acquisitions.

BDO Corporate Finance (WA) Pty Ltd holds an Australian Financial Services Licence issued by the Australian Securities and Investment Commission for giving expert reports pursuant to the Listing rules of the ASX and the Corporations Act.

The persons specifically involved in preparing and reviewing this report were Adam Myers and Sherif Andrawes of BDO Corporate Finance (WA) Pty Ltd. They have significant experience in the preparation of independent expert reports, valuations and mergers and acquisitions advice across a wide range of industries in Australia and were supported by other BDO staff.

Adam Myers is a member of the Australian Institute of Chartered Accountants. Adam's career spans 19 years in the Audit and Assurance and Corporate Finance areas. Adam is a CA BV Specialist and has considerable experience in the preparation of independent expert reports and valuations in general for companies in a wide number of industry sectors.

Sherif Andrawes is a Fellow of the Institute of Chartered Accountants in England & Wales and a Fellow of Chartered Accountants Australia & New Zealand. He has over 29 years' experience working in the audit and corporate finance fields with BDO and its predecessor firms in London and Perth. He has been responsible for over 300 public company independent expert's reports under the Corporations Act or ASX Listing Rules and is a CA BV Specialist. These experts' reports cover a wide range of industries in Australia with a focus on companies in the natural resources sector. Sherif Andrawes is the Chairman of BDO in Western Australia, Corporate Finance Practice Group Leader of BDO in Western Australia and the Natural Resources Leader for BDO in Australia.

18. Disclaimers and consents

This report has been prepared at the request of Lepidico for inclusion in the Target's Statement which will be sent to all Lepidico Shareholders. Lepidico engaged BDO Corporate Finance (WA) Pty Ltd to prepare an independent expert's report to consider the off-market takeover offer received from Lithium Australia.

BDO Corporate Finance (WA) Pty Ltd hereby consents to this report accompanying the above Target's Statement. Apart from such use, neither the whole nor any part of this report, nor any reference thereto may be included in or with, or attached to any document, circular resolution, statement or letter without the prior written consent of BDO Corporate Finance (WA) Pty Ltd.

BDO Corporate Finance (WA) Pty Ltd takes no responsibility for the contents of the Target's Statement other than this report.

We have no reason to believe that any of the information or explanations supplied to us are false or that material information has been withheld. It is not the role of BDO Corporate Finance (WA) Pty Ltd acting as an independent expert to perform any due diligence procedures on behalf of the Company. The Directors of the Company are responsible for conducting appropriate due diligence in relation to Lithium Australia. BDO Corporate Finance (WA) Pty Ltd provides no warranty as to the adequacy, effectiveness or completeness of the due diligence process.

The opinion of BDO Corporate Finance (WA) Pty Ltd is based on the market, economic and other conditions prevailing at the date of this report. Such conditions can change significantly over short periods of time.

With respect to taxation implications it is recommended that individual Shareholders obtain their own taxation advice, in respect of the Offer, tailored to their own particular circumstances. Furthermore, the advice provided in this report does not constitute legal or taxation advice to the Shareholders of Lepidico, or any other party.

BDO Corporate Finance (WA) Pty Ltd has also considered and relied upon independent technical specialists to assist in the valuation of the Company's intangible assets.

The technical specialist engaged, RW Nice & Associates Pty Ltd, possess the appropriate qualifications and experience in the industry to make such assessments. The approaches adopted and assumptions made in arriving at their valuation is appropriate for this report. We have received consent from the valuer for the use of their valuation report in the preparation of this report and to append a copy of their report to this report.

The statements and opinions included in this report are given in good faith and in the belief that they are not false, misleading or incomplete.

The terms of this engagement are such that BDO Corporate Finance (WA) Pty Ltd is required to provide a supplementary report if we become aware of a significant change affecting the information in this report arising between the date of this report and prior to the date of the meeting or during the offer period.

Yours faithfully

BDO CORPORATE FINANCE (WA) PTY LTD



Adam Myers

Director



Sherif Andrawes

Director

Appendix 1 - Glossary of Terms

Reference	Definition
The Act	The Corporations Act 2001 (Cth)
The Adjusted Model	Detailed cash flow model for the L-Max [®] technology prepared by the management of Lepidico with the assistance of advisors, which has been adjusted by BDO
APES 225	Accounting Professional & Ethical Standards Board professional standard APES 225 'Valuation Services'
ASIC	Australian Securities and Investments Commission
ASX	Australian Securities Exchange
Bidder's Statement	The Bidder's Statement prepared by Lithium Australia dated 2 March 2017
BDO	BDO Corporate Finance (WA) Pty Ltd
CAPM	Capital Asset Pricing Model
The Company	Lepidico Ltd
Cobre Montana	Cobre Montana NL (now Lithium Australia NL)
Corporations Act	The Corporations Act 2001 (Cth)
DCF	Discounted Future Cash Flows
DFS	Definitive Feasibility Study
EBIT	Earnings before interest and tax
EBITDA	Earnings before interest, tax, depreciation and amortisation
Entitlement Offer	The pro-rata non-renounceable entitlement offer of fully paid ordinary shares in the capital of Lepidico on the basis of one (1) new share for every four (4) existing shares held at the record date of 21 March 2017, at an entitlement offer price of \$0.013 per new share
FME	Future Maintainable Earnings
FOS	Financial Ombudsman Service
GDP	Gross domestic product

Reference	Definition
GST	Goods and services tax
IPO	Initial Public Offering
JORC Code	The Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (2012 Edition)
Lanstead	Lanstead Capital LP
Lepidico	Lepidico Ltd
LiEna	Lithium Australia's L-Max [®] technology which is an alkaline-based lithium extraction method
LIT	Lithium Australia NL
Lithium Australia	Lithium Australia NL
L-Max [®]	Lithium Australia's L-Max [®] technology which is a process allowing the extraction and recovery of lithium bearing micas
MetalsTech	MetalsTech Limited
the Model	Detailed cash flow model for the L-Max [®] technology prepared by the management of Lepidico with the assistance of advisors
NAV	Net Asset Value
the Offer	The offer of one (1) Lithium Australia Share for every 13.25 Lepidico Shares
Offer Consideration	One (1) Lithium Australia Share
Platypus	Platypus Minerals Limited (now Lepidico Ltd)
Post-announcement Period	The period following the announcement of the Offer from 6 February 2017 to 23 March 2017
Pre-announcement Period	The 90 day period prior to the announcement of the Offer from 7 November 2016 to 3 February 2017
QMP	Quoted market price
RBA	Reserve Bank of Australia
Regulations	Corporations Act Regulations 2001 (Cth)
Our Report	This Independent Expert's Report prepared by BDO

Reference	Definition
RG 111	Content of expert reports (March 2011)
RG 112	Independence of experts (March 2011)
RW Nice	RW Nice & Associates Pty Ltd
Shareholders	Shareholders of Lepidico not associated with Lithium Australia
SQM	Sociedad Quimica y Minera de Chila S.A.
Sum-of-Parts	A combination of different methodologies used together to determine an overall value where separate assets and liabilities are valued using different methodologies
TSX	Toronto Stock Exchange
USA	United States of America
USGS	United States Geological Survey
Valuation Engagement	An Engagement or Assignment to perform a Valuation and provide a Valuation Report where the Valuer is free to employ the Valuation Approaches, Valuation Methods, and Valuation Procedures that a reasonable and informed third party would perform taking into consideration all the specific facts and circumstances of the Engagement or Assignment available to the Valuer at that time.
VWAP	Volume Weighted Average Price
WACC	Weighted Average Cost of Capital

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The Directors

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Australia

Appendix 2 - Valuation Methodologies

Methodologies commonly used for valuing assets and businesses are as follows:

1 *Net asset value ('NAV')*

Asset based methods estimate the market value of an entity's securities based on the realisable value of its identifiable net assets. Asset based methods include:

- Orderly realisation of assets method
- Liquidation of assets method
- Net assets on a going concern method

The orderly realisation of assets method estimates fair market value by determining the amount that would be distributed to entity holders, after payment of all liabilities including realisation costs and taxation charges that arise, assuming the entity is wound up in an orderly manner.

The liquidation method is similar to the orderly realisation of assets method except the liquidation method assumes the assets are sold in a shorter time frame. Since wind up or liquidation of the entity may not be contemplated, these methods in their strictest form may not be appropriate. The net assets on a going concern method estimates the market values of the net assets of an entity but does not take into account any realisation costs.

Net assets on a going concern basis are usually appropriate where the majority of assets consist of cash, passive investments or projects with a limited life. All assets and liabilities of the entity are valued at market value under this alternative and this combined market value forms the basis for the entity's valuation.

Often the FME and DCF methodologies are used in valuing assets forming part of the overall Net assets on a going concern basis. This is particularly so for exploration and mining companies where investments are in finite life producing assets or prospective exploration areas.

These asset based methods ignore the possibility that the entity's value could exceed the realisable value of its assets as they do not recognise the value of intangible assets such as management, intellectual property and goodwill. Asset based methods are appropriate when an entity is not making an adequate return on its assets, a significant proportion of the entity's assets are liquid or for asset holding companies.

2 *Quoted Market Price Basis ('QMP')*

A valuation approach that can be used in conjunction with (or as a replacement for) other valuation methods is the quoted market price of listed securities. Where there is a ready market for securities such as the ASX, through which shares are traded, recent prices at which shares are bought and sold can be taken as the market value per share. Such market value includes all factors and influences that impact upon the ASX. The use of ASX pricing is more relevant where a security displays regular high volume trading, creating a 'deep' market in that security.

3 *Capitalisation of future maintainable earnings ('FME')*

This method places a value on the business by estimating the likely FME, capitalised at an appropriate rate which reflects business outlook, business risk, investor expectations, future growth prospects and other entity specific factors. This approach relies on the availability and analysis of comparable market data.

The FME approach is the most commonly applied valuation technique and is particularly applicable to profitable businesses with relatively steady growth histories and forecasts, regular capital expenditure requirements and non-finite lives.

The FME used in the valuation can be based on net profit after tax or alternatives to this such as earnings before interest and tax ('EBIT') or earnings before interest, tax, depreciation and amortisation ('EBITDA'). The capitalisation rate or 'earnings multiple' is adjusted to reflect which base is being used for FME.

4 Discounted future cash flows ('DCF')

The DCF methodology is based on the generally accepted theory that the value of an asset or business depends on its future net cash flows, discounted to their present value at an appropriate discount rate (often called the weighted average cost of capital). This discount rate represents an opportunity cost of capital reflecting the expected rate of return which investors can obtain from investments having equivalent risks.

Considerable judgement is required to estimate the future cash flows which must be able to be reliably estimated for a sufficiently long period to make this valuation methodology appropriate.

A terminal value for the asset or business is calculated at the end of the future cash flow period and this is also discounted to its present value using the appropriate discount rate.

DCF valuations are particularly applicable to businesses with limited lives, experiencing growth, that are in a start-up phase, or experience irregular cash flows.

5 Market Based Assessment

The market based approach seeks to arrive at a value for a business by reference to comparable transactions involving the sale of similar businesses. This is based on the premise that companies with similar characteristics, such as operating in similar industries, command similar values. In performing this analysis it is important to acknowledge the differences between the comparable companies being analysed and the company that is being valued and then to reflect these differences in the valuation.

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Appendix 3 - Discount rate assessment

Determining the correct discount rate, or cost of capital, for a business requires the identification and consideration of a number of factors that affect the returns and risks of a business, as well as the application of widely accepted methodologies for determining the returns of a business.

The discount rate applied to the forecast cash flows from a business represents the financial return that will be required before an investor would be prepared to acquire (or invest in) the business.

The capital asset pricing model ('CAPM') is commonly used in determining the market rates of return for equity type investments and project evaluations. In determining a business' weighted average cost of capital ('WACC') the CAPM results are combined with the cost of debt funding. WACC represents the return required on the business, whilst CAPM provides the required return on an equity investment.

Cost of Equity and Capital Asset Pricing Model

CAPM is based on the theory that a rational investor would price an investment so that the expected return is equal to the risk free rate of return plus an appropriate premium for risk. CAPM assumes that there is a positive relationship between risk and return, that is, investors are risk averse and demand a higher return for accepting a higher level of risk.

CAPM calculates the cost of equity and is calculated as follows:

CAPM

$$K_e = R_f + \beta \times (R_m - R_f)$$

Where:

K_e = expected equity investment return or cost of equity in nominal terms

R_f = risk free rate of return

R_m = expected market return

$R_m - R_f$ = market risk premium

β = equity beta

The individual components of CAPM are discussed below.

Risk Free Rate (R_f)

The risk free rate is normally approximated by reference to a long term government bond with a maturity equivalent to the timeframe over which the returns from the assets are expected to be received. We have used the current yield to maturity on the 10-year Australian Government Bond which was 2.76% per annum as at 30 December 2016.

Market Risk Premium ($R_m - R_f$)

The market risk premium represents the additional return that investors expect from an investment in a well-diversified portfolio of assets. It is common to use a historical risk premium, as expectations are not observable in practice.

We have noted that the current market risk premium was 6.90% at 15 February 2017. This has been sourced from Bloomberg. The market risk premium is derived on the basis of capital weighted average return of all members of the S&P ASX 300 Index minus the risk free rate is dependent on the ten year government bond rates. For the purpose of our report we have adopted a market risk premium of 6% to 8%.

Equity Beta

Beta is a measure of the expected correlation of an investment's return over and above the risk free rate, relative to the return over and above the risk free rate of the market as a whole; a beta greater than one implies that an investment's return will outperform the market's average return in a bullish market and underperform the market's average return in a bearish market. On the other hand, a beta less than one implies that the business' will underperform the market's average return in a bullish market and outperform the market's average return in a bearish market.

Equity betas are normally either an historical beta or an adjusted beta. The historical beta is obtained from the linear regression of a stock's historical data and is based on the observed relationship between the security's return and the returns on an index. An adjusted beta is calculated based on the assumption that the relative risk of the past will continue into the future, and is hence derived from historical data. It is then modified by the assumption that a stock will move towards the market over time, taking into consideration the industry risk factors which make the operating risk of the company greater or less risky than comparable listed companies.

It is important to note that it is not possible to compare the equity betas of different companies without having regard to their gearing levels. Thus, a more valid analysis of betas can be achieved by "ungearing" the equity beta (β_a) by applying the following formula:

$$\beta_a = B / (1 + (D/E \times (1-t)))$$

In order to assess the appropriate equity beta for the Project, we have had regard to Lepidico's ungeared beta. Lepidico's beta has been calculated over a six-month period to provide a more accurate reflection of the Company's systematic risk following the acquisition of the L-Max[®] Technology in 2016. Based on our calculations and assessment, Lepidico's ungeared beta is 1.60 as depicted in the table below.

Company	Market Capitalisation 30-Dec-16 (\$m)	Gear Beta (B)	Gross Debt/Equity (%)	Ungeared Beta (β_a)
Lepidico Limited	19.26	1.60	0%	1.60

Source: Bloomberg and BDO analysis

As a cross check to the above, we have also considered the equity betas of listed companies involved in similar activities in similar industry sectors to Lepidico. The ungeared betas below have been calculated against the S&P ASX 200 Index and the S&P TSX Composite Index using weekly data over a two year period.

Company	Market Capitalisation 30-Dec-16 (\$m)	Gear Beta (B)	Gross Debt/Equity (%)	Ungeared Beta (β_a)
Lithium Australia NL	37.17	1.23	0%	1.23
Mineral Resources Limited	120.27	1.60	22%	1.39
Monadelphous Group Limited	2,266.88	1.53	5%	1.48
NRW Holdings Limited	1,053.87	2.73	64%	1.88
Decmil Group Limited	213.99	1.03	4%	1.00
Austpac Resources NL	393.47	1.29	1%	1.29
Dakota Minerals Limited	177.75	1.28	0%	1.28
Hannans Limited	8.41	2.69	0%	2.69
Lithium Americas Corp.	46.84	1.36	2%	1.34
Avalon Advanced Materials Inc.	22.91	1.27	0%	1.27
Mean		1.60	10%	1.48
Median		1.33	1%	1.31

Source: Bloomberg and BDO analysis

Selected Beta (β)

In selecting an appropriate beta for the Project, we considered the similarities between the comparable companies selected above. The comparable similarities and differences noted are:

- the comparable companies include companies involved in the exploration and development of mineral properties including lithium, as well as mining services companies;
- we consider the operations of Austpac Resources NL to be most comparable to the Company, being a minerals technology company which has developed a number of commercial processes for various metals. However, we note that the market capitalisation of Austpac Resources NL is considerably larger compared to that of Lepidico;
- Lepidico is currently developing its L-Max[®] Technology and although at an advanced stage, is not yet fully commercialised. This poses greater risk compared to the comparable companies;
- the comparable companies' mining and exploration assets have varying risk profiles depending on the maturity of the assets and the stages and location of production; and
- some of the companies above have diversified operations in a number of metals and minerals projects.

Having regard to the above, we consider that an appropriate ungeared beta to apply to the Project is between 1.60 and 1.62. We consider it reasonable that a forward looking ungeared beta for Lepidico will reflect that of its peers.

As a crosscheck to the appropriate ungeared beta to apply to the Project, we have also had regard to Lepidico's ungeared beta. Lepidico's beta has been calculated over a six-month period to provide a more accurate reflection of the Company's systematic risk following the acquisition of the L-Max[®] Technology in 2016. Based on our calculations and assessment, Lepidico's ungeared beta is 1.60 and provides a crosscheck to our assessed range above.

The proposed capital structure for the Project is assumed to be 100% equity. Consequently, we have not re-gear the project beta.

Cost of Equity

We have assessed the cost of equity to be:

Input	Value Adopted	
	Low	High
Risk free rate of return	2.76%	2.76%
Equity market risk premium	6.00%	8.00%
Beta (ungeared)	1.60	1.62
Cost of Equity	12.36%	15.72%

Source: BDO analysis

We have considered post-tax real cash flows and, therefore, our assessed post-tax nominal rate must be converted to a post-tax real rate. We have selected a nominal after tax discount rate of 14%, where using the calculation $(1 + WACC) / (1 + \text{inflation rate})$ yields a post-tax real discount rate of 12%. This represents our assessment of the appropriate cost of equity to discount the forecast cash flows to their present value.

Comparable Listed Companies

Descriptions of comparable listed companies are summarised as follows.

Company	Description
Lithium Australia NL (ASX:LIT)	<p>Lithium Australia NL engages in the acquisition, exploration, and development of mineral properties. It primarily explores for lithium. The company holds interests in the Pilgangoora lithium-tantalum project located in the Pilbara region of Western Australia, Australia; and Yilgarn Craton projects consisting of four lithium and rare metal projects located in Yilgarn Craton, Western Australia, Australia. It also holds interests in the Electra project comprising two exploration concessions covering 22,625 hectares located in Sonora, Mexico; and five graphite project locations consisting of eight exploration licenses covering an area of 589 square kilometers located in Western Australia, Australia. In addition, the company holds interest in the Donnelly River 70/4825 graphite exploration project that covers an area of approximately 79 square kilometers in Western Australia. The company was formerly known as Cobre Montana NL and changed its name to Lithium Australia NL in July 2015. Lithium Australia NL is based in West Perth, Australia.</p>
Mineral Resources Limited (ASX:MIN)	<p>Mineral Resources Limited operates as a mining services and processing company in Australia, China, Singapore, and internationally. The company offers contract crushing, screening, and processing services on build-own-operate or build-operate basis for mining companies; mine services, such as materials handling, plant and equipment hire and maintenance, tails recovery, and aggregate crushing; and design, engineering, and construction services in the resources sector. It also manages the processing, production, logistics, ship loading, marketing, and export of the resources on behalf of tenement owners. In addition, the company has a portfolio of iron ore assets in the Yilgarn and Pilbara regions of Western Australia; produces manganese from its Sunday Hill and Ant Hill tenements within the Pilbara region; and owns 43.1% interest in the Mt Marion lithium project located to the south west of Kalgoorlie, Western Australia. Further, it offers project management and delivery services for pipeline engineering and construction, mine dewatering systems and hydrocarbon management, HDPE lined steel, polyethylene pipe fittings and components, rock trenching and terrain levelling, underground cable installation, and plant and equipment hire. Mineral Resources Limited was founded in 1993 and is headquartered in Applecross, Australia.</p>
Monadelphous Group Limited (ASX:MND)	<p>Monadelphous Group Limited, an engineering group, provides construction, maintenance, and industrial services to the resources, energy, and infrastructure sectors in Australia. It operates through Engineering Construction; and Maintenance and Industrial Services divisions. The company offers large-scale multidisciplinary project management and construction services, including construction management and execution; civil and electrical construction packages; turnkey design and construction; structural steel, tankage, mechanical works, and process equipment and piping fabrication and installation; fabrication and procurement; modularization and off-site pre-assembly; plant commissioning; demolition and remediation works; and offshore construction services of plant and infrastructure. It also provides</p>

	<p>multidisciplinary maintenance and improvement solutions, such as structural, mechanical, piping, electrical and instrumentation, and civil maintenance services, as well as minor capital works, shutdowns, and operations and facilities management services. In addition, the company offers process and non-process maintenance; front-end scoping; water and waste water asset construction and maintenance; irrigation; transmission pipelines and facilities construction; power and water assets operation and maintenance; heavy lift and specialist transport; access solutions; and dewatering services. Monadelphous Group Limited was founded in 1972 and is headquartered in Victoria Park, Australia.</p>
<p>NRW Holdings Limited (ASX:NWH)</p>	<p>NRW Holdings Limited, through its subsidiaries, provides civil and mining contracting services to resource and infrastructure sectors in Australia. It operates through three business divisions: NRW Civil & Mining, Action Drill & Blast (ADB), and AES Equipment Solutions (AES). The NRW Civil & Mining division delivers private and public civil infrastructure projects, mine development and contract mining, waste stripping, and ore haulage. This division's civil construction projects include bulk earthworks, rail formation, concrete installation, and construction of roads; and mining projects comprise work in iron ore, coal, and gold. The ADB division provides contract drill and blast services to mining sector, including iron ore, gold, coal, and lithium mines; and civil projects throughout Australia. The AES division offers maintenance services to the mining and resources sectors comprising the fabrication of water and service trucks. The company also sells plants and tires. NRW Holdings Limited was founded in 1994 and is headquartered in Belmont, Australia.</p>
<p>Decmil Group Limited (ASX:DCG)</p>	<p>Decmil Group Limited, through its subsidiaries, provides design, engineering, and construction works for the oil and gas, resources, government, and infrastructure sectors in Australia and internationally. It operates through three segments: Construction and Engineering, Accommodation, and Other. The company engages in the civil works on brown and greenfield projects in regional and remote areas; construction of industrial infrastructure, including industrial buildings, processing plants, workshops, and storage facilities; and project development activities that include design, site preparation, and excavation, as well as bulk earthworks, civil works, and construction. It is also involved in government infrastructure projects, such as accommodation, immigration facilities, office buildings, defense facilities, schools, administration buildings, and storage facilities; road and bridge civil engineering projects; design and construction of fuel infrastructure facilities; and turnkey engineering, procurement, and construction projects. In addition, the company owns and manages commercial properties; builds, owns, and operates accommodation villages in remote areas; and provides design, installation, commissioning, and maintenance services to telecommunications network owners, manufacturers, and NBN service providers. Decmil Group Limited was founded in 1979 and is headquartered in Osborne Park, Australia.</p>



Appendix 4 - Independent Specialist Report

LEPIDICO LTD

TECHNICAL ASSESSMENT

for

PHASE 1

PRE-FEASIBILITY STUDY

for

L-MAX[®] LITHIUM EXTRACTION TECHNOLOGY

by: R.W. NICE

FINAL

27 March 2017

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LEPIDICO LTD
L-MAX[®] LITHIUM EXTRACTION TECHNOLOGY
REVIEW OF PRE-FESABILITY STUDY

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CONSULTING METALLURGICAL ENGINEER

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EXECUTIVE SUMMARY

Lepidico Ltd (δLepidicoö) is an exploration and development company listed on the Australian Stock Exchange (δASX-LPDö). Its main fields of endeavour are the exploration for lithium hosted deposits and exploiting a proprietary hydrometallurgical process to extract lithium from mica materials. This technology, L-Max[®], has the potential to extract lithium from mica based minerals such as lepidolite and zinnwaldite.

The L-Max[®] process is a propriety process that extracts lithium mica minerals such as zinnwaldite, lepidolite and polyolithionite. The basis of the technology uses leaching with hot sulphuric acid solution under atmospheric conditions. Using a series of crystallisation and precipitation steps lithium is separated from the leach liquor impurities. After removing the impurities the leach liquor contains mostly lithium sulphate. The desired product, lithium carbonate (Li₂CO₃), is precipitated using sodium carbonate.

During 2016 and early 2017 a Pre-Feasibility Study was commissioned by Lepidico to investigate the use of L-Max[®] to assist companies who possessed lithium mica deposits exploit their assets. A number of different deposits located in a number of different countries were assessed. In addition various plant sites were evaluated to determine the optimum processing plant site. During this study some metallurgical testwork was conducted on a selected number of feedstock materials.

As a result of all of this work a final Pre-Feasibility Study (δPFSö) was published 03 March 2017 entitled, “Phase 1 L-Max[®] Plant Pre-Feasibility Study - Summary Report”. BDO Corporate Finance (WA) Pty Ltd has requested R.W. Nice & Associates Pty Ltd to review the PFS document a well as the supporting documentation and opine in a number of specific points related to the appropriateness as well as the reasonableness of the assumptions and conclusions of the PFS.

In summary below are the five requests from BDO and the summary responses from RWN;

1. *Confirm that the Pre-feasibility Study is appropriate;*

RWN considers that the PFS as submitted is appropriate to allow the owners of the technology to proceed to the next step which is a Feasibility Study.

However, RWN wishes to note a few qualifications;

- a. The PFS and supporting documents from the cost estimating consultants assess the MinMet report to be of a Pre-Feasibility Study level based on the American Association of Cost Engineers standards (see Appendix 3) which allows Feasibility Studies to have a capital cost level of accuracy of +20% to +50% and -15% to -30%. The February 2017 Basis of Estimate report quoted quotes levels of accuracy at be -25% +35% which, using the guidelines, places the study within the feasibility level category. RWN concurs with these conclusions based on the standard as referred to by MinMet and PCC. There have been a number of changes subsequent to the publication of the PFS as a result of a peer review which relate to an increase in capital costs of US\$3.1M (7.5%), some modifications in revenue timing and the correction of some modelling errors. On aggregate these changes are not material to the overall assessment of the Project.
2. *Confirm that the L-Max[®] technology meets the stated objectives outlined in the Prefeasibility Study;*

RWN considers that L-Max[®] process is a reasonably robust process and should be capable of extracting the lithium from mica based minerals as demonstrated by the testwork conducted on a number of mineral deposits. RWN has reviewed some testwork summary reports by the consultant Strategic Metallurgy and notes that the process does leach the lithium from the mica minerals. Leaching rates are relatively rapid and efficiencies vary, as would be expected, from

deposit to deposit and as related to the feed grade of the material. Testwork results for the Avalon, Bland and Alvarroes materials showed that the lithium carbonate could be recovered and that the by-products were also recoverable. The testwork results indicated that the Avalon feedstock responded best to the L-Max[®] process.

3. *Confirm that the L-Max[®] technology meets the stated objectives outlined in the Prefeasibility Study;*

The L-Max[®] process has been developed to extract lithium from mica based minerals as well as recover by-products such as sodium silicate, caesium formate and potassium sulphate. Once these elements are leached into solution the practice of recovering the by-products is basically conventional crystallisation and precipitation technology. The testwork has shown that the recovery of lithium carbonate and the various by-products was suitable. The PFS has reflected the metallurgical parameters as indicated in the testwork.

4. *Confirm that all cost input assumptions (included in Cost Inputs tab) included in the Lepidico Project Evaluation Model are reasonable in accordance with Regulatory Guide 170 Prospective financial information ('RG 170');*

RWN can confirm that the operating costs and capital costs as estimated by the consultants to Lepidico are reasonable and can be used as reliable inputs into the PFS. The PFS has provided various estimates of the level of accuracy all of which place the study at a PFS level with an estimating level of accuracy at $\pm 25\%$ and a level of detail in the order of about 10%. Operating costs have been stated to be within the PFS level which suggests $\pm 20\%$.

5. *Any other relevant technical assumptions not specified above are reasonable in accordance with RG 170;*

The PFS has commented regarding the procedure/protocol related to obtaining permitting approval for the Phase 1 Project implementation at the Kenora Ontario plant site. While there are a number of approvals required the process has been streamlined to a degree with a "One Window" approach for companies to obtain the necessary approvals more quickly. Lepidico will have to obtain approvals for discharging air and gases to the atmosphere, to discharge water to the environment and to take process water from the area. It is expected that because the L-Max plant is to be erected within a building that was once used as a Pulp and Paper Mill and is considered a former industrial site and is likely listed in the contaminated land register. RWN considers that Lepidico has a reasonably good idea of what is required for permitting and therefore should be able to take advantage of the provincial government's approach to streamlining such approvals.

Lepidico has briefly addressed the subjects of risk and opportunities. Lepidico states that they will undertake a detailed assessment of risks early in 2017. RWN accepts this approach as it doesn't affect the outcome of the study. Having said this RWN suggests that the need for such a corporate assessment is paramount and should be undertaken as soon as is practicable.

Lepidico as commented briefly on the future work necessary to allow the L-Max[®] process to be tested in a demonstration plant. The main work to be done was to complete a Feasibility Study during 2017. To that end, Lepidico has identified that the scope of work for the study needed to be in place, a full Owners team would have to be established, confirmatory testwork on representative samples of the proposed feed materials would have to be conducted and financing would have to be planned. The work plan included a number of other activities including the Risk Assessment, developing contracts and agreements for off-take of product and importation of material and supplies. RWN agrees that planning the future work is necessary and also should commence as soon as is practicable. Nevertheless RWN considers the Lepidico time frame optimistic and suggests that the Feasibility Study could be completed in the second quarter of 2018.

At the end of the PFS report MinMet reported that after a review of costs and other modelling input parameters the capital costs increased and there was a minor increase in the IIR. Other

outputs were almost identical to the PFS results. The clarifications as provided by MinMet and PCC also served to confirm to RWN that the level of cost estimating accuracies were such that the PFS could be defined as a Pre-Feasibility Study.

1.0 INTRODUCTION

BDO Corporate Finance (WA) Pty Ltd (öBDOö) has instructed RW Nice & Assocs. Pty Ltd (öRWNö) to review the technical assumptions and provide an assessment on the reasonableness of assumptions used in the Lepidico Project Evaluation Model. Lepidico Ltd (öLepidicoö) is the company that owns the proprietary technology, namely the L-Max[®] technology, which can be used to extract lithium and other metals from mica based mineral deposits.

Specifically, the instructions are;

1. Confirm that the Pre-feasibility Study is appropriate;
2. Confirm that the L-Max[®] technology meets the stated objectives outlined in the Prefeasibility Study;
3. Confirm that all cost input assumptions (included in Cost Inputs tab) included in the Lepidico Project Evaluation Model are reasonable in accordance with *Regulatory Guide 170 Prospective financial information ('RG 170')*;
4. Confirm that all physical input assumptions (included in Physical Inputs tab) included in the Lepidico Project Evaluation Model are reasonable in accordance with RG 170; and
5. Any other relevant technical assumptions not specified above are reasonable in accordance with RG 170.

The full letter of instruction for this assignment is presented herein as Appendix A.

In performing this review, RWN has looked only at the processing parameters related to the exploitation of the L-Max[®] technology using a öDemonstration Processing Plantö. RWN will assess the assumptions used in;

1. The Pre-Feasibility Study (öPFSö) completed 03 March 2017 including
2. The Project Evaluation Model (ö20170219 Lanasera PEM - Lepidico v4c Investment Caseö) using Case A1, Avalon to Kenora.
3. Which includes the assessment of processing assumptions such as products, metal extractions and recoveries, product grades, production rates and plant utilisations.
4. Operating costs for the processing plant including costs of feedstock from Avalonö Separation Rapids deposits, reagents costs, general processing costs, haulage and logistics costs, maintenance costs and other related costs.
5. Capital expenditures including necessary sustaining capital costs.
6. Environmental costs including rehabilitation costs.
7. Other technical aspects of the project development.

The responsible person for preparing this report is Mr Roland Nice, principal of RW Nice & Associates Pty Ltd. Mr Nice is a Fellow of the AusIMM, a member of the Institution of Engineers Australia (MIEAust CPEng, Chemical), a Life Member of the Canadian Institute of Mining and Metallurgy (öCIMMö), a member of the Society for Mining, Metallurgy and Exploration (öSMEö) and a member of the Australian Institute of Minerals Valuers and Appraisers (öAIMVAö).

RWN has relied upon information provided by Lepidico from the electronic data room as well as public domain materials. This reliance includes accepting assessment by Lepidico of the various mining sources of feedstock and the circumstances necessary to develop a processing plant in Canada as well as other options assessed by the PFS.

RWN has not visited the testing facilities quoted within the reports in respect of the L-Max[®] technology. Also, none of the mining or process sites have been visited by RWN.

2.0 L-MAX[®] TECHNOLOGY

Lepidico is an exploration and development company listed on the Australian Stock Exchange (ASX-LPDö). Its main fields of endeavour are the exploration for lithium hosted deposits and exploiting a proprietary hydrometallurgical process to extract lithium from mica materials. This technology, L-Max[®], has the potential to extract lithium from mica based minerals such as lepidolite and zinnwaldite.

Historically, lithium has been extracted from brines in locations such as Argentina and Chile as well as the United States of America. Most hard rock sources of lithium have been predominantly spodumenes (Greenbushes in Australia) and petalite (Bikita in Zimbabwe). Mica based deposits have not been previously exploited because of perceived difficulties in extraction and poor economics.

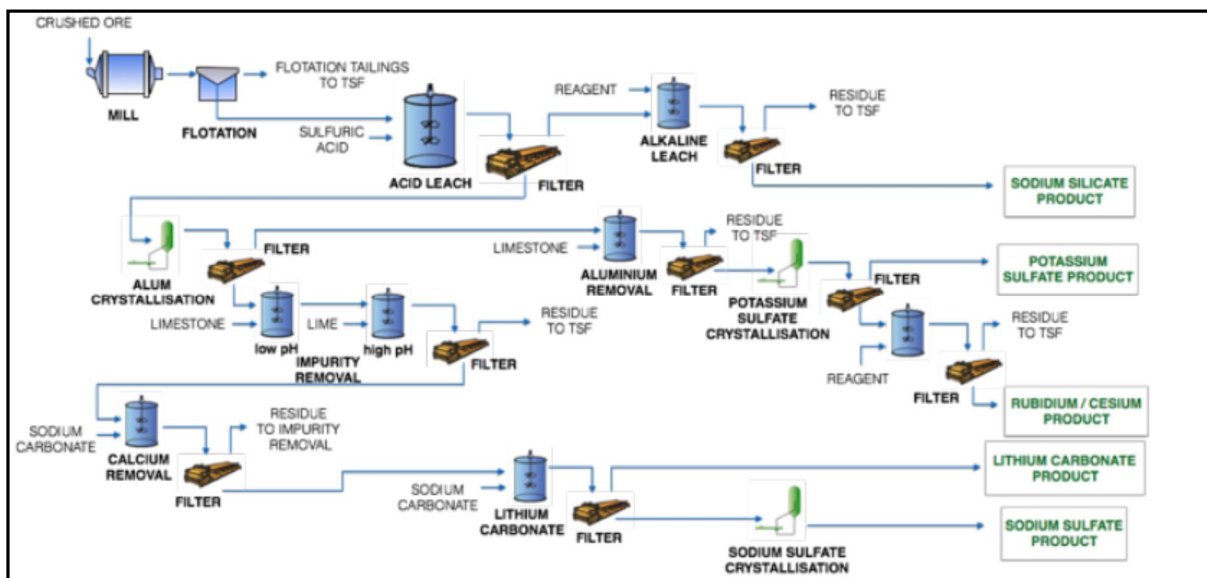
The use of battery technology in the ever-growing field of electronic gadgets such as mobile or cell telephones as well as wrist watches has prompted a modern rush for sources of the raw materials for these batteries. The main materials used in the production of modern commercial batteries is lithium, generally as lithium carbonate or lithium hydroxide. With the advent of modern battery technology used in a number of internet related devices as well as the increase of electric driven automobiles and the use of solar electricity storage cells the need for lithium is steadily increasing.

The L-Max[®] process is a propriety process that extracts lithium from lithium containing micas such as zinnwaldite, lepidolite and polyolithionite. The basis of the technology uses leaching with hot sulphuric acid solution under atmospheric conditions. Using a series of crystallisation and precipitation steps lithium is separated from the leach liquor impurities. After removing the impurities the leach liquor contains mostly lithium sulphate. The desired product, lithium carbonate (Li_2CO_3), is precipitated using sodium carbonate.

Between each crystallisation and precipitation step there is a liquid-solid separation step incorporating filters. The solids residue after the initial leach is also removed by filtration.

A block flow diagram of the process is illustrated in Figure 1.

Figure 1
L-Max[®] Process Flowsheet



From Urbani paper May 2016

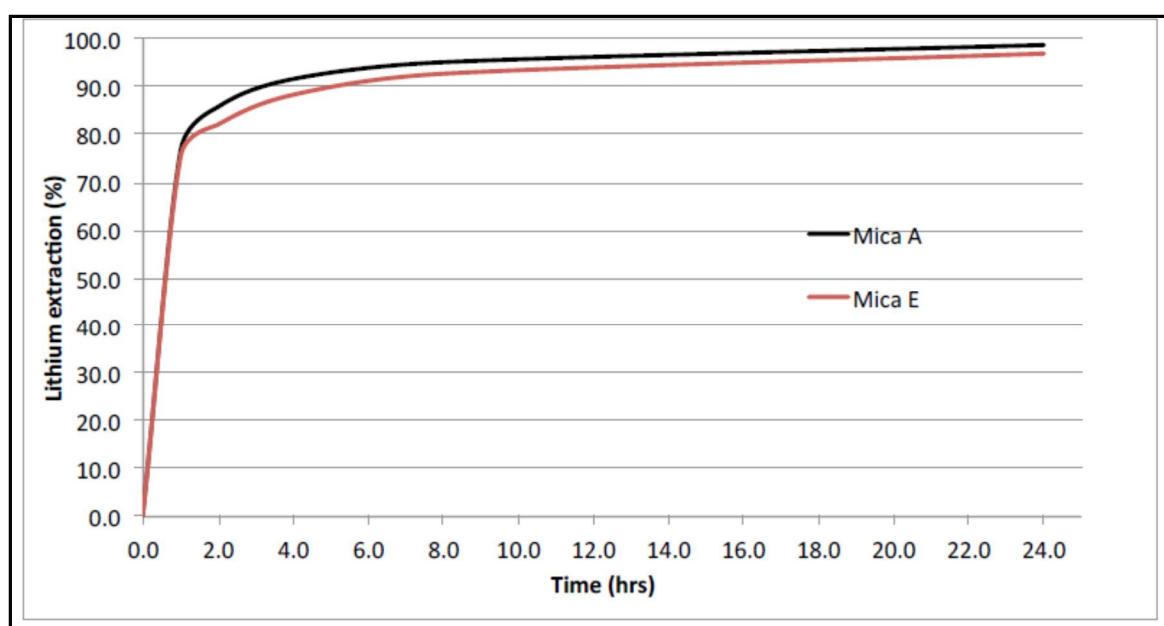
2.1 Leaching: Leaching with sulphuric acid essentially removes the metals into solution as sulphates. Metals such as lithium, rubidium, caesium, aluminium, manganese and iron all form soluble sulphates thus requiring separation processes. In addition some silica is dissolved but is unstable and re-precipitates as an amorphous and highly reactive silica. Fluoride also solubilises as a complex but stable

aluminium fluoride. The formation of this fluoride complex avoids production of any strong hydrofluoric acid thus avoiding the need for exotic materials of construction.

Sulphuric acid has been chosen as the lixiviant of choice as it is readily available, inexpensive compared with other acids such as hydrochloric and nitric acids while hydrofluoric acid is far too difficult to manage in a commercial leach plant.

The kinetics of the acid leaching are rapid as indicated in Figure 2. It is reported that over 90% of the contained lithium is extracted within six hours. Also, fortunately, the lithium can be concentrated in solution up to 10 grams per litre (10g/Lö).

Figure 2
L-Max[®] Process Leach Kinetics



From Urbani paper May 2016

2.2 Removal of Impurities: As noted above a number of other metals are solubilised in the leaching step. Some of these may be economic to recover, depending upon the deposit being treated, but more importantly they have to be separated from the lithium to allow production of battery-grade lithium carbonate (99.5% Li₂CO₃).

The presence of aluminium in the material being leached is important and allows the separation of many of the unwanted metals as they form aluminium sulphate salts with many of the monovalent cation sulphates including potassium, rubidium and caesium. Lithium sulphate does not form an aluminium salt thus allowing separation of the lithium sulphate from the aluminium sulphates by the process of crystallisation. By cooling the leach liquors in a controlled manner the aluminium metal sulphates will crystallise out leaving the lithium sulphate still in solution. A simple liquid-solid separation using filters will remove the alum salts leaving the lithium sulphate in the filtrate liquor. The solubilised fluoride also crystallises as an aluminium fluoride sulphate.

Lime is also added to allow precipitation of gypsum thereby removing sulphates from the leach liquor. Any calcium in solution is removed using sodium carbonate in a controlled manner.

2.3 Lithium Carbonate Production: Once all unwanted metals are removed the recovery of the lithium carbonate is relatively simple. By the addition of sodium carbonate the lithium sulphate is precipitated as lithium carbonate. This precipitate is removed by filtration and conventional drying and packaging steps prepare the product for delivery to the battery produces.

2.4 RWN Comments

The L-Max[®] process is a simpler process to recover lithium from ores than what has been used in the past on spodumene deposits. The older technology requires sulphate roasting of concentrates which is both expensive and energy intensive.

The various hydrometallurgical processes utilised by the L-Max[®] process to remove impurities and, in some cases, recover economically beneficial by-products

RWN considers that L-Max[®] process is a reasonably robust process and should be capable of extracting the lithium from mica based minerals as demonstrated by the testwork conducted on a number of mineral deposits. While RWN does not have all the detailed testwork Table 2.1 summarises the relevant data for a number of laboratory bench-scale tests conducted by Strategic Metallurgy.

Table 2.1
Bench-Scale Laboratory Testwork Results on Selected Samples

Sample Source		Avalon	Bland	Portugal	
Material Treated		Flotation Concentrate ¹	Tailings Samples	Costanho Mine Channel Sample	Alvarroes Mine Waste
Head Grade	Li %	2.09	1.75	1.20	1.0
Leaching					
Tenor	g/L Li ²	5.73	6.3	n/a	n/a
Recovery	%	98.5	91.0	>90	n/a
Impurity Removal					
Li Recovery	%	95.1	92.3	n/a	n/a
Lithium Precipitation					
Grade	% Li	18.77	18.1	n/a	n/a
Li Recovery	%	99.9	99.9	n/a	n/a
Final Product					
Grade	% Li ₂ CO ₃	99.88	96.8	n/a	n/a
Final Li Recovery	%	93.1 ³	83.9	n/a	n/a

¹ Ore grade was 1.01% Li and Flotation Recovery was 95.8%. ² Diluted with wash water tenor. ³ Includes flotation losses.

RWN notes that the Avalon material processed very well and produced battery grade (>99.95% Li₂CO₃) with very good overall recovery of 93%. The Bland material treated reasonably well but did not produce battery grade lithium carbonate. Strategic claim that poor washing resulted in a high sodium sulphate content in the product which could be easily optimised and that ultimately battery grade product would result. Strategic Metallurgy maintains that, with appropriate optimisation, the lithium recovery from the Bland materials could reach 88%. RWN accepts this argument. Nevertheless, it is noted that overall recoveries will be lower than those experienced with Avalon feed. The testwork on the Portuguese material was incomplete and it is noted that the samples were very low grade; flotation recovery for the two samples reported in Table 2.1 was 90% for the Castanho sample and 78% for the Alvarroes Mine waste sample with resultant concentrates at comparatively low Li grades, 1.2% and 1.0% respectively. Lepidico does not plan to process mineralisation at these lower Li grade ranges.

It is evident that the higher grade feedstock performs better using the L-Max[®] process and this is the material used for the PFS.

RWN is aware that Lepidico intend to import feedstock materials to Kenora from Alvarroes run-of-mine mineralisation whenever necessary. Lepidico has advised that Alvarroes has agreed to supply material that would be upgraded run-of-mine material using optical ore sorting techniques. The most likely period when imported material would be necessary would exist if the Separation Rapids feed material is not available at the commencement of commissioning the Kenora plant because of delays in developing the mine, mining the material and producing a flotation concentrate. The studies by Lepidico show that the logistics costs to deliver ore sorted upgraded material from Alvarroes at about 1.6% Li plus a negotiated purchase price for that material would be less than the price used in the PFS to purchase and deliver Separation Rapids flotation concentrate to the Kenora plant,

3.0 PRE-FEASIBILITY STUDY

3.1 Summary

Lepidico has just completed a Pre-Feasibility Study (PFS) looking at the exploitation of the L-Max[®] technology using a number of feedstock suppliers and investigating a number of possible plant site options. This PFS was completed by MinMet Services Pty Ltd (MinMet) and was titled "Phase 1 L-Max[®] Plant Pre-Feasibility Study Summary Report" and is dated 03 March 2017.

The PFS was based on building a demonstration plant (Phase 1) using the L-Max[®] technology to produce between 2,000t and 3,000t of battery grade lithium carbonate (99.95% Li₂CO₃). The source of feed to the plant was investigated with a number of different sources world-wide and eventually settling upon three options as follows;

1. Avalon Advanced Materials Incorporation's Separation Rapids project located in north western Ontario, Canada. This is a new hard rock deposit containing lepidolite as well as other metals such as rubidium and minerals such as silica.
2. The Bland project. This project has operated on and off over the past four decades and the intent was to treat tailings materials.
3. Pioneer Resources Limited deposit located near Norseman in Western Australia. This is still an exploration project.

Based on the results summarised in Table 2.1, what is available in the public domain as well as some knowledge regarding the Bland project RWN agrees that the Avalon Project is the better project to test the viability of recovering lithium from flotation feed using the L-Max[®] process as reported in the PFS. RWN is familiar with the area and knows the nearby Bernic Lake Operation reasonably well having visited the site when involved with a producing Tantalum operation in Australia. While in the wilds of the Great Canadian Shield of northern Ontario and Manitoba, Canada the area is quite well serviced for the mining industry and is amenable to mining projects.

The PFS also looked at possible plant sites and assessed a number but also reduced the options to three;

1. Kenora Ontario, Canada. This site is in a small town in northwest Ontario about 70km from the Avalon deposits. Major reagents supply relatively close.
2. Hamburg, Germany. A good site for reagent supply and port facilities but far from any feed stock source.
3. The Toyo site near Nahami, Japan. A good site for reagent supply and port facilities but far from any feed stock source.

In the final analyses the PFS opted to further study the development of the Phase 1 demonstration plant at Kenora, Ontario and based on treating Avalon concentrates.

The site chosen is good from RWN's perspective as it is serviced by rail and road, has hydroelectric power available, and is an industrial town familiar with mining and processing. Being on the main Canadian Pacific Railway (CPR) line allows easy transport of consumables from the large city of Sudbury, Ontario which would also be the main source of acid.

All contributors to the PFS are listed in Table 3.1.

Table 3.1
PFS Contributors

Task	Consultant
Lead consultant, Study Management, Preparation of PFS Report	MinMet Services Pty Ltd
Process development testwork (bench scale)	Strategic Metallurgy
Process Design	Strategic Metallurgy
Dewatering Testwork	Outotec
Logistics Strategy and Costs	Project Definition Pty Ltd
Permitting and Sustainability	Sustainable Mining Strategies
Residue Characterisation, Geochemical	MBS Environmental
Product Marketing and Reagents Sources	Roskill
Plant Location Assessment	MinMet Services Pty Ltd

Project Planning
Operating Costs Estimates
Capital Cost Estimates
Equipment Pricing
Cost Consolidation
Financial Modelling

MinMet Services Pty Ltd
MinMet Services Pty Ltd/ Strategic Metallurgy
Professional Cost Consultants
Outotec/ GEA Process and others
MinMet Services Pty Ltd
Lanasera Pty Ltd

RWN is quite familiar with most of these consultants and certainly the ones involved with the process related topics. As such, RWN has a high level of confidence in their ability and their reports.

The choice of the site and feedstock assessments was based on a process bench-scale testwork as well as process design and operating costs as prepared by Strategic Metallurgy Pty Ltd (öStrategicö). The basis of these inputs was the testwork conducted in Perth WA.

RWN commends the work conducted for the PFS and considers the study appropriate for the level of work conducted thus far and appropriate to support the request to undertake a more detailed demonstration plant study.

3.2 Process Testwork

The process testwork is discussed in Section 2 of this report. As noted the L-Max[®] process is reasonably robust but it is also noted that the process needs to be öadjustedö for each individual feed material. This is quite common for hydrometallurgical processes and does not detract from the technical viability and robustness of the process; in fact the ability to adapt adds credibility to the use of the process for different materials.

The success of the bench-scale testwork on limited samples confirms the need for further demonstration scale testwork as has been proposed in the PFS.

3.3 Process Design

Strategic Metallurgy has been responsible for the process design and the preparation of the process design criteria as well as data sheets for equipment. In addition, ancillary operations such as thickening and filtering has been conducted by reputable equipment vendors and supervised by Strategic.

RWN considers that the level of work conducted to construct a öfit for purposeö demonstration plant in facilities located in Kenora, Ontario is adequate for this PFS. The next step once approval is granted to implement the plant construction would be to provide detailed criteria, flowsheets and data sheets suitable for issuing to vendors.

RWN commends the approach of building a demonstration plant prior to erecting a full scale operation. The L-Max[®] process, while an appropriate technology to extract lithium from these particular ores has to be considered önewö technology. Implementing new technology is always difficult and scale-up, while theoretically possible, should be proven by a series of testwork steps; bench-scale followed by pilot scale and then, ideally, demonstration plant as the final step before full scale development. This iterative approach allows the developers to gain better appreciation of equipment scale-up and the problems associated with recycling liquors, process slurry parameters such as rheology, settling characteristics and filterability. Leach parameters are also confirmed with these steps.

3.4 Feed Supply Selection

As noted above a number of different lithium bearing mica deposits were investigated by MinMet and Lepidico. Based on location and access to services as well as ease of delivery of supplies the PFS has opted to develop the PFS on the basis of treating flotation concentrates from Avalon Advanced Materials Incorporation's Separation Rapids project located in north western Ontario Canada.

RWN accepts this decision as the bench testwork has shown excellent metallurgical response by producing Battery Grade lithium carbonate and at a 93% overall lithium recovery (including flotation losses). These metallurgical parameters are the best obtained through the bench testwork for a number of deposits located in Canada, Africa, Portugal and Australia.

3.5 Plant Location Selection

Also, as noted MinMet and Lepidico assessed a number of plant site locations world-wide. The final conclusion was to use the Kenora Ontario Canada site. This was driven partially by proximity to the feed source (70km), accessibility to transport, services with good logistics and a community receptive to such activity.

RWN knows the area and agrees that the site chosen is well suited for the needs of a Demonstration Plant.

3.6 Infrastructure, Transport, Services and Utilities

The Kenora site is well serviced. The town is located on the main cross-Canada highway (Highway 17) and on the cross-Canada railway line, Canadian Pacific. As such delivery of supplies and consumables will be relatively easily organised. The main consumable, sulphuric acid, will be obtained from the Vale or Glencore smelters in Sudbury.

Power in the Kenora area is hydro-electrically generated and is easily accessible. The project will access the grid using a high voltage sub-station. The Demonstration Plant only requires about 530kW (ōkilowattsö) with the largest drive only 185kW.

Water is also easily accessible from the Kenora reticulated water system. Usage is 15 cubic meters per hour (ōm³/hö).

Lepidico has located a large building in Kenora that was once part of a pulp and paper mill. Because of the severe winter climate the plant has to be installed indoors. The building will not be heated other than the need for process heat but the building will require ventilation. All necessary ancillaries such as process control laboratory, offices, ablutions and control room will be located within the building. Large consumables will be stored outside the building. Feed and product accounting samples will be located off-site and these costs are included in operating costs.

3.7 Capital Cost Estimation

Capital costs have been estimated by Professional Cost Consultants (ōPCCö). The details are provided in the PCC document *ōLepidico Lithium, AP1205Scoping Study Basis of Estimate, February 2017”*. The basis of study was based on a general plant location close to services and infrastructure and located in Australia. Table 3.2 summarises the costs;

Table 3.2
PFS Capital Cost Estimate Summary

Cost Centre	Costs (US\$M)
Feasibility Study and Owners Costs 2017	5.0
L-Max [®] Plant Direct Costs	16.2
L-Max [®] Plant Services	4.6
Infrastructure	2.6
Total Direct Costs	28.4
Indirect Costs	6.7
Contingency (@20%)	6.0
TOTAL	41.1

These costs have been developed using an Equipment List and a plot plan as provided by Strategic Metallurgy and bulk commodities are based on material take-offs. The infrastructure scope was limited to the Kenora town and direct access to utilities and services as well as access to an existing industrial building.

The PFS quotes the estimate accuracy to be -20% +30% which, according to the PFS report, lies within the criteria of a being classified as a PFS. The updated Basis of Estimate quotes an accuracy of +35% -25% which falls within a feasibility study degree of accuracy.

RWN accepts the capital cost estimate as it has been prepared and agrees that the approach is reasonable and lies within the realms of what could be classified as a Pre-Feasibility Study.

The PFS notes that if the sulphate of potash (SOP) or potassium sulphate circuit is not included then a capital cost reduction of about US\$5M could be realised. RWN suggests that while such a reduction is appealing to prove the viability of the L-Max[®] process the SOP circuit should be included.

The study has also included a sustaining cost of US\$1M/a to cover residue disposal. A closure cost of US\$1M has also been included for rehabilitation and removal of the plant equipment at the end of the Phase 1 test programme. RWN considers the sustaining capital cost estimate to be reasonable given the size of the Phase 1 plant installation. Similarly, the rehabilitation cost estimate should be adequate given that the work entails removing equipment and restoring the building and yard to the original state. Very likely, there will be a small return selling some of the equipment.

All foreign exchange conversions have been based on A\$1.00 = US\$0.75. The cost estimate is as of February 2017 (Quarter 1). Indirect costs have been estimated using industry standard factors while most of the infrastructure costs (80%) are based on estimated quantities and unit rate build-ups from similar projects.

The detailed costs as developed by PCC are shown in Table 3.3.

Table 3.3
PFS Capital Cost Estimate Build-Up Details

Cost Centre	Costs (US\$M)
Feasibility Study	3.0
Owners Costs 2017	2.0
L-Max [®] Process Plant	16.2
L-Max [®] Common Services	3.4
L-Max[®] Infrastructure	
Earthworks	0.2
Buildings	1.8
Laboratory	0.2
Maintenance and Stores fit-out	0.1
Power	0.1
Water	0.1
Residue Disposal	1.0
IT and Communications	0.1
Roads/Sewerage/Potable Water/Fire Water	0.1
Mobile Equipment	0.3
TOTAL L-Max [®] Infrastructure	3.8
Indirects	
Owners Costs	2.2
Engineering and Procurement (8%)	1.9
Construction Management (4%)	0.9
Commissioning and Start-up with Vendor Reps (1%)	0.3
First Fills (3%)	0.2
Spare Parts (2%)	0.5
Freight (1%)	0.3
Insurance (1%)	0.2
Temporary Facilities (1%)	0.2
Indirects Total	6.7
Contingency at 20%	6.0
TOTAL	41.1
Sustaining Capital US\$/a	1.1

NB: RWN advises that there will be minor differences due to rounding; the final total is correct.

RWN considers that the build-up approach to developing the capital costs is appropriate for this PFS level of study. All of the standard cost centres have been addressed. RWN considers that some of the minor cost codes may be underestimated such as Spare Parts, Freight, Owners Costs and Insurance. However these expenditures are quite small in relation to the total and therefore fall within the estimating accuracy. The use of 20% for contingency is prudent.

3.8 Project Implementation

MinMet has prepared an implementation plan with milestones assuming immediate go-ahead for the Phase 1 project.

- Completion of Feasibility Study Q4 2017
- Complete Construction Q1 2019
- Commission and Ramp-up Q3 2019
- Commercial Production of Battery Grade Li₂CO₃ Q4 2019

MinMet has also discussed within the PFS the Implementation Strategy which includes ensuring a core Owner's team is in place (Lepidico) with Owner's Project Manager, Process Engineers, Cost control personnel and a Permitting Officer. RWN agrees with this totally but suggests at least the Processing Manager for the ongoing operation be involved as soon as possible.

It is planned to undertake some design engineering while the Feasibility Study is being completed. RWN supports this approach and also suggests that rather than calling the next phase a Feasibility Study it should, in reality, be identified as 'detailed engineering'. It is proposed that all permitting is undertaken during the Feasibility Study/detailed engineering phase.

The plan is to identify all equipment packages as soon as practicable and go out for competitive firm quotations. Modularisation will be used as much as possible. RWN supports this approach and suggests that modularisation should be reasonably advantageous given the building that is already available.

The approach to, as much as is practicable, go to for Engineer, Procure and Construct (EPC) packages which is, in RWN's opinion, a prudent approach.

3.9 Operating Costs

Strategic, in concert with MinMet has created the operating costs using estimating first principles with quoted pricing. The operating cost estimate is based on Q1 2017 cost and uses currency conversions;

$$\text{US}\$0.75 = \text{A}\$1.0, = \text{C}\$0.76, = \text{Euro } \text{€}1.06, = \text{Yen } \text{¥}0.008$$

The unit operating costs averaged for the life of the project (10 years) are summarised in Table 3.4.

Table 3.4

PFS Operating Cost Estimate Summary

Cost Centre	US\$/t Concentrate Processed
Concentrate Purchased	350
Concentrate Handling - Kenora	4
Inbound Consumable Logistics	144
Consumables FOB	286
Other Processing Costs	186
Marketing and Outboard Logistics	55
General & Administration	104
TOTAL	1,130

The intent is for Lepidico to purchase flotation concentrates from the Avalon Project. As yet there have been no firm negotiations regarding purchase of these concentrate. As a result, the approach is to estimate the value of the concentrate by comparing it to the recent Roskill Consulting Group Pty Ltd (Roskill) price for spodumene concentrates pro-rated to the lower Li content with spodumene at 6% lithium oxide (Li₂O) and the Avalon concentrates at 4.5% Li₂O.

The concentrate purchase including freight to Kenora comprises 31% of the total operating cost estimate. RWN agrees with this approach given the preliminary level of study but expects that the price could be higher when development commences.

Consumables, on the other hand, are significant, at 38% of the overall costs when the freight is included. Table 3.5 illustrates the consumable costs for the project.

Table 3.5**PFS L-Max[®] Process Consumables**

Consumable	Consumption Rate; kg/t Concentrate	Cost of Consumable FOB, US\$/t	Source	Unit Cost \$/t Concentrate
Sulphuric Acid (93%)	1,054	60	Chemtrade	63
Limestone and Hydrated Lime	706	38/120	Roskill	27
Sodium Carbonate	143	239	Avalon	34
Sodium Hydroxide (Caustic Soda) 50%	614	207	Avalon	127
Formic Acid	13	600	Strategic	8
Natural Gas	7.6GJ.t	3.38/GJ	Avalon	26
TOTAL				285

Acid will be supplied from Sudbury, natural gas is delivered by the Trans-Canada pipeline. Natural gas is used to develop process heat by way of steam. Electric energy is supplied at C\$0.093/kWh or about US\$0.07/kWh and the high voltage grid passes Kenora.

Costs for personnel, power and water were all obtained from Avalon. These are included in the category "Other Processing Costs". A manning schedule was developed and RWN assumes that most of the personnel will be recruited locally save for a few specialist needs. Maintenance costs and analytical costs are included in the other costs. Maintenance costs were developed using conventional factors (5% of equipment costs) based on the capital cost estimate.

In the opinion of RWN the operating costs have been estimated in a reasonable and logical fashion. As such they can be relied upon to undertake a preliminary financial analyses in preparation for supporting the next step of project development, Feasibility Study and/or detailed engineering.

3.10 Royalties and Taxation

Corporate income tax has been simply assumed to be 25% of assessable income yearly. Depreciation has been set at a 5-year straight line assessment. Sunk costs have not been included in the financial model taxation calculation.

Royalties have not been included as these are the responsibility of the miner, Avalon.

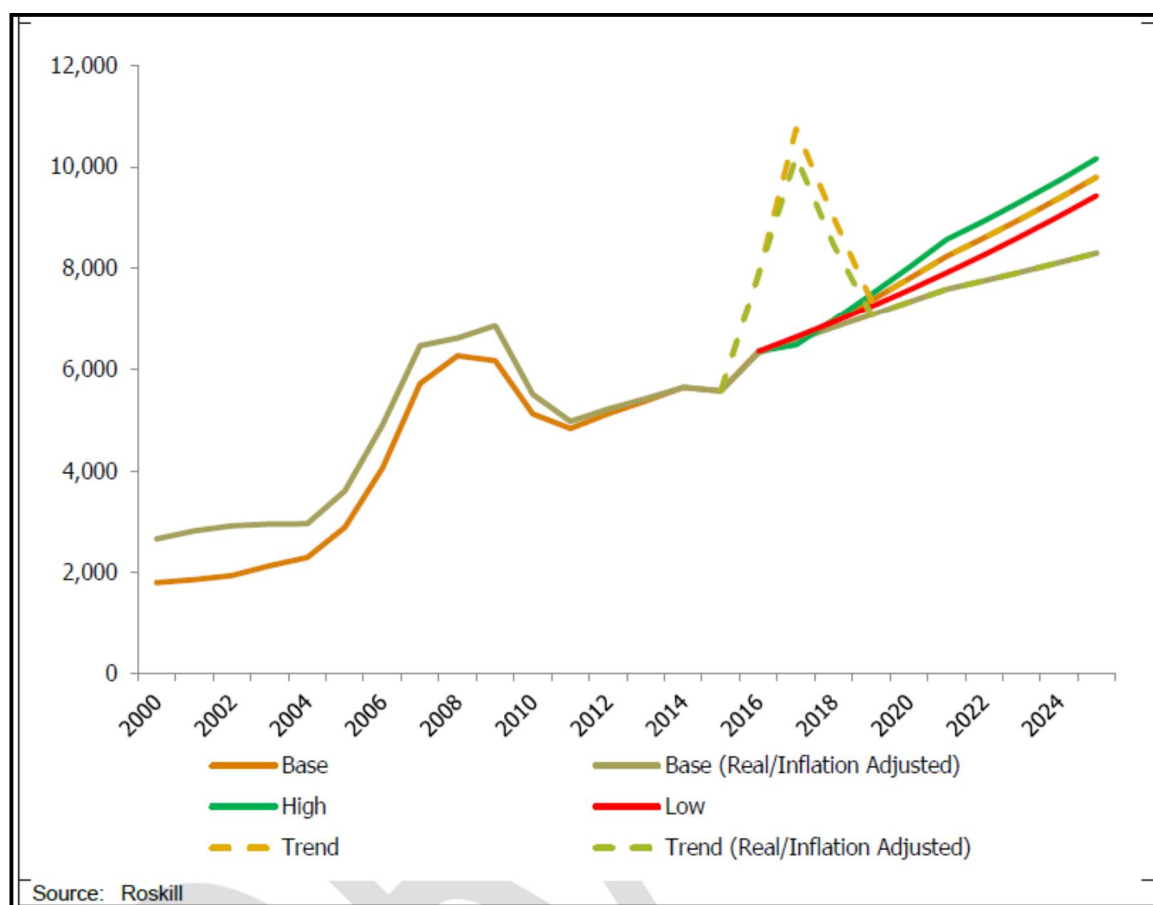
4.0 MARKETING

Most of the marketing detail employed in the PFS and financial analysis has been provided by Roskill. Roskill has provided support for the spodumene concentrate purchasing as well as many of the larger consumable reagents such as acid and sodium hydroxide. More importantly, Roskill has provided lithium pricing data including benchmarking studies. Roskill has also provided a comparative benchmarking study of operating costs.

4.1 Lithium Carbonate Pricing

Roskill's forecasts are based on 2015 prices and these have been escalated on the basis of about 5% per annum. Roskill has developed a price forecast based on cost, insurance and freight (CIF) at a port in Asia. This is illustrated in Figure 4.1.

Figure 4.1
Forecast Lithium Carbonate Pricing



As can be seen the estimated base price is ~ US\$7,878/t of battery grade lithium carbonate in 2017. This is the price used in the PFS financial analysis. Roskill provide the usual disclaimers regarding the estimates such as no consideration of accelerating consumption, the need to provide incentives to secure new supply as well as possible force majeure for existing operations which is impossible to forecast. Roskill also suggests that the market may return to a battery grade premium which could be about US\$100/t annually until 2021. Roskill does predict additional feedstock to emerge onto the market.

4.2 Forecast By-Product Pricing

Roskill has also provided some price forecasts for the by-products of the L-Max[®] process. The main by-products of the process can be as follows;

1. Caesium as a formate; useful as completion fluids in oil and gas drilling.

2. Rubidium as a formate; more plentiful than the caesium but effectively of no value.
3. Sodium Silicate; this product is used in water treatment as a coagulant/flocculant as well as being used in detergents and other cleaning products.
4. Potassium Sulphate (SOPö); used as a fertiliser and also as a glass manufacturing additive.
5. Tantalum; a metal used in a number of applications such as electronics with capacitors and wire, in engine blades and other high grade steel alloys and in semi-conductors. It is forecast that the tantalum could be recoverable using gravity means after lithium has been recovered from the material being treated.

Table 4.1 summarises the price estimates for the various products;

Table 4.1
PFS L-Max[®] By-Product Prices

Product	Annual Production (tpa)	Product Price (US\$/t)	Source
SOP (95% K ₂ SO ₄)	3,850	600	Source Producer
Sodium Silicate (40 weight % solution)	46,000	689	PQ website
Caesium as metal contained	12	15,000	Source Produce
Tantalite (30% Ta ₂ O ₅)	23	120,000	Actual Producers

These details were used in the financial analysis. RWN accepts these forecasts as Roskill is a well reputed metal and commodity analyst and the forecasts can be reasonably relied upon.

5.0 FINANCIAL ANALYSIS

The financial analysis has been provided by Lanasera Pty Ltd (öLanaseraö). Lanasera has provided an excel workbook that has provided inputs both physical as well as costs and prices which then were used to calculate a conventional discounted cash flow (öDCFö) valuation of the L-Max[®] process utilised in a plant at Kenora, Ontario treating the Avalon flotation concentrates.

Table 5.1 summarises the inputs to the Project Evaluation Model (öPEMö).

Table 5.1
PFS L-Max[®] Project Evaluation Model Inputs

Parameter	Unit	Value
Plant Throughput (concentrate dry)	tpa	29,000
Lithium Carbonate production	tpa	3,000
Sodium Silicate Production	tpa	46,000
Potassium Sulphate Production	tpa	4,000
Capital Costs	US\$M	41.0
Operating Costs per tonne concentrate processed	US\$/t	1,130
Project Life	years	10

The PFS has calculated various financial outputs using these inputs however BDO will calculate additional financial analyses.

6.0 PERMITTING

Lepidico will be required to obtain a permit to operate the Phase 1 Processing plant in Kenora. Lepidico has reviewed the permitting requirements under the Ontario Environmental Act and has determined that an Environmental Impact Study (EIS) will not be required. An Environmental Compliance Approval (ECA) will probably be required as the plant operating activity will fall under the Environmental Protection Agency (EPA) Section 9 on the basis that activities that may discharge, or from which may be discharged, a contaminant into the natural environment other than water, which includes most industrial processes or modifications to industrial processes and equipment. As a result, a project definition application would need to be submitted to the Ministry of Northern Development and Mines (MNDM).

The Ontario provincial government has established a process designed to assist proponents streamline approvals process early in the application process procedures. This "One Window" process assists government agencies understand the project details better and allows them to identify relevant regulatory requirements. Fortunately, this co-ordination procedure does not create new power or duties. This agency has provided a six-stage application template for proponents such as Lepidico to aid the streamlining process.

Under this procedure Lepidico has to provide details regarding the Project, company details, site information and facility details and to submit what regulatory requirements apply. The regulatory requirements include any activity that discharges contaminants into the atmosphere and any water discharge greater than 50m³/day, reporting all analytes within the water. In addition, if the plant requires the importation of significant amounts (more than 50m³) of water a Permit to Take Water would be required.

Lepidico has noted that because the Phase 1 plant located in Kenora utilises a former Pulp and Paper Mill which would be classified as a former industrial facility and quite likely would be on the contaminated lands register. The plan is to dispose of the plant residues into the mined out pits at the Separation Rapids location. All permitting requirements for the mine site will be the responsibility of Avalon and not involve Lepidico.

RWN has not gone into all of the details regarding the various permitting requirements for constructing an L-Max[®] plant in Kenora Ontario. However, the PFS discussion about the permitting procedures and requirements are all quite "standard" and are reasonable.

7.0 RISKS AND OPPORTUNITIES

Lepidico has not undertaken a formal risk assessment of constructing an L-Max[®] plant in Kenora. It is proposed to undertake such an assessment prior to commencement of the formal Feasibility Study as part of their internal business planning annual cycle.

What risks have been identified within the PFS relate to;

- Timely identification of mineral resources sufficient to support a 10-year project life.
- Obtain representative samples that can be used for confirmatory testwork which would support the ore reserve and production plan.
- Finalise term sheets;
 - for concentrate or tailings supply
 - for product off-takes
 - and various cost inputs such as acid and logistics.

Some opportunities have also been identified;

- confirm full value of the by-product formates
- improve economic returns by optimising the products being produced
- refine flowsheets and costs
- develop cost effective project delivery partnerships.

8.0 FUTURE WORK

The immediate future work plan for Lepidico will be to undertake and complete a Feasibility Study during 2017. No scope of work (SOW) has been developed by Lepidico as yet but some critical activities have been identified;

- Once the SOW has been developed Lepidico states that the Feasibility Study budget of A\$4M will be re-estimated
- and study schedule prepared.
- The Owner's team to manage the Feasibility Study will have to be established
- Confirmatory testwork on representative samples will be necessary
- Develop a financing plan

Lepidico has listed a number of other necessary tasks including the Risk Assessment, establishing relationships with Avalon and the various affected groups in Kenora and within the Ontario government and further optimising and confirming the various cost inputs into the study. Off-take agreements as well as long term supply agreements will be prepared.

RWN considers that the future plans by Lepidico are commendable but the timing is optimistic. In order to complete a full Feasibility Study a large number of activities have to be performed as identified by Lepidico and partially noted above. One major time consuming task will be the confirmatory testwork. RWN suggests that it would be more realistic to schedule completion of the Feasibility Study in the second quarter of 2018.

9.0 SUBSEQUENT ANALYSIS CLARIFICATION

As noted in Section 5 the financial analysis used as the basis for the Lepidico PFS is consistent with the Lanasera Project Evaluation Model, “20170219 Lanasera PEM - Lepidico v4c Investment Case”.

However, MinMet undertook some reviews which resulted in;

1. An increase in capital cost of \$3M after the capital cost review was completed.
2. An adjustment in the timing of the sodium silicate market price discount to align with production ramp up.
3. An adjustment in the timing of the IRR calculation to align with the NPV calculation timing of 1 January 2018; notionally the time of the final investment decision. Note project development costs for 2017 are included in the capital cost.

These changes were discussed in an updated MinMet document and the capital costs were updated by PCC in a revised basis of estimate document. PCC also quoted that the cost estimate could be classed as a “Class 2” estimate of +35% -25%. The MinMet document quotes a “Class 4” level of accuracy which, according to the American Association of Cost Estimators International (“AAACE”) estimate classification system for the process industry, states that the estimate accuracies may vary between +20% to 50% and -15% to 30%. RWN suggests the classification in the PCC may be a typographical error.

A revised Lanasera PEM was quoted, “20170219 Lanasera PEM - Lepidico PFS Final r1Updated”. As at the time of writing this report RWN has not reviewed this document

RWN accepts these revisions and agrees that the output results do not change materially. However, the supporting documents were more specific with estimating levels of accuracy which allows RWN to agree that the study is at a Pre-Feasibility Study level.

10.0 STATEMENT OF CAPABILITY

This report has been prepared by Mr Roland Nice, Principal of R.W. Nice & Assoc Pty Ltd.

R.W. Nice & Assoc Pty Ltd has operated as an independent metallurgical engineering consulting firm since 1995 with an office in Sydney, Australia. R.W. Nice & Assoc Pty Ltd specialises in metallurgical process design, testwork design and supervision, conducting independent technical evaluations, due diligence assessments and independent expert reports as well as process plant design consulting.

The only consultant engaged in this review on behalf of R.W. Nice & Assoc Pty Ltd was:

Mr Roland Nice (BSc, MAusIMM, LMCIM, MAIME, MIEAust, Chartered Engineer (Chem.)); is the principal of R.W. Nice & Assoc Pty Ltd with more than 45 years as a professional metallurgist. He has extensive experience in process engineering and operations, project evaluation, technical design and analysis. He has held senior management positions, including General Manager, Metallurgy and Concentrator Manager. Mr Nice has been closely involved with the process plant design, development, and construction of gold, copper, non-ferrous metal, base metal industrial mineral and uranium mines, as well as numerous other metallurgical projects. He has worked in Australasia, North America, South America, Central America, and Africa.

11.0 STATEMENT of INDEPENDENCE

The principal of R.W. Nice & Assoc Pty Ltd does not have any material interest or entitlement in the securities or assets of Lepidico Ltd or BDO Corporate Finance (WA) Pty Ltd. R.W. Nice & Assoc Pty Ltd will be paid a fee for this report comprising its normal professional rates and reimbursable expenses. The fee is not contingent on the conclusions of this report.

12.0 LIMITATIONS and CONSENT

This report has been based on data, reports and other information made available to R.W. Nice & Assoc Pty Ltd by Lepidico Ltd, material available from the public domain and from Mr. Nice's professional experience. The opinions stated herein are given in good faith. R.W. Nice & Assoc Pty Ltd believes that the basic assumptions are factual and correct and the interpretations reasonable. The report has been addressed to BDO Corporate Finance (WA) Pty Ltd on their instruction (See Appendix 1)

R.W. Nice & Assoc Pty Ltd does not accept any liability other than its statutory liability to any individual, organisation or company and takes no responsibility for any loss or damage arising from the use of this report, or information, data, or assumptions contained therein. With respect to this R.W. Nice & Assoc Pty Ltd report and use thereof by Lepidico Limited or BDO Corporate Finance (WA) Pty Ltd, Lepidico Ltd or BDO Corporate Finance (WA) Pty Ltd agree to indemnify and hold harmless R.W. Nice & Assoc Pty Ltd, its shareholders, directors, officers, and associates against any and all losses, claims, damages, liabilities or actions to which they or any of them may become subject under any securities act, statute or common law and will reimburse them on a current basis for any legal or other expenses incurred by them in connection with investigating any claims or defending any actions.

The report is provided to Lepidico Ltd and BDO Corporate Finance (WA) Pty Ltd for the purpose of providing independent assessment of the Pre-Feasibility Study relating to development of the L-Max[®] process owned by Lepidico Ltd and should not be used or relied upon for any other purpose. Neither the whole nor any part of this report nor any reference thereto may be included in, or with, or attached to any document or used for any purpose without written consent by R.W. Nice & Assoc Pty Ltd to the form and context in which it appears.



R.W. NICE
Consulting Metallurgical Engineer

APPENDIX 1
REFERENCES

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2. Development of the L-Max® Process for the Production of Lithium Chemicals from Lithium Micas. Strategic Metallurgy Pty Ltd, May 2016.
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APPENDIX 2
LETTER OF INSTRUCTION TO R. W. NICE & ASSOCIATES FROM BDO



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PO Box 700 West Perth WA 6872
Australia

13 March 2017

Rolly Nice
RW Nice & Associates Pty Ltd
25/1-5 Russell St
Wollstonecraft NSW 2065

Dear Rolly,

Technical assessment for L-Max[®] technology owned by Lepidico Limited

This letter is to confirm our instructions to you with regard to the services we wish you to provide.

We have been engaged by Lepidico Limited ('**Lepidico**' or the '**Company**') to prepare an Independent Expert Report ('**our Report**') for inclusion with a Target's Statement to be sent to the shareholders of Lepidico. The Target's Statement will address, and our Report will address, the proposed conditional scrip offer from Lithium Australia NL to purchase all of the fully paid ordinary shares in Lepidico. Our Report will provide an opinion to the Lepidico shareholders and as such it will be a public document.

In our assessment of valuation methodologies, we will consider a net asset valuation of Lepidico requiring a valuation of the intangible assets of the Company, being the L-Max[®] technology. We understand that the Company has prepared a model to value the L-Max[®] technology ('**Lepidico Project Evaluation Model**') based on a recently completed Pre-feasibility Study.

We will prepare a valuation of the L-Max[®] technology on a discounted cash flow basis, in performing this valuation, we will depend upon the Lepidico Project Evaluation Model provided by the Company. We will require you to review the technical assumptions and provide an assessment on the reasonableness of the following assumptions used in the Lepidico Project Evaluation Model:

- Confirm that the Pre-feasibility Study is appropriate;
- Confirm that the L-Max[®] technology meets the stated objectives outlined in the Pre-feasibility Study;
- Confirm that all cost input assumptions (included in Cost Inputs tab) included in the Lepidico Project Evaluation Model are reasonable in accordance with *Regulatory Guide 170 Prospective financial information ('RG 170')*;
- Confirm that all physical input assumptions (included in Physical Inputs tab) included in the Lepidico Project Evaluation Model are reasonable in accordance with RG 170; and

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- Any other relevant technical assumptions not specified above are reasonable in accordance with RG 170.

Please provide your report addressed to BDO which we will append to our report for distribution to Company shareholders.

Our Report and your report is to be prepared in accordance with Australian Securities & Investment Commission ('ASIC') *Regulatory Guide 111 Content of expert's reports*. As your report will be a public document you will be required to meet the independence requirements set out in *Regulatory Guide 112 Independence of experts ('RG 112')*. We have provided all Regulatory Guides for your reference.

Prior to accepting this engagement can you please provide us with a response to the following:

- Confirmation that you are independent of Lepidico and that you meet the requirements of Section B of RG 112; and
- Proposed timeline to complete your draft report.

BDO Corporate Finance (WA) Pty Ltd is the commissioning entity and we understand your fees for this work will be agreed with and payable directly by Lepidico and that you will liaise with the Company to obtain the necessary information. All information that you receive from Lepidico or us should be treated as being strictly confidential unless it is already in the public domain.

Yours sincerely

BDO Corporate Finance (WA) Pty Ltd

A handwritten signature in blue ink, appearing to read 'Adam Myers'.

Adam Myers

Director

APPENDIX 3

COST ESTIMATE CLASSIFICATION MATRIX FOR THE PROCESS INDUSTRIES

(Extract from “Cost Estimation Classification system – as Applied in Engineering, Procurement and Construction for the Process Industries; TCM Framework 7.3 – Cost Estimating and Budgeting, AACE International Recommended Practice No. 18R-97, 02 February 2005”).

ESTIMATE CLASS	Primary Characteristic	Secondary Characteristic			
	LEVEL OF PROJECT DEFINITION Expressed as % of complete definition	END USAGE Typical purpose of estimate	METHODOLOGY Typical estimating method	EXPECTED ACCURACY RANGE Typical variation in low and high ranges [a]	PREPARATION EFFORT Typical degree of effort relative to least cost index of 1 [b]
Class 5	0% to 2%	Concept Screening	Capacity Factored, Parametric Models, Judgment, or Analogy	L: -20% to -50% H: +30% to +100%	1
Class 4	1% to 15%	Study or Feasibility	Equipment Factored or Parametric Models	L: -15% to -30% H: +20% to +50%	2 to 4
Class 3	10% to 40%	Budget, Authorization, or Control	Semi-Detailed Unit Costs with Assembly Level Line Items	L: -10% to -20% H: +10% to +30%	3 to 10
Class 2	30% to 70%	Control or Bid/ Tender	Detailed Unit Cost with Forced Detailed Take-Off	L: -5% to -15% H: +5% to +20%	4 to 20
Class 1	50% to 100%	Check Estimate or Bid/Tender	Detailed Unit Cost with Detailed Take-Off	L: -3% to -10% H: +3% to +15%	5 to 100

- Notes: [a] The state of process technology and availability of applicable reference cost data affect the range markedly. The +/- value represents typical percentage variation of actual costs from the cost estimate after application of contingency (typically at a 50% level of confidence) for given scope.
- [b] If the range index value of “1” represents 0.005% of project costs, then an index value of 100 represents 0.5%. Estimate preparation effort is highly dependent upon the size of the project and the quality of estimating data and tools.

(Extract from “Cost Estimation Classification system as Applied in Engineering, Procurement and Construction for the Process Industries; TCM Framework 7.3 as Cost Estimating and Budgeting, AACE International Recommended Practice No. 18R-97, 02 February 2005”).