



ABN 82 000 738 885

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## NOTICE OF GENERAL MEETING OF SHAREHOLDERS

A General Meeting of the Company will be held at 3 Richardson Street, West Perth, Perth WA 6005, Australia on 25 November 2011 at 10am (WST).

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This Notice of General Meeting and Explanatory Memorandum should be read in its entirety. If Shareholders are in doubt as to how they should vote, they should seek advice from their accountant, solicitor or other professional adviser without delay.



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**IMPORTANT NOTICE**

You should read the Notice of Meeting in its entirety before making a decision as to how to vote at the Meeting.

A copy of the Notice of Meeting has been lodged with ASX and ASIC.

Key Dates

**Date and time for lodgement of proxies:** 10am on 23 November 2011

**Date and time of Meeting:** 10am on 25 November 2011

## **CHAIRMAN'S LETTER**

Dear Shareholder

It gives me great pleasure to submit this notice of General Meeting.

The purpose of the General Meeting is to approve the following:

1. acquisition of the Austrian Lithium Project from Exchange Minerals;
2. the issue of equity securities to Exchange Minerals; and
3. the approval of the significant change in the nature and scale of East Coast Minerals activities.

The Company has reached a significant point as a listed company, and as part of the "new" East Coast, shareholders are being asked to approve the acquisition of an 80% interest in the Austrian Lithium Project, which is an advanced lithium project, from Exchange Minerals. It is intended that the Acquisition will be East Coast Minerals flagship project.

The merits of the proposed Austrian Lithium Project have been detailed in the Explanatory Memorandum. However, the highlight of this investment is no doubt its advanced stages of quantification of the resource as reflected in the overall resource of approximately 18 million tonnes with an overall grade of 1.6% which meets the JORC inferred standard. The fact that there is such a level of resource already quantified, reflects the previous substantial level of work undertaken by the Austrian Government, prior to 1991, with some €8 million estimated to have been spent. In addition, the level of due diligence to date suggests that there is significant potential for additional resources.

The close proximity of the Austrian Lithium Project to the European car industry, the value of the lithium, as well as the multipurpose applications of the commodity should result in the successful commercialisation of the Austrian Lithium Project.

Whilst the Directors are confident of the potential and future upside in the Austrian Lithium Project, there are a number of risks and it should not be assumed that the investment will achieve its maximum potential. Pages 11 and 12 outline an analysis of the Directors' view of the potential advantages and disadvantages associated with the Acquisition.

The Directors have completed extensive due diligence on the Austrian Lithium Project and are confident that it should generate positive momentum for East Coast Minerals and its shareholders.

The Directors believe the Company, with its management team, is well positioned to exploit the investment in the Austrian Lithium Project and to take advantage of new opportunities as they arise, and are confident in a bright future for the company- as it moves to a new phase in its history. A decision not to pursue and approve this investment is likely to place the Directors and the Company in a precarious position, as the only asset of the Company will continue to be its investment in Elizabeth Hill. Whilst this asset is sound, it is also fair to say that it is far from a "company maker" and to move forward solely based on this asset will likely result in the Company not being able to raise funds and achieve growth for the Company. Of course, it is still open to the Directors to pursue other opportunities. However, without money and financial support, it is unlikely that this objective could be realistically achieved.

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The Directors have commissioned an independent expert's report by BDO. BDO has concluded that, "*in the absence of a superior proposal, the Acquisition is on balance, **not fair but reasonable***" to Shareholders. I would urge you to read this report in its entirety.

I look forward to welcoming you to this historic meeting, which is not only my first meeting, but also, the Company's first meeting outside of Sydney, since listing on the ASX on the 9<sup>th</sup> April 1970.

Yours sincerely

**Nigel Little**

Chairman

## NOTICE OF GENERAL MEETING OF SHAREHOLDERS

**Notice is hereby given** that a General Meeting of shareholders of East Coast Minerals NL ABN 82 000 738 885 (**Company**) will be held at 3 Richardson Street, West Perth, Perth WA 6005 on 25 November 2011 at 10am (WST) (**General Meeting**).

The Explanatory Memorandum provides additional information on matters to be considered at the General Meeting and forms part of this Notice.

Terms and abbreviations used in this Notice and the Explanatory Memorandum are defined in Schedule 1.

### AGENDA

#### **1 Resolution 1 - Approval to Acquire 80% of the Issued Share Capital of ECM Lithium Holdings AT Limited (a subsidiary of Exchange Minerals)**

To consider and, if thought fit, to pass the following resolution as an **ordinary resolution**:

*"That for the purposes of ASX Listing Rule 10.1, Part 2E of the Corporations Act and for all other purposes approval is given for East Coast Minerals NL to acquire 80% of the issued share capital of ECM Lithium AT (Holdings) Limited (a subsidiary of Exchange Minerals), in accordance with the terms and conditions set out in the Explanatory Memorandum."*

**The independent expert's opinion is that in the absence of a superior proposal, the Acquisition is on balance not fair but reasonable to Shareholders (further details are provided in the Explanatory Memorandum).**

#### **2 Resolution 2 - Issue of equity securities to Exchange Minerals**

To consider and if thought fit, pass the following resolution as an **ordinary resolution**:

*"That, subject to the passing of Resolution 1, for the purposes of ASX Listing Rules 7.1 and section 611, item 7 of the Corporations Act and for all other purposes approval is given for the Company to issue to Exchange Minerals (in equal proportions)*

- (a) *in connection with the acquisition referred to in Resolution 1,*
- *16,744,444 Fully Paid Shares; and*
  - *Fully Paid Shares in satisfaction of the Sellers Loan Account (as set out in the Explanatory Memorandum).*
- (b) *for the general working capital purposes of the Company,*
- *90,000,000 options to acquire Fully Paid Shares (on the terms set out in the Explanatory Memorandum).*

### 3 Resolution 3 - Approval of Significant Change in Nature and Scale of Activities

To consider and, if thought fit, pass the following resolution as an **ordinary resolution**:

*“That, subject to the passing of Resolutions 1 and 2 for the purpose of ASX Listing Rule 11.1.2 and for all other purposes, approval is given for the Company to make a significant change in the nature and scale of its activities, as described in the Explanatory Memorandum.”*

#### Independent Expert Report

**The Company has obtained an independent expert's opinion. The independent expert's opinion is that in the absence of a superior proposal, the Acquisition is on balance not fair but reasonable to Shareholders (further details are provided in the Explanatory Memorandum).**

#### Voting Exclusion Statements

Under ASX Listing Rule 14.11, the Company will disregard any votes cast on the Resolutions by the following persons:

RESOLUTION	PERSONS EXCLUDED FROM VOTING
1 Approval to Acquire 80% of the Issued Share Capital of ECM Lithium, a subsidiary of Exchange Minerals	<ul style="list-style-type: none"> <li>• Exchange Minerals; and</li> <li>• Any of its Associates</li> </ul>
2 Issues of shares and options to Exchange Minerals	<ul style="list-style-type: none"> <li>• Exchange Minerals; and</li> <li>• Any person who might obtain a benefit (other than a benefit solely in the capacity of a holder of ordinary shares) if the resolution is passed; and</li> <li>• Any of their Associates</li> </ul>
3 Significant change in nature and scale of activities	<ul style="list-style-type: none"> <li>• ECM Lithium;</li> <li>• Exchange Minerals;</li> <li>• Any person who might obtain a benefit (other than a benefit solely in the capacity of a holder of ordinary shares) if the resolution is passed; and</li> <li>• Any of their Associates</li> </ul>

However, the Company need not disregard a vote if:

- (a) it is cast by a person as proxy for a Shareholder who is entitled to vote, in accordance with the directions on the proxy appointment form; or
- (b) it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

#### Determination of membership and voting entitlement

For the purpose of determining a person's entitlement to vote at the Meeting, a person will be recognised as a Shareholder and the holder of Shares if that person is registered as a holder of those Shares at 10am WST on 25 November 2011. Fully paid Shares are listed and have full voting rights. Partly Paid Shares are not listed and have proportional voting rights based on the proportion of the capital paid up.

### **How to Vote**

You may vote at the Meeting by attending the Meeting in person or by proxy:

- on a show of hands, each Shareholder has one vote. On a poll each Shareholder has one vote for each Fully Paid Share held and a fraction of a vote for each Partly Paid Share proportionate to the amount paid up on each Partly Paid Share (see rule 26.1(b) of the Company's Constitution); or
- to vote in person you must attend the Meeting on 25 November 2011 at 10am WST, which is to be held at 3 Richardson Street, West Perth, Perth WA 6005; or

if you wish to vote by proxy, your proxy form must be received by the Company no later than 10am on 23 November 2011.

### **Proxies**

Please note that:

- (a) a Shareholder entitled to attend and vote at the General Meeting is entitled to appoint a proxy to attend and vote instead of the Shareholder;
- (b) where the Shareholder is entitled to cast two or more votes, the Shareholder may appoint two proxies and may specify the proportion or number of votes each proxy is appointed to exercise;
- (c) if the Shareholder appoints two proxies and the appointment does not specify the proportion or number of the Shareholders votes each proxy may exercise half of the votes. Any fractions of votes brought about by the apportionment of a proxy will be disregarded;
- (d) a proxy need not be a Shareholder;
- (e) any instrument of proxy deposited or received at the registered office of the Company in which the name of the appointee is not filled in, will be deemed to be given in favour of the chairman of the Meeting;
- (f) to be effective the instrument appointing a proxy (and power of attorney or other authority, if any, under which it is signed or a certified copy of the power of authority) must be deposited at the corporate office of the Company being 3 Richardson Street, West Perth Western Australia or be received by facsimile on facsimile number (08) 9486 1258 not less than 48 hours before the time for holding the Meeting or for the holding of any adjournment of the adjourned meeting with respect to the Meeting;
- (g) a proxy form containing further details on appointing proxies and lodging proxy forms accompanies this Notice.

### **Enquiries**

If you have any questions in relation to the Resolutions to be considered at the Meeting, please email Lynton McCreery, the Company Secretary at [info@eastcoastminerals.com](mailto:info@eastcoastminerals.com).

By order of the Board

Lynton McCreery

Secretary

Date: 19 October 2011

## **EXPLANATORY MEMORANDUM**

This Explanatory Memorandum has been prepared for the information of Shareholders in connection with the business specified to be conducted at the General Meeting to be held at 3 Richardson Street, West Perth, Western Australia 6005 on 25 November 2011 at 10am (WST).

The Directors recommend that Shareholders read this Explanatory Memorandum in full in conjunction with the accompanying Notice of which this Explanatory Memorandum forms a part.

Resolutions 1 (Acquisition), 2 (Issue of Shares and Options to Exchange Minerals) and 3 (Change in Nature and Scale of Activities) are conditional upon each other. In other words, the failure to approve any of these Resolutions would mean that the other Resolutions listed above would not be passed and vice versa. Accordingly, Shareholders should consider the three proposed Resolutions as a whole.

### **1 Resolution 1 – Approval to Acquire 80% of the Issued Share Capital of ECM Lithium (a subsidiary of Exchange Minerals)**

**The independent expert's opinion is that in the absence of a superior proposal, the Acquisition is on balance not fair but reasonable to Shareholders.**

#### 1.1 Background

Resolution 1 seeks the approval of Shareholders under Chapter 2E of the Corporations Act and Listing Rule 10.1 of the ASX Listing Rules to the proposed acquisition by the Company of 80% of the issued share capital of ECM Lithium, which is the ultimate owner of the Austrian Lithium Project.

#### 1.2 Overview of the Project

The Austrian Lithium Project is located in Carinthia, 270 kilometres south of Vienna. The Austrian Lithium Project has been granted Mining and Exploration Licences for the extraction and sale of all commodities including lithium.

Based on the Directors' due diligence enquiries, the Austrian Lithium Project is believed to contain some 18 million tonnes of resources which are in the JORC inferred category.

A further description of the project and a summary of proposed terms of the Acquisition is set out in Schedule 2 to this Explanatory Memorandum.

#### 1.3 Overview of the Acquisition

The total purchase price for the KMI Acquisition was €9,700,000, of which Exchange Minerals has paid the initial amount of €3,700,000, plus other costs in connection with the KMI Acquisition. Assuming that approval of the Acquisition is given, East Coast Minerals will be responsible for funding these costs, the Deferred Consideration and other costs, as set out below.

Under the terms of the Acquisition, Exchange Minerals is to receive the following Consideration in relation to the sale of 80% of the shares in ECM Lithium:

- A\$1.00;
- issue of 16,744,444 Fully Paid Shares in satisfaction of the Exchange Minerals Option Fee; and

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- repayment of the Sellers Loan Account by way of the issue of 100,000,000 Consideration Shares with a further adjustment payable to Exchange Minerals once the final amount of the Seller's Loan Account is determined. The Seller's Loan Account represents the costs associated with the KMI Acquisition.

In addition to the above, Exchange Minerals is to receive a Free Carried Interest until Decision to Mine as a consequence of the Acquisition and will retain the Participation Rights.

Further details of the above are set out in Schedule 2.

As part of the Acquisition and the Free Carried Interest, East Coast Minerals will also be responsible for funding 100% of the Deferred Consideration and all operating costs of the Austrian Lithium Project up to a Decision to Mine.

During the application process for the transfer of the Mining and Exploration Licences to ECM Lithium No 1, the Mining Authority advised of several conditions that would need to be satisfied. One of these conditions was that an amount of €1,200,000 in cash be placed into the ECM Lithium No.1 bank account. As a result of this, Exchange Minerals has agreed to provide these funds in the form of the Exchange Minerals Funding Loan. The Exchange Minerals Funding Loan is to be repaid promptly following completion of the acquisition of the 80% interest in ECM Lithium and in any event by 19 August 2012.

### 1.4 Funding requirements

A table summarising the expected funding requirements of the Austrian Lithium Project are as follows:

**Table 1: Funding requirements**

Description of Cost	Cost (A\$)
Acquisition price for 80% of the shares in ECM Lithium No.1	\$1.00
Reimbursement of Exchange Minerals Option Fee	16,744,444 Fully Paid Shares
Repayment of the Sellers Loan Account to be settled by way of issue of shares at \$0.045 each	\$5,583,824 (estimate)
Repayment of Exchange Minerals Funding Loan	€1,200,000
Funding of 100% of the Deferred Consideration	€6,000,000
All further costs of ECM Lithium in connection with the exploitation of the Austrian Lithium Project, until a Decision to Mine has been made.	\$1,090,400 (estimate)
Exchange Minerals will receive the benefits from its Participation Rights Agreement	4% of EBIT from operations.

## 1.5 Financial Impact

The impact on the financial position of the Company is detailed in section 176 of the attached Independent Expert's Report by BDO (see Appendix 1).

## 1.6 Analysis of the Acquisition

### 1.6.1 Overview

In the opinion of the Directors, the approval of the Acquisition would provide East Coast Minerals with a project which, should it raise funding, will allow it to successfully commercialise its activities. Whilst the investment is a change in scale of activity, and nature in so far as it not only involves exploration activities, but also, mining within in the near term (that is, within a two year horizon), it does not represent a change in the philosophy of the company.

Below are the key advantages and disadvantages of the Acquisition:

### 1.6.2 Advantages:

- The Acquisition represents a significant increase in the size of the Company's activities, as well as providing the potential for a commercial mining operation. As announced in East Coast Minerals March 2011 and June 2011 Quarterly activities reports, the Elizabeth Hill Project has shown some positive signs. However, whether or not this project will be commercialised in the short to medium term is problematic. In view of the above, a diversification strategy is seen to be in the best interests of the Company.
- The Austrian Lithium Project has a JORC inferred resource of 18 million tonnes. Subject to having the appropriate level of funding in place and converting the resource to a reserve, the Austrian Lithium Project should be able to generate significant cash flows within the medium term if it becomes operational.
- The investment in the lithium commodity is considered to be attractive due to it's strategic location and also it's substantial applications around the world and in particular, the car industry in Europe.
- The price of lithium over the long term has significantly increased, although it has recently declined, no doubt the result of the GFC. Lithium prices are again heading back to pre GFC levels. It is expected that the underlying price should remain stable and increase.
- The Acquisition represents an opportunity to acquire a project which has had a substantial amount of work done to it- that is, it is estimated that over €8 million was spent prior to 1991. In addition, the Austrian Lithium Project has a number of Mining Licences, which are ready to be immediately commercialised.
- Since the announcement of the proposed Acquisition, East Coast Minerals share price has risen from a low of 4.5 cents per Share on the 4 February 2011, when the Acquisition was announced to a high of 12.5 cents per Share. Accordingly, this increase in the value of East Coast Minerals share price above 4.5 cents is a demonstration of the confidence in the Acquisition. Moreover, the interest of various parties, including brokers that attended the signing ceremony in Austria on the 31st May 2011, is an indication of the potential level of interest in the Austrian Lithium Project.

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- A key factor for the successful Capital Raising in February 2011 of \$2.61 million was due to the announcement of the proposed Acquisition.
- The Acquisition comes with the expertise of Dr Richard Goed, who is not only one of Austria's pre-eminent geologists, but also has had a long and successful history with the Austrian Lithium Project.

### 1.6.3 Disadvantages/Risks:

- The Acquisition will result in Exchange Minerals further increasing its level of significant influence over the Company to a clear control position - refer to table 1 below for percentage interests pre and post the Acquisition. However, the amount being attributed to the value of the consideration paid to Exchange Minerals does not incorporate any premium for control and thus, shareholders' not associated with Exchange Minerals are receiving no value for giving up such control.
- The KMI Acquisition has been partially funded by KMI (the third party vendor). Under the terms of the acquisition with KMI, the failure by the Company to pay KMI the Deferred Consideration will result in KMI being able to purchase the shares in ECM Lithium No 1 for a nominal sum and to receive a retransfer of the Mining Licences and the Exploration Licences. Failure by the Company to fund the Austrian Lithium Project up to a Decision to Mine gives Exchange Minerals the right to acquire the Company's shareholding in ECM Lithium for no consideration.
- As the Austrian Lithium Project is close to exploitation, it will require a substantial amount of capital expenditure to develop. This will require significant funding, which may result in substantial dilution for all shareholders, including Exchange Minerals, assuming that there is no further participation in future capital raisings.
- The Acquisition will most likely impact the Company's ability to diversify its operations in the future and represents a significant investment in one asset. Accordingly, the failure to commercially exploit the Austrian Lithium Project or any change in demand for lithium could result in a significant diminution in the value of the investment in the future.
- The Acquisition represents an exposure to the Euro and United States dollar currencies, both of which have depreciated over the last few years. Accordingly, any further decrease in either of these currencies could affect the future value of East Coast Minerals share price and amount of the Deferred Consideration.

Further details of the of the Acquisition are set out throughout this Explanatory Statement and Shareholders are also referred to the Independent Experts Report set out in Appendix 1

#### 1.6.4 Conclusions

The Directors are of the opinion that this project offers a significant opportunity for the company to potentially develop an operating mine. The Austrian Lithium Project is centrally located to end use markets and the demand for Lithium appears to be strong with prices returning to pre GFC levels. The board believes that the advantages of the Acquisition outweigh the disadvantages. Accordingly, not to approve the Acquisition may have a severely adverse effect on the Company's prospects.

Directors recommend that Shareholders approve the resolution.

#### 1.7 Listing Rule 10.1

Rule 10.1 of the ASX Listing Rules states that an entity must ensure that neither it, nor any of its "child entities" acquires a substantial asset from, or disposes of a substantial asset to, certain persons without shareholder approval. Those persons include a related party, or a substantial holder, of the Company, or persons associated with either of these (a Proscribed Person).

A 'substantial asset' is essentially an asset the value of which is 5% or more of the Company's equity interests.

The value of the Austrian Lithium Project exceeds 5% of the Company's equity interests and the value of the consideration exceeds 5% of the Company's equity interests. Accordingly, the value of the Austrian Lithium Project is considered to be a substantial asset for the purposes of rule 10.1 of the ASX Listing Rules.

Exchange Minerals FZE is currently the holder of 46,287,663 of Fully Paid Shares representing 17.1% of the total issued Shares. As Exchange Minerals and Exchange Minerals FZE are owned by the same ultimate shareholder, Mr Michael Shmazian. Exchange Minerals is a Proscribed Person.

Accordingly, the acquisition by the Company of the Austrian Lithium Project and the corresponding issue of equity securities to Exchange Minerals for the purposes of rule 10.1 of the ASX Listing Rules requires shareholder approval. The purpose of the resolution is to obtain this shareholder approval.

#### 1.8 Corporations Act requirements

Section 208 of Chapter 2E of the Corporations Act prohibits a public company from giving a financial benefit to a related party of the public company, except with the prior approval of Shareholders and provided that the financial benefit is given within 15 months of such approval. An entity that controls a public company is a 'related party' within the meaning of Chapter 2E of the Corporations Act. The definition of 'related party' also extends to an entity or person if that entity or person has reasonable grounds to believe that it is likely they will become a related party of East Coast at any time in the future (Section 228(6) of the Corporations Act). The Acquisition, if approved, could result in Exchange Minerals controlling East Coast, may indicate that East Coast should have 'reasonable grounds to believe', at the time the Acquisition completes, that Exchange Minerals is likely to become a related party of East Coast in the future and is therefore a 'related party' of East Coast for the purposes of Chapter 2E of the Corporations Act.

In view of the above, Resolution 1 seeks Shareholder approval under Chapter 2E of the Corporations Act to permit the acquisition by the Company of 80% of the issued share capital of ECM Lithium.

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In order to comply with the Corporations Act, the Company provides the following information:

- (a) *Details of the related parties to whom the proposed resolution would permit financial benefits to be given:*

Exchange Minerals - refer to Schedule 3 about Exchange Minerals.

- (b) *The nature of the financial benefit:*

Subject to the final quantum of the Sellers Loan Account, Exchange Minerals will be issued approximately 140,829,416 Fully Paid Shares on completion of the Acquisition in accordance with the terms of the SPA.

- (c) *In relation to each director of the company:*

(i) *If the director wanted to make a recommendation to shareholders about the proposed resolution - the recommendation and his reasons for it; or*

(ii) *If not - why not; or*

(iii) *If the director was not available to consider the proposed resolution - why not*

For the reasons set out in this Notice, each director recommends the proposed resolution to shareholders.

- (d) *In relation to each such director*

(i) *Whether the director had an interest in the outcome of the proposed resolution; and*

(ii) *If so - what it was*

None of the Directors being:

- Nigel Little;
- Edward Mead;
- Anthony Roberts and
- Sevag Chalabian,

have any interest in the outcome of this resolution.

- (e) *All other information that:*

(i) *Is reasonably required by shareholders in order to decide whether or not it is in the company's interest to pass the proposed resolution; and*

(ii) *Is known to the company or any of its directors*

All information which is reasonably required by Shareholders (and which is known to the Company and its Directors) in order to decide whether or not it is in the Company's interest to pass the proposed resolution has been set out in the Notice of Meeting and the accompanying Explanatory Memorandum.

1.9 Independent expert's report

The Company has engaged BDO to provide an independent expert's report which is intended to provide Shareholders with the information that is material to the decision on how to vote on Resolutions 1 and 2. The independent expert's report is appended to this Notice as Appendix 1. **The independent expert's opinion is that in the absence of a superior proposal the Acquisition is on balance not fair but reasonable to Shareholders.**

1.10 Directors' Recommendation

The Board recommends that Shareholders vote in favour of Resolution 1 as it believes the Acquisition is in the best interests of the Company. The advantages and disadvantages of the Acquisition are listed on pages 12 and 13 of this Notice.

**2 Resolution 2 - Approval of Shares and Options to Exchange Minerals**

2.1 Background

Resolution 2 seeks approval from Shareholders for the issue of various equity securities to Exchange Minerals.

2.2 ASX Listing Rule 7.1 and Part 6.1 of the Corporations Act

ASX Listing Rule 7.1 provides that the Company cannot issue or agree to issue equity securities (which includes options) without shareholder approval where the number of equity securities issued or agreed to be issued in the preceding 12 month period and the new issue exceeds 15% of the number of equity securities on issue at the beginning of the 12 month period (increased by any issues undertaken in that period with shareholder approval or under an exception to ASX Listing Rule 7.1).

Part 6.1 of the Corporations Act generally prohibits a person from acquiring a relevant interest in more than 20% of the issued voting shares in a company unless a relevant exception applies. Exception 7 set out in section 611 permits such an acquisition if previously approved by the company's shareholders with no votes being cast by the person making the acquisition and their associates. Table 1 below sets out the likely increase in the relevant interests of the Exchange Group as a result of the Acquisition. By passing Resolution 2, the Exchange Group will be permitted to acquire this relevant interest without having to make a takeover bid for East Coast Minerals.

2.3 Purposes of issue

- a) The issue of the Shares referred in paragraph (a) of Resolution 2, are being issued in connection with the Acquisition (further details of which are set out above and in Schedule 2).
- b) The 90,000,000 Options referred to in paragraph (b) of Resolution 2 will be issued for \$0.002 per option (the aggregate issue price being \$180,000). The major terms of these options are set out in Schedule 4. If exercised, these options will provide additional funds for the Company's working capital requirements.

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### 2.4 Statement of Exchange Minerals intentions regarding the future of the Company if Shareholders agree to the acquisition

Other than as disclosed elsewhere in this Explanatory Statement, at the date of this Notice of Meeting the Company understands that Exchange Minerals does not intend to:

- a) make any significant changes to the business of the Company;
- b) inject further capital into the Company;
- c) make any changes to the future employment of the present employees of the Company;
- d) transfer any property between the Company and Exchange Minerals or any person associated with them;
- e) otherwise redeploy the fixed assets of the Company; and
- f) change significantly the financial or dividend policies of the Company.

### 2.5 ASX Listing Rule 7.1 Information

For the purposes of ASX Listing Rule 7.1, the following information is provided:

#### (i) Maximum number of securities to be issued

- (a) The maximum number of Shares to be issued will ultimately depend on the amount of the Sellers Loan. . On completion of the Acquisition, the Company will issue 100,000,000 Consideration Shares by way of estimate of the amount of the Sellers Loan:

Formula:

$$100,000,000 \times \$0.045 = \$4,500,000 \text{ estimated Sellers Loan}$$

Following completion of the Acquisition, Company and Exchange Minerals will agree the actual amount of the Seller Loan in accordance with the Acquisition share sale and purchase agreement. If the agreed amount of the Sellers Loan is more than the estimate Sellers Loan of \$4,500,000, the Company will issue additional shares to Exchange in accordance with the following formula:

$N$  divided by \$0.045

Where  $N$  = the amount by which the Sellers Loan exceeds \$4,500,000.

If the agreed amount of the Sellers Loan is less than \$4,500,000, Exchange will pay the amount equal to the shortfall to the Company.

- (b) 90,000,000 Options are to be issued.

#### (ii) Date by which securities will be issued:

- (a) the Shares will be issued on the completion of the Acquisition. This is subject to the satisfaction of the conditions precedent to the SPA (see Schedule 2). Completion is scheduled to occur within 3 months after the date of the meeting to which this notice relates; and
- (b) the Options will be issued promptly (and in any event within 3 months) after the date of the meeting to which this notice relates.

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### (iii) Issue price of securities

- (a) 16,744,444 of the Shares will be issued as consideration for the Acquisition.

The Shares to be issued in satisfaction of the Sellers Loan will be issued with a deemed value of \$0.045 per Share. On completion of the Acquisition, the Company will issue 100,000,000 Consideration Shares by way of estimate of the amount of the Sellers Loan:

Formula:

$$100,000,000 \times \$0.045 = \$4,500,000 \text{ estimated Sellers Loan}$$

Following completion of the Acquisition, Company and Exchange Minerals will agree the actual amount of the Seller Loan in accordance with the Acquisition share sale and purchase agreement. If the agreed amount of the Sellers Loan is more than the estimate Sellers Loan of \$4,500,000, the Company will issue additional shares to Exchange in accordance with the following formula:

$N$  divided by \$0.045

Where  $N$  = the amount by which the Sellers Loan exceeds \$4,500,000.

If the agreed amount of the Sellers Loan is less than \$4,500,000, Exchange will pay the amount equal to the shortfall to the Company.

- (b) The Options will be issued for \$0.002 per Option (the aggregate issue price being \$180,000).

### (iv) Name of allottees

- (a) The Shares will be issued to Exchange Minerals in equal proportions.  
(b) The Options will be issued to Exchange Minerals in equal proportions.

### (v) Terms of securities

- (a) The Shares are Fully Paid Ordinary Shares;  
(b) The terms of the Options are summarised in Schedule 4.

### (vi) Use of funds

- (a) The Shares will be issued as the consideration for the Acquisition.  
(b) The funds to be raised by the issue of the Options will be used for the Company's working capital requirements.

### (vii) Dates of allotment

- (a) The Shares will be allotted on completion of the Acquisition.  
(b) The Options will be issued in one tranche promptly after the date of the meeting to which this notice relates.

## 2.6 Directors' Recommendation

The Board unanimously approved the proposed issues and for the reasons set out in the Explanatory memorandum and the Notice of Meeting recommends that shareholders vote in favour of Resolution 2.

## 2.7 Impact on ownership of East Coast Minerals pre and post Acquisition

Set out below is a table setting out the likely impact of the ownership structure of East Coast Minerals as it currently stands and assuming that the Acquisition is approved by Shareholders:

**Table 1: Pro forma Capital Structure**

Ref	Current		After		Current		After	
	Undiluted	%	Undiluted	%	Diluted	%	Undiluted	%
Exchange Minerals FZE - Fully Paid Shares	46,287,663	17%	46,287,663	11%	46,287,663	13%	46,287,663	8%
Exchange Minerals FZE - Partly Paid Shares	-	0%	124,084,972	30%	4,312,500	1%	4,312,500	1%
Exchange Minerals	-	0%	16,744,444	4%	-	-	124,084,972	21%
- Repayment of Sellers Loan Account	-	0%	-	-	-	-	16,744,444	3%
- Exchange Minerals Option Fee	-	0%	-	-	-	-	90,000,000	15%
90 million 4 cents options to be issued under the Subscription Agreement	-	0%	-	-	-	-	-	-
<b>Sub-total</b>	<b>46,287,663</b>	<b>17%</b>	<b>187,117,079</b>	<b>46%</b>	<b>50,600,163</b>	<b>14%</b>	<b>281,429,579</b>	<b>47%</b>
Other current holders of Fully Paid Shares	222,598,923	83%	222,598,923	54%	222,598,923	61%	222,598,923	37%
Other current holders of Partly Paid Shares	-	-	-	-	5,929,385	2%	5,929,385	1%
Options to acquire Fully Paid Shares at exercise price of 4 cents each expiring on 14 July 2013	-	-	-	-	71,804,658	20%	71,804,658	12%
Options to acquire Fully Paid Shares at exercise price of 4 cents each expiring on 8 December 2013	-	-	-	-	12,000,000	3%	12,000,000	2%
<b>Total</b>	<b>268,886,586</b>	<b>100%</b>	<b>409,716,002</b>	<b>100%</b>	<b>362,933,129</b>	<b>100%</b>	<b>593,762,545</b>	<b>100%</b>

**Notes:**

- Partly Paid Shares above show the voting rights of those shares (determined based on 2/8ths in accordance with the amount paid)
- For the purposes of calculating the diluted capital, the following have not been included as they are 'out-of-the-money':
 

	Expiry Date	Exercise Price (\$)
- Options to acquire 3m Partly Paid Shares of 9 cents credited as paid to 1 cent, leaving 8 cents outstanding	31-Oct-11	-
- Options to acquire 6.25m partly paid 'A' shares of 9 cents credited as paid to 1 cent, leaving 8 cents outstanding	27-Nov-12	-
- Options to acquire 3m Fully Paid Shares	21-Dec-11	0.20
- Options to acquire 5m partly paid 'A' shares of 9 cents credited as paid to 1 cent, leaving 8 cents outstanding	30-Apr-13	-
CR Shares	n/a	-
- The number of shares to be issued for repayment of the Sellers Loan Account is an estimate only

### **3 Resolution 3 - Approval of Significant Change in Nature and Scale of Activities**

#### **3.1 Background**

Resolution 3 seeks approval from Shareholders for a change in the nature and scale of the activities of the Company. The proposed Acquisition, as detailed in this Explanatory Memorandum, constitutes a significant change in the scale of the Company's activities, and consequently requires Shareholder approval pursuant to ASX Listing Rule 11.1.2.

#### **3.2 Listing Rule 11.1.2**

ASX Listing Rule 11.1 provides that where an entity proposes to make a significant change either directly or indirectly, to the nature and scale of its activities, it must provide full details to ASX as soon as practicable. ASX Listing Rule 11.1.2 provides that, if ASX requires, the entity must get the approval of shareholders and must comply with any requirements of ASX in relation to the notice of meeting.

In the opinion of the Directors, the Acquisition represents a significant change in the scale of activities of the Company upon completion of the Acquisition, the Company is required to obtain the approval of Shareholders. For this reason, the Company is seeking Shareholder approval for the Company to change the nature and scale of its activities under ASX Listing Rule 11.1.2.

#### **3.3 Directors' Recommendation**

The Board recommends that Shareholders vote in favour of Resolution 3 as it believes the Acquisition is in the best interests of the Company.

## Schedule 1 - Definitions

In this Explanatory Memorandum and Notice of General Meeting:

**Acquisition** means the proposed acquisition by the Company of 80% of the issued share capital of ECM Lithium from Exchange Minerals.

**AHP** means Amphibolite Hosted Pegmatite.

**ASIC** means the Australian Securities and Investments commission.

**Associates** has the meaning given by Sections 10 to 17 of the Corporations Act.

**ASX** means ASX Limited ACN 008 624 691 and the market operated by it, as the context requires.

**ASX Listing Rules** means the Listing Rules of ASX and any other rules of ASX which are applicable while the entity is admitted to the official list of ASX, each as amended or replaced from time to time except to the extent of any express written waiver by ASX.

**Austrian Lithium Project** is the project for the exploration for and mining of lithium in Austria as more particularly described in Schedule 2.

**BDO** means BDO Securities (NSW-VIC) Pty Ltd, ABN 82 065 203 492, AFS License Number 222438 of Level 30, 525 Collins Street Melbourne VIC 3000.

**Board** means the board of Directors.

**BVI** means a British Virgin Islands company.

**Company** or **East Coast Minerals** means East Coast Minerals NL ABN 82 000 738 885 of 3 Richardson Street, West Perth, Perth WA 6005.

**Consideration Shares** means the issue of Fully Paid Shares ]in satisfaction of the Sellers Loan Account at \$0.045 per Share.

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

**CR Shares** means 32 million Convertible Redeemable Preference Shares with a conversion event occurs where either:

- the Fully Paid Shares listed on ASX have a VWAP equal to or greater than 15 cents each for forty-five consecutive trading days; or
- the JORC mineral resource (measured) of the Austrian Lithium Project being equal to or greater than 15 million tonnes.

**Decision to Mine** means a resolution of the Board of ECM Lithium to develop a commercial mining operation at the site the subject of a Mining Licence or an Exploration Licence which can only be made following receipt by ECM Lithium of:

- (i) a feasibility study which recommends developing a commercial mining operation and that is of a standard suitable to be submitted to a financial institution as the basis for lending of funds or the provision of capital for developing a commercial mining operation; and
- (ii) written confirmation from the governmental agency responsible for the administration of the mining legislation governing the relevant Mining Licence or Exploration Licence that the company (ECM Lithium No.1) has complied with all conditions (including environmental conditions) applicable to the relevant Mining Licence or Exploration Licence;

**Deed of Variation** means the deed of variation of the SPA and the Subscription Agreement dated 14 September 2011.

**Deferred Consideration** means the amounts due to KMI due and payable on 31 December 2011 - €2.5 million, and 30 April 2012 - €3.5 million.

**Directors** means the directors of the Company.

**East Coast Minerals** means the Company.

**EBIT** means earnings before interest and taxes.

**ECM Lithium** means ECM Lithium AT (Holdings) Limited c/- Walkers Corporate Services (BVI) Limited, Walkers Chambers, 171 Main Street, Road Town, Tortola VG1110, British Virgin Islands, a company incorporated in the British Virgin Islands with BVI company number 1629378.

**ECM Lithium Group** means ECM Lithium and its subsidiaries.

**ECM Lithium Investments** means ECM Lithium AT (Investments) Limited c/- Walkers Corporate Services (BVI) Limited, Walkers Chambers, 171 Main Street, Road Town, Tortola VG1110, British Virgin Islands, a company incorporated in the British Virgin Islands with BVI company number 1629395.

**ECM Lithium No. 1** means ECM Lithium AT GmbH, a company with limited liability, organized under the laws of Austria, having its registered seat at Schottenring 14, 1010 Vienna, Austria, registered under FN 356306f of the commercial register of the Commercial Court in Vienna.

**ECM Lithium No.2** means ECM Lithium AT Operating GmbH, a company with limited liability, organized under the laws of Austria, having its registered seat at Schottenring 14, 1010 Vienna, Austria, registered under FN 359847m of the commercial register of the Commercial Court in Vienna.

**Exchange Group** means Exchange Minerals and Exchange Minerals FZE.

**Exchange Minerals** means Exchange Minerals Limited, a British Virgin Islands company number 1648281 c/- Walkers Corporate Services (BVI) Limited, Walkers Chambers, 171 Main Street, Road Town, Tortola VG1110, British Virgin Islands as to one half and Exchange Minerals (Holdings) Limited Cayman Islands exempted company number 255805 c/- Walkers Corporate Services Limited, Walker House, 87 Mary Street, George Town, Grand Cayman KY1-9005, Cayman Islands as to one half (and where the context requires includes both of the foregoing companies).

**Exchange Minerals Funding Loan** means the amount of €1,200,000 advanced by Exchange Minerals to ECM Lithium No.1 for purposes providing it with the required funds to commence its activities, being a condition of the Mining Authority in order to successfully obtain the transfer to ECM Lithium No 1 of the Mining Licences and Exploration Licences.

**Exchange Minerals FZE** means a Free Zone Establishment with Limited Liability registered in Sharjah Airport International Free Zone, United Arab Emirates with Licence No. 02-01-02971 owned by Mr Michael Shmazian.

**Exchange Minerals Option Fee** means the issue of 16,744,444 Fully Paid Shares as consideration for the payment of the option fee of €550,000 paid to KMI.

**Explanatory Memorandum** means the explanatory memorandum which accompanies and forms part of this Notice.

**Exploration Licences** means means the 22 Exploration Licences (*Schurfberechtigungen*) owned by ECM Lithium No.1.

**Free Carried Interest** means East Coast Minerals meeting all funding obligation of the ECM Lithium Group up to and including the Decision to Mine.

**Fully Paid Share** means a Share.

**General Meeting** or **Meeting** means the general meeting of the Company to be held on 25 November 2011 at 3 Richardson Street West Perth, Perth, Western Australia 6005 at 10am (WST), convened by this Notice.

**GFC** means the Global Financial Crisis of 2008.

**Group** means East Coast Minerals and its controlled entities.

**HoA** means heads of agreement dated 3 February 2011.

**JORC** means The Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves.

**KMI** means Kärntner Montanindustrie Gesellschaft m.b.H, a company with limited liability, organized under the laws of Austria, having its registered seat at Schloß 1, 9400 Wolfsberg, Austria registered under FN 101616k of the commercial register of the Regional Court of Klagenfurt.

**KMI Acquisition** means the acquisition by ECM Lithium No 1 of the Exploration Licences and Mining Licences from KMI.

**KMI Security Charge** means under the terms of the KMI Acquisition, a failure of ECM Lithium No.1 to make any payment of the deferred element of the consideration would result in the shares of that company being purchased back from ECM Lithium Investments for a nominal sum.

**Landowners Agreement** means an agreement between Glock Gut- und Forstverwaltung GmbH and KMI in relation to rights and obligations for the use of the land that the Exploration Licences and Mining Licences attach too.

**Li2O** means Lithium Oxide.

**Licences** means the Exploration Licences and Mining Licences.

**MHP** means Mica Hosted Pegmatite.

**Mining Licences** means mining licenses (Bergbauberechtigungen) for the mining area (Grubenfeld) "Andreas" consisting of the Grubenmaße "Andreas 1-11" granted to the Seller by decree of the Ministry of Economy, Family and Youth dated 22 March 2011.

**Mining Authority** means the mining authority responsible for the Exploration Licences and Mining Licences known as "*Montanbehörde*"

**Notice** means this Notice of General Meeting.

**Operating Costs** means all costs in connection with the business of ECM Lithium No.1, including amounts payable under the employment agreement to Dr Richard Goed.

**Options** means options to acquire Fully Paid Shares the major terms of which are summarised in Schedule 4.

**Participation Rights** means the rights of Exchange Minerals to share in the profits of ECM Lithium 1 granted under the Participation Rights Agreement.

**Participation Rights Agreement** means the agreement granting rights to Exchange Minerals to receive 4% of the EBIT of ECM Lithium 1 and, in the event that the Exploration Licences and Mining Licences are sold and a Royalty cannot be achieved, 4% of the sale proceeds.

**Partly Paid Share** means a share that is not a Fully Paid Share.

**Proforma Royalty Agreement** means a draft royalty agreement annexed to the Participation Rights Agreement for the payment of a Royalty on terms and conditions set out in schedule 2 to this notice.

**Resolution** means a resolution referred to in this Notice.

**Royalty** means a royalty of 2% per annum of net smelter revenues payable in accordance with the terms of a Proforma Royalty Agreement.

**\$** means Australian dollars.

**Sellers Loan Account** means the amount credited to the loan account of Exchange Minerals which is equal to the following amounts incurred by ECM Lithium No.1 and its subsidiaries and funded, directly or indirectly, by the Exchange Minerals in relation to:

- all costs in connection with the negotiation, preparation, execution and performance of the acquisition from KMI, including the payment of €300,000 to KMI on entering into the KMI SPA (and additional amounts of up to €3,400,000 payable under the KMI SPA) and all accounting costs, legal costs and travel costs; and
- the Operating Costs,

in each case, converted into Australian dollars at the exchange rate prevailing at 10 am on the date on which the amount was funded by Exchange Minerals. For the sake of completeness, the Seller Loan Account does not include the Exchange Minerals Funding Loan.

**Share** means an ordinary share in the capital of the Company.

**Shareholder** means a holder of a Share.

**SPA** means share purchase agreement between Exchange Minerals and East Coast Minerals dated 8 August 2011, as varied by the Deed of Variation.

**SQM** means Chemical & Mining Co. of Chile Inc.

**Subscription Agreement** means the subscription agreement between Exchange Minerals and East Coast Minerals dated 9 August 2011, as varied by the Deed of Variation and pursuant to which Exchange Minerals agreed to subscribe for 90 million options to acquire 90 million Fully Paid Shares with a subscription price of \$0.002 per Option (the aggregate issue price being \$180,000) and an exercise price of \$0.04 per Option, with an expiry date of 15 April 2012 and otherwise on the terms set out in Schedule 4.

**TPA** means tonnes per annum.

**WST** means Western Standard Time, in Perth, Western Australia.

In this Notice and the Explanatory Memorandum, words importing the singular include the plural and vice versa.

## **Schedule 2 - Austrian Lithium Project**

Set out below is background and an overview of the key terms of the Acquisition:

### **About the Austrian Lithium Project**

**The information in this schedule 2 that relates to Exploration Results, Minerals Resources or Ore Reserves is based on information compiled by Ed Mead, who is a Member of the Australasian Institute of Mining and Metallurgy.**

**Ed Mead is a full-time employee of the Company.**

**ED Mead has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2004 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves. Ed Mead consents to the inclusion in the report of the matters based on his (or her) information in the form and context in which it appears.**

### **Overview**

The Austrian Lithium Project is located in the province of Carinthia, 270 km south of Vienna, see Figure 1. The project is 20 km west of Wolfsberg, an industrial town, and 20 km east of Deutschlandsberg. Both towns have railway access.

The Project is within granted exploration and mining licenses for the extraction and sale of all commodities including lithium.

The previous owners of the Austrian Lithium Project (prior to ECM Lithium No 1) owned the project since 1991, and kept the mine on care and maintenance. Prior to that, the project was owned and developed by the Austrian Government (Minerex), which expended substantial time and money on drilling, underground development and mineral processing studies. It is estimated that over €8 million has been spent on the Project to date. Despite the extensive work undertaken on this project, the mine was not developed at the time based entirely on the low Lithium price.

The Project is pegmatite hosted and has an Inferred JORC Resource of 18 million tonnes grading 1.6% Lithium Oxide ("Li<sub>2</sub>O") with a further initial exploration target of \*8 to 12 million tonnes with a grade of 1.5-2% Lithium Oxide ("Li<sub>2</sub>O").

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Figure 1. Location of Austrian Lithium Project

There are two types of Pegmatite ores within the Project, with veins up to 5.5m:

- AHP with grades up to 3.15% Li<sub>2</sub>O; and
- MHP with grades up to 1.95% Li<sub>2</sub>O.

*\* The potential quantity and grade of this exploration target is conceptual in nature, there has been insufficient exploration to define a Mineral Resource on the property and it is uncertain if further exploration will result in discovery of further Mineral Resources on the property.*

Preliminary work indicates that there is significant scope to increase the size of the resource by drilling out the parallel MHP down to 450 metres, as well as drilling below the current limit of drilling of 450 metres for both the MHP and AHP ore types. This drilling will also be used to convert resources in to reserves.

Historical exploration work between 1981 and 1988 included 101 diamond drill holes for 16,727 metres and 1,607 assays.



Photo 1: Underground drive along a Pegmatite dyke which contains Spodumene the lithium mineral.

In 1985 the portal (adit) was cut and trial mining continued to 1988. In this time 1,389 metres of decline, drives and crosscuts which are 4 metres by 4 metres were developed, which access the ore body (Photo 1). Two trial stopes were also mined looking at long hole retreat and cut and fill toping methods. Rock mechanic studies and mining efficiency studies were also completed.

ECM Lithium Group intends to exploit the Project with the view to applying Australian underground bulk mining techniques.

Metallurgical and Processing studies on the pegmatite ore started at Carolina State University in 1982. The work continued through to 1987 and was focused on the optimisation of the flotation process. In 1988 a pilot plant test was set up at Carolina State University to produce Mica, Feldspar, Quartz and Spodumene (lithium mineral) saleable products. From this work at an estimated mining and processing rate of 150,000 tonnes per annum (TPA) 25,000 TPA Spodumene Concentrate (6% Li<sub>2</sub>O), 49,500 TPA Feldspar, 24,500 TPA Quartz (Silica Sand) and 3,375 TPA Mica could be produced. Therefore 74% of all mined ore produced a saleable product and 26% of the material was waste. In 1988 Austroplan completed laboratory scale tests of producing Lithium Carbonate from the Spodumene Concentrate. This work returned recoveries of 93%.

### **Key Project Features**

- Close to road, rail and cities at Wolfsberg and Deutschlandsberg
- Significant land holding of granted exploration and mining licenses

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- Inferred JORC resource of 18 million tonnes at 1.6% Lithium Oxide ("Li<sub>2</sub>O") with substantial exploration upside with ore body remaining open at depth and along strike
- Mining was undertaken and Permitting was in place in the late 1980's for the trial mining, stage and has been kept on care and maintenance, therefore the mine is most likely acceptable to 2011 standards
- Strategic location for mining and supply to European markets
- Lithium price forecast to remain strong
- Global Lithium demand is increasing
- No local producers

### **Development Strategy**

- Complete mineral processing studies using 2011 technology to get product specifications and samples for Spodumene, Quartz, Feldspar and Mica.
- Start negotiations for off-take agreements.
- Undertake limited drilling to convert inferred resources into the indicated and measured categories.
- Complete a Definitive Feasibility Study into operation of 0.5-1 million tonne per annum (Mtpa) mining operation. The size of an operation is dependant on the size of demand for saleable products.
- Target the new zones of identified boulders of spodumene (Lithium) from either trenching or drilling.

### **About Lithium**

Lithium is a soft, silver-white metal, which forms part of the alkali metal group of chemical elements and is represented by the symbol Li on the periodic table. It does not occur as a pure element in nature but is contained within stable minerals in a range of rock types or in solution in brine bodies. The element is a major component of the batteries commonly used in powering portable electronic devices and electric tools. Total lithium consumption has experienced strong growth since the commencement of the 21st century and has many compound forms and applications (Figure 2).

Assessing the lithium market encounters significant challenges:

- unlike with other commodities there is currently no independent price fixing nor spot market for lithium;
- as prices are being negotiated on a business to business basis they are not published on a regular basis. In June, 2011, Rockwood and FMC Corp. announced they will increase their prices depending on the grade and quality. This was the second increase in eight months;
- there is are no satisfactory unbiased statistics available to the public. However, the most comprehensive data source is the U.S. Geological Survey, however it does not include US domestic production nor domestic prices; and
- Lithium is being sold in a wide range of different compounds and grades of purity. This makes comparison of prices and quantities an impossible exercise.

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East Coast Minerals intends to further extend its market analytics in order to identify potential end users in close vicinity to the project.

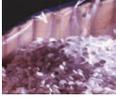
Key Products	Key Applications				
<b>Lithium carbonate</b> 	 Li-Ion-Batteries	 Glass ceramics	 Cement	 Aluminum	
<b>Lithium hydroxide</b> 	 Li-Ion-Batteries	 Grease	 CO <sub>2</sub> Absorption	 Mining	
<b>Lithium metal</b> 	 Lithium Batteries	 Pharmaceuticals	 Al - alloys		
<b>Butyl-lithium</b> 	 Elastomers	 Pharmaceuticals	 Agrochemicals		
<b>Lithium specialties</b> 	 Electronic Materials	 Pharmaceuticals	 Agrochemicals		

Figure 2: Key Lithium Products and applications

The US Geological Survey publishes an annual commodity summary about Lithium and in the 2011 edition they make the following important points:

- batteries, especially re-chargeables, are the market for lithium'
- Asian technology companies continue to invest in domestic and overseas lithium operations, with a focus more on security of supply than cost; and
- Lithium batteries are gaining favour due to low heavy metal content, long life, fast recharge and high power/weight ratios compared to traditional acid batteries.

In 2009, the market consisted of approximately US\$500 million in revenue produced by a handful of primary producers. However, anticipated lithium demand post 2010 is expected to rise significantly. This is as a result of a shift in the global automobile industry toward mass produced electric vehicles and other uses.

Prior to 2009, automobile manufacturers used nickel metal hydride batteries. Recent technological advancements have seen lithium batteries as the better choice. Some examples of positive Government policy and development initiatives to drive lithium demand include:

- Obama Administration Initiative - In 2008, the Obama administration pledged to have 1 million hybrid electric vehicles on the road by 2015, as part of the US government initiative to reduce carbon emissions as well as its offshore energy dependence;

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- Global Tax Incentives - Canada, China, Japan and 15 of the 27 European member states have formed tax incentives to facilitate the purchasing of battery drive vehicles. The development of lithium based policies has seen further advancements in the commercial development of lithium based batteries. In 2009, France commissioned the first commercial facility manufacturing lithium ion cells. As a result downstream users, which include BMW and Mercedes Benz each began use of 1.9 kWh lithium ion battery packs. It is noted that as at August 2010, all major automobile manufacturers have at various stages of development, plans to incorporate lithium based batteries in the drive train of its vehicles. By 2015, the expected lithium battery demand is anticipated to reach 10,400 tonnes. This is approximately 3 times the lithium consumed by batteries in 2008;
- China Development - In 2009, the Chinese domestic market surpassed the US vehicle market in terms of sales for the first time in history. Further, the countries demand for electric scooters and motorbikes also present scope for increasing lithium production. Both Honda and Yamaha are expected to expand its lithium battery driven electric motorbikes throughout the Asian markets, which account for 60.0% of the worlds 2 wheel vehicle demand; and
- German Development - During late 2010, the German automobile industry launched a €360 million lithium battery development program in order to progress the development of commercial production in electric vehicles within Germany. In conjunction with this initiative, Daimler and RWE Energy announced it would cooperative through the construction of 500 electric vehicle charging stations.

The lithium market is characterised by long-term supply contracts with customers, where price negotiations are undertaken on an individual basis. As such there is no spot market for lithium prices. Credit Suisse have analysed lithium carbonate import and export data as provided by Global Trade Atlas as well as USGS Minerals Yearbook releases, in order to gauge historical lithium pricing. A summary of the findings is outlined below:

- mid/late 1990's - as a result of SQM entering the market in 1996-97, supply and demand in the lithium market changed dramatically. The structure of the lithium market altered from high cost lithium compound production to low cost, large scale brine based production. Over the 1996-97 period, it is estimated that prices decreased by 27.0%, with a further 15.0% decline experienced in 1997-98 or from USD\$3,000/ton to less than USD\$2,000/ton;
- mid 2000's - during 2005-2008, there was a significant surge in lithium prices. This was due to robust growth in consumer demand for handheld devices, the battery market, as well as the impact of the Iraq war. As demand outstripped brine capacity expansions, high-cost ore producers located in China returned to production; and
- late 2000's - despite a 20.0% decline in traded volumes as a result of the GFC as well as the introduction of new lithium capacity which came online in 2008-09, lithium prices remained relatively stable at a price of USD\$5,000/ton (Figure 3). This was primarily due to the disciplined approach taken by SQM and ROC, two of the lower cost producers. These two entities left idle or did not bring online 25,000 metric tons of capacity. This equated to approximately 20.0% of nameplate capacity.

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But in June 2011 both SQM and ROC announced increases in the price of their saleable products. This has also been noted with Talison, which has had consecutive quarter increases in prices of saleable products.

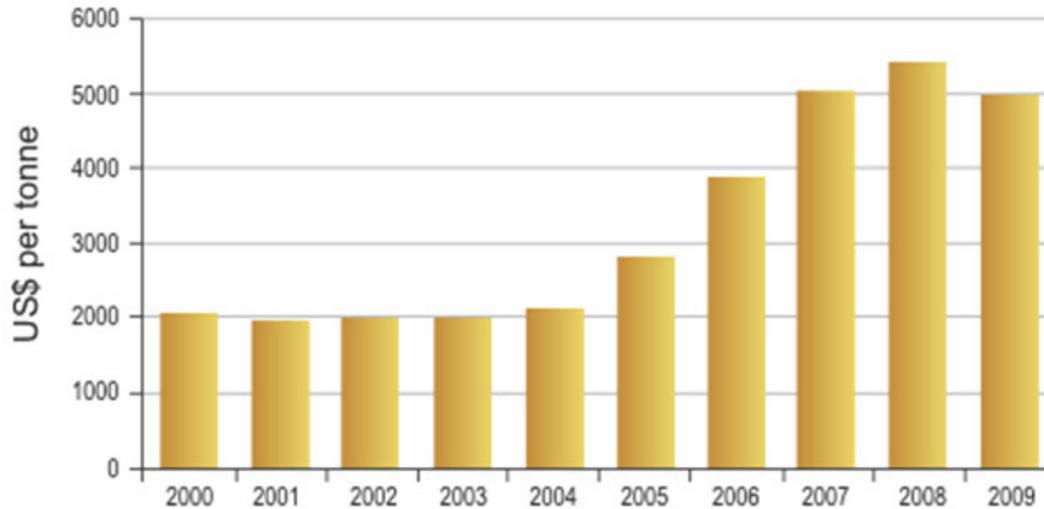


Figure 3 : Historical Lithium Carbonate Prices

A recent report by HSBC forecasts that the 'low carbon' or 'green' economy will grow to \$1.2 trillion by 2020, which is three times larger than it was in 2010. This represents 13.0% compound annual growth. Of this growth, transportation is to account for 70.0%.

The immediate outlook for the lithium industry is primarily going to be determined by the success of the hybrid and electric automobile sector, which is anticipated to be the principal driver of lithium demand. In conjunction with the above growth, the electric vehicle market is predicted to grow to \$473 billion by 2020. To reinforce the lithium growth outlook we have included the following:

- Cormark Securities - Cormark Securities estimated that 2009 global lithium demand reached between 115,000 to 120,000 tons. This figure was expected to increase by 70.0% to 195,000 to 200,000 tons by 2015. Further, Cormark Securities outlined that lithium supply is to experience 4.0% compounding growth per year, whereas demand is likely to experience 7.0% to 10.0% over a period of four to six years, indicating demand will outstrip lithium supply;
- Pike Research - Pike Research highlighted that 1.4 million electric vehicles will be on the road in Asia alone by 2015. In addition, the Asia-Pacific region will generate aggregate demand of almost 8.8 million kWh of lithium-ion batteries or on a revenue basis, \$4.1 billion in 2015;
- Industrial Applications - Lithium is also used in such applications as ceramics, glass, greases, air treatments and thermoplastic production. As the world's quality of life cycle improves, particularly in emerging economies, demand for such applications and in turn lithium is likely to increase in the medium to long term. We note that industrial applications are anticipated to have GDP like growth rates on average; and

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- Consumer Electronics - Consumer electronics such as digital camera's, laptop and cell phone batteries require lithium. As the price of batteries decline, as well as coupled with the penetration into new markets (including power tools and lower-end consumer electronics), lithium demand is expected to increase. Market commentators anticipate that lithium demand produced from such goods is likely to be 6.0% to 8.0% growth per annum in 2011 and beyond.

In summary, the lithium industry conditions appear very strong. Currently major industry participants dominate global supply, however, development of the lithium based automobile sector is likely to drive long term demand and growth and the need for new mines and increased production. Lithium alloys are likely to gain the same momentum in the future as Lithium carbonate in batteries has now.

## **Summary of the proposed acquisition of ECM Lithium Holdings**

### ***Overview***

The HoA previously entered into between the Company and Exchange Minerals in respect of the Acquisition was terminated by a deed of termination dated 14 September 2011. The SPA was signed on the 8 August 2011 and subsequently varied by the Deed of Variation. The SPA is subject to:

- the Company finalising its due diligence;
- completion of the acquisition from KMI;
- East Coast Minerals shareholder approval;
- there being no material adverse change to the affairs of ECM Lithium or its subsidiaries; and
- ECM Lithium and its subsidiaries are free of all encumbrances.

The SPA was subject to a Deed of Variation dated 14 September 2011. The Deed provides for the following:

- recognition of the condition for cash at bank of €1,200,000 required by the Mining Authority;
- an agreement by Exchange Minerals to make the Exchange Minerals Funding Loan to ECM Lithium by way of a loan bearing interest at 12% repayable on the earlier of any monies injected by East Coast Minerals or 12 months from the date of Acquisition;
- the grant of a mortgage over the shares in ECM Lithium Investments to secure repayment of the Exchange Minerals Funding Loan.

By way of background, ECM Lithium is a BVI company that has been established set up to act as the holding company for a group of companies who are to be the owner of the Austrian Lithium Project. The wholly owned subsidiaries of the ECM Lithium are as follows:

- ECM Lithium Investments – a special purpose holding company of the shares in ECM Lithium No.1;
- ECM Lithium No.1 – the owner of the Licences; and
- ECM Lithium No.2 – the company to act as the entity that incurs all of the expenditure for ECM Lithium No.1, so that ECM Lithium No.1 remains free of debt in accordance of the terms of the acquisition from KMI.

Set out below is a diagrammatic overview of the current and proposed structure:

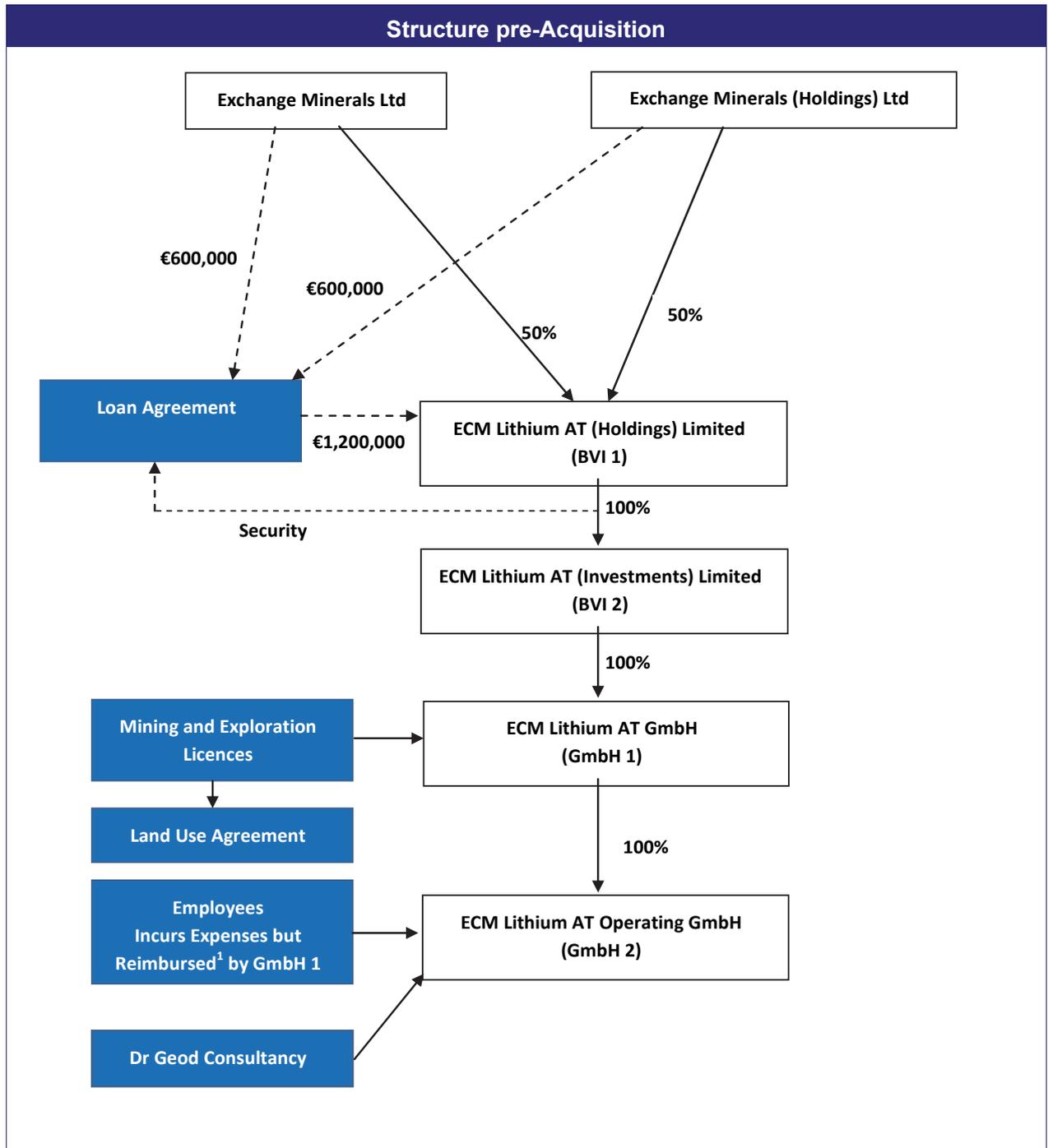


Figure 10 : Overview of the Structure pre-Acquisition

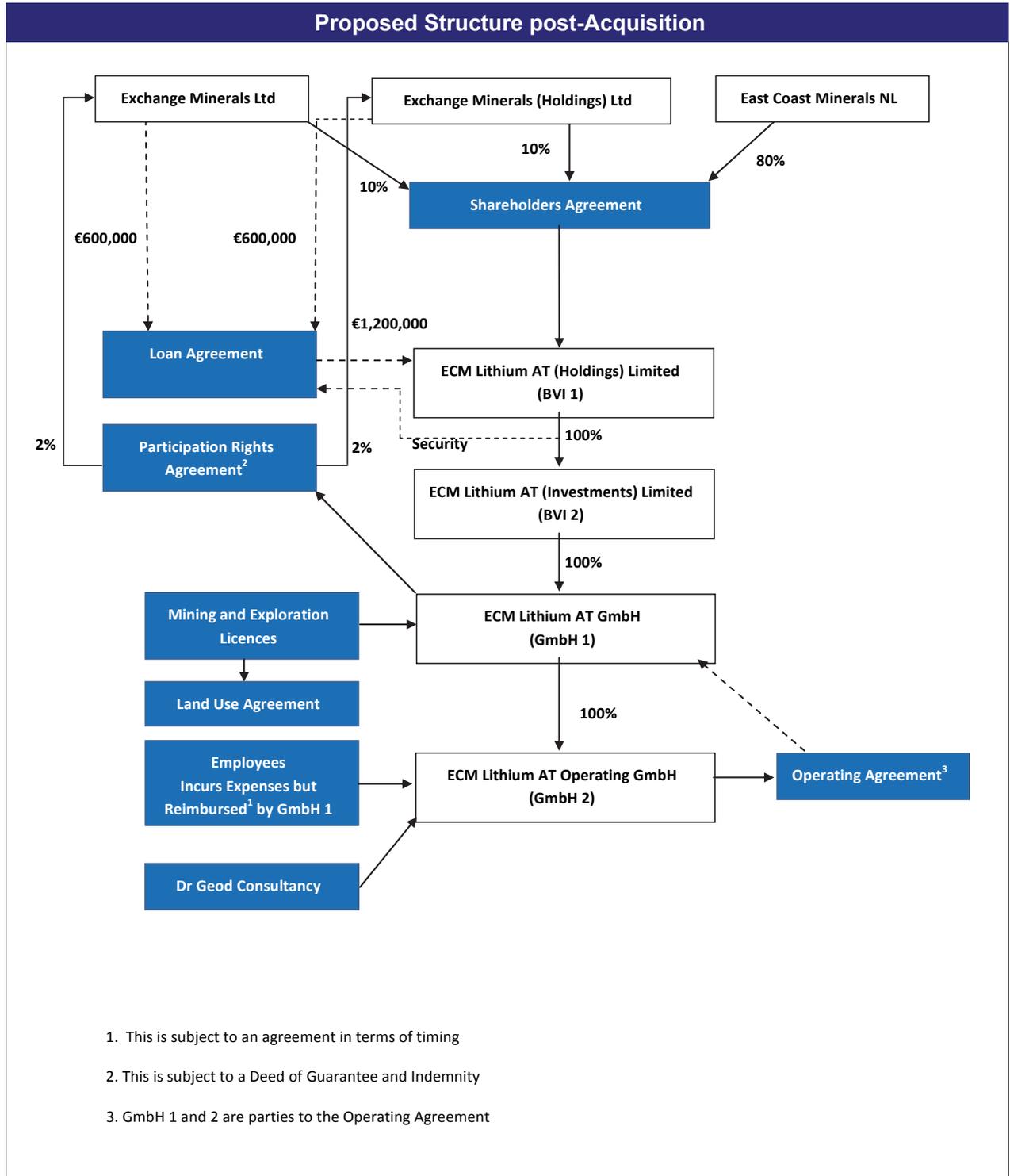


Figure 11 : Overview of the Proposed Structure post-Acquisition

***Completion of the KMI Acquisition***

On the 7 July 2011, ECM Lithium No.1 entered into a conditional contract with KMI for the purchase of the Licences or KMI Acquisition. The key conditions precedent of that agreement are:

- appointment of a KMI representative as a joint managing director of the ECM Lithium No.1; and
- approval from the Mining Authority that the ECM Lithium No.1 and its ultimate owners have the financial capability in which to pursue the mining activities.

On the 12<sup>th</sup> September 2011, both of the above conditions were satisfied.

The key terms of the acquisition of the KMI agreement are as follows:

- the acquisition is for the Exploration Licences and Mining Licences;
- purchase price of €9.7 million, payable Euro €3.7 and signing and the Deferred Consideration payable on 31 December €2.5 million and 30 April 2012 €3.5 million;
- ECM Lithium No.1 is prohibited from incurring any liabilities – resulting in ECM Lithium No.2 undertaking all activities and incurring of the costs on behalf of ECM Lithium No.1;
- KMI Security Charge;
- ECM Lithium No.1 may repay the Deferred Consideration earlier if required and a 3.5% per annum reduction to Deferred Consideration payment is to be provided in consideration for the early repayment; and
- representations and warranties in relation to the ownership of the Licences and that there are no liabilities, as well as the solvency of KMI were provided.

As part of the KMI Acquisition, ECM Lithium No.1 receives the benefit a Landowner Agreement. The key terms under the Landowner Agreement are as follows:

- the landowner is entitled to compensation for emissions resulting from the planned mining works;
- upon sale of the Mining Licences and Exploration Licences, the landowner will be entitled to €350,000 as compensation. There are no other costs or obligations to the continuing land owners;
- the rights and benefits of the Landowners Agreement shall be transferred to a new purchaser; and
- there is provision for arbitration in the event of a dispute..

***Consultancy Agreement – Dr Richard Geod***

As part of the Acquisition, there is a 12 months employment contract commencing 8 April 2011 between ECM Lithium No.2 and Dr Richard Geod.

***Acquisition by the Company of shares in ECM Lithium***

Set out below are the key terms under the SPA of the East Coast Minerals Acquisition are as follows:

- subject to receipt of shareholder approval, the Company will acquire 80% of the shares in ECM Lithium;
- in consideration for the acquisition of the 80% shares in ECM Lithium, the following amount is payable to Exchange Minerals:
  - A\$1.00;
  - issue of 16,744,444 Fully Paid Shares in relation in satisfaction of the Exchange Minerals Option Fee; and
  - repayment of the Sellers Loan Account by way of initially issuing the 100,000,000 Consideration Shares, with a further adjustment payable to Exchange Minerals once the final amount of the Seller's loan account is determined;
  - entering into a Shareholders Agreement; and
  - fulfilment of the obligations under the Participation Rights Agreement.

The completion of the transaction is subject to the following conditions:

- completion of any outstanding due diligence matters;
- East Coast Minerals shareholder approval;
- completion of the KMI Acquisition; and
- there are no encumbrances over the assets of ECM Lithium and/or other subsidiaries other than the KMI Security Charge and the charge over the shares in ECM Lithium Investments to secure the Exchange Minerals Funding Loan.

Other key terms under the SPA are:

- provision of warranties from Exchange Minerals, including confirmation of the ownership of the Exploration Licences and Mining Licences, with a cap on liabilities being equal to the amount received by Exchange Minerals; and
- completion to occur five business days after all of the conditions are satisfied with a deadline of 31 December 2011, unless it is otherwise agreed.

The SPA has been varied by the Deed of Variation.

***Shareholders Agreement***

This document governs the future relationship between East Coast Minerals and Exchange Minerals. Below are the key terms of that agreement:

- East Coast Minerals is to be responsible for the management of ECM Lithium Group, at no cost;
- East Coast Minerals shall have the right to appoint one Director for each 20% that it owns. This means East Coast Minerals will initially have one Director. Exchange Minerals shall be entitled to have one Director as long as it has a 10% shareholding in ECM Lithium;

## EAST COAST MINERALS NL

- until the Directors have passed a resolution to Decision to Mine, East Coast Minerals will be responsible for all funding of the ECM Lithium Group;
  - all funds required by ECM Lithium are initially to be invested by an interest unsecured loan and then capitalised at the end of a financial year in accordance with a formula that takes into consideration the fair market value of ECM Lithium;
  - subject to funding requirements of the ECM Lithium Group, a 50% distribution policy is to be put into place;
  - the following decisions can only be made if there is unanimous approval by the shareholders:
    - issue of shares;
    - variation of the rights of any party;
    - Directors remuneration and insurances
    - special distributions;
    - listing on a stock exchange;
    - amending of the articles;
    - change in business;
    - mergers and acquisitions;
    - sale of business; and
    - wind-up of ECM Lithium Group.
  - the following matters can only be approved by a unanimous decision of the board:
    - related party dealings;
    - contracts that are outside the normal course of business;
    - sale and purchase of property;
    - encumbrance of assets;
    - guarantees or credit arrangements;
    - entering into legal proceedings;
    - making tax claims; and
    - a Decision to Mine.
- pre-emption rights - in the event that one party wishes to sell its shares, the other party will have the right to purchase those shares in preference;
- Tag along rights - that is, where the seller of the shares issues a transfer for 51% or more of the shares, each other shareholder has the right to tag along with the selling shareholder;
  - Drag along rights - if a seller owns 51% or more of the shares, then they can drag along the other shareholders;
  - provision for new shareholders to be admitted; and
  - dispute and mediation provisions, including any issues on valuation matters.

*Participation Rights Agreement (which is subject to a guarantee and indemnity) and Royalty Agreement*

It was originally agreed that a Royalty arrangement be put into place. However, the terms of this arrangement was varied to reflect a Participation Rights Agreement, for legal reasons. The Participation Rights Agreement provides for the following:

- 4% of EBIT to be paid to Exchange Minerals, to the extent that there is any profit available for distribution;
- in the event that ECM Lithium Group wishes to dispose of the Exploration Licences and Mining Licences, it must procure a Royalty for Exchange Minerals. In the event that a Royalty cannot be procured to Exchange Minerals on terms and conditions acceptable to it, Exchange Minerals will be entitled to 4% of the sale proceeds in cash or cash equivalent;
- appropriate protections for dilution so that the rights do not fall below 4%;
- in the event of sale of benefits under the Participation Rights Agreement, there will be a pre-emptive benefit in favour of East Coast Minerals; and
- a right for Exchange Minerals to receive information.

East Coast Minerals have agreed to provide a guarantee of ECM Lithium's No 1's obligations under the Participation Rights Agreement to Exchange Minerals so as to enable Exchange Minerals recover in respect of any obligations not appropriately fulfilled by ECM Lithium No 1.

Annexed to the Participation Rights Agreement is a Proforma Royalty Agreement that sets out the terms and conditions required by Exchange Minerals. The Proforma Royalty Agreement represents the document that East Coast Minerals is required to deal with in the event of sale of the Exploration Licences and Mining Licences. The key terms of the Proforma Royalty Agreement are set out below:

- deductions for bad debts, credit notes and other returns made may be made against the Royalty;
- Exchange Minerals has a right to annual audit;
- any disposal of the Exploration Licences and Mining Licences is subject to a pre-emption right of Exchange Minerals;
- a caveat may be put into place; and
- a guarantee is to be put into place.

***Exchange Minerals Funding Loan Account***

Set out below are the key details of the Exchange Minerals Funding Loan Account:

- amount advanced- €1,200,000;
- term of advance - the earlier of funds advanced by East Coast Minerals pursuant to the Shareholders Agreement, as set out below or 19 August 2012;
- interest rate - 12% per annum, calculated monthly in arrears;
- security - a mortgage over the shares in ECM Lithium Investments; and
- other usual warranty terms and conditions provided by ECM Lithium.

***Funding arrangement - Subscription Agreement***

In order to assist East Coast Minerals with meeting its funding obligations. It is intended that the primary purpose of the proceeds from the exercise of the 90 million options under the Subscription Agreement be used to fund the repayment of the second instalment of the KMI Deferred Consideration.

The 90 million options are to be unlisted and can be converted into a Fully Paid Share at any time before the expiry date of 15 April 2012. The terms of the options are set out in Schedule 4.

### **Schedule 3 - About Exchange Minerals**

Both companies comprising Exchange Minerals are currently privately held companies. Given their private company status there is very little publically available information.

The Exchange Group is a long-standing facilitator and, where appropriate, financier of grass roots resource project transactions. The Exchange Group has a specific skill in the evaluation of early stage resource projects and converting those projects into successful operations. The Exchange Group considers that it has a sound track record of both identifying the right projects and then finding the appropriate people, corporate support and funding so as to create value for its investors.

The Exchange Group has been involved in several transactions across many geographical locations including Australia, Europe, Greenland and Asia.

Some of the transactions that the Exchange Group and its key personnel have been involved with are as follows:

- assisted in the facilitation of a world class Rare Earths project in southern Greenland for Greenland and Energy Limited in 2007;
- assisting in the acquisition of a gold project in Austria and acquisition by a United Kingdom based publically listed company known as Noricum Limited;
- assisted in the acquisition by Iron Bark Zinc Limited (formerly Iron Bark Gold Limited) and capital raising of a Zinc project in northern Greenland;
- acquisition of a minerals sands project in Western Australia and sale to Astro Minerals N.L.;
- assisting in the acquisition of a Rare Earths project in Greenland known as "Motzfeldt" which is has been acquired by Ram Resources Limited;
- re-opening of the Koolan Island Iron ore project by Aztec Resources Limited which was subsequently acquired by Mount Gibson Limited; and
- acquisition of the Wo Wo Gap Nickel Laterite project in Papa New Guinea which was acquired by Resource Mining Corporation Ltd.

## **Schedule 4 - Terms of Options**

### **1 Entitlement on exercise of options**

- 1.1 Each Option entitles the Holder to subscribe for and be allotted and issued one fully paid ordinary Share upon the exercise of the Option and payment to the Company of the Exercise Price of \$0.04 per Share.

### **2 Exercise of options**

#### **2.1 Exercise notice**

The Holder may at any time during the period prior to 15 April 2012 (**Exercise Period**) give a notice to the Company requiring the Company to allot and issue Shares on exercise of the Options.

#### **2.2 Issue of shares**

The Company must allot the Shares within 15 Business Days of receipt of the exercise notice.

#### **2.3 Ranking of shares allotted and issued on exercise**

Shares allotted and issued upon exercise of Options will rank equally in all respects with all other issued Shares from the date of allotment and will be held subject to the constitution of the Company.

#### **2.4 Lapse**

Any Option which has not been exercised by 5.00 pm (Sydney time) on the expiry of the Exercise Period will lapse.

### **3 Quotation of shares**

- 3.1 If Shares in the Company are quoted on ASX at the time of exercise of the Options, the Company will make application to ASX for official quotation of the Shares issued upon exercise of Options within 15 Business Days of the allotment and issue of those Shares. The Company must use its reasonable endeavours to obtain official quotation of the Shares issued upon exercise of Options, including by paying any necessary fees or expenses required to be paid to ASX.

### **4 New, bonus and pro rata issues**

#### **4.1 General**

- (1) A Holder cannot participate in a new issue of securities in the Company without first exercising the Options.
- (2) Holders who exercise their Options before the applicable record date for the new issue will be entitled to participate in that new issue. Holders will be afforded a period of 10 Business Days prior to, and inclusive of, the record date to exercise their Options.
- (3) Except as expressly set out in these terms, a Holder does not have any right to change the Exercise Price of an Option or the number of Shares over which an Option can be exercised.

4.2 **Bonus issues**

If there is a Bonus Issue to the holders of Shares, the number of Shares over which each Option is exercisable will be increased by the number of Shares which the Holder would have received under the Bonus Issue if the Option had been exercised before the record date for the Bonus Issue.

4.3 **Pro rata issues**

If there is a Pro Rata Issue (except a Bonus Issue) to the holders of Shares, the exercise price of the Options will be reduced in accordance with ASX Listing Rule 6.22.2.

4.4 **Reconstructions of capital**

In the event of any reorganisation including subdivision, consolidation, reduction, return or cancellation of the issued capital of the Company on or prior to the expiry of the Exercise Period, if the Company is admitted to the official list of ASX, the rights of a Holder will be changed to the extent necessary to comply with the applicable ASX Listing Rules governing reorganisations in force at the time of the reorganisation. If the Company is not admitted to the official list of ASX, the rights of a Holder will be changed to the extent necessary to comply with the ASX Listing Rules governing reorganisations in force at the time of the reorganisation, as if the ASX Listing Rules applied to the Company.

4.5 **Transferable**

The Options are transferable.

**Appendix 1**

**Independent Expert's Report**

## PRIVATE AND CONFIDENTIAL

20 September 2011

The Directors  
East Coast Minerals NL  
Ground Floor  
3 Richardson Street  
West Perth WA 6005

Dear Sirs

## INDEPENDENT EXPERT'S REPORT

### Introduction

1. East Coast Minerals NL (“**East Coast Minerals**” or the “**Company**”) is currently principally involved in the exploration of silver and base metal mineralisation in Western Australia. The Company has interests in three early stage exploration assets that are not income producing.
2. On 4 February 2011, East Coast Minerals announced that the Company had entered into a Heads of Agreement (“**HoA**”) with Exchange Minerals FZE to exclusively negotiate the acquisition of an 80% equity interest in ECM Lithium AT (Holdings) Limited (“**ECM Lithium**”) together with the assignment of loans made to ECM Lithium by Exchange Minerals FZE. East Coast Minerals also announced that a wholly-owned subsidiary of ECM Lithium, ECM Lithium AT GmbH (“**ECM Lithium No. 1**”), had in turn entered into a Heads of Agreement to acquire a lithium project in Austria comprising 22 exploration licenses (granted) and mining permit applications from Kärntner Montanindustrie Gesellschaft m.b.H (“**KMI**”). The mining permit applications were subsequently approved and the mining licenses (Bergbauberechtigungen) for the mining area (Grubenfeld) “**Andreas**” consisting of the Grebenmaße “**Andreas 1-11**” were granted to KMI by decree of the Ministry of Economy, Family and Youth on 22 March 2011 (The exploration licenses and mining licenses in relation to the lithium project in Austria are hereinafter collectively referred to as the “**Austrian Lithium Project**”).
3. On 20 May 2011, Exchange Minerals FZE sold its shareholding in ECM Lithium to Exchange Minerals Limited and Exchange Minerals (Holdings) Limited (collectively “**Exchange Minerals**”), each holding a 50% equity interest in ECM Lithium after the sale. Exchange Minerals FZE and Exchange Minerals (collectively “**Exchange Minerals Group**”) are wholly owned by the same ultimate shareholder, Mr Michael Shmazian.

4. On 8 August 2011, East Coast Minerals entered into a formal binding agreement (“SPA”) with Exchange Minerals to acquire an 80% equity interest in ECM Lithium together with the assignment of loans made to ECM Lithium by Exchange Minerals (collectively the “**Proposed Acquisition**”), which is subject to inter alia, the completion of the acquisition of the Austrian Lithium Project by ECM Lithium No. 1 (“**KMI Acquisition**”).
5. On 12 September 2011, ECM Lithium No. 1 completed the KMI Acquisition pursuant to a share sale and purchase agreement entered into on 7 July 2011. The cash consideration payable by ECM Lithium No. 1 for the Austrian Lithium Project is €9,700,000 (plus 20% value added tax (“VAT”))<sup>1</sup> comprising:
  - €300,000, paid on 7 July 2011 (“**Tranche 1**”);
  - €3,400,000, paid on 3 August 2011 into an escrow account and released upon completion on 12 September 2011 (“**Tranche 2**”);
  - €2,500,000, payable on 31 December 2011 (“**Tranche 3**”); and
  - €3,500,000, payable on 30 April 2012 (“**Tranche 4**”).

Payment of Tranche 3 and Tranche 4 of the consideration for the Austrian Lithium Project (collectively the “**Deferred Consideration**”) are secured against the shares in ECM Lithium No. 1 (“**KMI Security Charge**”). In addition, should ECM Lithium No. 1 default on the payment of any of the Deferred Consideration, ECM Lithium No. 1 is required to transfer the licenses back to KMI under the terms of the KMI Acquisition. Any payments made by ECM Lithium No. 1 for the Austrian Lithium Project are not refundable.

6. Pursuant to the terms of the SPA, East Coast Minerals will:
  - issue 16,744,444 fully paid ordinary shares in East Coast Minerals (“**ECM Shares**”) to Exchange Minerals in full satisfaction of an exclusivity fee of €550,000 payable by East Coast Minerals to Exchange Minerals on entering into the HoA (“**Exchange Option Fee**”). The Exchange Option Fee is a reimbursement of the exclusivity fee of €550,000 (plus 20% VAT) paid by ECM Lithium No. 1 to KMI (“**Option Fee**”) that was funded by Exchange Minerals. The loan provided by Exchange Minerals to pay the Option Fee was capitalised into ordinary shares in ECM Lithium;
  - pay cash consideration of \$1.00 for the 80% equity interest in ECM Lithium; and

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<sup>1</sup> We are advised that the management of East Coast Minerals has been informed by Exchange Minerals that ECM Lithium No. 1 will apply to the Austrian tax authority for a waiving of the tax credit, accordingly we have not considered the impact of VAT in our assessment of the Proposed Acquisition.

- issue a preliminary 100,000,000 fully paid ECM Shares to Exchange Minerals as consideration for the assignment of loans made by Exchange Minerals to fund certain expenditures of ECM Lithium and its subsidiaries ("**ECM Lithium Group**"), including ECM Lithium No. 1's payment of Tranche 1 and Tranche 2 of the consideration for the Austrian Lithium Project ("**Seller Loan**"). The number of fully paid ECM Shares to be issued to Exchange Minerals may be adjusted based on the actual Seller Loan amount, which is to be finalised post completion of the Proposed Acquisition.

Upon assignment to East Coast Minerals, the Seller Loan will be extinguished.

The fully paid ECM Shares to be issued to Exchange Minerals will be escrowed for one year from the date of issue.

7. As part of the terms of the Proposed Acquisition:

- East Coast Minerals will enter into a shareholders' agreement with Exchange Minerals and ECM Lithium ("**Shareholders' Agreement**") pursuant to which East Coast Minerals will, inter alia, provide interest-free loans to ECM Lithium to fund ECM Lithium Group's expenditure up to the decision to mine the tenements, including the Deferred Consideration totalling €6,000,000 payable by ECM Lithium No. 1 for the Austrian Lithium Project. Any loans provided by East Coast Minerals to ECM Lithium will be extinguished at the end of each financial year. If East Coast Minerals defaults on its obligations to fund ECM Lithium Group, Exchange Minerals has the right to acquire East Coast Minerals 80% equity interest in ECM Lithium for no consideration; and
- ECM Lithium No. 1 entered into a Participation Rights Agreement with Exchange Minerals dated 30 June 2011 (as amended by a 3-Party-Agreement dated 13 September 2011) pursuant to which Exchange Minerals has contributed capital into ECM Lithium No. 1 in exchange for the right to receive 4% of the consolidated earnings before interest and taxes ("**EBIT**") of ECM Lithium No. 1 and its subsidiaries, and in the event of a disposal of the Austrian Lithium Project, 4% of the disposal proceeds ("**Participation Rights**"). The latter is not payable if ECM Lithium No. 1 is successful in procuring from the prospective purchaser a royalty of 2% p.a. of net smelter revenue in favour of Exchange Minerals. The profit participation is payable annually until ECM Lithium Group ceases to hold any interest in the Austrian Lithium Project. In a separate agreement, East Coast Minerals will provide a guarantee over the obligations of ECM Lithium No. 1 under the Participation Rights Agreement ("**Deed of Guarantee**").

8. Pursuant to a Deed of Variation dated 14 September 2011 ("**Deed of Variation**"), among others, the SPA was subsequently amended to take into consideration a loan of €1,200,000 provided by Exchange Minerals to ECM Lithium No. 1 ("**Exchange Minerals Loan Facility**") under a facility letter dated 13 September 2011 ("**Facility Letter**"). The Exchange Minerals Loan Facility is separate to the Seller Loan and is provided for the purpose of providing ECM Lithium No.1 with the required funds to commence its activities, being a condition of the Austrian mining authority prior to approving the transfer of the exploration and mining licenses from KMI to ECM Lithium No. 1. The key terms of the Exchange Minerals Loan Facility include:

- interest rate of 12% per annum;

- repayable as and when East Coast Minerals provides funding to ECM Lithium to fund ECM Lithium Group's expenditure under the terms of the Shareholders' Agreement, or within one year after the loan is made, whichever is earlier; and
  - as security for the loan, ECM Lithium granted a charge to Exchange Minerals over its shareholding in ECM Lithium AT (Investments) Limited ("**ECM Investments**"), the holding company of ECM Lithium No 1 ("**Exchange Charge**").
9. Subject to the completion of the SPA, East Coast Minerals will also issue Exchange Minerals 90,000,000 options to acquire fully paid ECM Shares ("**Option(s)**") expiring on 15 April 2012 for a subscription price of \$180,000 pursuant to a Subscription Agreement dated 9 August 2011 (as amended by the Deed of Variation dated 14 September 2011). East Coast Minerals will receive a maximum of \$3,600,000 if the Options are exercised by Exchange Minerals.

The purpose of the 90,000,000 Options, should they be exercised, is to provide East Coast Minerals with funding to pay Tranche 4 of the Deferred Consideration of the KMI Acquisition which the Company agreed to fund under the terms of the Shareholders Agreement.

### Purpose of the Report

10. Listing Rule 10.1 of the Australian Securities Exchange ("**ASX**") requires a listed entity to obtain shareholders' approval before acquiring or disposing of a substantial asset from a person in a position of influence including a substantial shareholder and its associates who collectively, have a relevant interest of more than 10% of the total votes attaching to the voting securities, when the value of the asset, or the value of the consideration to be paid, is 5% or more of the equity interest of the entity.
11. Exchange Minerals FZE holds 46,287,663 fully paid ECM Shares and 17,250,000 partly paid ECM Shares<sup>2</sup>, which equates to approximately 18.1%<sup>3</sup> voting interest in East Coast Minerals. As noted earlier, Exchange Minerals FZE and Exchange Minerals are wholly owned by the same ultimate shareholder, Mr Michael Shmazian. Accordingly, we are advised Exchange Minerals is an associate of Exchange Minerals FZE.
12. Given Exchange Minerals is an associated person and the Proposed Acquisition is considered substantial, ASX Listing Rule 10.1 is deemed to apply and the Proposed Acquisition requires approval by the shareholders of East Coast Minerals other than Exchange Minerals and its associates ("**Non-Associated Shareholders**").
13. Listing Rule 10.10.2 requires that the Notice of Meeting to approve the proposed transaction be accompanied by a report from an independent expert stating whether the proposed transaction is fair and reasonable to holders of the entity's ordinary shares whose votes are not to be disregarded.

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<sup>2</sup> The partly paid ECM Shares held by Exchange Minerals FZE were issued at a price of \$0.08 per share and have been paid-up to \$0.02 per share. The partly paid ECM Shares have voting rights that are proportional to the amount paid up on those shares.

<sup>3</sup> Including proportional voting interests of issued partly paid ECM Shares.

14. Chapter 2E of the Corporations Act 2001 (“Corporations Act” or the “Act”) prohibits a public company from giving a financial benefit to a related party, except if the public company obtains the approval of the shareholders, or there is prior approval from the shareholders and the financial benefit is given within 15 months of such approval.
15. We are advised that Exchange Minerals is a related party within the meaning of Chapter 2E of the Corporations Act and the purchase consideration for the Proposed Acquisition represents provision of a financial benefit to a related party. Accordingly, approval is required from the Non-Associated Shareholders under Chapter 2E of the Corporations Act.
16. Section 606 of the Corporations Act contains inter alia, a general prohibition against any person from increasing its voting power in a listed company to greater than 20%, or from a starting point that is above 20% to below 90%. Section 611(7) of the Corporation Act provides an exception to the section 606 prohibition where the increase in voting power is approved in a general meeting by shareholders of the company.
17. Following the successful completion of the Proposed Acquisition, Exchange Minerals FZE and Exchange Minerals’ collective voting interest in East Coast Minerals will increase from 18.1%<sup>4</sup> to 45.6%<sup>4</sup> on an undiluted basis and 47.4%<sup>4,5</sup> on a diluted basis. Accordingly, approval from the Non-Associated Shareholders is required for the issue of the fully paid ECM Shares forming part of the consideration for the Proposed Acquisition pursuant to section 611(7) of the Corporations Act.
18. Consistent with the requirements under ASX Listing Rule 10.10.2 and to assist with the requirement under Chapter 2E of the Corporations Act and section 611(7) of the Act to provide shareholders with all material information, BDO Securities (NSW-VIC) Pty Ltd (“BDO Securities”) has been engaged by East Coast Minerals to prepare an independent expert’s report to express an opinion as to whether or not the Proposed Acquisition is fair and reasonable to the Non-Associated Shareholders.
19. This report has been prepared for inclusion in East Coast Minerals’ Explanatory Memorandum to accompany the Notice of Meeting to be sent to the Non-Associated Shareholders to assist them in deciding whether to approve the Proposed Acquisition as set out in Resolution 1 and Resolution 2 of the Explanatory Memorandum. This report should not be used for any other purpose or by any other party.

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<sup>4</sup> Including proportional voting interests of issued partly paid ECM Shares.

<sup>5</sup> Assuming the 90 million Options and existing East Coast Minerals options which are considered to be in-the-money are exercised. Refer to Appendix E for further details on the in-the-money options.

### Summary and Conclusion

20. In our opinion, in the absence of a superior proposal, the Proposed Acquisition is on balance, **not fair but reasonable** to the Non-Associated Shareholders.

### Fairness

21. In accordance with our basis of evaluation of the Proposed Acquisition (set out in **Section IV**), we have assessed whether or not the Proposed Acquisition is fair to the Non-Associated Shareholders with reference to comparing the value of the consideration payable by East Coast Minerals with the value of the 80% equity interest in ECM Lithium and Seller Loan to be acquired.
22. The results of our analysis are summarised in the table below:

	Reference	Low \$'000	High \$'000	Mid- point \$'000
Value of 100% equity interest in ECM Lithium		5,841	5,841	5,841
Equity interest to be acquired		80.0%	80.0%	80.0%
<b>Value of 80% equity interest in ECM Lithium (A)</b>	<b>Section XII</b>	<b>4,673</b>	<b>4,673</b>	<b>4,673</b>
Value of Seller Loan	Section XII	-	-	-
<b>Value of Seller Loan (B)</b>		<b>-</b>	<b>-</b>	<b>-</b>
<b>Value of assets to be acquired (A + B)</b>		<b>4,673</b>	<b>4,673</b>	<b>4,673</b>
<b>Value of the purchase consideration*</b>	<b>Section XI</b>	<b>4,932</b>	<b>6,481</b>	<b>5,706</b>

Source: BDO Securities Analysis

\* In assessing the value of the consideration for the Proposed Acquisition, due to uncertainty, we have not assessed the value of the potential Participation Rights to be paid by ECM Lithium No. 1 to Exchange Minerals. Please refer to **Section XI** for further details.

23. As shown above, the total assessed value of 80% of the equity interest in ECM Lithium and Seller Loan to be acquired by East Coast Minerals is below our range of assessed value of the consideration payable by East Coast Minerals. On that basis, it is our opinion that the Proposed Acquisition is considered to be not fair to the Non-Associated Shareholders.

**Reasonableness**

24. Having concluded that the Proposed Acquisition is not fair, we have also considered whether there are any other factors that suggest that the Non-Associated Shareholders should, on balance, accept the Proposed Acquisition.
25. We have considered the analysis in **Section XIII** of this report in terms of the advantages and disadvantages of the Proposed Acquisition as summarised below:

**Table 1: Summary of Advantages and Disadvantages of the Proposed Acquisition**

Advantages & Disadvantages of the Proposed Acquisition	
Advantages	Disadvantages
<ul style="list-style-type: none"> <li>• Upside potential of the Austrian Lithium Project, although it is noted that the success of the project is dependent on many interacting factors</li> </ul>	<ul style="list-style-type: none"> <li>• The voting interest of the Non-Associated Shareholders in East Coast Minerals will reduce from 81.9%<sup>6</sup> to 54.4%<sup>6</sup> after the Proposed Acquisition on an undiluted basis and to 52.6%<sup>6,7</sup> on a diluted basis.</li> </ul>
<ul style="list-style-type: none"> <li>• The increase in the share price of East Coast Minerals post announcement suggests the market has a positive view of the Proposed Acquisition</li> </ul>	<ul style="list-style-type: none"> <li>• Exchange Minerals Group will have the potential to significantly influence the operations of East Coast Minerals</li> </ul>
<ul style="list-style-type: none"> <li>• Ongoing support from Exchange Minerals Group who is reported to have significant experience in similar transactions</li> </ul>	<ul style="list-style-type: none"> <li>• Significant funding will be required in the future to fund the remaining Deferred Consideration and to develop the Austrian Lithium Project, which may further dilute the voting interest of the Non-Associated Shareholders in East Coast Minerals</li> </ul>
<ul style="list-style-type: none"> <li>• Potential access to additional funding</li> </ul>	<ul style="list-style-type: none"> <li>• Exposure to foreign exchange fluctuations</li> </ul>
<ul style="list-style-type: none"> <li>• Positive independent review of resources (JORC Resource of approximately 18 million tonnes at 1.6% Li<sub>2</sub>O that meets the JORC inferred standard)</li> </ul>	

Source: BDO Securities Analysis

<sup>6</sup> Including proportional voting interests of issued partly paid ECM Shares

<sup>7</sup> Assuming the 90 million Options and existing East Coast Minerals options which are considered to be in-the-money are exercised. Refer to **Appendix E** for further details on the in-the-money options.

26. We have also considered a number of other key issues in arriving at our opinion, which are summarised below and discussed more fully in **Section XIII** of this report:
- In the event the Proposed Acquisition does not proceed:
    - and in the absence of a superior alternative, East Coast Minerals would continue to have no income producing assets. The management of East Coast Minerals considers the Company's current cash reserves of \$1.33 million is sufficient to fund the operations of the Company for the next 2 years, subject to reducing the number of personnel. We note that the ability of East Coast Minerals to continue as a going concern in the future depends on the identification of a viable project;
    - the share price of East Coast Minerals may decline to pre-announcement levels; and
    - transaction costs already incurred will not be refundable;
  - East Coast Minerals' obligations under the Shareholders' Agreement will result in East Coast Minerals funding all group expenditure of ECM Lithium by way of interest-free loans up to the decision to mine the tenements including the Deferred Consideration for the KMI Acquisition (i.e. East Coast Minerals funds 100% of the costs when the Company only has an 80% equity interest in ECM Lithium). East Coast Minerals considers, inter alia, the 20% free-carry provided to Exchange Minerals up to the decision to mine the Austrian Lithium Project to be part of its facilitation fee for Exchange Minerals Group's role in sourcing the Proposed Acquisition. Accordingly, the excess in our assessment of the purchase consideration over the assets to be acquired in effect represents a payment to Exchange Minerals for advice, support and facilitation of the Proposed Acquisition.
  - Based on the pro-forma statement of financial position, the net tangible assets of East Coast Minerals will increase from \$0.006 per share to \$0.017 per share on an undiluted basis (and \$0.023 per share on a diluted basis) after the Proposed Acquisition.
  - There are risks associated with the development of the exploration assets. Any material change in the estimate of mineral resources, reserves, grade or lithium prices may affect the economic viability of the project;
  - If East Coast Minerals defaults on its obligation to fund the Deferred Consideration for the Austrian Lithium Project, Exchange Minerals will have the right to acquire East Coast Minerals' 80% equity interest in ECM Lithium for no consideration. Further, in the event of a default, East Coast Minerals may also lose the Austrian Lithium Project if KMI exercises the KMI Security Charge and any payments made to KMI are not refundable;
  - Following completion of the Proposed Acquisition, should ECM Lithium default on repaying the Exchange Minerals Loan Facility, Exchange Minerals may exercise their right over ECM Lithium's equity interest in ECM Investments, which has an indirect interest in the Austrian Lithium Project, under a security arrangement for the Exchange Minerals Loan Facility; and

- Potential payment of Participation Rights by East Coast Minerals to Exchange Minerals in future as guarantor.
27. After considering all of the above factors, in BDO Securities' opinion, the potential advantages of the Proposed Acquisition outweigh the potential disadvantages, risks and costs and Non-Associated Shareholders are on balance, likely to be better off if the Proposed Acquisition proceeds.

**Other Matters**

28. In forming our opinion, we have considered the interests of the Non-Associated Shareholders as a whole. Our opinion therefore does not consider the financial situation, objectives or needs of individual shareholders.
29. BDO Securities' opinion should not be construed as a recommendation as to whether or not to vote in favour of the Proposed Acquisition. Approval or rejection of the Proposed Acquisition is a matter for the individual shareholders. This decision should be based on each shareholder's views as to matters including value and future market conditions, risk profile, liquidity preferences, investment strategy, portfolio structure and tax position. In particular, taxation consequences may vary from shareholder to shareholder. If in any doubt, shareholders should consult an independent professional adviser.
30. This letter should be read in conjunction with the full text of this report as attached including the appendices.
31. Our opinion is based on information available at the date of this report as detailed in **Appendix B**.

Yours faithfully



**Phillip W Rundle**  
Director



**Michael Smith**  
Director

**Structure of Report**

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## I. GLOSSARY

Term	Definition
\$	Australian dollar
€	Euro
US\$	United States dollar
Act or Corporations Act	Corporations Act 2001
AFSL	Australian Financial Services Licence
ASIC	Australian Securities and Investment Commission
ASX	Australian Securities Exchange
Austrian Lithium Project	The lithium project in Austria including exploration licenses and mining licenses which is the subject of the KMI Acquisition
BDO Securities	BDO Securities (NSW-VIC) Pty Ltd
Deed of Guarantee	Agreement to be entered into between East Coast Minerals and Exchange Minerals pursuant to which East Coast Minerals will provide a guarantee over the obligations of ECM Lithium No. 1 under the Participation Rights Agreement
Deed of Variation	Agreement between East Coast Minerals and Exchange Minerals dated 14 September 2011 amending the SPA (including annexures relating to the Shareholders Agreement and Deed of Guarantee) and Subscription Agreement
Deferred Consideration	Being collectively Tranche 3 and Tranche 4 of the consideration totalling €6,000,000 which ECM Lithium No. 1 agreed to pay KMI pursuant to the KMI Acquisition
East Coast Minerals or the Company	East Coast Minerals NL
ECM Lithium	ECM Lithium AT (Holdings) Limited
ECM Lithium Group	Collectively ECM Lithium, ECM Investments, ECM Lithium No. 1 and ECM Lithium No. 2
ECM Investments	ECM Lithium AT (Investments) Limited
ECM Lithium No. 1	ECM Lithium AT GmbH
ECM Lithium No. 2	ECM Lithium AT Operating GmbH
ECM Share(s)	Ordinary share(s) in East Coast Minerals
Exchange Charge	The mortgage granted by ECM Lithium to Exchange Minerals over its shareholding in ECM Investments in relation to the Exchange Minerals Loan Facility
Exchange Minerals	Exchange Minerals Limited and Exchange Minerals (Holdings) Limited, collectively
Exchange Minerals FZE	Exchange Minerals FZE, a substantial shareholder of East Coast Minerals
Exchange Minerals Group	Exchange Minerals and Exchange Minerals FZE, collectively
Exchange Minerals Loan Facility	The loan of €1,200,000 provided by Exchange Minerals to ECM Lithium No. 1 prior to the completion of the KMI Acquisition, which is separate to the Seller Loan
Exchange Option Fee	Exclusivity fee of €550,000 payable by East Coast Minerals to Exchange Minerals to negotiate the Proposed Acquisition
FSG	Financial Services Guide
FY	Financial year ended 30 June
Facility Letter	Facility letter in relation to the Exchange Minerals Loan Facility between Exchange Minerals (lender) and ECM Lithium (borrower) dated 13 September 2011
HoA	Heads of Agreement between East Coast Minerals and Exchange Minerals FZE in relation to the Proposed Acquisition dated 3 February 2011
IER	This Independent Expert's Report prepared by BDO Securities
JORC Code	A widely accepted code of practice which sets out the minimum public reporting standards for exploration results, mineral resources and ore reserves in Australia and New Zealand (refer Appendix D)
KMI	Kärntner Montanindustrie Gesellschaft m.b.H, the vendor of the Austrian Lithium Project
KMI Acquisition	Acquisition of the Austrian Lithium Project by ECM Lithium No. 1 from KMI which was completed on 12 September 2011 pursuant to a Share Sale and Purchase agreement entered into on 7 July 2011
KMI Security Charge	KMI's pledge over the shares in ECM Lithium No. 1 until the Deferred Consideration for the Austrian Lithium Project is paid in full

Term	Definition
Li <sub>2</sub> O	Lithium Oxide
Non-Associated Shareholders	Shareholders of East Coast Minerals other than Exchange Minerals and its associates
Options	Being the 90,000,000 options which East Coast Minerals proposes to issue to Exchange Minerals pursuant to the Subscription Agreement
Option Fee	Exclusivity fee of €550,000 payable by ECM Lithium No. 1 to KMI to negotiate the KMI Acquisition
Participation Rights	Exchange Minerals' right to receive 4% of the consolidated EBIT of ECM Lithium No.1 and in the event of a disposal of the Austrian Lithium Project, 4% of the disposal proceeds, under the Participation Rights Agreement
Participation Rights Agreement	Participation Rights Agreement entered into between Exchange Minerals and ECM Lithium No.1 dated 30 June 2011 (as amended by a 3-Party-Agreement dated 13 September 2011)
Proposed Acquisition	Proposed acquisition of 80% equity interest in ECM Lithium by East Coast Minerals from Exchange Minerals together with the assignment of the Seller Loan
Purchase Consideration	Being the purchase consideration for the Proposed Acquisition
SPA	Share sale and purchase agreement between East Coast Minerals and Exchange Minerals in relation to the Proposed Acquisition dated 8 August 2011 (as amended by the Deed of Variation)
Seller Loan	Loans made by Exchange Minerals to fund certain expenditures of ECM Lithium Group, including ECM Lithium No. 1's payment of Tranche 1 and Tranche 2 of the consideration for the Austrian Lithium Project
Shareholders' Agreement	Shareholders' Agreement to be entered into between East Coast Minerals, Exchange Minerals and ECM Lithium in relation to ECM Lithium
Subscription Agreement	Agreement between East Coast Minerals and Exchange Minerals in relation to the subscription of 90,000,000 options to acquire fully-paid ECM Shares by Exchange Minerals dated 9 August 2011 (as amended by the Deed of Variation)
VAT	Value added tax
VWAP	Volume Weighted Average Price

*All currencies are stated in Australian dollars unless stated otherwise*

## II. FINANCIAL SERVICES GUIDE

BDO Securities (NSW-VIC) Pty Ltd ABN 82 065 203 492 ("BDO Securities" or "we" or "us" or "ours" as appropriate) has been engaged to issue general financial product advice in the form of a report to be provided to you.

### 1 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.

The 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: 222438
- 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 complaints handling procedures and how you may access them.

### 2 FINANCIAL SERVICES WE ARE LICENSED TO PROVIDE

We hold an Australian Financial Services Licence which authorises us to provide general financial product advice to retail and wholesale clients on securities and interests in managed investment schemes.

We provide financial product advice by virtue of an engagement to issue a report in connection with a financial product of another person. Our report will include a description of the circumstances of our engagement and identify the person who has engaged us. You will not have engaged us directly but will be provided with a copy of the report as a retail client because of your connection to the matters in respect of which we have been engaged to report.

Any report we provide is provided on our own behalf as a financial services licensee authorised to provide the financial product advice contained in the report.

### 3 GENERAL FINANCIAL PRODUCT ADVICE

In our report we provide general financial product advice, not personal financial product advice, because it has been prepared without taking 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. Where the advice relates to the acquisition or possible acquisition of a financial product, you should also obtain a product disclosure statement relating to the product and consider that statement before making any decision about whether to acquire the product.

### 4 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 will be agreed on an hourly basis or as a fixed amount depending on the terms of the agreement. In this instance, the Company has agreed to pay us \$130,000 for preparing the Report

Except for the fees referred to above, neither BDO Securities, 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.

### 5 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.

### 6 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.

### 7 ASSOCIATIONS AND RELATIONSHIPS

BDO Securities is a wholly owned subsidiary of BDO (NSW-VIC) Pty Ltd, which is a member of an Australian association of independent accounting and management consulting firms trading under the name of "BDO".

From time to time BDO Securities or BDO and/or BDO related entities may provide professional services, including audit, tax and financial advisory services, to financial product issuers in the ordinary course of its business.

### 8 INDEPENDENCE

BDO Securities is independent of the entity that engages it to provide a report. The guidelines for independence in the preparation of reports are set out in the Regulatory Guide 112 issued by the Australian Securities and Investments Commission in March 2011. BDO Securities operates independently of the other members of BDO International in Australia.

We note BDO Graz GmbH Wirtschaftsprüfungs- und Steuerberatungsgesellschaft (Austria) prepared an Information Memorandum in relation to the sale of the Austrian Lithium Project on behalf of KMI. As stated above, BDO Securities operates independently of BDO International members.

### 9 COMPLAINTS RESOLUTION

#### 9.1 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 Securities, GPO Box 4736, Melbourne VIC 3001.

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.

#### 9.2 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 Limited ("FOS"). FOS is an independent company that has been established to impartially resolve disputes between consumers and participating financial services providers.

BDO Securities is a member of FOS (Member Number 11281).

Further details about FOS are available at the FOS website [www.fos.org.au](http://www.fos.org.au) or by contacting them directly via the details set out below.

Financial Ombudsman Service Limited  
GPO Box 3  
MELBOURNE VIC 3001  
Toll free: 1300 78 08 08  
Facsimile: (03) 9613 6399

### 10 CONTACT DETAILS

You may contact us using the details set out at the top of our letterhead of this FSG.

### III. THE PROPOSED ACQUISITION

#### Overview

32. On 4 February 2011, East Coast Minerals NL announced that the Company had entered into a HoA with Exchange Minerals FZE to exclusively negotiate the Proposed Acquisition. East Coast Minerals also announced that a wholly-owned subsidiary of ECM Lithium, ECM Lithium No. 1, had in turn entered into a Heads of Agreement to acquire the Austrian Lithium Project.
33. On 20 May 2011, Exchange Minerals FZE sold its shareholding in ECM Lithium to Exchange Minerals, each holding a 50% equity interest in ECM Lithium after the sale. Exchange Minerals FZE and Exchange Minerals are wholly owned by the same ultimate shareholder, Mr Michael Shmazian.
34. On 8 August 2011, East Coast Minerals entered into the SPA, which is subject to inter alia, the completion of the KMI Acquisition.
35. On 12 September 2011, ECM Lithium No. 1 completed the KMI Acquisition pursuant to a share sale and purchase agreement entered into on 7 July 2011. The cash consideration payable by ECM Lithium No. 1 for the Austrian Lithium Project is €9,700,000 (plus 20% VAT)<sup>8</sup> comprising:
  - €300,000, paid on 7 July 2011 (“Tranche 1”);
  - €3,400,000, paid on 3 August 2011 into an escrow account and released upon completion on 12 September 2011 (“Tranche 2”);
  - €2,500,000, payable on 31 December 2011 (“Tranche 3”); and
  - €3,500,000, payable on 30 April 2012 (“Tranche 4”).
36. Payment of the Deferred Consideration for the Austrian Lithium Project is secured against the shares in ECM Lithium No. 1. In addition, should ECM Lithium No. 1 default on the payment of Tranche 3 or Tranche 4 of the consideration, ECM Lithium No. 1 is required to transfer the licenses back to KMI. Any payments made by ECM Lithium No. 1 for the Austrian Lithium Project are not refundable.
37. Pursuant to the terms of the SPA, East Coast Minerals will:
  - issue 16,744,444 fully paid ECM Shares to Exchange Minerals in full satisfaction of the Exchange Option Fee. The Exchange Option Fee is a reimbursement of the Option Fee paid by ECM Lithium No. 1 to KMI that was funded by Exchange Minerals. The loan provided by Exchange Minerals to pay the Option Fee has been capitalised into ordinary shares in ECM Lithium;

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<sup>8</sup> We are advised that the management of East Coast Minerals has been informed by Exchange Minerals that ECM Lithium No. 1 will apply to the Austrian tax authority for a waiving of the tax credit, accordingly we have not considered the impact of VAT in our assessment of the Proposed Acquisition.

- pay cash consideration of \$1.00 for the 80% equity interest in ECM Lithium; and
- issue a preliminary 100,000,000 fully paid ECM Shares to Exchange Minerals as consideration for the assignment of the Seller Loan to East Coast Minerals. The number of fully paid ECM Shares to be issued to Exchange Minerals may be adjusted post completion of the Proposed Acquisition as follows:
  - If the Seller Loan amount exceeds the Seller Loan Estimate, additional fully paid ECM Shares will be issued to Exchange Minerals at an issue price of \$0.045 per share; and
  - If the Seller Loan Estimate exceeds the Seller Loan amount, Exchange Minerals will pay the excess to East Coast Minerals or elect to require East Coast Minerals to cancel such number of fully paid ECM Shares held by Exchange Minerals at \$0.045 per share.

Upon assignment of the Seller Loan, East Coast Minerals will be issued one redeemable preference share in ECM Lithium at a subscription price of US\$1 as full settlement of the Seller Loan. The redeemable preference share will then be redeemed by ECM Lithium for US\$1.

The fully paid ECM Shares to be issued to Exchange Minerals will be escrowed for one year from the date of issue.

38. As part of the terms of the Proposed Acquisition:

- East Coast Minerals will enter into a Shareholders' Agreement with Exchange Minerals and ECM Lithium pursuant to which East Coast Minerals will, inter alia, provide interest-free loans to ECM Lithium to fund ECM Lithium Group's expenditure up to the decision to mine the tenements, including the Deferred Consideration totalling €6,000,000 payable by ECM Lithium No. 1 for the Austrian Lithium Project. At the end of each financial year, East Coast Minerals will be issued one redeemable preference share in ECM Lithium at a subscription price of US\$1 in full settlement of all outstanding loans made by East Coast Minerals to ECM Lithium. The redeemable preference share will then be redeemed by ECM Lithium for US\$1. If East Coast Minerals defaults on its obligations to fund ECM Lithium Group, Exchange Minerals has the right to acquire East Coast Minerals 80% equity interest in ECM Lithium for no consideration; and
- ECM Lithium No. 1 entered into a Participation Rights Agreement with Exchange Minerals dated 30 June 2011 (as amended by a 3-Party-Agreement dated 13 September 2011) pursuant to which Exchange Minerals has contributed capital into ECM Lithium No. 1 in exchange for the right to receive 4% of the consolidated EBIT of ECM Lithium No. 1 and its subsidiaries, and in the event of a disposal of the Austrian Lithium Project, 4% of the disposal proceeds. The latter is not payable if ECM Lithium No. 1 is successful in procuring from the prospective purchaser a royalty of 2% p.a. of net smelter revenues in favour of Exchange Minerals. The profit participation is payable annually until ECM Lithium Group ceases to hold any interest in the Austrian Lithium Project. In a separate agreement, East Coast Minerals will provide a guarantee over the obligations of ECM Lithium No. 1 under the Participation Rights Agreement.

39. Pursuant to a Deed of Variation dated 14 September 2011, among others, the SPA was subsequently amended to take into consideration the Exchange Minerals Loan Facility of €1,200,000 provided by Exchange Minerals to ECM Lithium No. 1 under the Facility Letter. The Exchange Minerals Loan Facility is separate to the Seller Loan and is provided for the purpose of providing ECM Lithium No. 1 with the required funds to commence its activities, being a condition of the Austrian mining authority prior to approving the transfer of the exploration and mining licenses from KMI to ECM Lithium No. 1. The key terms of the Exchange Minerals Loan Facility include:
- interest rate of 12% per annum;
  - repayable as and when East Coast Minerals provides funding to ECM Lithium to fund ECM Lithium Group's expenditure under the terms of the Shareholders' Agreement, or within one year after the loan is made, whichever is earlier; and
  - as security for the loan, ECM Lithium granted a charge to Exchange Minerals over its shareholding in ECM Investments, being the holding company of ECM Lithium No. 1.
40. Subject to the completion of the SPA, East Coast Minerals will also issue Exchange Minerals 90,000,000 Options pursuant to the Subscription Agreement entered into on 9 August 2011 (as amended by the Deed of Variation dated 14 September 2011). The key terms of the Options are as follows:
- each option entitles the holder to acquire one fully paid ECM Share on exercise;
  - the exercise price is \$0.04 per option;
  - options are exercisable on or before 15 April 2012; and
  - the options are transferable and will not be listed.
- East Coast Minerals will receive a subscription price of \$180,000 from Exchange Minerals upon issue of the Options and a maximum of \$3,600,000 if the Options are exercised by Exchange Minerals.
- The purpose of the 90,000,000 Options, should they be exercised, is to provide East Coast Minerals with funding to pay Tranche 4 of the Deferred Consideration of the KMI Acquisition which the Company agreed to fund under the terms of the Shareholders Agreement.
41. Other key terms of the Shareholders' Agreement include, inter alia, the following:
- East Coast Minerals is entitled to appoint one Director for each 20% of ECM Lithium's total issued shares held by East Coast Minerals;
  - Exchange Minerals is entitled to appoint one Director for so long as at least 10% of ECM Lithium's total issued shares are held by Exchange Minerals; and
  - East Coast Minerals has a pre-emptive right to the 20% equity interest held by Exchange Minerals in ECM Lithium.

### Conditions Precedent

42. The SPA is subject to the satisfaction of a number of conditions precedent including, inter alia, the following:
- results of the due diligence investigation of ECM Lithium by East Coast Minerals;
  - approval of the shareholders of East Coast Minerals for:
    - the acquisition of the 80% equity interest in ECM Lithium;
    - the issue of ECM Shares under the SPA;
    - the appointment of Exchange Minerals' nominee as a director of East Coast Minerals; and
    - all the transactions contemplated by the SPA, the deed of termination under which the HOA is terminated, Shareholders' Agreement, Facility Letter, Exchange Charge, Participation Rights Agreement and Deed of Guarantee;
  - completion of the KMI Acquisition; and
  - ECM Lithium Group's assets being free from all encumbrances except for the Exchange Charge and KMI Security Charge.
43. The Subscription Agreement is subject to the satisfaction of the following conditions precedent:
- East Coast Minerals shareholder approval for the issue of the Options; and
  - completion of the SPA.
44. Further details on the conditions precedent to the Proposed Acquisition are set out in East Coast Minerals Explanatory Memorandum that this report accompanies.

#### IV. BASIS OF OUR EVALUATION OF THE PROPOSED ACQUISITION

##### Basis of Evaluation

45. The term “fair and reasonable” does not have any statutory definition, although, over time, a commonly accepted meaning has evolved. The Australian Securities and Investment Commission (“ASIC”) has issued Regulatory Guide 111 *Content of expert reports* (“Regulatory Guide 111”) which provides some guidance to the use of that term.
46. Regulatory Guide 111 attempts to provide a precise definition of fair and reasonable. The Regulatory Guide continues earlier regulatory guidelines that created a distinction between “fair” and “reasonable”.
47. Fairness is said to involve a comparison of the value of the offer price with the value that may be attributed to the securities that are the subject of the offer. This comparison should be made assuming 100% ownership of the target and irrespective of whether the consideration is scrip or cash. The expert should not consider the percentage holding of the bidder or its associates in the target when making this comparison.
48. Reasonableness is said to involve an analysis of other factors that shareholders might consider prior to approving a proposed transaction, such as:
  - the bidder’s pre-existing voting power in securities in the target;
  - other significant security holding blocks in the target;
  - the liquidity of the market in the target’s securities;
  - taxation losses, cash flow or other benefits through achieving 100% ownership of the target;
  - any special value of the target to the bidder, such as particular technology or the potential to write off outstanding loans from the target;
  - the likely market price if the offer is unsuccessful; and
  - the value to an alternative bidder and likelihood of an alternative offer being made.

A bidder may also offer a price which is “not fair” where the target is in financial distress. Such an offer may nonetheless be reasonable if the alternative methods of remedying the financial distress are likely to be less attractive to shareholders than a successful offer.

49. For the purpose of this report, BDO Securities has treated “fair” and “reasonable” as separate concepts in accordance with Regulatory Guide 111. The Regulatory Guide states that an offer is “reasonable” if it is “fair”. An offer might also be “reasonable” if despite being “not fair”, the expert believes that there are sufficient reasons for shareholders to accept the offer in the absence of a higher bid.
50. For the purpose of our opinion, fair market value is defined as the price that could be negotiated in an open and unrestricted market between a willing, knowledgeable but not anxious buyer and a willing, knowledgeable but not anxious vendor acting at arm's length, each believing that they have complete information with respect to the asset being sold.
51. We have also given due consideration to relevant matters in other ASIC guidelines, including Regulatory Guide 76 *Related party transactions* and Regulatory Guide 112 *Independence of experts*.

#### Adopted Approach

52. In considering whether the Proposed Acquisition is fair and reasonable to the Non-Associated Shareholders, we have considered a number of factors, including:
  - comparing the value of the consideration payable by East Coast Minerals to Exchange Minerals, with the value of the 80% equity interest in ECM Lithium and the Seller Loan to be acquired;
  - advantages and disadvantages associated with the Proposed Acquisition;
  - alternative options available;
  - implications if the Proposed Acquisition is not approved; and
  - other significant matters associated with the Proposed Acquisition that could potentially affect the Non-Associated Shareholders.

#### Information Used

53. In preparing this report, we have used and relied upon the information set out in **Appendix B** and representations made by the management of East Coast Minerals.
54. We have conducted checks, enquiries and analysis on the information provided to us that we consider appropriate for the purpose of this report. Based on this evaluation, we consider that the information used as the basis for forming the opinions in this report is accurate, complete and not misleading and we have no reason to believe that material information relevant to our report has been withheld. However, we do not warrant that our enquiries have identified all of the matters that an audit or extensive examination might disclose. Preparation of this report should not be taken to imply that BDO Securities has in any way, carried out an audit of the accounts or other records of East Coast Minerals or ECM Lithium Group.

55. Our assessment has been made as at the date of our report. Economic conditions, market factors and performance change may result in this report becoming outdated. We reserve the right to review our assessments and, if we consider it necessary, to issue an addendum to our report in light of any relevant material information that subsequently becomes known to us prior to the General Meeting to vote on the Proposed Acquisition.

**Scope Exclusions**

56. The sole purpose of this report is an expression of our opinion as to whether the Proposed Acquisition is fair and reasonable to the Non-Associated Shareholders in order to assist the Non-Associated Shareholders in considering whether to approve the Proposed Acquisition. This report has not been prepared to provide information to parties considering the purchase or sale of any equity or other security in East Coast Minerals. Accordingly, we do not assume any responsibility or liability for any losses suffered as a result of the use of this report contrary to the provisions in this paragraph.

## V. PROFILE OF EAST COAST MINERALS

### Overview

57. East Coast Minerals is principally involved in the exploration of silver and base metal mineralisation in Western Australia. The Company was incorporated in 1969 and listed on the ASX in 1970.
58. In June 2011, East Coast Minerals listed on the Open Market of the Frankfurter Wertpapierbörse (Frankfurt Stock Exchange).
59. East Coast Minerals has interests located in Elizabeth Hill (69.88%), Gossan Dam (80%) and Kurabuka Creek (80%), Western Australia.
60. Since the establishment of the Elizabeth Hill silver mine and subsequent closure in 2000, East Coast Minerals has not been successful in diversifying its tenement portfolio or exploring its existing tenements due in part to financial constraints.
61. Following a change in the ECM Board and a restructure of the cross-shareholdings in a number of the Company's investments in 2008, the ECM Board decided to implement a new strategy to revitalise the Company by:
  - exploring existing tenements with new vigour; and
  - looking for new prospects, joint ventures and investments in the mining and exploration sectors in Australia and elsewhere.
62. In 2009, East Coast Minerals acquired a controlling interest in Energie Future NL ("Energie Future"), a company involved in the underground coal gasification sector with its principal investment being an application for coal mining exploration licenses in the Sydney Basin. Following failed negotiations with the technology providers and disputes with the minority shareholders of Energie Future, East Coast Minerals announced on 20 August 2010 that it had sold its 56.54% shareholding in Energie Future to the minority shareholders for \$1.00. East Coast Minerals investment in Energie Future was fully written-off (inclusive of an investment of US\$100,000 in a preference share in Energie Future which was part of the settlement arrangement). All agreements between East Coast Minerals and the minority shareholders of Energie Future were terminated.
63. On 29 April 2010, East Coast Minerals announced that the Company had entered into a conditional Heads of Agreement with Exchange Minerals FZE to acquire up to a 70% equity interest in Potash Holdings Pty Limited ("Potash Holdings"). Potash Holdings had a subsidiary, West Coast Potash Pty Ltd ("WCP") that is the owner of 13 contiguous tenements in the Southern Carnarvon Basin of Western Australia. Potash Holdings is a wholly-owned subsidiary of Exchange Minerals and has acquired WCP in a staged arrangement from an external third party. On 15 November 2010, East Coast Minerals announced that the Company would not be pursuing the acquisition of Potash Holdings. Exchange Minerals FZE met all costs in relation to the acquisition of WCP.
64. Presently, East Coast Minerals has one wholly-owned subsidiary, being East Coast Metals Pty Limited.

66. Exchange Minerals FZE acquired partly paid shares in East Coast Minerals in June 2009. Since then, Exchange Minerals FZE has provided financial support to the Company in the form of secured convertible loan and unsecured loan facilities. On 29 November 2010, the shareholders of East Coast Minerals approved the issue of Convertible Notes to Exchange Minerals (including the recapitalisation of previous loans from Exchange Minerals). On 28 January 2011, Exchange Minerals converted the entire \$1.92 million Convertible Notes into 46,287,663 ECM Shares at \$0.0415 per share.

#### **Mining and mineral exploration investment**

67. East Coast Minerals currently holds the following interests:

##### ***Elizabeth Hill Project (69.88%)***

68. East Coast Minerals holds a 69.88% interest in the Elizabeth Hill project through a joint venture exploration operation with Legend Mining Limited (“**Legend Mining**”). Elizabeth Hill is located 25 km south of Karratha in the West Pilbara region of Western Australia. Silver was mined by East Coast Minerals and Legend Mining from the Elizabeth Hill underground mine between 1998 and 2000. 16,800 tonnes of ore grading 70 ounces per tonne (“**oz/t**”) was mined to produce 1,170,000 ounces of silver. Exploratory efforts continued until December 2002 but drilling failed to locate any further mineralisation.

69. East Coast Minerals is presently undertaking a re-estimation of the remaining historical shallow silver resource and a review of the economics of the mine.

##### ***Gossan Dam (80%)***

70. The exploration license over Gossan Dam is located near Mukinbudin, 300km south east of Perth in Western Australia. No resource has been identified in the area but significant mineralisation has been identified by rock chip sampling and drilling from previous operators.

##### ***Kurabuka Creek (80%)***

71. Kurabuka Creek is located within the Gascoyne region mineral field in Western Australia and is prospective for base metals and silver. An exploration application for this tenement has been lodged.

### Historical financial performance

72. East Coast Minerals' consolidated financial performance for the financial years ("FY") ended 30 June 2009, 30 June 2010, 6 months ended 31 December 2010 and the financial year ended 30 June 2011 are summarised below.

\$'000	Audited FY2009	Audited FY2010	Reviewed 6 months to 31 Dec 2011	Unaudited FY2011
Revenue	15	18	2	30
Consultancy fees	(786)	(1,330)	(562)	(1,242)
Compliance costs	(81)	(108)	(46)	(100)
Depreciation expenses	(1)	(2)	*	*
Directors, officers and employee benefits	(163)	(577)	(233)	(405)
Occupancy expenses	(41)	(66)	(32)	(63)
Finance expenses	(2)	(61)	(104)	(205)
Legal fees	(63)	(408)	(50)	(151)
Loss on disposal of investments	(493)	-	(341)	(341)
Impairment expenses	(533)	(555)	-	*
Other expenses	(224)	(277)	(78)	(436)
<b>Loss before income tax</b>	<b>(2,369)</b>	<b>(3,366)</b>	<b>(1,445)</b>	<b>(2,914)</b>
Income tax benefit/(expense)	-	-	-	-
<b>Loss for the period</b>	<b>(2,369)</b>	<b>(3,366)</b>	<b>(1,445)</b>	<b>(2,914)</b>
Non-controlling interest	31	314	(399)	-
<b>Loss for the period attributable to the owners of the parent</b>	<b>(2,339)</b>	<b>(3,052)</b>	<b>(1,844)</b>	<b>(2,914)</b>

Source: East Coast Minerals Annual Report for FY2009 and FY2010, Interim Financial Report for the 6 months ended 31 December 2011 and management accounts for FY2011.

\* Being less than \$1,000

73. In relation to East Coast Minerals historical performance, the following comments are made:

- East Coast Minerals generated minimal revenue and incurred losses during the periods under review.
- Revenues earned during FY2009 and FY2010 are mainly attributable to cost reimbursements by joint venture partner Legend Mining in relation to the Elizabeth Hill mine.
- Consultancy fees increased during the period under review due mainly to:
  - consultancy fees paid to Gravner Limited ("Gravner") pursuant to a corporate advisory agreement entered into between East Coast Minerals and Gravner. Gravner is an investment and advisory company specialising in providing corporate advisory services to small to medium resource companies in Australia and overseas. The corporate advisory agreement with Gravner was terminated in 2010;

- amounts paid to the managing director of Energie Future, which was subsequently disposed of in 2010;
- consultancy fees paid in relation to the proposed acquisition of Potash Holdings which was aborted in November 2010; and
- consultancy fees paid in relation to the Proposed Acquisition in FY2011.
- Directors, officers and employee benefits increased in FY2010 largely due to the issue of additional options and shares to Directors.
- Loss on disposal of investments in FY2009 relate mainly to the divestment of East Coast Minerals interests in various listed and unlisted investments in related parties. FY2011 loss on disposal of investments relates to the sale of the 56.54% interest in Energie Future.
- Impairment expenses in FY2008 include the write-down of the mining lease at Elizabeth Hill as a result of an independent valuation. The impairment expenses in FY2009 and FY2010 relate to impairment of existing tenements and the investment in Energie Future.
- Legal fees increased in FY2010 due largely to legal advice sought in relation to:
  - drafting of shareholders' agreement and litigation claims brought about by the minority shareholders in relation to the investment in Energie Future; and
  - explanatory memorandums for various general meetings.

### Financial position

74. East Coast Minerals' consolidated financial position as at 30 June 2009, 30 June 2010, 31 December 2010 and 30 June 2011 are summarised below.

\$'000	Audited 30 Jun 09	Audited 30 Jun 10	Reviewed 31 Dec 10	Unaudited 30 Jun 11
<b>Current Assets</b>				
Cash and cash equivalents	49	301	66	1,333
Trade and other receivables	64	313	56	39
Financial assets	-	-	-	-
	<b>113</b>	<b>613</b>	<b>121</b>	<b>1,372</b>
<b>Non-current Assets</b>				
Trade and other receivables	27	-	-	-
Financial assets	8	*	*	*
Property, plant and equipment	2	1	1	4
Exploration and evaluation expenditure	545	467	502	567
Intangible assets	1	-	-	-
	<b>583</b>	<b>468</b>	<b>503</b>	<b>571</b>
	<b>696</b>	<b>1,081</b>	<b>624</b>	<b>1,943</b>
<b>Current Liabilities</b>				
Trade and other payables	597	521	256	167
Financial liabilities	-	1,611	1,837	-
	<b>597</b>	<b>2,133</b>	<b>2,094</b>	<b>167</b>
<b>Net assets</b>	<b>99</b>	<b>(1,051)</b>	<b>(1,470)</b>	<b>1,777</b>
<b>Equity</b>				
Issued Capital	9,182	11,046	11,916	16,632
Reserves	320	673	527	527
Retained losses	(9,319)	(12,371)	(13,913)	(15,382)
<b>Parent entity interest</b>	<b>183</b>	<b>(652)</b>	<b>(1,470)</b>	<b>1,777</b>
Non-controlling interest	(85)	(399)	-	-
<b>Total equity</b>	<b>99</b>	<b>(1,051)</b>	<b>(1,470)</b>	<b>1,777</b>

Source: East Coast Minerals Annual Report FY2009 and FY2010, Interim Financial Report for the 6 months ended 31 December 2011 and management accounts for FY2011

\* Being less than \$1,000

75. In relation to East Coast Minerals historical financial position, the following comments are made:

- The increase in cash at 30 June 2011 reflects recent capital raisings, including the issue of 87,500,000 fully paid East Coast Minerals Shares at \$0.03 per share (totalling \$2.62 million) to raise additional cash to partially fund the Proposed Acquisition and working capital requirements.
- The increase in trade receivables in FY2009 is due mainly to recharges to Legend Mining for their share of expenditure in relation to the Elizabeth Hill project, which is offset against exploration and evaluation expenditure.

- The financial assets held as at 30 June 2008 relate mainly to listed and unlisted investments in related parties, including Esperance Minerals NL, Greenvale Mining NL and Minga Pty Limited. These investments were divested in FY2009 as part of an exercise to rationalise cross-shareholdings among the companies.
- Exploration and evaluation expenditure relates mainly to the Elizabeth Hill project.
- Loans from Exchange Minerals were obtained to finance working capital and exploration expenditure. On 29 November 2010, the shareholders of East Coast Minerals approved the issue of Convertible Notes to Exchange Minerals (including the recapitalisation of previous loans from Exchange Minerals). On 28 January 2011, Exchange Minerals converted the entire \$1.92 million Convertible Notes into 46,287,663 ECM Shares at \$0.0415 per share.
- Management has advised that East Coast Minerals does not have any contingent liabilities.
- The audited accounts of East Coast Minerals are unqualified as at 30 June 2010 based in part on:
  - the ability of East Coast Minerals to call on the partly paid shares; and
  - a letter of continuing financial support from Exchange Minerals FZE to provide financial support as required, including underwriting a capital raising of up to \$2 million.

### Recent Capital Raisings

76. Recent capital raising activities of East Coast Minerals are summarised below:

Date	Details	Issue Price \$	No. of Shares	Value \$
Apr-11	Exercise of options	0.04	625,000	25,000
Apr-11	Payment of partly paid shares	0.06	375,000	22,500
Mar-11	Exercise of options	0.04	500,000	20,000
Mar-11	Issue of shares to raise additional cash to fund the Proposed Acquisition and working capital requirements	0.03	87,500,000	2,625,000
Feb-11	Payment of partly paid shares	0.06	375,000	22,500
Feb-11	Exercise of options	0.04	5,500,000	220,000
Jul-10	Issue of shares to raise additional working capital	0.021	4,120,133	86,523
Jul-10	Issue of shares to raise additional working capital	0.0263	11,140,684	293,000
Jul-10	Issue of shares to raise additional working capital	0.021	24,809,525	521,000
Jun-10	Issue of shares to raise additional working capital	0.02	11,000,000	220,000

Source: ASX Announcements

77. Funds raised have primarily been used to fund working capital requirements and in anticipation of potential acquisitions by East Coast Minerals.

### Equity Capital Structure

78. As at 18 August 2011, East Coast Minerals has the following securities on issue:

Type of security	Number of securities
<b>Listed securities</b>	
Fully paid ordinary shares	268,886,586
<b>Total listed securities</b>	<b>268,886,586</b>
<b>Unlisted securities</b>	
Partly paid ordinary shares	40,967,538
Options for fully paid ordinary shares	86,804,657
Options for partly paid ordinary shares	14,250,000
<b>Total unlisted securities</b>	<b>142,022,195</b>

Source: Management of East Coast Minerals

### Fully Paid Ordinary Shares

79. As at 18 August 2011, the top twenty shareholders of East Coast Minerals' fully paid ordinary shares are as follows:

Shareholder	Number of shares	%
Top twenty shareholders	141,941,376	52.8%
Others	126,945,210	47.2%
<b>Total fully paid ordinary shares</b>	<b>268,886,586</b>	<b>100.0%</b>

Source: Management of East Coast Minerals

80. The fully paid ECM Shares are listed on the ASX.

### Partly Paid Ordinary Shares

81. As at 19 August 2011, the top twenty shareholders of East Coast Minerals' partly paid ordinary shares are as follows:

Shareholder	Number of shares	%
Top twenty shareholders	37,460,587	91.4%
Others	3,506,951	8.6%
<b>Total party paid ordinary shares</b>	<b>40,967,538</b>	<b>100.0%</b>

Source: Management of East Coast Minerals

82. Each partly paid ECM Share is paid up to \$0.02 with \$0.06 uncalled (total issue price is \$0.08) and are not listed.

### Options to Acquire Fully Paid Ordinary Shares

83. As at 18 August 2011, East Coast Minerals has the following options to acquire fully paid ECM Shares:

Number	Exercise Price	Expiry Date
3,000,000	0.20	21/12/2011
12,000,000 <sup>1</sup>	0.04	8/12/2013
33,304,658	0.04	14/07/2013
38,499,999	0.04	14/07/2013
<b>86,804,657</b>		

Source: Management of East Coast Minerals

Notes:

- <sup>1</sup> These options are exercisable 60 days following the date of any trade in East Coast Minerals' shares which is equal to or greater than \$0.06

### Options to Acquire Partly Paid Ordinary Shares

84. As at 18 August 2011, East Coast Minerals has the following options to acquire partly paid ECM Shares:

Number	Exercise Price	Expiry Date
6,250,000 <sup>1</sup>	-	27/11/2012
5,000,000 <sup>1</sup>	-	30/04/2013
3,000,000 <sup>2</sup>	-	31/10/2011
<b>14,250,000</b>		

Source: Management of East Coast Minerals

Notes:

- <sup>1</sup> Being options to acquire partly paid "A" shares of \$0.09 each, credited as paid up to \$0.01. The options are exercisable 60 days following the date of any trade in East Coast Minerals shares which is equal to or greater than \$0.20
- <sup>2</sup> Being options to acquire partly paid shares of \$0.09 each, credited as paid up to \$0.01. The options are exercisable when the market price of East Coast Minerals shares on issue exceeds \$0.20 for more than 5 consecutive trading days

### Proposed Issue of Securities

85. On 16 September 2011, East Coast Minerals held an Extraordinary General Meeting pursuant to which the shareholders approved, inter alia, the following:
- Proposed issue of 5,250,000 options to acquire fully paid ordinary shares, with an exercise price of 4 cents and expiring on 14 July 2013, for nil consideration.
  - Proposed issue of 5,000,000 options to Anthony Roberts, a Director of East Coast Minerals to acquire fully paid ordinary shares, with an exercise price of 4 cents and expiring on 31 December 2013, for nil consideration. The options are exercisable at any time from the date that is 60 days after the date on which any trade in the Company's shares recorded on ASX equals or is greater than 6 cents a share.
  - Proposed issue of 32,000,000 convertible redeemable shares ("CR Shares") to the Directors of East Coast Minerals for an issue price equal to the market value of the CR Shares as at the date of the proposed issue ("Issue Price"). The Directors may convert the CR Shares into fully paid ordinary shares where:
    - the fully paid ordinary shares of East Coast Minerals listed on the ASX have a Volume Weighted Average Price ("VWAP") equal to or greater than 15 cents each for 45 consecutive trading days; or
    - the JORC mineral resource (measured) of the Austrian Lithium Project being equal to or greater than 15 million tonnes.

To convert the CR Shares, the holder will be required to make an additional capital payment to East Coast Minerals equal to 10 cents less the Issue Price already paid.

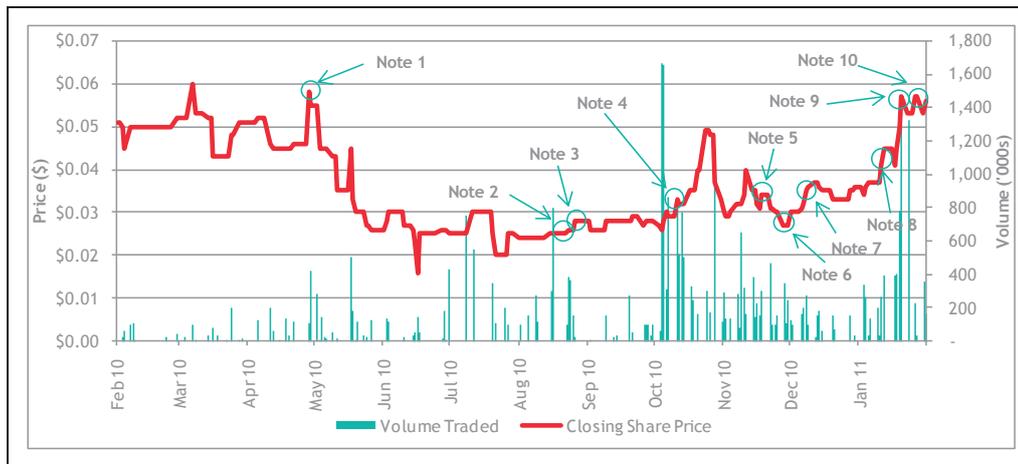
East Coast Minerals will redeem all of the CR Shares that have not been converted by 30 June 2014, or upon resignation of the holder.

East Coast Minerals also proposes to provide financial assistance to the Directors, whereby the Company will loan the Directors an amount equal to the Issue Price to Acquire the CR Shares.

The funds received on exercise of the CR Shares are intended to be used to assist in funding the Proposed Acquisition (including exploration costs), exploration and development of existing tenements and working capital requirements as well as to fund any acquisition of tenements or projects.

### Share Price and Volume History

86. The following chart shows the daily closing share price on the ASX and trading volume of fully paid ECM Shares between 2 February 2010 and 1 February 2011, being the trading day prior to a trading halt on 2 February 2011 and the announcement of the Proposed Acquisition on 4 February 2011:



Source: Bloomberg

87. The key announcements made by East Coast Minerals over the period from 2 February 2010 to 1 February 2011 are summarised below:

Date	Announcement	Note
29/04/2010	East Coast Minerals announced that the Company had entered into a Heads of Agreement to acquire 70% of Potash Holdings from Exchange Minerals	1
20/08/2010	East Coast Minerals announced the disposal of its 56.5% interest in Energie Future for \$1 and write-off of the investment in FY2010	2
25/08/2010	East Coast Minerals announced that the Potash Program of work has been submitted to the West Australian Department of Mines and Petroleum to drill	3
12/10/2010	Trayburn Pty Ltd announced as substantial holder, acquiring 3,313,322 East Coast Minerals shares between 5 and 6 October 2010	4
15/11/2010	The Board announced its decision not to renew its option to acquire the shares in Potash Holdings	5
29/11/2010	Chairman's Address to Shareholders for AGM - The Directors are confident that the Company is close to securing the acquisition of a "new and exciting project"	6
9/12/2010	The Board announced the appointment of Tony Roberts as a director of East Coast Minerals in anticipation of the Company acquiring a project that is in its advanced stages of its exploration	7
17/01/2011	Wayne King Mining Corporation Limited (" <b>Wayne King</b> ") announced as substantial holder, acquiring 7,873,201 ECM Shares on 1 November 2010 (Wayne King is associated with Exchange Minerals FZE as subsequently announced by East Coast Minerals on 10 February 2011)	8
21/01/2011	Wayne King announced as having ceased to be a substantial holder, having disposed off market all of its 7,873,201 ECM Shares between 17 and 18 January 2011	9
28/01/2011	East Coast Minerals announced the conversion of Exchange Minerals FZE's convertible notes into 46,287,663 fully paid ordinary shares at \$0.0415 per share and that the Company is in an advanced stage of reviewing an acquisition outside of Australia	10

Source: ASX Announcements

### Trading Liquidity on ASX

88. An analysis of the volume of trading in the fully paid ECM Shares on ASX over the period to 1 February 2011, being the trading day prior to a trading halt on 2 February 2011 and the announcement of the Proposed Acquisition on 4 February 2011:

Period up to and including 1 February 2011	Closing Share Price (High) \$	Closing Share Price (Low) \$	VWAP \$	Cumulative volume	As a % of issued shares <sup>1</sup>
1 Week	0.057	0.053	0.054	786,420	0.6%
1 Month	0.057	0.034	0.048	6,748,082	5.5%
3 Months	0.057	0.027	0.040	13,294,980	10.8%
6 Months	0.057	0.024	0.035	26,654,848	21.6%
12 Months	0.060	0.016	0.036	33,490,468	33.5%

Source: Bloomberg, BDO Securities Analysis

Notes:

<sup>1</sup> Number of issued shares is calculated as the weighted average fully paid ECM Shares on issue over the relevant periods

89. The table above shows that East Coast Minerals share trading activity for the twelve months prior to the announcement of the Proposed Acquisition represented approximately 33.5% of shares on issue. The two significant spikes in volume in October 2010 were attributable to the acquisition of 3,313,322 fully paid ECM Shares by Trayburn Pty Ltd. The significant spikes in volume that occurred in January 2011 coincided with East Coast Minerals announcement of Wayne King having ceased to be a substantial holder through off market disposals of ECM Shares. Based on the above, we consider the level of trading of ECM Shares to be moderate.
90. The table below illustrates the volume of trading in the fully paid ECM Shares on the ASX post the announcement of the Proposed Acquisition on 4 February 2011:

Period from 4 February 2011 to 11 August 2011	Closing Share Price (High) \$	Closing Share Price (Low) \$	VWAP \$	Cumulative volume	As a % of issued shares <sup>1</sup>
Post Announcement	0.110	0.046	0.093	125,940,581	49.8%

Source: Bloomberg, BDO Securities Analysis

Notes:

<sup>1</sup> Number of issued shares is calculated as the weighted average fully paid ECM Shares on issue over the relevant periods

91. Post announcement, the fully paid ECM Shares have traded between \$0.046 and \$0.110 (up to 11 August 2011), with a VWAP of \$0.093, which is higher than the closing price of \$0.056 on 1 February 2011 prior to a trading halt on 2 February 2011 and the announcement of the Proposed Acquisition on 4 February 2011, and the closing price of \$0.030 on 26 November 2010 being the trading day prior to the announcement that East Coast Minerals is close to securing a “new and exciting project”. This reflects the market’s positive reaction to the Proposed Acquisition. Given this positive reaction, if the Proposed Acquisition does not proceed, it is anticipated the market would react negatively and may result in the share price decreasing to pre announcement levels.

## VI. PROFILE OF EXCHANGE MINERALS

92. Exchange Minerals Limited and Exchange Minerals (Holdings) Limited were incorporated in the British Virgin Islands and Grand Cayman Islands in or around May 2011.
93. Exchange Minerals and Exchange Minerals FZE are wholly owned by the same ultimate shareholder, Mr Michael Shmazian.
94. Exchange Minerals FZE is a privately held company incorporated in the Sharjah Airport International Free Zone, Sharjah, United Arab Emirates. Due to its private nature, there is little publicly available information on the company. The management of East Coast Minerals provided the following information on Exchange Minerals FZE.
95. Exchange Minerals FZE is long-standing facilitator and, where appropriate, financier of grass roots resource project transactions. Exchange Minerals FZE considers it has a specific skill in the evaluation of early stage resource projects and converting those projects into successful operations. Exchange Minerals FZE considers that they have a sound track record of both identifying the right projects and then finding the appropriate people, corporate support and funding so as to create value for its investors.
96. Exchange Minerals FZE has been involved in several transactions across many geographical locations including Australia, Europe, Greenland and Asia.
97. Some of the transactions that Exchange Minerals FZE and its key people have been involved with are as follows:
  - assisted in the facilitation of a Rare Earths project in south Greenland for Greenland Minerals and Energy Limited in 2007;
  - assisting in the acquisition of a Gold project in Austria and acquisition by a United Kingdom based publically listed company known as The Gold Mining Company;
  - assisted in the acquisition by Iron Bark Zinc Limited (formerly Iron Bark Gold Limited) and capital raising of a Zinc project in north Greenland;
  - assisting in the acquisition of a Rare Earths project in Greenland known as "Motzfedlt" which has been acquired by Ram Resources Limited;
  - reopening of the Koolan Island Iron ore project by Aztec Resources Limited which was subsequently acquired by Mount Gibson Limited; and
  - acquisition of the Wo Wo Gap Nickel Laterite project in Papa New Guinea which was acquired by Resource Ming Corporation Ltd.

**VII. PROFILE OF ECM LITHIUM AND THE AUSTRIAN LITHIUM PROJECT**

**Profile of ECM Lithium**

- 98. ECM Lithium was incorporated on 28 January 2011 in the British Virgin Islands.
- 99. ECM Lithium has the following subsidiaries:

Subsidiary	% interest held	Place of incorporation
ECM Lithium AT (Investments) Limited	100%	British Virgin Islands
ECM Lithium AT GmbH	100% (held through ECM Lithium AT (Investments) Limited)	Austria
ECM Operating AT GmbH	100% (held through ECM Lithium AT GmbH)	Austria

Source: Management of East Coast Minerals

**Profile of the Austrian Lithium Project**

- 100. The lithium deposit within the Austrian Lithium Project is located in Weinebene/Koralpe, which is approximately 270 km south west of Vienna and 20 km from Wolfsberg. It is hosted by the medium to high grade metamorphic rocks of the mountain chain “Kroalpe”.



Source : Management of East Coast Minerals

101. The Austrian Lithium Project includes exploration licenses and mining permits on the following plots of land:

Land Register	EZ	KG	Plots
77258	106	77226 Obergosel	1631/2
77258	106	77250 Trum- und Pressinggraben	419/1, 471/1

Source: Management of East Coast Minerals

102. The above plots of land are owned by Glock Gut- und Forstverwaltung GmbH (“**Glock Gut**”). Permission has been granted by Glock Gut to use the land for mining.

### History

103. Historic exploration and trial mining of the Austrian Lithium Project commenced in 1981. The following is a timeline of the exploration completed on the lithium deposit:
- **1981 to 1987:** Geological tectonic mapping of the identified spodumene anomaly to determine the deposits geometry, type of deposit and the mineralisation. During the period 35 prospective trenches (9,940 m<sup>2</sup>, 200 samples) and 64 surface core drill holes (12,012 metres, 500 core samples) were made. Reserves of 13,000,000 tonnes and veins of max 5.5 metres thickness were identified during this work. Trial processing analysis was also performed on the ore mined during 1982 to 1987 by the North Carolina State University.
  - **1987/1988:** Sampling of leads in situ, drilling of further core holes and commencement of initial test mining. A total of 1,389 metres of galleries driven (536 metres as inclined galleries and 853 metres in pegmatite vein) and an additional 37 core drill holes were created with a total of 4,715 metres.
  - **1988/1989:** Extensive trial mining was completed to analyse rock behaviour and suitability of the spodumene for processing. During trial mining, a longwall stoping was created with the aim of determining practicability, costs, layout, drilling pattern and the amount of explosives required. During 1988 testing was undertaken by Austroplan that proved a Li concentrate with a Li<sub>2</sub>O content of 6%.
  - **May 2010:** Existing exploration information was converted into a 3-dimensional model of the deposit by Dr Thomas Obendorfer of MineIT.
104. Based on investigations by East Coast Minerals, there is a total of approximately 18 million tonnes of JORC inferred resource at 1.6% L O.
105. The main commercially exploitable raw material free for mining in the pegmatite veins of the deposit is spodumene. Additional raw materials free for mining are quartz, muscovite, plagioclase and potassiumfeldspar.
106. Approximately €8 million has been expended on the project to date, however the price of lithium in the late 1980s was not high enough for the deposit to be commercially viable.
107. In 1991, KMI acquired the project and has kept the mine on care and maintenance.

### Mining Rights and Agreements

108. Austrian mining law regulates the extraction of mineral raw material in Austria under the Mineral Raw Materials Act (Mineralrohstoffgesetz or "MinroG"). The MinroG applies to prospecting for and mining of mineral raw materials and to the processing of these raw materials if performed by the authorised person in connection with prospecting or mining.
109. Mineral raw materials can be classed as follows:
  - mineral raw materials free for mining;
  - mineral raw materials belonging to the state; and
  - mineral raw materials belonging to the land owner.
110. Lithium is a raw material that is free for mining, and is therefore not subject to property rights of the land owner and may be prospected and mined and respectively extracted by anyone meeting the legal requirements. The raw material does not belong to the land owner and is exempted from the land owner's property rights to the land. Ownership of the raw material by the authorised person is passed onto the authorised person by way of appropriation.
111. Prospecting licences must be obtained in order to develop and explore natural deposits of mineral raw material free for mining and to determine the suitability for mining. The licence grants the exclusive right to develop and explore mineral raw material free for mining. With respect to the Austrian Lithium Project, there are twenty-two prospecting licenses that were extended until 31 December 2014 by official notification from the Federal Ministry of Economic Affairs, Family and Youth as the competent mining authority.
112. Mining licences are required for mining of mineral raw materials and entitle the holder to mine and appropriate the mineral raw materials free for mining that occur in a particular area.
113. On 22 March 2011, mining licenses (Bergbauberechtigungen) for the mining area (Grubenfeld) "Andreas" consisting of the Grebenmaße "Andreas 1-11" were granted to KMI by decree of the Ministry of Economy, Family and Youth.

## VIII. INDUSTRY OVERVIEW

114. Lithium is a soft, silver-white metal chemical element that is represented by the symbol Li. Lithium is the lightest of all metals and is highly reactive and flammable.
115. Lithium does not occur as a pure element in nature but is contained within stable minerals or salts including a range of rock types, brine lakes and sea water. There are only a limited number of resources where lithium can be economically extracted.
116. Lithium and its chemical compounds exhibit a broad range of beneficial properties including:
- the highest electrochemical potential of all metals;
  - an extremely low co-efficient of thermal expansion;
  - fluxing and catalytic characteristics; and
  - acting as a viscosity modifier in melts.
117. Lithium is used in numerous applications such as lithium batteries, glass and ceramics, mould fluxes for steel casting, lubricants, aluminium smelting, air treatment, pharmaceuticals and other chemical applications.
118. Lithium does not have a publicly traded market with prices determined directly by supplier/customer negotiations. Lithium is often quoted as a price per tonne of lithium carbonate equivalent ("LCE") because lithium carbonate (" $\text{Li}_2\text{CO}_3$ ") is commonly used in many industries and is the precursor for most other lithium chemicals.

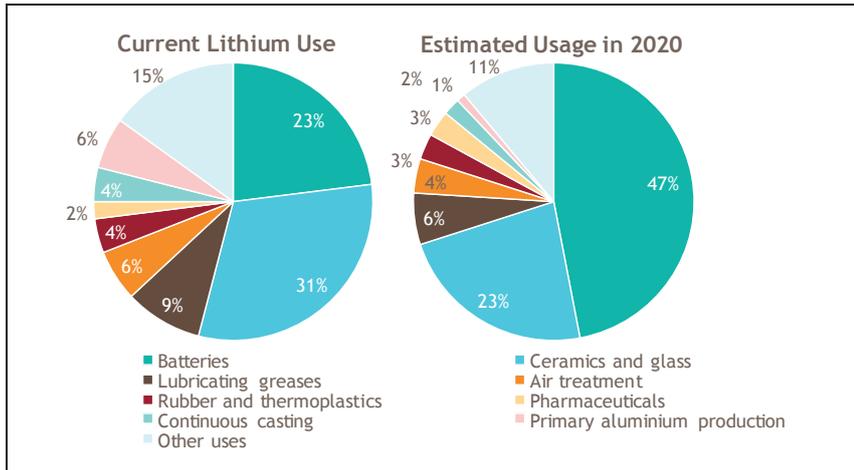
### *Demand*

119. According to research published in January 2011 by TRU Group<sup>9</sup>, an engineering consulting firm:
- a drop in demand in 2009 was due to the global financial crisis<sup>7</sup>;
  - demand is expected to recover to its 2008 levels in 2012;
  - demand growth for 2010 to 2020 will average about 8% per annum which is similar to historical levels during 2002-2007; and
  - batteries will be the dominant end-use of lithium from 2013.

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<sup>9</sup> TRU Group, Shocking Future Battering the Lithium Industry through 2020, January 2011

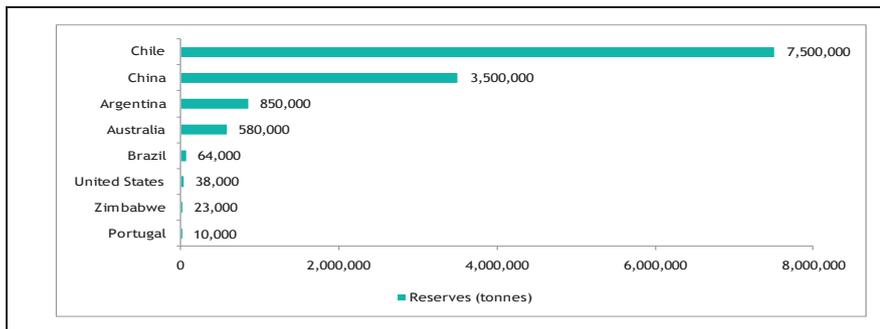
120. Demand for battery-grade lithium carbonate has increased in recent years due to increasing market share of rechargeable lithium batteries for portable electronics. Furthermore, a major growth area for lithium demand is expected to come from the take up of lithium ion batteries for electric vehicles (hybrid and full) as most major auto firms are developing lithium battery powered vehicles.
121. Current and future estimates of end use markets are shown below:



Source: U.S. Geological Survey, Mineral Commodity Summaries, January 2011; TRU Group, *Shocking Future Battering the Lithium Industry through 2020*, January 2011

### Supply of Lithium

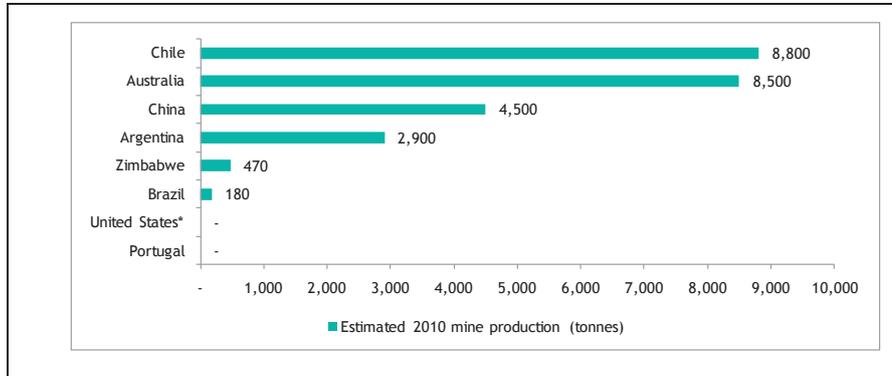
122. Global identified resources whose location, grade, quality and quantity are known or estimated from specific geologic evidence are estimated to be 33,000,000 tonnes<sup>10</sup>. It should be noted there are several estimates of global identified resources ranging from 19,200,000 tonnes to 64,000,000 tonnes. Total world reserves of lithium that are economically viable are estimated to be 12,565,000 tonnes<sup>10</sup>. The below graph shows the location of economically viable reserves of lithium:



Source: U.S. Geological Survey, Mineral Commodity Summaries 2011

<sup>10</sup> U.S. Geological Survey, Mineral Commodity Summaries, January 2011

123. Total estimated world mine production of lithium (excluding the US) for 2010 was 25,350 tonnes.
124. The following graph illustrates estimated 2010 mine production of Lithium:



Source: U.S. Geological Survey, Mineral Commodity Summaries, January 2011, \*US excluded to avoid disclosing company proprietary data as there was only one lithium production company in US.

125. According to research published in January 2011 by TRU Group<sup>11</sup>, the global recession has put the lithium industry into over-supply through to 2013. TRU Group forecast that pipeline projects will continue to increase the supply-demand gap between 2013 and 2015, after which new development projects coming on stream may exacerbate the situation. Serious peak oversupply around 2017 is expected to negatively affect even low cost producers.

### Market Participants

126. The major producers of lithium are:
- SQM , a company listed on the New York Stock Exchange (“NYSE”), which produces lithium from Salar de Atacama in Chile.;
  - Chemetall, a subsidiary of Rockwood Holdings, a company listed on the NYSE, has a large brine operation on the Salar de Atacama in Chile and a small brine operation in Nevada, USA;
  - FMC Corporation, a company listed on the NYSE, which produces lithium from the Salar del Hombre Muerto in Argentina; and
  - Talison Lithium, a company listed on the Toronto Stock Exchange, which has the largest pegmatite source of lithium at its Greenbushes operation in Western Australia. Talison does not produce lithium chemical products itself, instead it sells lithium concentrate to customers for processing into lithium chemicals, primarily lithium carbonate.

<sup>11</sup> TRU Group, Shocking Future Battering the Lithium Industry through 2020, January 2011

## IX. VALUATION METHODOLOGIES

### Definition of Fair Market Value

127. In forming our opinion as to whether or not the Proposed Acquisition is fair and reasonable to the Non-Associated Shareholders, we have assessed the value of the consideration (including the value of ECM Shares) to be paid and the value of the shares in ECM Lithium together with the value of the Seller Loan to be acquired, on a fair market value basis.
128. Fair market value is defined as the price that could be negotiated in an open and unrestricted market between a willing, knowledgeable but not anxious buyer and a willing, knowledgeable but not anxious vendor acting at arm's length, each believing that they have complete information with respect to the asset being sold.

### Valuation Methodologies

129. The value of shares in a company or the value of a business is usually determined with regard to both asset values and the consistency and quality of earnings. There are five traditional methodologies for such a valuation. These are referred to as:
- capitalisation of future maintainable earnings;
  - discounted cash flow analysis;
  - net asset backing valuations;
  - comparable market transactions; and
  - quoted market price valuations.
130. A summary of each of these methodologies is outlined in **Appendix C**.
131. We have considered the relevance of each of these methodologies prior to undertaking our valuation. Different methodologies are appropriate in valuing particular companies, based on the individual circumstances of the company and available information.

## X. VALUATION OF EAST COAST MINERALS SHARES

### Valuation Approach Adopted

132. In assessing the value of ECM Shares, we have adopted the quoted market price methodology for the following reasons:
- ECM Shares are listed on the ASX which provides a ready market through which the shares can be traded and recent prices at which the shares are transacted;
  - East Coast Minerals has a history of losses therefore we consider the capitalisation of maintainable earnings method is not appropriate as there is no basis to determine future maintainable earnings; and
  - Due to the early stage development of East Coast Minerals exploration and evaluation assets, there is no meaningful forecast financial information available to adopt the discounted cash flow method.
133. We have also considered the net asset backing method as a cross-check.

### Quoted Market Price

134. We have considered the implied value of ECM Shares with reference to recent trading prices for portfolio shareholding parcels of ECM Shares on the ASX as detailed in **Section V**.
135. In assessing the value of ECM Shares using the quoted market price methodology, we have considered the following:
- East Coast Minerals share price prior to the announcement of the Proposed Acquisition on 4 February 2011 reflects the market's expectations of various potential acquisitions by the Company, including Potash Holdings which was first announced in March 2010 and then aborted in November 2010, a number of unidentified acquisitions announced between November and December 2010 and the announcement in January 2011 that East Coast Minerals was in advanced stages of reviewing an acquisition outside of Australia;
  - The closing share price of ECM Shares on 1 February 2011 of \$0.056, being the last trading day prior to the trading halt on 2 February 2011 and announcement of the Proposed Acquisition on 4 February 2011, and \$0.057 on 27 January 2011, being the last trading day prior to the announcement on 28 January 2011 that East Coast Minerals was in advanced stages of reviewing an acquisition outside of Australia;
  - A number of placements of fully paid ECM Shares made by East Coast Minerals in June and July 2010 at an issue price of between \$0.020 and \$0.026 per share mainly to fund working capital requirements;
  - The one month and three month VWAP of ECM Shares for the period up to and including 1 February 2011 being \$0.048 and \$0.040 respectively;
  - The one month and three month low and high closing share price for the period up to an including 1 February 2011 being \$0.034 to \$0.057 and \$0.027 to \$0.057 respectively;

- The low and high closing share price between 15 November 2010 (when East Coast Minerals announced that the Potash Holding acquisition will not proceed) and 29 November 2010 (when East Coast Minerals announced that the Company was close to securing the acquisition of “a new and exciting project”) of \$0.027 and \$0.035 respectively. We consider during this period the share price is not materially affected by market sentiment of any potential projects; and
  - In November 2010, the shareholders of East Coast Minerals approved the placement of a maximum of 300,000,000 ECM Shares at a fixed price of \$0.03 per share to raise funds for ongoing working capital requirements including exploration and administration costs and to assist with financing acquisitions as they arise. On 28 February 2011 (after the announcement of the Proposed Acquisition), 87,500,000 fully paid ECM Shares were issued under this mandate at an issue price of \$0.03 per share.
136. Based on the above factors, we have assessed the value of ECM Shares to be between \$0.02 and \$0.03 per share using the quoted market price methodology.
137. The quoted market share price usually represents the value for a minority interest. A minority interest is an interest in the company which is not significant enough to have individual influence on the operations of that company. Therefore, in assessing East Coast Minerals equity value under the quoted market share price methodology it is appropriate to include a premium for control.
138. Based on our analysis, we note that premiums observed in the acquisition of Australian mining and exploration companies between January 2010 and May 2011 ranged from 5% to 65%, with a median of 30%. We note that the premium paid in these transactions vary significantly due to the individual circumstances of the companies being acquired and the unique features of the transactions including the synergies to be achieved and the anticipated costs of integrating the businesses. However, in general, the premium observed represents two elements:
- a pure control premium; and
  - the expected synergy benefits, some of which the acquirer is prepared to pay the target shareholders.
139. Observed premiums in takeovers therefore include both elements and it is not possible to separate these two elements in any meaningful way.
140. Typically a control premium (defined as the higher price paid for a controlling shareholding relative to the price paid or likely to be paid for a minority shareholding) is paid where an offer is made to acquire more than 50% of a company's shares.
141. Given the nature of East Coast Minerals assets and the early stage development of the Company's exploration and evaluation assets, we consider that the benefits normally afforded to a bidder in a control transaction such as the ability to influence managerial control including the day to day running of the business and setting company policies and strategy, are less relevant to East Coast Minerals. On that basis, we consider a control premium of 10%, which is at the low end of the range observed in the market to be appropriate for East Coast Minerals under the quoted market share methodology.

142. Accordingly, we have assessed the value of ECM Shares including a premium for control to be between \$0.022 and \$0.033 per share under the quoted market price methodology.

### Net Asset Backing

143. We have also adopted the net asset backing method as a cross-check methodology. In assessing the value of ECM Shares under the net asset backing method, we have assessed the fair market value of the underlying net assets of East Coast Minerals. We have undertaken this assessment based on the unaudited management accounts of East Coast Minerals as at 30 June 2011. The management of East Coast Minerals is unaware of any material movements in the financial position of East Coast Minerals between 30 June 2011 and the date of our report.
144. In assessing the fair market value of East Coast Minerals tenements, we have relied upon the valuation of the East Coast Minerals tenements undertaken by Allan Younger dated 12 May 2010 as disclosed within the Independent Expert's Report included in the Explanatory Memorandum of East Coast Minerals dated 21 October 2010. Allan Younger, in a letter dated 17 June 2011 has confirmed there has been no material change to the valuation of the mineral tenements.
145. The fair market value of East Coast Minerals' net asset backing and the fair market value of East Coast Minerals on a per share basis is set out below:

	\$'000	Note
<b>Book Value of Net Assets at 30 June 2011</b>	<b>1,777</b>	
Revaluation of shares in listed companies	*	1
Revaluation of exploration and evaluation expenditure	(81)	2
<b>Fair Market Value of Net Assets at 30 June 2011</b>	<b>1,696</b>	
Number of fully-paid ordinary shares ('000)	268,887	
Number of partly-paid ordinary shares expressed as fully paid ordinary shares ('000)	10,242	
<b>Subtotal ('000)</b>	<b>279,128</b>	
<b>Fair Market Value / share (\$)</b>	<b>0.006</b>	

Source: BDO Securities Analysis

\* Being \$5

The following adjustments were made to the net assets in arriving at our valuation:

#### Note 1: Financial Assets

East Coast Minerals holds a small number of shares in ASX listed companies. We have assessed the value of the listed shares based on the closing share prices as at 11 August 2011.

#### Note 2: Exploration and evaluation expenditure

The book value of East Coast Minerals tenements as at 30 June 2011 was approximately \$567,000. The valuation of East Coast Minerals tenements undertaken by Allan Younger provided a value of approximately \$486,000, accordingly we have made a downward adjustment of \$81,000.

146. We have not ascribed any value to East Coast Minerals carried forward tax losses as it is uncertain whether East Coast Minerals will have sufficient taxable income in the future to utilise these tax losses.
147. Apart from the adjustments above, we have assumed that the book value of the other assets and liabilities of East Coast Minerals approximate their fair market values.
148. Based on East Coast Minerals net asset backing, the fair market value of ECM Shares is assessed to be \$0.006 per share on an undiluted basis.
149. We note that East Coast Minerals has options on issue which are in-the-money (based on the current share price of East Coast Minerals as traded on the ASX). We have calculated the fair market value of ECM Shares on a diluted basis to be \$0.014 per share assuming the in-the-money options are exercised. Refer **Appendix E** for further details on the in-the-money options.

#### Valuation Summary

150. We note that our assessment of the value of ECM Shares using the quoted market price methodology of between \$0.022 and \$0.033 per share (on a control basis) is at a significant premium to our assessment of the value of ECM Shares using the net asset backing methodology of \$0.006 per share. While East Coast Minerals does not presently have any substantial assets other than cash, we note that the management of East Coast Minerals has continuously pursued efforts to identify potentially viable investments for the Company in the past two years, including the acquisition of Energie Future and the proposed acquisition of Potash Holdings. We also note that the value of ECM Shares using the net asset backing methodology does not reflect the future earnings potential of the Company.
151. Based on the above and considering the purpose of our report, we have adopted the quoted market price as our primary methodology and consider the fair market value of ECM Shares to be between \$0.022 and \$0.033 per share (on a control basis).

## XI. VALUATION OF THE PURCHASE CONSIDERATION

152. Regulatory Guide 111 requires the analysis of a transaction to focus on the purpose and outcome of the transaction, that is, the substance of the transaction, rather than the legal mechanism used to effect the transaction.
153. On that basis, we have assessed the fair market value of the consideration for the Proposed Acquisition (“Purchase Consideration”) to be as follows:

	Low Value	High Value	Notes
	\$'000	\$'000	
<b>Cash consideration</b>			
Completion payment	*	*	1
<b>Value of Cash Consideration</b>	*	*	
<b>Share consideration</b>			
Exchange Option Fee	368	552	2
Seller Loan			
- Seller Loan Estimate on completion	2,200	3,300	3
- Potential adjustment post completion	530	795	3
<b>Value of Share Consideration</b>	<b>3,098</b>	<b>4,647</b>	
<b>Assumed liabilities</b>			
Additional Deferred Consideration			
- Payable on 31 December 2011 (20% of € 2.5 million)	678	678	4
- Payable on 30 April 2012 (20% of €3.5 million)	938	938	4
<b>Value of Assumed Liabilities</b>	<b>1,616</b>	<b>1,616</b>	
<b>Other</b>			
Other group expenditure up to decision to mine (20%)	218	218	5
<b>Other</b>	<b>218</b>	<b>218</b>	
<b>Fair Market Value of the Purchase Consideration</b>	<b>4,932</b>	<b>6,481</b>	

Source: BDO Securities Analysis

\* Being \$1

### Note 1: Cash

Being cash payable to Exchange Minerals on completion.

### Note 2: Exchange Option Fee

Being the Exchange Option Fee payable by East Coast Minerals of €550,000 via the issue of 16,744,444 fully paid ECM Shares to Exchange Minerals. The value of the Exchange Option Fee is assessed to be between \$368,000 and \$552,000 based on our assessment of the value of ECM Shares of between \$0.022 and \$0.033 per share.

**Note 3: Seller Loan Estimate and Potential Adjustment**

As part of the Proposed Acquisition, Exchange Minerals will assign the Seller Loan to East Coast Minerals in exchange for ECM Shares at an issue price of \$0.045 per share.

Management of East Coast Minerals has estimated the balance of the Seller Loan to be \$5.584 million. Based on an issue price of \$0.045 per share as per the terms of the SPA, an estimated 124,084,972 fully paid ECM Shares will be issued as consideration for the Seller Loan.

Based on our assessment of the value of ECM Shares of between \$0.022 and \$0.033 per share, we have assessed the value of the consideration for the Seller Loan to be between \$2.7 million and \$4.1 million.

Should the actual Seller Loan amount exceed the estimated loan amount of \$5.584 million, additional East Coast Minerals shares will be issued to Exchange Minerals. Management of East Coast Minerals consider any variation to the total number of East Coast Minerals shares to be issued as consideration for the Seller Loan is not likely to be material.

**Note 4: Assumed Liabilities**

East Coast Minerals' obligations under the Shareholders' Agreement will result in East Coast Minerals funding all group expenditure of ECM Lithium by way of interest-free loans up to the decision to mine the tenements including the Deferred Consideration for the KMI Acquisition amounting to €6,000,000. In effect, East Coast Minerals will fund 100% of the KMI Acquisition for an 80% equity interest in the Austrian Lithium Project via ECM Lithium.

Accordingly, we have considered the additional 20% of the Deferred Consideration payable by East Coast Minerals to form part of the Purchase Consideration of the Proposed Acquisition.

We have assessed the value of the additional 20% of the Deferred Consideration to be \$1.6 million by calculating the present value of the expected payments based on the following assumptions:

- an exchange rate of \$1:€0.7269 as at 11 August 2011;
- Tranche 3 payment of the consideration to be paid on 31 December 2011;
- Tranche 4 payment of the consideration to be paid on 30 April 2012; and
- a discount rate of 3.8%.

**Note 5: Other**

As noted above, East Coast Minerals is required to fund all group expenditure of ECM Lithium up to the decision to mine the tenements (including the Deferred Consideration per Note 4). Accordingly, we consider the additional 20% of these costs payable by East Coast Minerals to form part of the Purchase Consideration of the Proposed Acquisition.

In addition to the Deferred Consideration, East Coast Minerals has estimated \$1.09 million of additional group expenditure up to the decision to mine which primarily comprises of drilling, metallurgy and wages.

We have assessed the value of the additional 20% of the group expenditure to be \$218,080.

154. As part of the Proposed Acquisition, ECM Lithium No. 1 entered into a Participation Rights Agreement to pay Exchange Minerals, 4% of the consolidated EBIT of ECM Lithium No. 1 and in the event of a disposal of the Austrian Lithium Project, 4% of the disposal proceeds. In a separate agreement, East Coast Minerals will provide a guarantee over the obligations of ECM Lithium No. 1 under the Participation Rights Agreement.

Although there may be potential for Participation Right payments to be made in future, due to the lack of a bankable feasibility study and the uncertainty regarding the commencement of mining, we are not able to reliably estimate the Participation Rights to be paid in future, if any. Further, we note that any payment of Participation Rights in future may also impact on the value of the Austrian Lithium Project to be acquired.

For the above reasons, we have not attributed a value to the potential Participation Rights to be paid by ECM Lithium No. 1 in assessing the fairness of the Proposed Acquisition for the purpose of this report.

We have, however, considered the potential Participation Rights in our assessment of the reasonableness of the Proposed Acquisition in **Section XIII**.

155. Based on the above, we have assessed the fair market value of the Purchase Consideration for the Proposed Acquisition to be between \$4.93 million and \$6.48 million.

## XII. VALUATION OF THE ASSETS TO BE ACQUIRED

### Valuation Of ECM Lithium

156. The principle asset held by ECM Lithium is the Austrian Lithium Project. Such assets have limited lives and future profitability that depends on the outcome, inter alia, of exploration and evaluation programmes that are not always predictable.

157. We note that although the Austrian Lithium Project is a reasonably advanced exploration project with a resource in accordance with the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (“**JORC Code**”, refer **Appendix D**), the management of East Coast Minerals have indicated that additional work will be required prior to making the decision to mine the tenements including the:

- Completion of digitisation of historical work on the mine to be used as a basis for inputs into a feasibility report;
- Completion of independent resource estimation into the relevant JORC categories;
- Determination of optimal production, processing and exploration requirements and the resulting mine design; and
- Commission of a feasibility report to determine if the mine is definitive or bankable.

We are advised that subject to the above and East Coast Minerals being able to obtain funding for the development of the mine, the Company anticipates mining to commence 2 years following the Proposed Acquisition.

158. Based on the above and in the absence of reliable forecast financial information on the tenements, we do not consider the discounted cash flow methodology to be appropriate in assessing the value of the Austrian Lithium Project.

159. In assessing the value of ECM Lithium, we have adopted the net asset backing method for the following reasons:

- ECM Lithium was set up in January 2011 to acquire the Austrian Lithium Project. Due to ECM Lithium's short operating history, we do not consider the capitalisation of maintainable earnings method to be appropriate as there is no basis to determine future maintainable earnings; and
- Due to the nature of ECM Lithium's assets and in the absence of reliable forecast financial information, we do not consider it appropriate to adopt the discounted cash flow method.

160. We have undertaken this assessment based on the pro-forma financial position of ECM Lithium provided by the management of East Coast Minerals.

161. The fair market value of ECM Lithium's net asset backing is set out below:

	Pro-forma Net Book Value €'000	Adjustment €'000	Pro-forma Fair Market Value €'000	Notes
<b>Assets</b>				
Cash and cash equivalents	1,246		1,246	
Exploration and evaluation expenditure	9,920	152	10,072	1
	<b>11,166</b>		<b>11,318</b>	
<b>Liabilities</b>				
Loan from Exchange Minerals (Seller Loan)	4,270	(4,270)	-	2
Other loans from Exchange Minerals (Exchange Minerals Loan Facility)	1,200	-	1,200	
Deferred consideration	5,720	152	5,872	3
	<b>11,190</b>		<b>7,072</b>	
<b>Net Assets</b>	<b>(24)</b>		<b>4,246</b>	

Source: Pro-forma financial position provided by the management of East Coast Minerals, BDO Securities Analysis

The proforma financial position of ECM Lithium has been prepared by the management of East Coast Minerals assuming, amongst others, the acquisition of the Austrian Lithium Project has been completed and the Exchange Minerals Loan Facility of €1.2 million is in place. ECM Lithium is assumed to retain 100% effective equity interest in ECM Lithium No.1 after the subscription of capital by Exchange Minerals in ECM Lithium No.1 pursuant to the terms of the Participation Rights Agreement.

#### Note 1: Exploration and Evaluation Expenditure

Exploration and evaluation expenditure relates to the Austrian Lithium Project. We understand that ECM Lithium No. 1 entered into an agreement to acquire the Austrian Lithium Project on 7 July 2011 from KMI which was completed on 12 September 2011. We also understand that approximately €8 million had been expended on the project by previous owners of the Austrian Lithium Project (including KMI) and the disposal of the Austrian Lithium Project for a cash consideration is to facilitate KMI's repayment of existing loans.

For the purpose of this report, we have assessed the value of the exploration and evaluation expenditure to be the price paid by ECM Lithium No. 1 for the Austrian Lithium Project of €9.7 million (with the Deferred Consideration discounted to its present value - refer Note 3) plus transaction costs of €500,000, being the most recent transacted price for the tenements and mining licenses.

#### Note 2: Loan from Exchange Minerals (Seller Loan)

The loan consists of amounts paid by Exchange Minerals on behalf of ECM Lithium in respect of the Austrian Lithium Project including the Deferred Consideration and transaction costs.

On completion of the Proposed Acquisition, East Coast Minerals will acquire the Seller Loan which will then be extinguished by it pursuant to the terms of the SPA.

On that basis, we have attributed nil value to this loan.

**Note 3: Deferred Consideration**

For the purpose of this report, we have assessed the value of the Deferred Consideration of €6.0 million payable to KMI for the Austrian Lithium Project by assessing the present value of the expected payments based on the following assumptions:

- Tranche 3 payment of the consideration to be paid on 31 December 2011;
- Tranche 4 payment of the consideration to be paid on 30 April 2012; and
- a discount rate of 3.8%.

162. Based on the above, we have assessed the fair market value of 100% equity interest in ECM Lithium to be \$5.8 million (equivalent to €4.2 million converted at an exchange rate of \$1:€0.7269 as at 11 August 2011). Therefore, the assessed fair market value of 80% equity interest in ECM Lithium to be acquired is \$4.7 million.

**Valuation Of Seller Loan**

163. In line with our assessment of the value of the loan from Exchange Minerals owing by ECM Lithium above, we have attributed nil value to the Seller Loan to be acquired from Exchange Minerals.

### XIII. ASSESSMENT OF WHETHER THE PROPOSED ACQUISITION IS FAIR AND REASONABLE TO THE NON-ASSOCIATED SHAREHOLDERS

#### Assessment of the Proposed Acquisition

164. In assessing whether we consider the Proposed Acquisition is fair and reasonable to the Non-Associated Shareholders, we have considered the following factors:
- Comparing the value of the consideration payable by East Coast Minerals to Exchange Minerals, with the value of the 80% equity interest in ECM Lithium and the Seller Loan to be acquired;
  - advantages and disadvantages associated with the Proposed Acquisition;
  - alternative options available;
  - implications if the Proposed Transaction is not approved; and
  - other significant matters associated with the Proposed Acquisition that could potentially affect the Non-Associated Shareholders.

#### Assessment of Fairness

165. We have assessed whether or not the Proposed Acquisition is fair to the Non-Associated Shareholders by comparing the value of the Purchase Consideration payable by East Coast Minerals to Exchange Minerals with the value of the 80% equity interest in ECM Lithium and the Seller Loan to be acquired.
166. The table below sets out the value of the Purchase Consideration payable by East Coast Minerals and the value of the 80% equity interest in ECM Lithium together with the value of the Seller Loan to be acquired:

	Reference	Low \$'000	High \$'000	Mid-point \$'000
Value of 100% equity interest in ECM Lithium		5,841	5,841	5,841
Equity interest to be acquired		80.0%	80.0%	80.0%
<b>Value of 80% equity interest in ECM Lithium (A)</b>	<b>Section XII</b>	<b>4,673</b>	<b>4,673</b>	<b>4,673</b>
Value of Seller Loan	Section XII	-	-	-
<b>Value of Seller Loan (B)</b>		<b>-</b>	<b>-</b>	<b>-</b>
<b>Value of assets to be acquired (A + B)</b>		<b>4,673</b>	<b>4,673</b>	<b>4,673</b>
<b>Value of the purchase consideration*</b>	<b>Section XI</b>	<b>4,932</b>	<b>6,481</b>	<b>5,706</b>

Source: BDO Securities Analysis

167. As shown above, the total assessed value of 80% of the equity interest in ECM Lithium and Seller Loan to be acquired by East Coast Minerals is below our range of assessed value of the Purchase Consideration payable by East Coast Minerals. On that basis, it is our opinion that the Proposed Acquisition is considered to be not fair to the Non-Associated Shareholders.

### Assessment of Reasonableness

168. Regulatory Guide 111 considers an offer to be reasonable if:

- The offer is fair; or
- An offer might also be “reasonable” if despite being “not fair”, the expert believes that there are sufficient reasons for shareholders to accept the offer in the absence of a higher bid.

### Advantages of the Proposed Acquisition

169. The below table sets out potential advantages of the Proposed Acquisition to the Non-Associated Shareholders.

Advantage	Description
<b>Potential upside</b>	<p>Since the closure of the Elizabeth Hill silver mine site in 2000, East Coast Minerals has not owned a producing asset although the Company has explored a number of potential projects including Energie Future (which East Coast Minerals disposed of in August 2010) and Potash Holdings (which did not eventuate).</p> <p>If the Proposed Acquisition proceeds, East Coast Minerals will have a significant interest in tenements and mining licences that are expected to be developed over the short term with production forecast to commence within a 2 year time frame.</p> <p>While the success of the Austrian Lithium Project cannot be guaranteed and will depend on many interacting factors, the Board considers the Austrian Lithium Project to have potential upside.</p>
<b>Market reaction to the Proposed Acquisition</b>	<p>The last trading price of East Coast Minerals Shares on the ASX prior to the announcement of the Proposed Acquisition was \$0.056 per share. The announcement of the Proposed Acquisition had an immediate impact, with the VWAP post announcement increasing to \$0.093 per share. This increase indicates that the market has a positive view of the Proposed Acquisition.</p> <p>Given this positive reaction, if the Proposed Acquisition does not proceed it is anticipated the market would react negatively and the share price may decrease to pre announcement levels.</p>

Advantage	Description
<p><b>Support from Exchange Minerals Group</b></p>	<p>We are advised East Coast Minerals has received substantial financial and other support from Exchange Minerals Group over the last two years, in particular they have been integral in facilitating the Proposed Acquisition.</p> <p>Given Exchange Minerals Group's current shareholding and expected increase in Exchange Mineral Group's shareholding post completion, there is incentive for Exchange Minerals Group to provide ongoing financial support to East Coast Minerals.</p> <p>Further, Exchange Minerals FZE's experience in similar transactions (refer <b>Section VI</b>), industry knowledge and ongoing advice and support will be integral for the success of the Austrian Lithium Project.</p>
<p><b>Potential access to additional funding</b></p>	<p>By acquiring the Austrian Lithium Project, there is potential for an increase in the market capitalisation of East Coast Minerals which may lead to additional benefits such as access to additional capital and increased liquidity in share trading.</p>
<p><b>Positive Independent review of resources</b></p>	<p>Independent evaluation estimates indicate the Austrian Lithium Project has a JORC Resource of approximately 18 million tonnes at 1.6% L O that meet the JORC inferred standard. Whilst this is no guarantee the project will be economically viable, the review has given a positive estimate of resources.</p>

Source: BDO Securities Analysis

### Disadvantages of the Proposed Acquisition

170. The below table sets out potential disadvantages to the Non-Associated Shareholders if the Proposed Acquisition proceeds.

**Table 2: Disadvantages to Non-Associated Shareholders if the Proposed Acquisition Proceeds**

Disadvantage	Description
<b>Dilution of Shareholding</b>	<p>Following the Proposed Acquisition, the voting interest of the Non-Associated Shareholders in East Coast Minerals would decrease from 81.9%<sup>12</sup> to 54.4%<sup>12</sup> after the Proposed Acquisition on an undiluted basis.</p> <p>If the 90,000,000 Options proposed to be issued to Exchange Minerals are exercised, the voting interest of the Non-Associated Shareholders in East Coast Minerals would decrease further from 54.4%<sup>12</sup>, to 52.6%<sup>12,13</sup> on a diluted basis.</p>
<b>Exchange Minerals Group will have the potential to significantly influence the operations of East Coast Minerals</b>	<p>Following the Proposed Acquisition, Exchange Minerals Group's interest in East Coast Minerals will increase to a shareholding of approximately 45.6%<sup>12</sup> on an undiluted basis, and 47.4%<sup>12,13</sup> on a diluted basis, and will have the ability to block the approval of special resolutions at general meetings of East Coast Minerals.</p>

<sup>12</sup> Including proportional voting interests of issued partly paid ECM Shares.

<sup>13</sup> Assuming the 90 million Options and existing East Coast Minerals options which are considered to be in-the-money are exercised. Refer to Appendix E for further details on the in-the-money options.

Disadvantage	Description
<p><b>Future funding requirements</b></p>	<p>If the Proposed Acquisition proceeds, East Coast Minerals will have to fund Tranche 3 (€2.5 million) and Tranche 4 (€3.5 million) of the Deferred Consideration for the Austrian Lithium Project which are payable in December 2011 and April 2012 respectively and the operational costs of ECM Lithium No. 1 prior to the decision to mine. East Coast Minerals will also need to obtain significant funds to develop the Austrian Lithium Project to reach production if mining is determined to be feasible.</p> <p>While the timing of the expenditure is unknown (except for the payment of the Deferred Consideration), given the funding is likely to be sourced via additional capital raisings, the shareholdings of Non-Associated Shareholders in East Coast Minerals may be further diluted in future.</p> <p>It is noted that presently East Coast Minerals has issued options and partly-paid shares (and the 90,000,000 Options proposed to be issued to Exchange Minerals under the Subscription Agreement) which, if exercised or paid up, will provide East Coast Minerals with additional funds.</p>
<p><b>Exposure to foreign exchange risk</b></p>	<p>Should the Proposed Acquisition proceed, East Coast Minerals will be subject to the risk of foreign exchange fluctuations, in particular the Euro and US dollar.</p>

Source: BDO Securities Analysis

**Likelihood of superior alternative**

171. We are not aware of any alternative offers or transactions that may be forthcoming.

**If the Proposed Acquisition does not proceed**

172. The below table sets out the implications if the Proposed Acquisition does not proceed

Considerations	Description
<p><b>Future activities of East Coast Minerals uncertain if the Proposed Acquisition is not approved</b></p>	<p>In the event the Proposed Acquisition does not proceed and in the absence of a superior alternative East Coast Minerals would continue to have no income producing assets.</p> <p>The management of East Coast Minerals considers the Company's current cash reserves of \$1.33 million as at 30 June 2011 are sufficient to fund the operations of the Company for the next 2 years, subject to reducing the number of personnel. We note that the ability of East Coast Minerals to continue as going concern in future depends on the identification of a viable project and its ability to obtain financing through equity financing, joint venture or other arrangements in relation to its existing tenements and any future projects.</p>
<p><b>Potential decline in share price</b></p>	<p>The last trading price of East Coast Minerals shares on the ASX prior to the announcement of the Proposed Acquisition was \$0.056. The announcement of the Proposed Acquisition had an immediate impact, with the VWAP post announcement increasing to \$0.093.</p> <p>If the Proposed Acquisition does not proceed, it is anticipated the market would react negatively and the share price may decrease to pre announcement levels.</p>
<p><b>Transaction costs incurred</b></p>	<p>The management of East Coast Minerals estimates the Company will incur approximately \$0.3 million of costs in relation to the Proposed Acquisition including advisory fees which will not be refundable in the event the Proposed Transaction does not proceed.</p>

Source: BDO Securities Analysis

**Other considerations**

173. The below table sets out other considerations Non-Associated Shareholders should consider.

Considerations	Description
<p><b>Excess in purchase consideration over the assets acquired represents payment to Exchange Minerals for their support and facilitation of the Proposed Acquisition</b></p>	<p>East Coast Minerals' obligations under the Shareholders' Agreement will result in East Coast Minerals funding all group expenditure of ECM Lithium by way of interest-free loans up to the decision to mine the tenements including the Deferred Consideration for the KMI Acquisition (i.e. East Coast Minerals funds 100% of the costs when the Company only has an 80% equity interest in ECM Lithium).</p> <p>We understand that the management of East Coast Minerals considers, inter alia, the 20% free-carry provided to Exchange Minerals up to the decision to mine the Austrian Lithium Project to be part of its facilitation fee for Exchange Minerals Group's role in sourcing the Proposed Acquisition. We note that it is not uncommon that a facilitator is paid a retainer fee and /or success fee in the form of cash or securities.</p> <p>Accordingly, the excess in our assessment of the purchase consideration over the assets to be acquired in effect represents a payment to Exchange Minerals for advice, support, introduction and facilitation of the Proposed Acquisition.</p> <p>As such, when assessing the excess in purchase price over the assets to be acquired, consideration should be given to the benefits received by East Coast Minerals from Exchange Minerals when assessing the fairness of the Proposed Acquisition.</p>
<p><b>Risk associated with the development of exploration assets</b></p>	<p>Any material change in the estimate of mineral resources, reserves, grade or lithium prices may affect the economic viability of the project.</p> <p>Further, development and operational costs may be deemed too onerous for the project to be continued.</p>

Considerations	Description
<p><b>Default on obligation to fund the Deferred Consideration for the Austrian Lithium Project</b></p>	<p>Should East Coast Minerals default on its obligation to fund the Deferred Consideration for the Austrian Lithium Project:</p> <ul style="list-style-type: none"> <li>i. Exchange Minerals will have the right to acquire East Coast Minerals 80% equity interest in ECM Lithium for no consideration under the Shareholders' Agreement; and</li> <li>ii. KMI may exercise the KMI Security Charge and any payments made to KMI will not be refundable.</li> </ul>
<p><b>Default on repaying the Exchange Minerals Loan Facility</b></p>	<p>Following completion of the Proposed Acquisition, should ECM Lithium default on repaying the Exchange Minerals Loan Facility, Exchange Minerals may exercise their right over ECM Lithium's equity interest in ECM Investments, which has an indirect interest in the Austrian Lithium Project, under a security arrangement for the Exchange Minerals Loan Facility</p>
<p><b>Potential Participation Right payments as guarantor</b></p>	<p>As a guarantor under the Deed of Guarantee, East Coast Minerals may potentially have the obligation to pay the Participation Rights and this obligation remains in place as long as ECM Lithium No.1 holds an interest in the Austrian Lithium Project and unless released as guarantor by Exchange Minerals.</p>

Source: BDO Securities Analysis

### Impact on Shareholding Structure

174. Based on the terms of the Proposed Acquisition, Exchange Minerals will be issued fully paid ECM Shares and options in East Coast Minerals as part consideration for the 80% equity interest in ECM Lithium and Seller Loan to be acquired.
175. Upon completion of the Proposed Acquisition, the voting interest of the Non-Associated Shareholders will reduce from 81.9% to 54.4% on a undiluted basis, and 52.6% on a diluted basis as set out below:

	11 August 2011		Proforma After the Proposed Acquisition (undiluted)		Proforma After the Proposed Acquisition (diluted)	
	No. of shares ('000)	% held	No. of shares ('000)	% held	No. of shares ('000)	% held
<b>Exchange Minerals Group</b>						
Fully paid ordinary shares	46,288		187,117		277,117	
Partly paid ordinary shares	17,250		17,250		17	
Partly paid ordinary shares expressed as fully paid ordinary shares	4,313	18.1%	4,313	45.6%	4,313	47.4%
<b>Non-Associated Shareholders</b>						
Fully paid ordinary shares	222,599		222,599		306,404	
Partly paid ordinary shares	23,718		23,718		23,718	
Partly paid ordinary shares expressed as fully paid ordinary shares	5,929	81.9%	5,929	54.4%	5,929	52.6%
<b>Total shares on issue expressed as fully paid ordinary shares</b>	<b>279,128</b>	<b>100.0%</b>	<b>419,958</b>	<b>100.0%</b>	<b>593,763</b>	<b>100.0%</b>

Source: Management of East Coast Minerals, BDO Securities Analysis

- The proforma undiluted number of shares assumes the issue of 16,744,444 fully paid ECM Shares to Exchange Minerals as consideration for the Exchange Option Fee and the issue of 124,084,972 fully paid ECM Shares as consideration for the Seller Loan.
- The proforma diluted number of shares assumes that the 90,000,000 Options to be issued to Exchange Minerals as part of the Subscription Agreement are exercised in addition to East Coast Minerals' existing options which are considered to be in-the-money. Refer to **Appendix E** for further details on the East Coast Minerals options which are considered to be in-the-money options.

### Impact on Financial Position

176. The table below sets out the proforma statement of financial position prepared by the management of East Coast Minerals on the assumption that the Proposed Acquisition is successful.

\$'000	Reviewed	Pro-forma		
	31 Dec 10	Before the Proposed Acquisition (undiluted) <sup>1</sup>	After the Proposed Acquisition (undiluted)	After the Proposed Acquisition (diluted)
<b>Current Assets</b>				
Cash and cash equivalents	66	1,501	2,974	9,926
Trade and other receivables	56	56	56	56
	<b>121</b>	<b>1,556</b>	<b>3,030</b>	<b>9,982</b>
<b>Non-current Assets</b>				
Financial assets	*	*	*	*
Property, plant and equipment	1	1	1	1
Exploration and evaluation expenditure	502	502	502	502
Mining Tenements	-	-	12,972	12,972
	<b>503</b>	<b>503</b>	<b>13,475</b>	<b>13,475</b>
	<b>624</b>	<b>2,059</b>	<b>16,505</b>	<b>23,457</b>
<b>Current Liabilities</b>				
Trade and other payables	256	256	474	474
Financial liabilities	1,837	-	1,569	1,569
	<b>2,094</b>	<b>256</b>	<b>2,043</b>	<b>2,043</b>
<b>Non-current Liabilities</b>				
Deferred Consideration	-	-	7,480	7,480
	<b>-</b>	<b>-</b>	<b>7,480</b>	<b>7,480</b>
<b>Net assets</b>	<b>(1,470)</b>	<b>1,802</b>	<b>6,981</b>	<b>13,933</b>
<b>Equity</b>				
Issued Capital	11,916	16,772	27,452	34,404
Reserves	527	527	4,631	4,631
Retained losses	(13,913)	(15,496)	(27,708)	(27,708)
<b>Parent entity interest</b>	<b>(1,470)</b>	<b>1,802</b>	<b>4,374</b>	<b>11,327</b>
Non-controlling interest	-	-	2,607	2,607
<b>Total equity</b>	<b>(1,470)</b>	<b>1,802</b>	<b>6,981</b>	<b>13,933</b>
Total shares on issue expressed as fully paid ordinary shares	137,966	279,128	419,958	593,763
<b>NTA/Share (\$)</b>	<b>(0.011)</b>	<b>0.006</b>	<b>0.017</b>	<b>0.023</b>

Source: Management of East Coast Minerals

\* Being less than \$1,000

Note 1: This proforma reflects the financial position of East Coast Minerals as at 31 December 2010, adjusted for various events up to 11 August 2011 (refer below for full details)

177. The proforma statement of financial position has been prepared in accordance with:

- the recognition and measurement, but not all the disclosure requirements of applicable Australian International Financial Reporting Standards and interpretations;
- generally accepted accounting principles prevailing in Australia;
- the accounting policies of East Coast Minerals; and
- the assumptions described below.

178. The proforma statement of financial position of East Coast Minerals is based on the:

- reviewed consolidated statement of financial position of East Coast Minerals as at 31 December 2010; and
- proforma consolidated statement of financial position of ECM Lithium as at 31 December 2010;

after adjusting for the proforma adjustments and /or transactions described below.

179. The proforma statement of financial position of East Coast Minerals before the Proposed Acquisition represents the reviewed consolidated statement of financial position of East Coast Minerals as at 31 December 2010 and the following proforma adjustments / transactions:

- Various capital raisings occurring since 31 December 2010 as follows:
  - conversion of the convertible notes held by Exchange Minerals FZE into 42,287,663 fully paid ECM Shares at a conversion price of \$0.0415 per share in January 2011;
  - exercise of 5,500,000 options at an exercise price 4 cents each and payment of 6 cents each on 375,000 partly paid ECM Shares in February 2011;
  - issue of 87,500,000 fully paid ECM Shares at 3 cents per share in March 2011;
  - exercise of 500,000 options at an exercise price of 4 cents each in March 2011; and
  - exercise of 625,000 options at an exercise price of 4 cents each and payment of 6 cents each on 375,000 partly paid ECM Shares in April 2011.
- Estimated operational expenditure incurred by East Coast Minerals since 31 December 2010 of \$1.5 million, assumed to be funded via cash.

180. The proforma statement of financial position of East Coast Minerals after the Proposed Acquisition on an undiluted basis represents the proforma statement of financial position of East Coast Minerals before the Proposed Acquisition and the following proforma adjustments / transactions:
- proposed acquisition of 80% equity interest in ECM Lithium from Exchange Minerals via the:
    - issue of 16,744,444 fully paid ECM Shares to Exchange Minerals in full satisfaction of the Exchange Option Fee of €550,000, at \$0.045 per share;
    - payment of cash consideration of \$1.00 to Exchange Minerals;
    - assumption of the obligation to fund the Deferred Consideration for the KMI Acquisition amounting to €6,000,000;
    - assumption of the obligation to fund 20% of the estimated future operational expenditure of ECM Lithium Group up to decision to mine amounting to \$218,080;
    - the potential payment to be made by East Coast Minerals in respect of the Participation Rights under the Deed of Guarantee (if any) have not been estimated given the lack of a bankable feasibility study and the uncertainty regarding the commencement of mining.
  - estimated transaction costs for the Proposed Acquisition of \$336,000;
  - proposed issue of 124,084,972 fully paid ECM Shares to Exchange Minerals in exchange for the Seller Loan and subsequent extinguishing of the Seller Loan. The fair value of ECM Shares on acquisition date is assumed to be \$0.08 per share;
  - proposed write-off (to current year expenses) of the estimated excess of the consideration payable to acquire an 80% equity interest in ECM Lithium and Seller Loan, over their respective fair values; and
  - proposed issue of 90 million options to Exchange Minerals for a subscription price of \$180,000. Based on the assumption that the fair value of each option is \$0.0456, the total option expenses to be recognised in the current year is \$4.10 million.
181. The proforma statement of financial position of East Coast Minerals after the Proposed Acquisition on a diluted basis assumes the following additional adjustments:
- that the 90,000,000 options proposed to be issued to Exchange Minerals are exercised at \$0.040 each; and
  - that existing East Coast Minerals options which are considered to be in-the-money are exercised. Refer to **Appendix E** for further details on the in-the-money options.
182. In addition, the proforma statement of financial position of East Coast Minerals has been prepared on the following basis:
- The proforma transactions are exclusive of both GST and VAT;

- The consolidated proforma statement of financial position of ECM Lithium has been initially prepared in Euros and assuming, amongst others, the acquisition of the Austrian Lithium Project has been completed and the Exchange Minerals Loan Facility of €1.2 million is in place (Refer to **Section XII** for details). ECM Lithium is assumed to retain 100% effective equity interest in ECM Lithium No.1 after the subscription of capital by Exchange Minerals in ECM Lithium No.1 pursuant to the terms of the Participation Rights Agreement; and
  - Euro amounts are assumed to be converted to Australian dollars at an exchange rate of \$1.3077, being the rate as at 31 December 2010.
183. As noted above, the pro-forma net asset backing per share of East Coast Minerals is expected to increase from \$0.006 to \$0.017 after the Proposed Acquisition on an undiluted basis. On a fully diluted basis (assuming the in-the-money options and 90,000,000 Options are exercised), the net asset backing per share will increase further to \$0.023.

#### Conclusion on the Assessment of the Proposed Acquisition

184. After considering all of the above factors, in BDO Securities' opinion, the potential advantages of the Proposed Acquisition outweigh the potential disadvantages, risks and costs and Non-Associated Shareholders are on balance, likely to be better off if the Proposed Acquisition proceeds.
185. Accordingly, in the absence of a superior proposal, on balance, BDO Securities is of the opinion that the Proposed Acquisition is **not fair but reasonable** to the Non-Associated Shareholders.

## APPENDIX A - QUALIFICATION, LIMITATION AND CONSENT

This report is not intended for general circulation or publication, nor is it to be reproduced or used for any purpose other than that outlined in this report without our prior written permission. We do not assume any responsibility or liability for losses, occasioned to you or other parties, as a result of circulation, publication, reproduction or use of this opinion contrary to the provisions of this paragraph.

Statements and opinions contained in this report are given in good faith and, in the preparation of this report, BDO Securities has relied upon the information provided by East Coast Minerals that has been publicly issued, and believes, on reasonable grounds, to be reliable, complete and not misleading. BDO Securities does not imply, nor should it be construed that it has carried out any form of audit or verification on the information and records supplied to us.

Furthermore, recognising that BDO Securities may rely on information provided by East Coast Minerals and their officers and/or associates, East Coast Minerals has agreed to make no claim against BDO Securities to recover any loss or damage which East Coast Minerals may suffer as a result of that reliance and also has agreed to indemnify BDO Securities against any claim arising out of the assignment to give this report, except where the claim has arisen as a result of any proven wilful misconduct by BDO Securities.

An advance draft of this report was provided to East Coast Minerals for review of factual matters. Certain changes were made to the factual contents of the report as a result of comments received. There were no alterations to the methodology adopted or our conclusions as a result of circulating the draft report.

BDO Securities is the licensed corporate advisory business of BDO (NSW-VIC) Pty Ltd. BDO Securities provides advice in relation to all aspects of valuations and has extensive experience in the valuation of corporate entities.

The directors of BDO Securities principally involved in the preparation of this report were Phillip Rundle B COM, FCA, GAICD, F.Fin. and Michael Smith BBus(Acc), CA. Phillip Rundle and Michael Smith have many years experience in the provision of corporate financial advice, including specific advice on valuations, mergers and acquisitions, as well as the preparation of independent expert reports. Phillip Rundle and Michael Smith are representatives of BDO Securities.

BDO Securities consents to the inclusion of this IER by East Coast Minerals in the Explanatory Memorandum in relation to the Proposed Acquisition to accompany a Notice of Meeting in the form and content that it is included. 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, letter or statement without the prior written consent of BDO Securities to the form and context in which it appears.

BDO is not the auditor of East Coast Minerals. Neither BDO Securities, nor any director, executive or employee thereof has any financial interest in the outcome of the Proposed Acquisition which could be considered to affect our ability to render an unbiased opinion in this report. We note BDO Graz GmbH Wirtschaftsprüfungs- und Steuerberatungsgesellschaft (Austria) prepared an Information Memorandum in relation to the sale of the Austrian Lithium Project on behalf of KMI. BDO Securities operates independently of BDO International members. Neither BDO Securities nor the authors of this report have any interest in the outcome of the offer.

BDO Securities is entitled to receive a fee of approximately \$130,000 from the Company based on normal professional hourly rates for the time taken in respect of the preparation of this report. The fee will be paid regardless of whether or not the Proposed Acquisition is approved by shareholders. BDO Securities considers itself to be independent in terms of Regulatory Guide 112.

## APPENDIX B - SOURCES OF INFORMATION RELIED UPON IN THIS REPORT

In preparing this report and arriving at our opinion, we have used and relied upon the following sources of information:

- Draft Notice of General Meeting dated 19 September 2011;
- Share Sale and Purchase Agreement between East Coast Minerals and Exchange Minerals dated 8 August 2011;
- Sale and Purchase Agreement between ECM Lithium No. 1, KMI and other parties dated 7 July 2011;
- Subscription Agreement between East Coast Minerals and Exchange Minerals dated 9 August 2011;
- Draft Shareholders Agreement between East Coast Minerals, Exchange Minerals and ECM Lithium;
- Draft Participation Rights Agreement between Exchange Minerals and ECM Lithium No.1;
- Draft Deed of Guarantee and Indemnity between East Coast Minerals and Exchange Minerals;
- Facility Letter for a loan of €1,200,000 between Exchange Minerals (Lender) and ECM Lithium (Borrower) dated 13 September 2011;
- Share Mortgage Deed between Exchange Minerals and ECM Lithium dated 13 September 2011;
- Deed of Variation between East Coast Minerals and Exchange Minerals dated 14 September 2011;
- 3-Party-Agreement between Exchange Minerals and ECM Lithium No.1 regarding the Participation Rights Agreement dated 13 September 2011;
- Annual Report of East Coast Minerals for FY2009 and FY2010;
- Interim financial report of East Coast Minerals for the 6 months ended 31 December 2010;
- Unaudited management accounts of East Coast Minerals for the financial year ended 30 June 2011;
- Pro-forma financial position of ECM Lithium prepared by the management of East Coast Minerals;
- Pro-forma financial position of ECM prepared by the management of East Coast Minerals;
- East Coast Minerals' top twenty shareholder listing for fully paid ordinary shares as at 18 August 2011;
- East Coast Minerals' top twenty shareholder listing for partly-paid ordinary shares as at 19 August 2011;
- Information Memorandum on the Austrian Lithium Project dated July 2010;
- U.S. Geological Survey, Mineral Commodity Summaries 2011;

- TRU Group, Shocking Future Battering the Lithium Industry through 2020, January 2011;
- Notice of Extraordinary General Meeting to be held on 16 September 2011 in relation to additional options and CR Shares to be issued by East Coast Minerals;
- ASX Announcements;
- Bloomberg;
- Discussions with the management of East Coast Minerals; and
- Other publicly available information.

## APPENDIX C - VALUATION METHODOLOGIES

### Capitalisation of Maintainable Earnings

This requires consideration of the following factors:

- estimation of future maintainable earnings having regard to historic and forecast operating results, including sensitivity to key industry risk factors, future growth prospects, and the general economic outlook;
- determination of an appropriate capitalisation rate which will reflect a purchaser's required rate of return, risks inherent in the business, future growth expectations and alternative investment opportunities; and
- a separate assessment of surplus or unrelated assets and liabilities, being those items that are not essential to producing the estimated future earnings.

This methodology is a surrogate for a discounted cash flow valuation. It is typically employed where a company has mature operations with a history of profits and an expectation that these will be maintained at similar levels in the future.

### Discounted Cash Flow Based Valuation

This methodology determines the present value of the net cash flows that are expected to be derived from future activities. These future cash flows are discounted to current values by recognising both the risk of their receipt and the time value of money using a suitable discount rate. We consider this methodology to be the most appropriate method in the calculation of the value where there is adequate information about likely future cash flows, usually over a finite term.

### Asset-based Valuation

In the absence of reliable forecasts for future cash flows or earnings, the net asset value of a company can be a reliable indicator of the minimum value for the company.

There are three primary asset based methodologies:

#### Orderly Realisation of Assets Basis

This involves the determination of the net realisable value of the assets of the business or company assuming an orderly realisation of those assets. This value includes a reduction in value to allow for the reasonable costs of carrying out the sale of assets and for the time value of money.

This approach is appropriate where the business or company concerned is not generating adequate returns and in certain circumstances where there are surplus non-operating assets.

#### Forced Sale Basis

This involves assets being sold at values materially different from their fair market value. This approach is appropriate when there is an event such as a liquidity crisis or formal administration or liquidation appointment requiring the assets to be realised in a short timeframe.

**Going Concern Basis**

This is appropriate for valuing an investment company, where the majority of its value lies in investments in other assets or entities, such as a private equity company or listed investment vehicle.

**Comparable Market Transactions**

This methodology requires research to ascertain details of any comparable transactions in the same industry for a similar company to that being valued. If such transactions exist and the company being valued is directly comparable to that being acquired then the assets, revenue or earnings multiples, or other measures employed in the actual transaction, can be utilised in the valuation. The difficulty with this methodology is the sourcing of sufficient information involving the sale process to accurately analyse the consideration paid and to establish the comparability of the two companies.

**Quoted Market Price Valuation**

An alternative valuation approach that can be used in conjunction with (or as a replacement for) any of the above methods is the quoted market price of listed securities. Where there is a ready market for securities such as the ASX through which shares can be traded, recent prices at which shares are bought and sold can be taken as the market value per share. With the advent of continuous disclosure, such market value should include all factors and influences that impact upon the ASX price. The use of ASX pricing is more relevant where a security displays regular high volume trading, creating a "deep" market in that security. Shares in a company normally trade at a discount to the underlying value of the company as a whole, reflecting the fact that portfolio shareholdings do not give shareholders management control or direct access to cash flows. In the absence of a deep, well informed market exhibiting good liquidity, this method has significant limitations.

## APPENDIX D - JORC CODE EXCERPT

The Australasian Joint Ore Reserves Committee (“**JORC**”), which is sponsored by the Australian mining industry and its professional organisations, publishes the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (“**JORC Code**” or the “**Code**”). The JORC Code is a widely accepted code of practice which sets out the minimum public reporting standards for exploration results, mineral resources and ore reserves in Australia and New Zealand. The Code is adopted by The Australasian Institute of Mining and Metallurgy and the Australian Institute of Geoscientists and included in the Listing Rules of ASX.

The JORC Code provides a framework for the reporting of exploration results, mineral resources and ore reserves to reflect different levels of geological confidence and degrees of technical and economic evaluation.

Exploration results include information generated by exploration programmes such as results of outcrop sampling, assays of drill hole intercepts, geochemical results and geophysical survey results. The reporting of such information is common in the early stages of exploration when the quantity of data available is generally not sufficient to allow any reasonable estimates of mineral resources. At this stage, it is uncertain if further exploration will result in the determination of a mineral resource.

A mineral resource is a concentration or occurrence of material of intrinsic economic interest in or on the earth's crust in such form, quality and quantity that there are reasonable prospects for eventual economic extraction. The location, quantity, grade, geological characteristics and continuity of a mineral resource are known, estimated or interpreted from specific geological evidence and knowledge. Mineral resources are further classified into the categories of inferred, indicated and measured, in the order of increasing level of geological knowledge and confidence.

An ore reserve is the economically mineable part of a measured and / or indicated mineral resource. Appropriate assessments and studies have been carried out, and include consideration of and modification by realistically assumed mining, metallurgical, economic, marketing, legal, environmental, social and governmental factors. These assessments demonstrate at the time of reporting that extraction could reasonably be justified. Ore reserves are further classified into the categories of probable and proved, in the order of increasing level of confidence.

*Source: JORC Code*

## APPENDIX E - ASSESSMENT OF IN-THE-MONEY OPTIONS

The below table is a summary of East Coast Minerals options to acquire fully paid ordinary shares as at 11 August 2011, including the cash to be received from in-the-money options at 11 August 2011 should they be exercised:

Number	Exercise Price	Expiry Date	Conditions	Comments	In-the-money options	Cash to be received
3,000,000	0.20	21/12/2011		Not in-the-money based on the share price at 11 August 2011	-	-
12,000,000	0.04	8/12/2013	Exercisable when the share price exceeds \$0.06	In-the-money based on the share price at 11 August 2011	12,000,000	480,000
33,304,658	0.04	14/07/2013	-	In-the-money based on the share price at 11 August 2011	33,304,658	1,332,186
38,499,999	0.04	14/07/2013	-	In-the-money based on the share price at 11 August 2011	38,499,999	1,540,000
<b>86,804,657</b>					<b>83,804,657</b>	<b>3,352,186</b>

Source: Management of East Coast Minerals, BDO Securities Analysis

The below table is a summary of East Coast Minerals options to acquire partly paid ordinary shares as at 11 August 2011, including the cash to be received from in-the-money options at 11 August 2011 should they be exercised:

Number	Exercise Price	Expiry Date	Conditions	Comments	In-the-money options	Cash to be received
6,250,000	-	27/11/2012	Exercisable within 60 days following the date of any trade of shares at 20 cents or above (option to acquire partly paid "A" shares, paid up to 1 cent)	Not exercisable based on the share price at 11 August 2011	-	-
5,000,000	-	30/04/2013	Exercisable within 60 days following the date of any trade of shares at 20 cents or above (option to acquire partly paid "A" shares of 9 cents, paid up to 1 cent)	Not exercisable based on the share price at 11 August 2011	-	-
3,000,000	-	31/10/2011	Vesting date is 7 working days after the market price of the shares exceeds 20 cents or more for 5 days	Not exercisable based on the share price at 11 August 2011	-	-
<b>14,250,000</b>					<b>-</b>	<b>-</b>

Source: Management of East Coast Minerals, BDO Securities Analysis



**Lodge your vote:**



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Victoria 3001 Australia

Alternatively you can fax your form to  
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(outside Australia) +61 3 9415 4000

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## Proxy Form - Ordinary Fully Paid Shares

**For your vote to be effective it must be received by 10.00am (WST) Wednesday 23 November 2011**

### How to Vote on Items of Business

All your securities will be voted in accordance with your directions.

#### Appointment of Proxy

**Voting 100% of your holding:** Direct your proxy how to vote by marking one of the boxes opposite each item of business. If you do not mark a box your proxy may vote as they choose. If you mark more than one box on an item your vote will be invalid on that item.

**Voting a portion of your holding:** Indicate a portion of your voting rights by inserting the percentage or number of securities you wish to vote in the For, Against or Abstain box or boxes. The sum of the votes cast must not exceed your voting entitlement or 100%.

**Appointing a second proxy:** You are entitled to appoint up to two proxies to attend the meeting and vote on a poll. If you appoint two proxies you must specify the percentage of votes or number of securities for each proxy, otherwise each proxy may exercise half of the votes. When appointing a second proxy write both names and the percentage of votes or number of securities for each in Step 1 overleaf.

**A proxy need not be a securityholder of the Company.**

### Signing Instructions

**Individual:** Where the holding is in one name, the securityholder must sign.

**Joint Holding:** Where the holding is in more than one name, all of the securityholders should sign.

**Power of Attorney:** If you have not already lodged the Power of Attorney with the registry, please attach a certified photocopy of the Power of Attorney to this form when you return it.

**Companies:** Where the company has a Sole Director who is also the Sole Company Secretary, this form must be signed by that person. If the company (pursuant to section 204A of the Corporations Act 2001) does not have a Company Secretary, a Sole Director can also sign alone. Otherwise this form must be signed by a Director jointly with either another Director or a Company Secretary. Please sign in the appropriate place to indicate the office held. Delete titles as applicable.

### Attending the Meeting

Bring this form to assist registration. If a representative of a corporate securityholder or proxy is to attend the meeting you will need to provide the appropriate "Certificate of Appointment of Corporate Representative" prior to admission. A form of the certificate may be obtained from Computershare or online at [www.investorcentre.com](http://www.investorcentre.com) under the information tab, "Downloadable Forms".

**Comments & Questions:** If you have any comments or questions for the company, please write them on a separate sheet of paper and return with this form.

**Turn over to complete the form** ➔



View your securityholder information, 24 hours a day, 7 days a week:

**[www.investorcentre.com](http://www.investorcentre.com)**

- Review your securityholding
- Update your securityholding

**Your secure access information is:**

**SRN/HIN: I999999999**



**PLEASE NOTE:** For security reasons it is important that you keep your SRN/HIN confidential.

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**Change of address.** If incorrect, mark this box and make the correction in the space to the left. Securityholders sponsored by a broker (reference number commences with 'X') should advise your broker of any changes.



I 9999999999

I ND

## Proxy Form

Please mark  to indicate your directions

### STEP 1 Appoint a Proxy to Vote on Your Behalf

XX

I/We being a member/s of East Coast Minerals NL hereby appoint

the Chairman of the meeting OR

**PLEASE NOTE:** Leave this box blank if you have selected the Chairman of the Meeting. Do not insert your own name(s).

or failing the individual or body corporate named, or if no individual or body corporate is named, the Chairman of the Meeting, as my/our proxy to act generally at the meeting on my/our behalf and to vote in accordance with the following directions (or if no directions have been given, as the proxy sees fit) at the General Meeting of East Coast Minerals NL to be held at Ground Floor, 3 Richardson Street, West Perth, Western Australia on Friday, 25 November 2011 at 10.00am (WST) and at any adjournment of that meeting.

### STEP 2 Items of Business

**PLEASE NOTE:** If you mark the **Abstain** box for an item, you are directing your proxy not to vote on your behalf on a show of hands or a poll and your votes will not be counted in computing the required majority.

	For	Against	Abstain
Item 1 Approval to Acquire 80% of the Issued Share Capital of ECM Lithium Holdings AT Limited (a subsidiary of Exchange Minerals)  <b><u>The Independent Expert's opinion is that in the absence of a superior proposal, the Acquisition is on balance not fair but reasonable to Shareholders.</u></b>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Item 2 Issue of equity securities to Exchange Minerals	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Item 3 Approval of Significant Change in Nature and Scale of Activities	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

The Chairman of the Meeting intends to vote undirected proxies in favour of each item of business.

### SIGN Signature of Securityholder(s) *This section must be completed.*

Individual or Securityholder 1

Sole Director and Sole Company Secretary

Securityholder 2

Director

Securityholder 3

Director/Company Secretary

Contact Name \_\_\_\_\_

Contact Daytime Telephone \_\_\_\_\_

Date / / \_\_\_\_\_



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### For all enquiries call:

(within Australia) 1300 850 505  
(outside Australia) +61 3 9415 4000

## Proxy Form - Partly Paid Shares

For your vote to be effective it must be received by 10.00am (WST) Wednesday 23 November 2011

### How to Vote on Items of Business

All your securities will be voted in accordance with your directions.

#### Appointment of Proxy

**Voting 100% of your holding:** Direct your proxy how to vote by marking one of the boxes opposite each item of business. If you do not mark a box your proxy may vote as they choose. If you mark more than one box on an item your vote will be invalid on that item.

**Voting a portion of your holding:** Indicate a portion of your voting rights by inserting the percentage or number of securities you wish to vote in the For, Against or Abstain box or boxes. The sum of the votes cast must not exceed your voting entitlement or 100%.

**Appointing a second proxy:** You are entitled to appoint up to two proxies to attend the meeting and vote on a poll. If you appoint two proxies you must specify the percentage of votes or number of securities for each proxy, otherwise each proxy may exercise half of the votes. When appointing a second proxy write both names and the percentage of votes or number of securities for each in Step 1 overleaf.

**A proxy need not be a securityholder of the Company.**

### Signing Instructions

**Individual:** Where the holding is in one name, the securityholder must sign.

**Joint Holding:** Where the holding is in more than one name, all of the securityholders should sign.

**Power of Attorney:** If you have not already lodged the Power of Attorney with the registry, please attach a certified photocopy of the Power of Attorney to this form when you return it.

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### Attending the Meeting

Bring this form to assist registration. If a representative of a corporate securityholder or proxy is to attend the meeting you will need to provide the appropriate "Certificate of Appointment of Corporate Representative" prior to admission. A form of the certificate may be obtained from Computershare or online at [www.investorcentre.com](http://www.investorcentre.com) under the information tab, "Downloadable Forms".

**Comments & Questions:** If you have any comments or questions for the company, please write them on a separate sheet of paper and return with this form.

**Turn over to complete the form** ➔



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- Update your securityholding

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I 9999999999

I ND

## Proxy Form

Please mark  to indicate your directions

### STEP 1

#### Appoint a Proxy to Vote on Your Behalf

XX

I/We being a member/s of East Coast Minerals NL hereby appoint

the Chairman  
of the meeting OR

**PLEASE NOTE:** Leave this box blank if you have selected the Chairman of the Meeting. Do not insert your own name(s).

or failing the individual or body corporate named, or if no individual or body corporate is named, the Chairman of the Meeting, as my/our proxy to act generally at the meeting on my/our behalf and to vote in accordance with the following directions (or if no directions have been given, as the proxy sees fit) at the General Meeting of East Coast Minerals NL to be held at Ground Floor, 3 Richardson Street, West Perth, Western Australia on Friday, 25 November 2011 at 10.00am (WST) and at any adjournment of that meeting.

### STEP 2

#### Items of Business

**PLEASE NOTE:** If you mark the **Abstain** box for an item, you are directing your proxy not to vote on your behalf on a show of hands or a poll and your votes will not be counted in computing the required majority.

	For	Against	Abstain
Item 1 Approval to Acquire 80% of the Issued Share Capital of ECM Lithium Holdings AT Limited (a subsidiary of Exchange Minerals)  <b><u>The Independent Expert's opinion is that in the absence of a superior proposal, the Acquisition is on balance not fair but reasonable to Shareholders.</u></b>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Item 2 Issue of equity securities to Exchange Minerals	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Item 3 Approval of Significant Change in Nature and Scale of Activities	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

The Chairman of the Meeting intends to vote undirected proxies in favour of each item of business.

### SIGN

#### Signature of Securityholder(s) *This section must be completed.*

Individual or Securityholder 1

Sole Director and Sole Company Secretary

Securityholder 2

Director

Securityholder 3

Director/Company Secretary

Contact  
Name

\_\_\_\_\_

Contact  
Daytime  
Telephone

\_\_\_\_\_

Date

/ /

ECM

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