

7 April 2017

ANNOUNCEMENT

Takeover bid for Lepidico Limited Second Supplementary Bidder's Statement

Lithium Australia NL (ASX: LIT) (**Lithium Australia**) refers to its off-market takeover offer (**Offer**) for Lepidico Limited (ASX: LPD) (**Lepidico**).

A copy of Lithium Australia's Second Supplementary Bidder's Statement is attached pursuant to section 647(3)(b) of the Corporations Act.

Barry Woodhouse
CFO and Company Secretary
Barry.Woodhouse@lithium-au.com

About Lithium Australia

Lithium Australia NL is a dedicated developer of disruptive lithium extraction technologies, and 100% owner of the Sileach™ process for the recovery of lithium from silicates. LIT has strategic alliances with a number of companies, potentially providing access to a diversified lithium mineral inventory. LIT aspires to create the union between resources and the best available technology and to establish a global lithium processing business.

MEDIA CONTACT:

Adrian Griffin Lithium Australia NL 08 6145 0288 | 0418 927 658
Kevin Skinner Field Public Relations 08 8234 9555 | 0414 822 631

This is the second supplementary bidder's statement (**Second Supplementary Bidder's Statement**) prepared pursuant to section 643 of the *Corporations Act 2001* (Cth) in connection with Lithium Australia NL's (**Lithium Australia's**) off-market takeover bid to acquire all of the ordinary shares in Lepidico Limited (ACN 008 894 442) (**Lepidico**).

This Second Supplementary Bidder's Statement supplements, and should be read together with the Bidder's Statement dated 2 March 2017 and the First Supplementary Bidder's Statement dated 29 March 2017 (**Bidder's Statements**). This Second Supplementary Bidder's Statement prevails to the extent of any inconsistency with the Bidder's Statements.

This Second Supplementary Bidder's Statement has been prepared by Lithium Australia to ensure that full information has been provided to Lepidico shareholders in respect of the Offer made by Lithium Australia's Bidder's Statements.

Unless the context requires otherwise, terms defined in the Bidder's Statements have the same meaning in this Second Supplementary Bidder's Statement.

A copy of this Second Supplementary Bidder's Statement was lodged with ASIC on 7 April 2017. Neither ASIC nor any of its officers take any responsibility for the content of this Second Supplementary Bidder's Statement.

Second Supplementary Bidder's Statement

1 Lepidico's Target Statement and Independent Expert Report

Lepidico has released its target statement dated 28 March 2017 in response to the Bidder's Statement (**Target Statement**). The directors of Lithium Australia have reviewed the Independent Expert Report prepared by BDO Corporate Finance (WA) Pty Ltd (**BDO**) attached to the Target Statement (**BDO IER**) and identified some potential areas of concern regarding the analysis undertaken and conclusions reached in the BDO IER. As a result Lithium Australia engaged Leadenhall Corporate Advisory Pty Ltd (**Leadenhall**) to undertake a review of the BDO IER.

Based on the information and analysis provided in the BDO IER, Leadenhall believes that **BDO's opinion should have been that Lithium Australia's Takeover Offer is FAIR AND REASONABLE** and that:

- ❖ **BDO has placed too much reliance on the quoted market price analysis when there is not a deep and liquid market for the shares to support that analysis;**
- ❖ **BDO has used an inappropriate time period when selecting the minority trading price;**
- ❖ **BDO has chosen a control premium that is at the high end of the range commonly applied with inadequate justification; and**
- ❖ **BDO has not justified why the value per share selected was significantly higher than the value calculated using their sum of the parts methodology.**

A copy of Leadenhall's report comprises Annexure A to this Second Supplementary Bidder's Statement.

2 Update on acceptances received under takeover bid

Lithium Australia is pleased to advise that 60 LPD Shareholders have now accepted the Offer under the takeover bid. Accordingly, as at the date of this Second Supplementary Bidder's Statement Lithium Australia has received acceptances in relation to 18.02% of the LPD Shares.

Lithium Australia remains the largest single shareholder in Lepidico.

3 Important information on the effect of Lepidico Entitlement Offer on Takeover

Lithium Australia notes that on 31 March 2017, Lepidico extended the closing date for LPD Shareholders to accept the Lepidico Entitlement Offer to 5:00 pm (AWST) on 12 April 2017.

Lithium Australia's takeover bid does not currently apply to LPD Shares that are to be issued under the Lepidico Entitlement Offer.

Accordingly, LPD Shareholders who take up the Lepidico Entitlement Offer may not be able to sell those LPD Shares into the Lithium Australia takeover bid.

Lithium Australia also notes that while Lepidico stated that it *"is encouraged by the high level of support it has experienced"* in relation to the Lepidico Entitlement Offer, Lepidico has not given any indication of the actual participation in the Lepidico Entitlement Offer, including by its second-largest shareholder, Strategic Metallurgy Pty Ltd (an entity of which Lepidico director Gary Johnson is also a director).

4 Information in relation to the Bidder

Since the lodgment of the First Supplementary Bidder's Statement Lithium Australia has released to ASX the following announcements:

Date	Announcement
6 April 2017	LIT advances joint venture with Tin International
5 April 2017	Drilling commences at Agua Fria Mexico

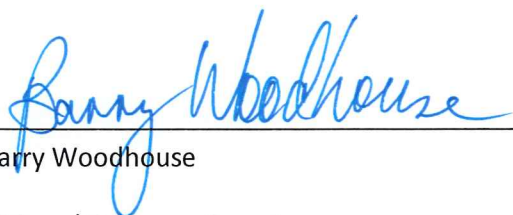
Pursuant to section 712 of the Corporations Act these announcements have been lodged with ASIC and are incorporated into this Second Supplementary Bidder's Statement. A full copy of the announcements can be obtained free of charge from Lithium Australia during the Offer Period and are also available on the ASX website. If any person receiving the Offer requires any further information in relation to Lithium Australia the directors recommend that they take advantage of the ability to inspect or obtain copies of these documents.

5 Approval of Second Supplementary Bidder's Statement

This Second Supplementary Bidder's Statement has been approved by a resolution of the directors of Lithium Australia.

Dated: 7 April 2017

Signed for and on behalf of
Lithium Australia by:



Barry Woodhouse

CFO and Company Secretary



Now you know
LEADENHALL

Annexure A

LEPIDICO LIMITED

REVIEW OF BDO'S INDEPENDENT EXPERT'S REPORT



LEADENHALL CORPORATE ADVISORY PTY LTD

ABN 11 114 534 619

Australian Financial Services Licence No: 293586

FINANCIAL SERVICES GUIDE

Leadenhall Corporate Advisory Pty Ltd ("**Leadenhall**" or "**we**" or "**us**" or "**our**" as appropriate) has been engaged to issue general financial product advice in the form of a report to be provided to you.

Financial Services Guide

In providing this report, we are required to issue this Financial Services Guide ("**FSG**") to retail clients. This FSG is designed to help you to make a decision as to how you might use this general financial product advice and to ensure that we comply with our obligations as a financial services licensee.

Financial Services We are Licensed to Provide

We hold Australian Financial Services Licence 293586 which authorises us to provide financial product advice in relation to securities (such as shares and debentures), managed investment schemes and derivatives.

We provide financial product advice by virtue of an engagement to issue a report in connection with a financial product. Our report will include a description of the circumstances of our engagement and the party who has engaged us. You will not have engaged us directly but will be provided with a copy of the report 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 service licensee authorised to provide the financial product advice contained in that report.

General Financial Product Advice

The advice produced in our report is 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.

Benefits that We May Receive

We charge fees for providing reports. These fees will be agreed with the person who engages us to provide the report. Fees will be agreed on either a fixed fee or time cost basis. Leadenhall is entitled to receive a fixed fee of \$15,000 (excl. GST) for preparing this report. This fee is not contingent upon the outcome of the Proposed Transaction.

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

Remuneration or Other Benefits Received by our Employees, Directors and Consultants

All our employees receive a salary. Our employees are eligible for bonuses which are not based on the outcomes of any specific engagement or directly linked to the provision of this report. Our directors and consultants receive remuneration based on time spent on matters.

Referrals

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

Complaints Resolution

As the holder of an Australian Financial Services Licence, we are required to have a system in place for handling complaints from persons to whom we have provided reports. All complaints must be in writing, to the following address:

Leadenhall Corporate Advisory Pty Ltd
GPO Box 1572
Adelaide SA 5001

Email: office@leadenhall.com.au

We will try to resolve your complaint quickly and fairly and will endeavour to settle the matter within 14 days from the time the matter is brought to our attention.

If you do not get a satisfactory outcome, you have the option of contacting the Financial Ombudsman Service ("FOS"). The FOS will then be able to advise you as to whether or not they can assist in this matter. The FOS can be contacted at the following address:

Financial Ombudsman Service
GPO Box 3
Melbourne VIC 3001

Telephone: 1300 780 808
Email: info@fos.org.au

Compensation Arrangements

Leadenhall holds professional indemnity insurance in relation to the services we provide. The insurance cover satisfies the compensation requirements of the Corporations Act 2001.

6 April 2017

6 April 2017

The Board of Directors
Lithium Australia NL
Level 1, 675 Murray Street
West Perth WA 6005

Dear Directors,

Review of BDO's Independent Expert's Report for Lepidico Limited

1 INTRODUCTION

Lithium Australia NL ("**Lithium**") and Lepidico Limited ("**Lepidico**") are both ASX listed companies involved in the lithium industry. On 6 February 2017 Lithium announced its intention to make a takeover offer for all of the ordinary shares in Lepidico ("**Lithium Takeover Offer**").

The Directors of Lepidico commissioned BDO Corporate Finance (WA) Pty Ltd ("**BDO**") to prepare an Independent Expert's Report in relation to the Lithium Takeover Offer ("**BDO IER**"). The BDO IER was issued on 27 March 2017 and concluded that the Lithium Takeover Offer is neither fair nor reasonable.

Based on the information and analysis provided in the BDO IER, we believe BDO's opinion should have been that the Lithium Takeover Offer is fair and reasonable.

2 PURPOSE

The Directors of Lithium have reviewed the BDO IER and identified some potential areas of concern regarding the analysis undertaken and conclusions reached in the report.

As a result, the Directors of Lithium have engaged Leadenhall Corporate Advisory Pty Ltd to undertake a review of the BDO IER to assess the reasonableness of the analysis included in the BDO IER and the conclusions reached by BDO.

This letter has been prepared for inclusion in a Supplementary Bidder's Statement to be provided to Lepidico's shareholders. We expressly disclaim any liability, whether for our negligence or otherwise, if the report is used for any other purpose or by any other person.

3 QUALIFICATIONS

Leadenhall is a specialist business valuation firm that provides valuation advice for a wide range of purposes including independent expert's reports, financial reporting and taxation. The personnel of Leadenhall principally involved in the preparation of this report were Richard Norris, BA (Hons), FCA, M.App.Fin, F.Fin.; Simon Dalgarno, B.Ec, FCA, F.FINSIA and Dave Pearson, BCom., CA, CFA, CBV, M.App.Fin.,

4 BASIS OF EVALUATION

Our analysis has been based solely on the content of the BDO IER. We have not undertaken any independent analysis nor have we had access to any underlying documents or the financial models used by BDO.

We have attempted to contact BDO to discuss our concerns, but have not received a response. Thus, we have not been able to confirm the appropriateness of various aspects of the analysis contained in the BDO IER.

As a result of these limitation there may be other issues that we have not identified in relation to the valuation analysis included in the BDO IER.

5 ANALYSIS

5.1 Approach

BDO's approach to assessing the fairness and reasonableness of the Lithium Takeover Offer is not explicitly stated in the BDO IER. However, on page 5, BDO notes that Regulatory Guide 111 Content of expert reports ("RG 111") "... states that a transaction is fair if the value of the offer price or consideration is greater than the value of the securities subject of the offer".

In fact, RG 111.11 states "an offer is 'fair' if the value of the offer price or consideration is **equal to or greater** than the value of the securities the subject of the offer".

This error by BDO in incorrectly quoting RG111 may be an important difference in this case, as the offer consideration and valuation of Lepidico shares are relatively close. We recommend that the test for fairness should be as defined in RG111 and not based on the test presented in the BDO IER.

BDO's approach to assessing the reasonableness of the Lithium Takeover offer by comparing advantages and disadvantages is appropriate.

BDO has valued a Lepidico share using the quoted market price and sum-of-parts methodologies. Each of these is discussed below.

5.2 Quoted market price analysis

As a result of our review of BDO's analysis of market trading in Lepidico shares we note:

- ◆ **Lepidico shares are not traded in a deep and liquid market and thus limited reliance should be placed on this methodology**

BDO has correctly identified the need for a deep market in a company's shares before relying on quoted prices. However, BDO has identified the % of issued capital as a measure of depth. Rather, the absolute value traded is a better measure of market depth. This is because professional investors need to invest a certain amount of funds in a stock to be worth their time in analysing it. They also need to be confident they can buy and sell the stock in a reasonable timeframe without unduly impacting the price. Over the 90-day period analysed by BDO in assessing the market trading of Lepidico, the average daily value traded was less than \$100,000 including trades on both ASX and CHI-X. This level of trading would restrict all but the smallest of professionally managed funds from investing in Lepidico. Thus in our opinion the market should not be considered a deep and liquid market, and therefore limited reliance should be placed on this methodology.

- ◆ **BDO have selected an inappropriate range for the market trading price**

By selecting a range based on the volume weighted average price ("VWAP") over the period up to 90 trading days before the announcement, BDO has placed more weight on trading in September and October 2016 than the more recent trading leading up to the announcement of the Lithium Takeover Offer. For example, in the 30 days prior to the Lithium Takeover Offer, Lepidico shares traded in the range \$0.010 to \$0.015, with the daily VWAP falling below BDO's assessed range approximately half of the time. We believe more weight should have been given to trading in the month prior to the announcement of the Lithium Takeover Offer as it is a more accurate reflection of value of a Lepidico share at the time the Lithium Takeover Offer was announced. Thus, in our opinion a range of \$0.010 to \$0.015 would be more supportable than the range selected by BDO of \$0.016 to \$0.021.

◆ **BDO have use a high control premium with inadequate justification**

BDO has adopted a control premium of 30% to 40%, based on various averages of premiums paid in control transactions. This approach fails to acknowledge that in many control transactions prices paid include an element of special value, for example buyer-specific synergies, and thus takeover premiums are not a pure measure of control premiums. In Australia, industry practice is to apply a control premium in the range of 20% to 40%, as shown in the following list quoting ranges noted in various independent experts' reports:

- Deloitte - 20% to 40%
- Ernst & Young - 20% to 40%
- KPMG - 25% to 40%
- PwC - 20% to 40%

On page 31 of the BDO IER, BDO has listed a number of factors impacting the level of control premium that should be applied in a given valuation. However, they have not considered how these factors apply to Lepidico. It is not apparent why a premium at the upper end of the generally observed range should apply. The fact that the result of the share trading analysis was considerably higher than the result of BDO's fundamental analysis is further evidence that the control premium adopted was too high.

Based on comments above, we believe that the analysis of share trading could reasonably support a lower assessed value of a Lepidico share, such that the Lithium Takeover Offer would be fair, and therefore also reasonable. In particular, we note that:

- ◆ With a low-end minority trading price of \$0.010 (the low market price in the 30 days trading before the offer was announced) any control premium up to 40% leads to a valuation conclusion that would result in the Lithium Takeover Offer being fair.
- ◆ With a low-end control premium of 25% (which is reasonable based on standard market practice) a market trading price of \$0.011 or less leads to a valuation conclusion that would result in the Lithium Takeover Offer being fair.

These examples are highlighted in the following table which presents only the low end of the potential valuation range as this is what is relevant to assessing the fairness of the Lithium Takeover Offer.

Table 1 Alternative examples for analysis of market trading

	Reasonable low price	Reasonable low premium
Quoted price	\$0.010	\$0.011
Control premium	40%	25%
Control value	\$0.014	\$0.014
Value per 13.25 shares	\$0.186	\$0.182
Conclusion	Fair	Fair

Source: Leadenhall analysis

5.3 Sum-of-parts valuation

While we have identified some anomalies with the sum-of-parts valuation, we have generally been unable to quantify the impact or confirm our concerns due the limited disclosure in the report, in particular surrounding the discounted cash flow analysis. In general, our observations would tend to reduce the upper end of the valuation of a Lepidico share. Accordingly, we express no view as to the correctness of the conclusion arrived at using this methodology, other than to note the lower end of the valuation range would support a conclusion that the Lithium Takeover Offer is fair and reasonable.

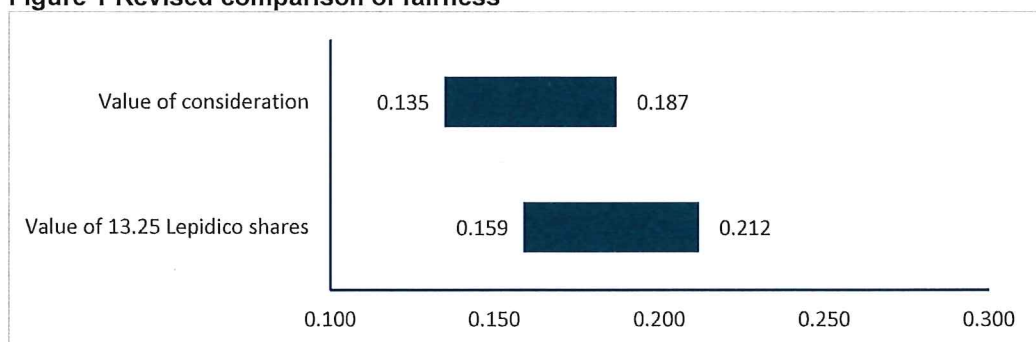
5.4 Selected value

In selecting a valuation range for a Lepidico share, BDO has relied wholly on its analysis of market trading prices, with no reference to its fundamental valuation of a Lepidico share set out in the sum-of-parts valuation. We have serious concern with this degree of reliance on the quoted share price, in particular because:

- ◆ Market participants have considerably less information about the prospects of Lepidico than BDO
- ◆ As noted above the market for Lepidico share is illiquid and thus should be given limited reliance
- ◆ We have also noted some concerns with the application of BDO's quoted market price analysis

As a result, we believe BDO should have placed more reliance on its own fundamental analysis and arrived at a valuation conclusion of \$0.012 to \$0.016 per share, supported by an analysis of market trading as a cross-check. Had BDO adopted this valuation range based on its own fundamental analysis of the value of a Lepidico share, the values of a Lepidico share and the consideration offered would have overlapped as set out in the figure below:

Figure 1 Revised comparison of fairness



Sources: BDO IER and Leadenhall analysis

Given RG111 defines an offer as fair if the offer consideration is equal to the value of the securities subject to the offer, on this basis we believe that, based on the analysis contained in the BDO IER, BDO should have concluded that that Lithium Takeover Offer is fair. As we believe the Lithium Takeover Offer should have been assessed as fair, in accordance with RG 111 it should also have been assessed as reasonable.

6 OPINION

Based on the information contained in the BDO IER, BDO has:

- ◆ Placed too much reliance on the quoted market price analysis when there is not a deep and liquid market for the shares to support that analysis.
- ◆ Used an inappropriate time period when selecting the minority trading price.
- ◆ Chosen a control premium that is at the high end of the range commonly applied with inadequate justification.
- ◆ Not justified why the value per share selected was significantly higher than the value calculated using their sum of the parts methodology.

Based on the information and analysis provided in the BDO IER, we believe the opinion should have been that the Lithium Takeover Offer is fair and reasonable.

Yours faithfully

Simon Dalgarno
Director

Richard Norris
Director