

30 August 2017

ASX ANNOUNCEMENT

Lithium Australia's proposed acquisition of Brisbane battery cathode developer designed to provide 'full-circle' capability via recycling of "energy metals"

HIGHLIGHTS

- **Conditional proposed agreement for Lithium Australia NL (ASX: LIT) to acquire a minimum 75% stake in Brisbane battery cathode developer Very Small Particle Company Ltd ('VSPC')**
- **VSPC's intellectual property facilitates the production of battery cathode material**
- **Acquisition of VSPC by LIT would augment LIT's proven, advanced processing technologies around ANSTO-backed, cost-competitive lithium extraction from waste materials**
- **Should the proposed acquisition proceed, LIT would achieve strategic 'full-circle' capability in terms of lithium extraction, processing and cathode production from unconventional source materials, and would be positioned as a market-leading recycler of discarded, end-of-use lithium-ion ('Li-Ion') batteries**
- **LIT considers there is potential for recycled energy metals to become the cheapest source of materials for the global Li-ion battery market**

Lithium Australia NL ('LIT' or 'the Company') is one of the country's foremost developers of disruptive lithium extraction technologies. LIT proposes to acquire Brisbane-based unlisted public company VSPC, a researcher and developer of some of the world's most innovative and respected new-era cathode material for Li-ion batteries.

Under the terms of the proposed share-based acquisition (refer to Annexure 1), LIT would acquire up to 100% of VSPC, with a minimum acceptance requirement of 75%.

In recent years, VSPC's research and development work has resulted in it supplying high-quality cathode material – including Li-ion phosphate cathode material, widely used in hybrid electric vehicles, power tools and domestic storage batteries – into global test markets.

LIT's proposed acquisition, which is subject to due diligence (to be completed by 30 September) includes a decommissioned pilot plant in Brisbane designed to produce complex metal oxides/phosphates for cathode production.

The plant, which incorporates Australia's most advanced Li-ion battery-laboratory and testing facility, which can establish the quality, performance and reliability of cells produced using the VSPC technology. The laboratory includes cathode coating equipment and cell production capacity.



The proposed VSPC acquisition would provide LIT with 'full-circle' capability to deliver source material into the global Li-ion battery supply chain, taking into consideration the following.

- The Company's worldwide lithium **greenfields lithium exploration** projects, dominated by strong project positions in Western Australia and elsewhere in Australia, and its processing of 'unconventional' lithium materials such as micas and low-grade **lithium concentrates**.
- The Company's **brownfields lithium exploration** at Sardisdorf in Germany.
- The Company's **processing** capabilities via its flagship Sileach® hydrometallurgical technology, which is capable of digesting any silicate material.
- LIT's proposed acquisition of VSPC's IP and infrastructure would give the Company the ability to **produce existing and newly developed cathode material**.
- A stated aim of the Company is to **recycle Li-ion batteries** (cars, mobile phones, etc.) discarded at end of life, in order to extract energy metals that include lithium and cobalt.

From managing director Adrian Griffin ...

"LIT's business strategy, which incorporates the development of disruptive extraction technology, has expanded from the processing of natural resources to include the recycling of battery materials. The Company anticipates immense pressure on the supply of so-called 'energy metals' such as lithium and cobalt in the near future, and battery recycling not only supports sustainability but may ultimately prove the cheapest source of those materials in years to come.

"Recycling closes the loop to create a circular energy economy; at present, the missing link is the reintroduction of recovered metals into the global lithium supply chain. The revolutionary cathode technology developed by VSPC provides that 'missing link', and the proposed acquisition would provide LIT with the opportunity to participate in the entire lifecycle of energy metals, thereby positioning the Company as a leader in the field of not just portable but also sustainable power.

"The envisaged transaction would allow LIT to participate in the efficient production and total utilisation of Li-ion batteries, with the best technologies integrated to achieve that outcome.

"The entire focus of LIT's development pathway to date has been that of unlocking the value in lithium minerals previously consigned to 'the too-hard basket'. The proposed acquisition would provide the Company with full capability across all R&D, access to both fresh and waste ore, and recycling entry points into energy metals and cathode supply for global battery markets.

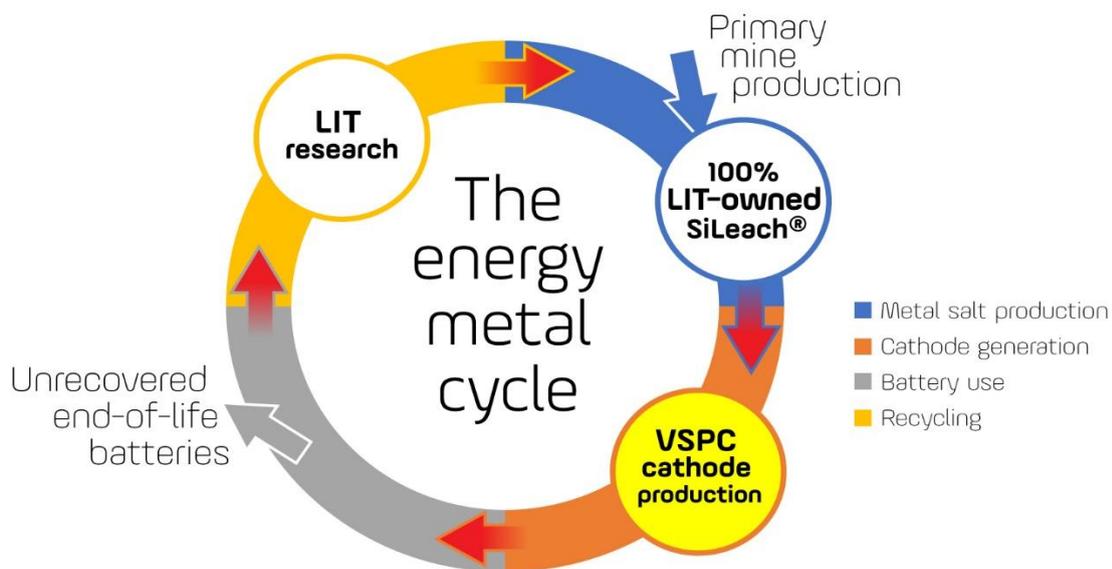
"LIT's proposed acquisition of VSPC remains subject to due diligence, plus any required shareholder and regulatory approvals and acceptances."

Mr Griffin described the proposed VSPC acquisition as the latest milestone for LIT, which in recent times has seen its SiLeach® process successfully pilot-tested at ANSTO Minerals (a division of the Australian Nuclear Science and Technology Organisation, operating under the auspices of the Australian federal government).

LIT's research work to date has been funded by equity and research grants provided by both state (Western Australian) and federal governments.

The above-mentioned pilot testing culminated in engineering design studies and financial evaluation of a 2,500 tpa (tonnes per annum) lithium carbonate plant that uses lepidolite (lithium mica) as a feed source. The studies indicated that lithium production from this unconventional material could compete with some of the lowest-cost producers of lithium carbonate.





LIT's proposed acquisition of VSPC would provide it with 'full-circle' energy metal capability

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About Lithium Australia NL

LIT is a dedicated developer of disruptive lithium extraction technologies. The Company has formed strategic alliances with, and invested in, a number of companies with the potential to provide it with access to a diversified lithium mineral inventory. LIT aspires to create a union between current and future resources and the best available technology, and to establish a global lithium processing business.

Annexure 1 – Summary of terms for the proposed acquisition of all of the issued capital of the Very Small Particle Company Ltd (VSPC)

Subject to satisfactory due diligence and any required regulatory approvals, LIT and VSPC have agreed under a non-binding Term Sheet for LIT to purchase up to 100% of all issued capital of VSPC (with a minimum acceptance condition of 75% of VSPC share capital) for consideration of:

- (a) a non-refundable cash payment of up to \$45,000 depending on the length of the due diligence period;
- (b) acceptance by VSPC shareholders who hold at least 75% of the VSPC issued share capital (**Minimum Acceptance**);
- (c) the issue of up to 61,151,326 fully paid ordinary LIT shares and up to 30,575,663 \$0.25 partly paid LIT shares (paid to \$0.0001) (collectively **Consideration Shares**) subject to the completion of the application form which is to be attached to a disclosure document prepared in accordance with Chapter 6.2D of the *Corporations Act 2001* (Cth). The Consideration Shares will be subject to voluntary escrow provisions and any ASX imposed escrow period; and
- (d) subject to LIT first receiving Minimum Acceptance, any necessary regulatory and shareholder approvals required under the Listing Rules or the *Corporations Act 2001* (Cth), LIT will issue the Consideration Shares to VSPC shareholders who have accepted the LIT offer.

Conditions Precedent

Completion of the Transaction is conditional on and subject to each of the following conditions being satisfied or waived:

- LIT completing and being satisfied with the results of its due diligence investigations on VSPC in its sole and absolute discretion which will:
 - (I) include a review and investigation of the Company, its assets (including real and documented intellectual property) of VSCP, verification of the quality of cathode materials generated by VSPC, the testing of residual Generation 4 stock, and commissioning an independent report and being satisfied with the results of that report, and all, books, records and accounts of the Company; and
 - (II) be completed by no later than 30 September, 2017, or such later date as VSPC agrees to, acting reasonably.
- The VSPC Board providing documentary evidence that other than the convertible notes disclosed to LIT and normal trade creditors, VSPC has no debt and there are no securities on issue that may be converted to debt.
- The VSPC Board verifying that there are no related party loans or liabilities to which VSPC is a party or subject.
- LIT undertaking to each VSPC Shareholder under the terms of each LIT Offer to support the planned work programs of VSPC, as disclosed in writing to LIT in VSPC's Information Memorandum dated in February, 2017 for the period of the budget provided, such budget being for a 2 year period and with a financial commitment of no less than US\$4.0M, subject always to the achievement of the goals and targets of those planned work programs as disclosed in the IM prior to having expended all of that committed sum, and to any applicable statutory and fiduciary obligations of the LIT directors.
- LIT issuing a disclosure document in accordance with the provisions of Chapter 6.2D of the *Corporations Act 2001* (Cth).
- LIT receiving all necessary consents and approvals from any person or authority, including LIT Shareholder approval to the Transaction (if required) to the issue of the Consideration Shares in accordance with the provisions of the Formal Agreements.
- The total issued share capital of VSPC, including all VSPC Shares that would be issued upon the conversion of any security that is currently issued by VSPC, whether or not its holder is currently entitled to convert that security into a VSPC Share or VSPC Shares, is no more than 10,540,265 Shares.
- There being no matter, event or circumstance which has had, or could reasonably be expected to have, a material adverse effect on the financial or trading position, assets or liabilities, profitability or prospects of VSPC until the date of Completion.

LIT and VSPC will negotiate in good faith toward procuring the execution of definitive transaction agreements (Formal Agreements). These Formal Agreements will include a share sale and purchase agreement and any relevant escrow agreements