



ANNUAL INFORMATION FORM

For the Year Ended June 30, 2012

TALISON LITHIUM LIMITED

ACN 140 122 078

Level 4, 37 St Georges Terrace  
Perth, Western Australia, 6000, Australia

September 26, 2012

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## GENERAL MATTERS

Unless otherwise indicated, the information in this Annual Information Form (“AIF”) is given as of September 26, 2012. All references to “A\$” are to Australian dollars, references to “C\$” are to Canadian dollars and references to “US\$” are to United States dollars. In this AIF all references to the “Company”, “Talison Lithium”, “our”, “us” or “we” refer to Talison Lithium Limited and its subsidiaries, and, to the extent references are made to matters undertaken by a predecessor in interest to Talison Lithium or its subsidiaries, includes such predecessor in interest, in each case unless the context clearly requires otherwise.

Unless the context otherwise requires, the terms “mineral resource”, “inferred mineral resource”, “indicated mineral resource”, “measured mineral resource”, “mineral reserve”, “probable mineral reserve” and “proven mineral reserve” have the meanings ascribed thereto, respectively, in National Instrument 43-101 *Standards of Disclosure for Mineral Projects* (“**National Instrument 43-101**”).

### CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This AIF contains “forward-looking information” which may include, but is not limited to, statements with respect to the Scheme and the Option Scheme (each as defined herein), the future financial or operating performances of Talison Lithium, its subsidiaries and their respective projects, the timing and amount of estimated future production, estimated costs of future production, capital, operating and exploration expenditures, the future price of lithium or lithium concentrates, the estimation of mineral reserves and mineral resources, the realization of mineral reserve estimates, the costs of Talison Lithium’s hedging policy, costs and timing of future exploration, proposed development of a lithium carbonate plant, requirements for additional capital, future business strategy, competitive strengths, goals, interest rates, the lithium market, sales risks related to China, currency, production estimates, lithium exploration and exploitation in Chile, land over-staking, availability of water rights, human resources availability and retention, Talison Lithium’s competitive position, government regulation of exploration, development and mining operations, environmental risks, reclamation and rehabilitation expenses, title disputes or claims, and limitations of insurance coverage. Often, but not always, forward-looking information can be identified by the use of words such as “plans”, “expects”, “is expected”, “is expecting”, “budget”, “scheduled”, “estimates”, “projects”, “forecasts”, “intends”, “anticipates”, or “believes”, or variations (including negative variations) of such words and phrases or other comparable words and phrases, or state that certain actions, events or results “may”, “could”, “would”, “might”, or “will” be taken, occur or be achieved. The purpose of forward-looking information is to provide the reader with information about management’s expectations and plans for fiscal 2013. Readers are cautioned that forward-looking information involves known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of Talison Lithium and/or its subsidiaries to be materially different from any future results, performance or achievements expressed or implied by the forward-looking information. Such factors include, among others, market prices, exploitation and exploration successes, changes in and the effect of government policies with respect to mining and natural resource exploration and exploitation, continued availability of capital and financing, and general economic, market or business conditions, as well as those factors discussed in the section entitled “Risk Factors” in this AIF. Although Talison Lithium has attempted to identify statements containing important factors that could cause actual actions, events or results to differ materially from those described in forward-looking information, there may be other factors that cause actions, events or results to differ from those anticipated, estimated or intended. Forward-looking information contained herein is made as of the date of this AIF based on the opinions and estimates of management on the date statements containing such forward-looking information are made. Except as required by law, Talison Lithium disclaims any obligation to update any forward-looking information, whether as a result of new information, estimates or opinions, future events or results or otherwise. There can be no assurance that forward-looking information will prove to be accurate, as actual results and future events could differ materially from those anticipated in such information. Accordingly, readers should not place undue reliance on forward-looking information.

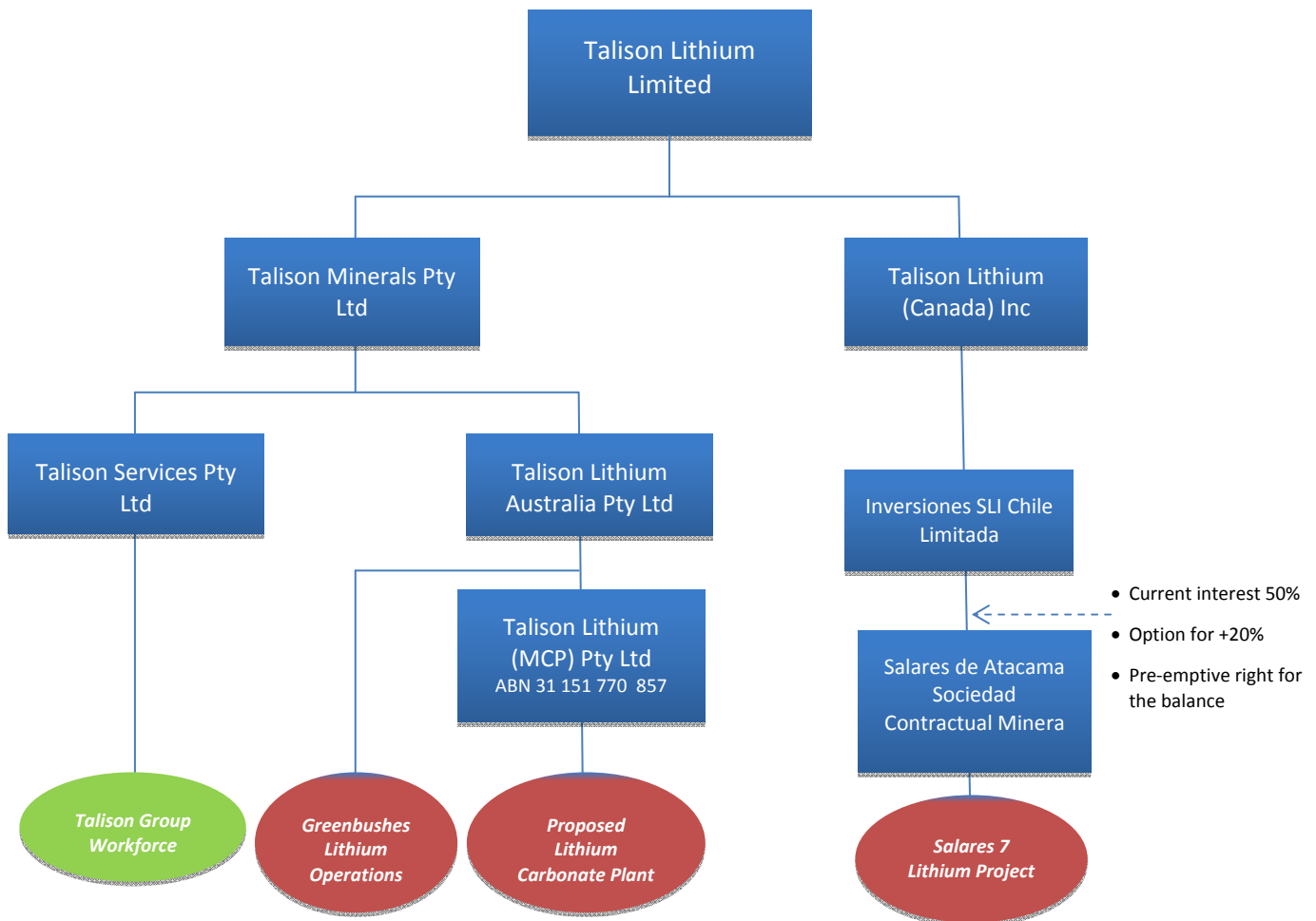
## TALISON LITHIUM LIMITED

Talison Lithium Limited ACN 140 122 078 (“**Talison Lithium**” or the “**Company**”) was incorporated under the *Australian Corporations Act 2001* (the “**Corporations Act**”) as a public company on October 22, 2009. The principal business office and registered office of Talison Lithium is located at Level 4, 37 St Georges Terrace, Perth, Western Australia, 6000, Australia.

### Intercorporate Relationships

Talison Lithium has six wholly-owned subsidiaries, Talison Minerals Pty Ltd. (“**Talison Minerals**”), Talison Services Pty Ltd (“**Talison Services**”), Talison Lithium Australia Pty Ltd. (“**TLA**”), Talison Lithium (MCP) Pty Ltd (“**Talison MCP**”), Talison Lithium (Canada) Inc. (“**Talison Canada**”) (formally Salares Lithium Inc.), and Inversiones SLI Chile Limitada (“**SLI**”). Talison Minerals, Talison Services, Talison MCP and TLA are each incorporated under the Corporations Act; Talison Canada is incorporated under the *Business Corporations Act* (British Columbia); and SLI is a limited liability company incorporated under Chilean law. Talison Lithium’s principal asset is the lithium mine and processing operation located at Greenbushes, Western Australia (the “**Greenbushes Lithium Operations**”), which it owns and operates through its wholly-owned subsidiaries.

Set out below is the corporate structure of Talison Lithium and its subsidiaries as of the date of this AIF. Talison Lithium controls, directly or indirectly, 100% of the voting securities of all its subsidiaries.



## GENERAL DEVELOPMENT OF THE BUSINESS

### Overview

Talison Lithium is a leading global producer of lithium. Talison Lithium mines and processes the lithium bearing mineral spodumene at Greenbushes near Perth, Western Australia, and produces a range of lithium concentrates which are distributed to a well-established global customer base. Talison Lithium has a leading position in the growing Chinese lithium concentrates market. In addition, Talison Lithium owns an interest in the Salares 7 Project (as defined herein), which is comprised of seven brine lakes in Chile's Region III.

Talison Lithium produces two categories of lithium concentrates at the Greenbushes Lithium Operations: (i) technical grade lithium concentrates, which have low iron content for use in the manufacture of, among other applications, glass, ceramics and heat proof cookware; and (ii) a chemical grade lithium concentrate that is used to produce lithium chemicals which form the basis for manufacture of, among other applications, lithium ion batteries for laptop computers, tablets, mobile phones, electric bicycles and electric vehicles. Talison Lithium does not currently produce lithium chemical products itself. Instead, it sells lithium concentrate to customers for processing into lithium chemicals, primarily lithium carbonate.

Management believes that the Greenbushes Lithium Operations host the world's largest known reserve of lithium minerals.

From 2008 through the first half of 2012, Talison continued to increase both its chemical grade production capacity at the Greenbushes Lithium Operations, as well as its sales of chemical grade lithium concentrate, in response to increasing demand from Chinese lithium chemical producers.

Pursuant to a statutory plan of arrangement under the laws of the province of British Columbia and the federal laws of Canada applicable therein, on September 22, 2010, Talison Lithium completed an acquisition (the "**Arrangement**") of Salares Lithium Inc. ("**Salares**"). Salares' primary asset was an option (the "**Option**") to acquire up to 70% of the outstanding shares of Salares de Atacama Sociedad Contractual Minera ("**SALA**"). Part of the Option was exercised and Talison Lithium now indirectly holds 50% of SALA with a remaining option to acquire another 20% through SLI, a wholly owned subsidiary of Talison Canada. SALA owns 100% of five brine lakes and a part of two additional brine lakes which together comprise the Salares 7 lithium project (the "**Salares 7 Project**") in Chile's Region III. Upon completion of the Arrangement, the ordinary shares of Talison Lithium (the "**Ordinary Shares**") were listed on the Toronto Stock Exchange (the "**TSX**") under the trading symbol "TLH". See "- Three Year History - Asset Acquisition of Salares Lithium Inc. and Listing on the TSX" for further information.

### Three Year History

#### *Pre-Arrangement Reorganization*

Talison Minerals was incorporated in 2007 for the purpose of acquiring the advanced minerals business of Sons of Gwalia (Subject to Deed of Company Arrangement) ("**Sons of Gwalia**"). The advanced minerals business included lithium and tantalum mining and processing operations in the Greenbushes area of Western Australia, tantalum mining and processing operations at Wodgina in Western Australia, and marketing of tantalum and lithium, which was carried out from Talison Minerals' office in Perth, Western Australia.

In October 2009, Talison Minerals decided to reorganize its operations, with a view to separating its lithium and non-lithium assets into separate corporate entities (the "**Reorganization**"). Talison Lithium was formed in contemplation of the Reorganization, which had the effect of (i) the Greenbushes Lithium Operations being held by Talison Lithium, and (ii) the tantalum assets being held by Talison Tantalum Pty

Ltd (“**Talison Tantalum**”), a separate entity owned by a consortium of private equity funds that were the founding shareholders of Talison Minerals, including Resource Capital Fund IV L.P., Resource Capital Fund V L.P., Mineral Investor L.P., Triumph II Investments (Ireland) Limited and DBSCO Du II LLC. (collectively, the “**Founding Shareholders**”). As a result of the completion of the Reorganization on August 12, 2010, Talison Lithium does not have any interest in the tantalum assets previously held by Talison Minerals, other than its ownership of the tenements comprising the Greenbushes Lithium Operations and the rights to lithium mineralization.

The Greenbushes Lithium Operations comprise real property, mining tenements, intellectual property, goodwill, contracts, and plant and equipment, including two lithium ore treatment plants, three open pit mines, and associated infrastructure at Greenbushes in Western Australia, but exclude an ore crushing plant and mining rights to all other minerals other than lithium which are owned by Talison Tantalum and its subsidiaries (collectively, the “**Tantalum Group**”) as a result of the completion of the Reorganization.

#### *Summary of Pre-Arrangement Reorganization Agreements*

The following is a summary of the material agreements relating to the Reorganization which concern the relationship between Talison Lithium and the Tantalum Group. The summary descriptions of the agreements are not complete and, with respect to each such agreement, are qualified by reference to the terms of the agreement, each of which (other than the Ore Tolling Agreement (as defined herein)) has been filed with the Canadian securities regulatory authorities and is available for review on Talison Lithium’s profile on the Canadian Securities Administrators’ System for Electronic Document Analysis and Retrieval (“**SEDAR**”) located at [www.sedar.com](http://www.sedar.com).

#### *Lithium Business Sale Agreement*

On November 13, 2009, Talison Minerals, Global Advanced Metals Greenbushes Pty Ltd (“**GAM Greenbushes**”) (formerly Talison Greenbushes Pty Ltd) and TLA entered into a lithium business sale agreement (the “**Lithium Business Sale Agreement**”), pursuant to which TLA acquired the Greenbushes Lithium Operations and all associated assets (other than certain non-transferable authorizations, as described below).

The assets of the tantalum operations were excluded from the assets being purchased by TLA from GAM Greenbushes under the Lithium Business Sale Agreement and are held by Talison Tantalum.

Under the Lithium Business Sale Agreement, all permits, approvals and licences relating to the Greenbushes Lithium Operations have been transferred to TLA. Completion of the Lithium Business Sale Agreement took place on January 22, 2010.

#### *Reserved Mineral Rights Agreement*

The Lithium Business Sale Agreement expressly reserved in favour of GAM Greenbushes the exclusive right to conduct exploration and mining operations in respect of all minerals, other than lithium, within the Tenements (as hereinafter defined) transferred pursuant to the Lithium Business Sale Agreement. On November 13, 2009, GAM Greenbushes and TLA entered into a reserved mineral rights agreement (the “**Reserved Mineral Rights Agreement**”) to coordinate the exercise of the parties’ respective mineral rights on the Tenements.

The Reserved Mineral Rights Agreement provides that minerals recovered by GAM Greenbushes other than lithium will be the property of GAM Greenbushes. Minerals other than lithium contained in any tailings or other waste produced by TLA can be processed by GAM Greenbushes and will be the property of GAM Greenbushes.

GAM Greenbushes is liable for any rehabilitation obligations arising out of its right to conduct exploration and mining operations for all minerals other than lithium on the Tenements.

#### Shared Services Agreement

On November 13, 2009, Talison Minerals, Talison Wodgina Pty Ltd ACN 125 585 239 (“**Talison Wodgina**”), Talison Marketing Pty Ltd (“**Talison Marketing**”), Talison Services, GAM Greenbushes and TLA entered into a shared services agreement (the “**Shared Services Agreement**”), pursuant to which the parties agreed to negotiate in good faith and use their best endeavours to agree to terms of definitive agreements where they are deemed necessary in respect of certain shared services including administrative and office facilities, utilities, personnel and tailings facilities, before June 30, 2010. Pursuant to the Shared Services Agreement, where definitive agreements were not entered into before such date, (a) the terms and conditions set out in the Shared Services Agreement continue to bind the parties; (b) the parties must ensure that the relevant shared service being provided continues to be provided at the same level and on no less favourable terms; and (c) the parties must continue to negotiate the terms of, and use their best endeavours to agree, the definitive agreements where they are deemed necessary.

Talison Lithium will be responsible for maintaining all tailings facilities and waste dumps. A non-exclusive licence will be granted to GAM Greenbushes to access and use the tailings and waste dump facilities.

#### Crusher Licence Agreement and Ore Tolling Agreement

On November 13, 2009, GAM Greenbushes and TLA entered into a crusher license agreement (the “**Crusher Licence Agreement**”) pursuant to which TLA was granted a non-exclusive licence to access the general purpose lease (the “**GPL**”) on which a crusher is situated to enable TLA to use that crusher.

TLA must pay a monthly fee of 5% of the monthly operating costs and expenses of operating and maintaining the crusher and stockpiling the ore to GAM Greenbushes for use of the crusher. TLA is also responsible for and must pay all costs and expenses in operating and maintaining the crusher and stockpiling the rock, including costs of water and power, spares and consumables, personnel to operate and maintain the crusher and any costs or expenses in complying with any law, permit or approval.

GAM Greenbushes and TLA may elect to enter into an ore tolling agreement (the “**Ore Tolling Agreement**”) when and if GAM Greenbushes elects to terminate the Crusher Licence Agreement and recommence use of the crusher. From the effective date of the Ore Tolling Agreement, the Crusher Licence Agreement will no longer be in force and the Ore Tolling Agreement will operate as a stand alone agreement between GAM Greenbushes and TLA. Under the Ore Tolling Agreement, among other things, TLA will agree to supply GAM Greenbushes with ore for crushing and GAM Greenbushes will crush the ore provided by TLA.

#### General Purpose Lease Secondary Sale Agreement

Pursuant to the Lithium Business Sale Agreement and a general purpose lease secondary sale agreement among TLA and GAM Greenbushes entered into on November 13, 2009, TLA agreed to prepare and lodge with the Western Australian Department of Mines and Petroleum (“**DMP**”), conditional partial surrenders for, and applications for, general purpose leases over M01/6 and GPL01/01, and mining lease M01/3, together with any other area reasonably required by GAM Greenbushes for its tantalum operations, as agreed between the parties (the “**GPL Applications**”) and to transfer to GAM Greenbushes the general purposes leases to be granted in accordance with the GPL Applications.

The conditional partial surrenders and the GPL Applications have not yet occurred because the application for new general purpose leases will trigger a right to negotiate under the *Native Title Act 1993*

(Commonwealth of Australia) (the “NTA”). This issue is to be resolved by TLA providing GAM Greenbushes with a sub-lease for the area covered by the GPL Applications.

### ***The Greenbushes Lithium Operations***

#### *Overview*

The Greenbushes Lithium Operations are located directly south and immediately adjacent to the town of Greenbushes, approximately 250 kilometres (“**km**”) south of Perth, Western Australia, and 90 km south-east of the Port of Bunbury, a major bulk handling port in the south-west of Western Australia. The Greenbushes Lithium Operations produce a range of lithium concentrates which are distributed to a well-established global customer base.

The Greenbushes Lithium Operations are located in an agricultural region comprising mainly dairy farming, orchards, forestry and vineyards. As a result of the attractive location of the Greenbushes Lithium Operations, both in proximity to Perth and also the holiday regions of south-west Western Australia, Talison Lithium is able to recruit and retain a talented and stable workforce, who generally live in the local area. Management believes that the quality and stability of this workforce is a major competitive advantage which has contributed significantly to growth and improved performance of the Greenbushes Lithium Operations over an extended period.

#### Location of the Greenbushes Lithium Operations



The Greenbushes area is recognized as the longest continuously operated mining area in Western Australia. Tin mining commenced in the Greenbushes area in 1888 and mining of tantalum started in the 1940s. The initial development of the lithium ore body at Greenbushes commenced in 1983 and a 30,000 tonnes per annum (“**tpa**”) lithium processing plant was commissioned in 1985 to produce a variety of different lithium concentrates for the technical grade market. The processing plant capacity was increased several times during the 1990s and in 2009, a new chemical grade lithium concentrate plant, meeting the needs of the Chinese lithium chemical producers, was commissioned.

Due to the strong demand from Chinese lithium chemical producers for chemical grade lithium concentrates, Talison Lithium undertook further expansion of its chemical grade plant at the Greenbushes Lithium Operations in two stages. The first stage of this expansion was completed in December 2010 and the second stage was completed in June 2012.

## *Development and Operating Activities*

The following is a summary of the key developments and operating activity highlights for the Greenbushes Lithium Operations over the past three financial years:

### 2009/2010

The Company agreed to terms with a major longstanding Chinese lithium chemical producer customer to extend the term of its sales contract and to increase contracted sales volumes. During the year the Company saw demand for chemical-grade lithium concentrate from Chinese customers increase and approaches from Chinese lithium chemical producers resulted in Greenbushes Lithium Operations broadening its customer base for chemical-grade lithium concentrate .

A capital estimate study was completed by an external engineering consultant, which examined alternatives for expanding chemical-grade lithium concentrate production and the report concluded a significant expansion in production was technically and economically viable and achievable over a 12-month period. In addition, an independent engineering consultant completed a scoping study focused on determining the operating costs of a lithium carbonate plant in Western Australia and the report concluded such a plant could produce lithium carbonate at a competitive price from the spodumene concentrates produced by the Greenbushes Lithium Operations.

During the financial year the Company also completed a JORC Code (as hereinafter defined) and National Instrument 43-101 compliant lithium mineral reserve statement in relation to the Greenbushes Lithium Operations.

### 2010/2011

On August 12, 2010, the Reorganization was completed and Talison Lithium acquired the Greenbushes Lithium Operations.

The Company completed an updated National Instrument 43-101 compliant lithium mineral resources and mineral reserves statement in relation to the Greenbushes Lithium Operations as at March 31, 2011. Total lithium proven and probable mineral reserves increased by 157% (measured on the basis of total tonnes of contained lithium carbonate equivalent (“LCE”)) and mine life of the Greenbushes Lithium Operations was extended to 22 years as at March 31, 2011.

Preliminary engineering and location studies for a lithium carbonate plant commenced during the year and plant capacity was proposed to be 20,000 tonnes per annum lithium carbonate.

The Company’s total production and sales for the year ended June 30, 2011 were 342,097 tonnes and 339,501 tonnes of lithium concentrates, respectively (approximately 51,000 tonnes LCE and 50,000 tonnes LCE, respectively) and represent a 30% and 32% increase, respectively, compared to the prior year.

In December 2010, commissioning of the Stage 1 expansion at the Greenbushes Lithium Operations was completed ahead of schedule and increased production capacity to 315,000 tpa of lithium concentrate (equivalent to approximately 47,000 tpa LCE).

### 2011/2012

The Company’s total production and sales for the year ended June 30, 2012 were 357,128 tonnes and 365,545 tonnes of lithium concentrates, respectively (approximately 53,000 tonnes LCE and 54,000 tonnes LCE, respectively) and represent a 4% and 8% increase, respectively, compared to the prior year.

In June 2012, commissioning of the Stage 2 expansion at the Greenbushes Lithium Operations was completed on budget and on schedule, more than doubling total production capacity.

The Company continued to advance its plan to add value to the Greenbushes Lithium Operations by developing a plant to convert lithium minerals into lithium carbonate. An engineering study commenced and a location in the Kwinana Industrial Area, Western Australia was selected as the Company's preferred site. A lithium carbonate test facility was constructed at the Greenbushes Lithium Operations to provide product samples to prospective customers.

The Company is also undertaking additional mineral resource and mineral reserve estimate definition drilling at the Greenbushes Lithium Operations. The objective is to increase lithium mineral reserves and extend mine life to support future additional expansions of the lithium concentrate processing plants and a potential doubling in capacity of the lithium carbonate plant.

### ***Asset Acquisition of Salares Lithium Inc. and Listing on the TSX***

On September 22, 2010, Talison Lithium, through its wholly-owned subsidiaries, Talison Lithium Callco Limited ("**Callco**") and Talison Lithium Exchangeco Limited ("**Exchangeco**"), completed the Arrangement to acquire the assets of Salares pursuant to which Salares became an indirect, wholly-owned subsidiary of Talison Lithium. Salares' primary asset was the Option to acquire up to 70% of the outstanding shares of SALA. SALA is the 100% owner of the Salares 7 Project. Part of the Option was exercised and Talison Lithium now indirectly holds 50% of SALA with a remaining option to acquire another 20% through SLI, a wholly owned subsidiary of Talison Canada. Upon completion of the Arrangement, the Ordinary Shares of Talison Lithium were listed on the TSX under the trading symbol "TLH".

Under the Arrangement, each common share in the capital of Salares (a "**Salares Share**") was transferred (i) to Callco in consideration for 0.35587 of an Ordinary Share, or (ii) to Exchangeco in consideration for 0.35587 of an exchangeable share in the capital of Exchangeco (an "**Exchangeable Share**"). Each Exchangeable Share was exchangeable on a one-for-one basis for an Ordinary Share. In addition, under the Arrangement, each option to acquire Salares Shares was exchanged for an option to purchase a number of Ordinary Shares equal to the product of 0.35587 and the number of Salares Shares subject to such option to acquire Salares Shares, and each common share purchase warrant of Salares was transferred to Talison in exchange for a warrant to purchase a number of Ordinary Shares equal to the product of 0.35587 and the number of Salares Shares subject to such common share purchase warrant of Salares. Upon completion of the Arrangement, former holders of Salares Shares held approximately 16.65% of the issued and outstanding Ordinary Shares (approximately 19.93% on a fully-diluted basis). The Arrangement Agreement between Salares and Talison Lithium (the "**Arrangement Agreement**") dated August 12, 2010, and the associated plan of arrangement, are available for review on Talison Lithium's SEDAR profile at [www.sedar.com](http://www.sedar.com).

On May 31, 2012, all of the issued and outstanding Exchangeable Shares were redeemed in exchange for Ordinary Shares. On June 28, 2012, Exchangeco, Callco and Salares amalgamated, following which the amalgamated company's name became Talison Canada, a wholly-owned subsidiary of the Company.

### **Debt Facilities**

Talison Lithium has a US\$27 million senior secured loan with the Commonwealth Bank of Australia ("**CBA**"). The loan is repayable in quarterly installments of US\$1.75 million from December 31, 2012 to September 30, 2013 inclusive, and a final payment of US\$20 million on December 31, 2013. The loan is provided on commercial terms at an interest rate of LIBOR plus a margin of 3.5% and is fully secured over the Australian assets of Talison Lithium.

In addition, Talison Lithium has a bank guarantee facility provided by CBA for A\$5.2 million under which CBA agreed to issue bank guarantees on behalf of Talison Lithium. Talison Lithium pays a fee of 1.5% of the face value of the bank guarantees issued and the facility is fully secured over the Australian assets of the Company. As at June 30, 2012, the facility was drawn to A\$4.9 million with the majority of the guarantees issued to secure Talison Lithium's rehabilitation obligations in relation to the Greenbushes Lithium Operations. This facility does not constitute an interest bearing liability until a bank guarantee is called.

## **Financings**

Talison Lithium completed a bought deal offering of Ordinary Shares on February 10, 2011 (the "**Bought Deal Financing**") for gross proceeds of C\$69.6 million which, together with the exercise of a related over-allotment option, resulted in the total gross proceeds of C\$80.0 million. Net proceeds from the Bought Deal Financing were used primarily to fund the Stage 2 expansion of the Greenbushes Lithium Operations, exploration of the Salares 7 Project, and for general corporate and working capital purposes.

## **Purchases of Ordinary Shares**

From June 7, 2011 to June 29, 2011, Talison Services purchased on the open market through the facilities of, and in accordance with the rules and policies of, the TSX, an aggregate of 436,600 Ordinary Shares, representing approximately 0.4% of Talison Lithium's issued and outstanding Ordinary Shares. Talison Services purchased the Ordinary Shares in its capacity as trustee in respect of Talison's long term incentive plan. All Ordinary Shares purchased by Talison Services have been delivered to participants under Talison's long term incentive plan upon exercise of options granted thereunder.

## **Proposed Acquisition of Talison Lithium by Rockwood Holdings, Inc.**

On August 23, 2012, Talison Lithium announced that it had entered into a definitive scheme implementation agreement (the "**Scheme Implementation Agreement**") with Rockwood Holdings, Inc. ("**Rockwood**") under which it is proposed that Rockwood (either directly or indirectly through a wholly-owned subsidiary), will acquire 100% of the Ordinary Shares by way of a scheme of arrangement under the Corporations Act (the "**Scheme**") for cash consideration of C\$6.50 per share. The Scheme Implementation Agreement also proposes that Rockwood will acquire 100% of the options to acquire Ordinary Shares ("**Options**") through an option scheme of arrangement ("**Option Scheme**") for cash consideration of C\$6.50 per Option less the exercise price for that Option.

The completion of the Scheme and Option Scheme is subject to certain conditions including: (i) approval under the Australian *Foreign Acquisitions and Takeovers Act 1975 (Commonwealth of Australia)* (the "**FATA**"); (ii) regulatory approvals from the Australian Securities and Investments Commission and the Australian Court; (iii) approval of the requisite majority of holders of Ordinary Shares ("**Shareholders**") at a special meeting of Shareholders; (iv) no Material Adverse Change (as defined in the Scheme Implementation Agreement) occurring to Talison Lithium; and (v) no Prescribed Occurrence (as defined in the Scheme Implementation Agreement) occurring in relation to Talison Lithium.

Talison Lithium expects that the approval of the Scheme and the Option Scheme will be put to Shareholders and holders of Options at meetings expected to be held in November 2012, and that the Scheme and Option Scheme will be completed shortly thereafter.

This summary description of the Scheme Implementation Agreement is not complete and is qualified by reference to the terms of the Scheme Implementation and the material change report in connection with the Scheme and Option Scheme, each of which have been filed with the Canadian securities regulatory authorities and is available for review on Talison Lithium's profile on SEDAR located at [www.sedar.com](http://www.sedar.com).

## DESCRIPTION OF THE BUSINESS

### Introduction

Talison Lithium is a leading global producer of lithium. Talison Lithium mines and processes the lithium bearing mineral spodumene at Greenbushes, near Perth, Western Australia, and produces a range of lithium concentrates which are distributed to a well-established global customer base. Talison Lithium has a leading position in the growing Chinese lithium concentrates market. In addition, Talison Lithium owns an interest in the Salares 7 Project, which is comprised of seven brine lakes in Chile’s Region III.

### Greenbushes Lithium Operations

The Greenbushes ore body is a highly mineralized zoned pegmatite with a strike length of more than 3 km. The pegmatite contains zones of spodumene and tantalum rich minerals which can be mined and processed selectively. Management believes that the Greenbushes Lithium Operations’ lithium mineral reserve is unique among known lithium deposits in that it contains approximately 50% spodumene. An updated National Instrument 43-101 compliant lithium mineral resources and reserves statement was completed in relation to the Greenbushes Lithium Operations as at March 31, 2011. Beyond the updated lithium mineral resources and mineral reserves, the orebody remains open both along strike and at depth, and management believes that there is scope to further increase lithium mineral reserves and extend mine life of the Greenbushes Lithium Operations. See “The Greenbushes Lithium Operations — Mineral Resources and Mineral Reserves Estimates” and “— Mining Operations”.

Talison Lithium has two processing plants, one producing technical grade lithium concentrates and one producing chemical grade lithium concentrate, located at the mining operations. Lithium ore is mined using conventional drill and blast, load and haul open pit methods. The ore is crushed through a four-stage crushing circuit prior to processing. Ore containing 2.8% to 4.2% Li<sub>2</sub>O is fed into the processing plants which upgrade the lithium mineral, using gravity, heavy media, flotation and magnetic processes, into a range of lithium concentrates for bulk or bagged shipment. The processing plants have various operating modes allowing them to produce a variety of different lithium concentrates to meet specific customer requirements.

Capacity at the processing plants at the Greenbushes Lithium Operations has been increased several times through a series of incremental capacity expansions to respond to increased demand from Chinese lithium chemical producers for Talison Lithium’s chemical grade lithium concentrates. Talison Lithium most recently completed the Stage 2 expansion of the chemical grade plant in June 2012. See “Description of the Business — Growth Opportunities”.

A summary of the last five years’ production of lithium concentrate from the Greenbushes Lithium Operations is shown in the table below.

### Recent Production History of Lithium Concentrate

Year Ending June 30	Total Lithium Concentrates Produced (kt) <sup>(1)</sup>	Total Lithium Concentrates Produced (kt LCE)
2007 .....	271	25
2008 .....	235	33
2009 .....	209	31
2010 .....	262	39
2011 .....	342	51
2012 .....	357	53

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Note:

(1) "kt" means thousand tonnes; excludes crushed ore.

The Greenbushes Lithium Operations' workforce comprises approximately 113 direct employees and approximately 80 contractors. The average length of service per direct employee is eight years and direct employees are party to non-union labour agreements or common law contracts. The agreement contains various standard terms typical of agreements in the industry, including a dispute resolution procedure and terms relating to hours of work, rates of pay, notice of termination and leave entitlements. The agreement is a non-union agreement, in that it was negotiated directly between Talison Services and the employees, with no union a party to the agreement.

The agreement nominally expires in June 2014, which means that until this time any collective industrial action the employees may take would be unlawful (unless the industrial action is on account of an imminent risk to health or safety). Further, Talison Services cannot be forced to negotiate for a replacement agreement until shortly before the expiry date. The agreement will continue to have effect (including after the expiry date) until it is replaced or terminated in accordance with applicable legislative procedures. Subject to applicable law, the collective agreement may be terminated at any time upon written agreement of the employees and Talison Services.

### **Talison Lithium Products**

Talison Lithium produces two categories of lithium concentrates: technical grade lithium concentrates that are sold principally into the glass and ceramic markets; and chemical grade lithium concentrate that is sold to chemical companies for conversion into lithium chemicals. The key difference between the Company's technical grade and chemical grade products relates to the composition of lithium and iron as well as variations in the particle size. There are generally not any seasonality trends to the Company's business.

#### ***Technical Grade Lithium Concentrates***

Technical grade lithium concentrates range from 5.0% to 7.5% Li<sub>2</sub>O and contain low levels of iron. Technical grade lithium concentrates are commonly used in the manufacture of glass and ceramics, where discoloration from iron is a concern, along with metallurgical powders with high heat retention properties.

Talison Lithium sells its technical grade lithium concentrates directly and indirectly to customers throughout the world including Continental Europe, China, Japan, India, the United States of America and Mexico.

Marketing of the Company's technical grade lithium concentrates is carried out by exclusive distribution agents in each of the major geographical sales areas, who provide local storage and logistics support, as well as commercial, administrative and technical services.

Talison Lithium's distribution arrangements are long standing, and each distribution agent is actively involved in developing markets for the Company's technical grade lithium concentrates, through regular meetings and technical co-operation with customers. Through these distribution arrangements, Talison Lithium directly and indirectly supplies its technical grade lithium concentrates to over 300 consumers worldwide and has direct contact with a significant number of them.

The Company's technical grade lithium concentrates are distributed approximately 40% to China, 37% to Europe, 13% to North America and 7% to Japan. Europe has two large customers representing approximately 45% of that region's sales, with the remainder based on a mixture of small and medium sized customers.

Due to its application in the manufacture of glass and ceramics, the specification requirements for technical grade lithium concentrate are highly detailed and Talison Lithium believes it is currently the only producer supplying large quantities of technical grade lithium concentrate in the world.

The Company believes that major growth in the supply of technical grade lithium concentrate from new suppliers is unlikely in the foreseeable future as the new lithium mineral deposits currently being evaluated have high iron content, rendering them unsuitable for technical grade lithium concentrates.

### ***Chemical Grade Lithium Concentrate***

Talison Lithium's chemical grade lithium concentrate contains 6% Li<sub>2</sub>O and has a higher iron content and particle size than the technical grade lithium concentrates.

Currently, the only market for chemical grade lithium concentrate globally is in China. Talison Lithium sells its chemical grade lithium concentrate to Chinese lithium chemical producers to be converted into lithium chemicals such as lithium carbonate and lithium hydroxide. These lithium chemicals are almost entirely sold for domestic Chinese use.

Talison Lithium has a key, long-standing customer in China that purchases approximately 40% of the Company's chemical grade lithium concentrate. Talison Lithium has a long-term sales contract with this customer, which commenced on January 1, 2011, replacing a previous long-term contract. Talison Lithium has a number of other Chinese customers purchasing chemical grade lithium concentrate on a mix of long-term agreements and shipment by shipment basis.

Talison Lithium has been supplying lithium to China for approximately 15 years and has a leading position in the growing Chinese lithium concentrates market. Although small amounts of chemical grade lithium concentrate are also produced in Zimbabwe, domestically in China and via a new Australian supplier who commenced operations in late 2011, Talison Lithium anticipates maintaining its market position in China as it expects to continue to be able to provide a consistent, high quality product in large volumes.

The end market for Talison Lithium's chemical grade lithium concentrate is principally batteries for consumer goods, electric vehicles and energy storage purposes, with a small amount used in industrial applications such as greases, aluminium smelting and rubber.

Demand for lithium for the battery market is expected to be the major growth sector in coming years. Based on its historical experience, Talison Lithium anticipates growing its sales of chemical grade lithium concentrate in-line with the expected growth in the battery market and the Company's customers are expanding their lithium chemical production capacities in anticipation of market growth.

### **Lithium Market**

Although geographically located in relatively close proximity to the rapidly growing Asian market on which Talison Lithium has been able to capitalize, Talison Lithium also has a global business with a unique product offering of technical grade and chemical grade lithium concentrates that are suitable for a wide variety of industrial and specialty applications in a variety of markets. Talison Lithium continually works with its extensive customer network to refine and develop its lithium concentrates to meet the needs of end users. Talison Lithium does not currently produce lithium chemical products itself. Instead, it sells lithium concentrate to customers for processing into lithium compounds, primarily lithium carbonate.

There are no terminal markets for lithium concentrates, with the market determined directly by supplier/customer negotiations. Because of this, the lithium market is relatively opaque and therefore pricing trends are not widely published. Generally, statistics on sales volumes and prices are based on

global import/export data. Prices for lithium concentrates used for conversion into lithium chemicals tend to follow the same trend as lithium carbonate prices. Talison Lithium agreed on a price increase of 15% for technical-grade lithium concentrates for calendar 2012. For chemical-grade lithium concentrate Talison Lithium agreed a price increase of 15% with customers for first half calendar 2012 and an additional price increase of 10% for the second half of calendar 2012.

The following map shows the location and distribution of Talison Lithium's current global key customers in respect of Talison Lithium's technical grade and chemical grade lithium concentrates.

### Talison Lithium's Customer Network



### Competitive Conditions

Global production of lithium is highly concentrated by geography, corporate ownership and source of lithium (brine lakes or mineral deposits). Talison Lithium currently produces lithium from mineral deposits.

The major global producers of lithium from mineral deposits are as follows:

- Talison Lithium, located in Australia;
- Sociedade Mineira de pegmatite, LDA, located in Portugal;
- Bikita Minerals (Pvt) Ltd, located in Zimbabwe;
- Galaxy Resources Limited, located in Australia; and
- various producers located in China.

The major global producers of lithium from brine lakes are as follows:

- Sociedad de Quimica Minera de Chile SA (“**SQM**”), with operations in the Salar de Atacama region in Chile;
- Chemetall GmbH, with operations in Chile adjacent to SQM’s Salar de Atacama facility, as well as the Silver Peak plant in Nevada, United States of America;
- FMC Corporation, with operations at the Salar del Hombre Muerto in north west Argentina;
- Tibet Zabuye Lithium Industry High Technology Co., Ltd., with operations in Zabuye Salt Lake in western Tibet; and
- Qinghai CITIC Guoan Science and Technology Co., Ltd., with operations near Golmud in central Western China.

The growth in lithium demand has resulted in renewed interest in the development of new and previously known lithium resources worldwide. There are a number of lithium brine deposits currently being assessed in Argentina, Bolivia, Chile, China and the United States of America.

The development of lithium mineral projects is also being actively pursued in China, Canada, Finland, Serbia, the United States of America and Australia.

### **Growth Opportunities**

Talison Lithium intends to pursue a growth strategy that leverages off its strengths, including:

- the large high-grade lithium mineral resource at the Greenbushes Lithium Operations;
- its established processing facilities;
- its skilled workforce and management team;
- an established sales and marketing distribution network;
- its long-term customer relationships within the technical and chemical lithium markets; and
- its leading market share in China.

### ***Expansion of Production Capacity***

Talison Lithium has a history of responding to increased world demand for lithium. For example, the Greenbushes Lithium Operations were successfully expanded in 2006, 2007 and 2009 in response to market demands. Due to the strong demand from Chinese lithium chemical producers for chemical grade lithium concentrates, Talison Lithium increased capacity of the chemical grade plant at the Greenbushes Lithium Operations in two stages. The first stage of this expansion was completed in December 2010 and the second stage in June 2012. Talison Lithium expects to progressively increase production and sales from the expanded processing plant as market demand grows to existing Chinese lithium chemical producer customers and new lithium chemical producer customers.

Talison Lithium’s processing plants have various operating modes allowing them to produce a variety of different lithium concentrates to meet specific customer requirements. Talison Lithium continually works with its customer network to develop lithium concentrates which best suit the needs of

the end users and enable Talison Lithium to optimize financial performance. With rapidly evolving applications for lithium concentrates, Talison Lithium intends to continue to pursue these opportunities to add value to its product suite.

### ***Proposed Lithium Carbonate Plant***

Responding to growing global demand for an additional secure supply of lithium carbonate, particularly from electric vehicle battery manufacturers, Talison Lithium is proposing to develop a lithium carbonate plant. Plant capacity is proposed to be 20,000 tonnes per annum lithium carbonate.

The Company is undertaking an engineering study for the project and is finalizing tenure arrangements for its preferred location for the plant in the Kwinana Industrial Area, Western Australia. Discussions with potential customers regarding future lithium carbonate requirements are also underway and Talison Lithium is receiving considerable encouragement to undertake the development of the lithium carbonate plant.

To assist in developing the market for products from the lithium carbonate plant, Talison Lithium has constructed a test facility at the Greenbushes Lithium Operations to produce product samples for potential customers.

Talison Lithium is currently targeting completion of the feasibility study, together with an investment decision by the Board of Directors by the end of 2012, and commencement of production at the lithium carbonate plant in 2015.

## **DOING BUSINESS IN AUSTRALIA**

### **Overview of the Investment and Political Climate in Australia**

Australia offers investors a climate of relative political and economic certainty combined with one of the most productive and diversified mineral regions in the world. Australia's western democratic capitalist society, skilled workforce, mineral wealth and established, quality infrastructure have made it a strong performer in the minerals industry.

In 2011, according to the DMP, minerals and petroleum exports accounted for approximately 92% (A\$110.9 billion) of Western Australia's total merchandise exports. Western Australia maintained its position as Australia's largest exporter in 2011, contributing 46% to Australian merchandise exports which totaled A\$263.0 billion. The resources industry is expected to maintain its importance to the Australian and Western Australian economies and continue to generate significant export income.

### **Legal System and Corporate Regulation**

Australia is a federation comprising six States and two self-governing Territories, each of which has a legislature, an executive and judicial arm of Government. The Australian Federal Government has limited legislative, executive and judicial authority in relation to certain matters as prescribed in Australia's Constitution.

Australia has a common law system, which is based on the British system. The States and Territories have their own judicial systems and courts. Federal Courts deal with Federal matters and the High Court of Australia hears appeals in relation to Federal, State and Territory matters.

The Australian Securities and Investments Commission ("ASIC") is the regulator of Australian registered companies. The Corporations Act is the law which regulates the incorporation, operations and

management of Australian registered companies. ASIC is empowered to regulate securities and investments, enforce the business and listing rules of financial markets, including the Australian Securities Exchange (the “**ASX**”), police the Corporations Act and investigate serious corporate misconduct. Securities regulation is generally covered by ASIC and enforcement is dealt with by ASIC through the penalty provisions under the Corporations Act, the ASX Disciplinary Tribunal (for ASX listed companies) and the Commonwealth Director of Public Prosecutions.

## **Overview of the Western Australian Mining Law Regime**

### ***General***

The *Mining Act 1978* (Western Australia) (the “**Mining Act**”) regulates the assessment, development and utilization of mineral resources in Western Australia. In Western Australia, the Crown owns all minerals on or below the surface of the land, except in certain limited circumstances (relating to limited categories of land and minerals). As the owner of the minerals, the Crown is entitled to grant mining tenements that confer rights on lessees or licensees to explore for and mine minerals.

Conditions are imposed on the grant of most tenements pursuant to the Mining Act. These include conditions relating to the environment, payment of annual rent, required minimum expenditure and a standard schedule of general exclusions and conditions established pursuant to the Mining Act. In addition, more particular conditions are imposed on specific tenements. If the tenement conditions are not complied with, the tenement may be liable to forfeiture.

The main types of tenements granted under the Mining Act are:

- mining leases;
- exploration licences;
- prospecting licences;
- miscellaneous licences; and
- general purpose leases.

TLA currently holds the Tenements, comprising mining leases, general purpose leases, a miscellaneous licence, but excluding applications for mining leases and an application for a prospecting licence (the “**Applications**”).

An application for a tenement can only be transferred in limited circumstances. When a holder of an exploration or prospecting licence applies for a mining lease, and subsequently transfers the exploration or prospecting licence, the application for the mining lease is also transferred. Accordingly, due to the fact that the tenements that are the subject of the Applications were not granted prior to completion of the Lithium Business Sale Agreement, the tenements that are the subject of the Applications have been held by the registered applicant on trust for the benefit of TLA until it is granted, at which time the tenement will be transferred to TLA.

### ***Mining Leases***

Subject to the provisions of the Mining Act, the holder of a mining lease is entitled to work and mine the land, take and remove any minerals (except iron ore, unless expressly authorized by the Minister), take and divert water subject to the *Rights in Water and Irrigation Act 1914* (Western Australia) and do all things necessary to effectively carry out mining operations in, on or under the land. However, the grant of a

mining lease does not in itself confer authority to produce minerals. Further approvals are generally required before production may commence, including approvals in respect of environmental impact and Aboriginal heritage.

The holder of a mining lease owns all minerals lawfully mined from the land in accordance with the mining lease. However, a royalty is payable to the Crown in respect of all minerals recovered from a mining lease at the rate prescribed for the relevant commodity in the Mining Act and the *Mining Regulations 1981* (Western Australia) (the “**Mining Regulations**”) thereunder.

A mining lease is granted for an initial term of 21 years and may be renewed for a further term of 21 years as a right and further successive periods of 21 years each upon application to the Minister.

A mining lease applied for or granted before February 10, 2006 may have an area not exceeding ten square kilometres. In respect of mining leases applied for and granted after February 10, 2006, the Minister has discretion to grant the mining lease over an area considered appropriate (and including sufficient land to encompass the mineral resource and required infrastructure).

Mining leases are identified by an “M” at the beginning of the tenement identification number.

### ***Exploration Licences***

The holder of an exploration licence is authorized to carry out exploratory operations of a kind set out in the Mining Act with respect to its area (except in respect of iron ore unless expressly authorized by the Minister). An exploration licence granted or applied for before February 10, 2006 will remain in force for five years from the date of grant and may be renewed by the Minister, in certain circumstances, for up to a total further period of four years, after which one or more extensions of one year are available in exceptional circumstances. An exploration licence applied for on or after February 10, 2006 will remain in force for five years from the date of grant and may be renewed by the Minister for five years (plus further renewals of two years each) if prescribed grounds exist.

The land area of Western Australia is divided into “blocks” which are defined by reference to graticular sections. An exploration licence may be granted for areas of land not exceeding 70 “blocks”. In respect of exploration licences granted or applied for before February 10, 2006, the area covered by the exploration licence is required to be reduced by not less than 50% after the first three years of its term and again after the fourth year of its term.

The Mining Act provides that during the first year of its term, an exploration licence granted under the Mining Act, or an interest in such an exploration licence, may not be transferred or otherwise dealt with, whether directly or indirectly, without the prior written consent of the Minister. Any such transaction entered into without that consent will not be effective to transfer an interest in or affecting the exploration licence. Similarly, while an exploration licence granted under the Mining Act may be charged without consent, no assignment or transfer of the licence (during the first year of its term) for the purpose of enforcing a charge may be made without the consent in writing of the Minister.

The holder of an exploration licence generally has a right to convert the licence to a mining lease, provided it has complied with the Mining Act and tenement conditions and obtained the necessary approvals, by making a conversion application during the term of the exploration licence.

Exploration licences are identified by an “E” at the beginning of the tenement identification number.

## ***Prospecting Licences***

Prospecting licences entitle the holder to prospect for minerals (except iron ore unless expressly authorized by the Minister) within the area of the prospecting licence and to undertake various ancillary activities that may be necessary or expedient in connection with prospecting for minerals. Prospecting licences may be granted in respect of areas of land not exceeding 200 hectares.

Prospecting licences granted or applied for before February 10, 2006 remain in force for a period of four years from the date of grant and cannot be renewed. Prospecting licences applied for and granted on or after February 10, 2006 remain in force for a period of four years from the date of grant and may be renewed for four years (and further four year periods if the licence has “retention status”, which is obtainable where an identified mineral resource exists that is impracticable to mine at the time).

The holder of a prospecting licence generally has a right to convert the licence to a mining lease, provided it has complied with the Mining Act and tenement conditions and obtained the necessary approvals, by making a conversion application during the term of the prospecting licence. An applicant for a mining lease will need to show both the existence of significant mineralization in relation to the area to which the mining lease application relates and that the mineral resource will be exploited.

The Mining Act does not prescribe any requirements to obtain the consent of the Minister or the DMP in relation to transferring an interest in a prospecting licence.

Prospecting licences are identified by a “P” at the beginning of the tenement identification number.

## ***Miscellaneous Licence***

A miscellaneous licence may be granted pursuant to the Mining Act over any land where the use of that land is directly connected with mining operations and is for a prescribed purpose under the Mining Regulations (for example, a road or pipeline). A miscellaneous licence may be applied for over land that is the subject of an existing tenement, irrespective of whether that existing tenement is held by the applicant for the miscellaneous licence. The holder of a miscellaneous licence does not therefore have exclusive title to the land over which the miscellaneous licence is granted.

A miscellaneous licence that was applied for and granted after June 6, 1998 will remain in force for a term of 21 years, and may be renewed for a further 21 years as of right. The Minister may further renew the term of a miscellaneous licence applied for and granted after June 6, 1998 for successive periods of 21 years each.

## ***General Purpose Lease***

The holder of a general purpose lease is entitled to exclusive occupancy of the land the subject of the lease for the purposes specified in the lease, which may include erecting and operating machinery in connection with mining operations, depositing or treating tailings and/or use for any other specified purpose directly connected with mining operations. A general purpose lease is primarily a surface lease as it is generally limited to a depth of 15 metres (“m”) below the surface.

A general purpose lease may generally be granted for areas of land not exceeding 10ha, unless the Minister is satisfied that a larger area of land is required for the purposes of the lease. A general purpose lease will remain in force for either the term of the mining lease in respect of which it was granted, or 21 years from the date of grant, and may be renewed by the Minister in certain circumstances for one or more successive periods of 21 years each.

General purpose leases are identified by a “G” at the beginning of the tenement identification number.

### ***Applications for Tenements***

Whether a tenement application for a mining lease, exploration licence or general lease is successful is dependent upon a recommendation made by the mining registrar or warden to the Minister and the Minister’s decision whether to grant or refuse the application. Whether a tenement application for a prospecting licence or a miscellaneous licence is successful is dependent upon the mining warden’s decision whether to grant or refuse the application. If a tenement is granted under the Mining Act then it will be issued on terms and conditions reasonable to the Minister or warden as applicable.

As discussed above under the heading “— Overview of the Western Australian Mining Law Regime — General”, an application for a tenement cannot generally be transferred because, while it is still pending, the application does not amount to any property or title in the mining tenement.

### ***Crown Land and Pastoral Leases***

Subject to certain exemptions and limitations, the Mining Act provides that Crown land which is not already subject to a mining tenement is considered open for mining, and a mining tenement may be issued in relation to such land, entitling the holder to the rights granted thereby.

The exercise of such rights is, however, limited by the operation of section 20(5) of the Mining Act, which provides that the holding of a mining tenement does not entitle the holder to prospect or fossick on, explore or mine on or otherwise interfere with any Crown land that is:

- for the time being under crop (or within 100 m of that crop);
- used as or situated within 100 m of a yard, stockyard, garden, cultivated field, orchard, vineyard, plantation, airstrip or airfield;
- situated within 100 m of any land that is in actual occupation and on which a house or other substantial building is erected;
- the site of or situated within 100 m of any cemetery or burial ground; or
- land the subject of a pastoral lease which is the site of, or is situated within 400 m of any water works, race, dam, well or bore not being an excavation previously made and used for mining purposes by a person other than the pastoral lessee,

without the written consent of the occupier, unless the warden by order otherwise directs or mining is only carried out at a depth below 30 m from the natural surface of the land. The “occupier” includes the pastoral lessee. The mining tenement holder may, subject to giving notice to the occupier and abiding by the restrictions on activities imposed by the Mining Act, pass over Crown land:

- within 100 m of land under crop; used as a yard, stockyard, garden, cultivated field, orchard, vineyard, plantation, airstrip or airfield; in actual occupation and on which a house or other substantial building is erected; or any cemetery or burial ground; or
- within 400 m of the site of any water works, race, dam, well or bore in order to gain access to other land for the purpose of prospecting, exploring mining, marking out or fossicking.

Limitations may include a requirement to pay compensation for the same, which may be agreed between the parties or by the warden's court.

In addition to statutory obligations of a mining tenement holder with respect to such matters as compensation, the prevention of fire, prevention of damage to property and stock, use of vehicles, safety issues and non-removal of fences or timber, mining tenement holders must comply with specific conditions which are imposed on the grant of mining tenements on pastoral leases.

Section 123 of the Mining Act provides that the owners and occupiers of any land where mining takes place are entitled according to their respective interests to compensation for loss and damage suffered or likely to be suffered by them resulting or arising from the mining. Section 123(7) of the Mining Act also provides that a pastoral lessee is entitled to be compensated by the holder of a mining tenement for damages to improvements on that land caused by the holder and for any loss suffered by the lessee and resulting from that damage and for any substantial loss of earnings suffered by the lessee resulting or arising from "mining" (which is defined to include fossicking, prospecting and exploring for minerals, and mining operations) by the holder. Further, except to the extent agreed upon by the parties concerned or authorized by the warden's court, compensation is not payable to a lessee: for deprivation of the possession of the surface or any part of the surface of the land; for damage to the surface of the land; where the lessee is deprived of the possession of the surface of any land; for severance of the land from any other land of the lessee; or for surface rights of way and easements. Where consent cannot be agreed, the warden may determine the amount for compensation (either with or without formal proceedings, based on the parties' wishes).

### ***Reserves and Other Land Interests***

Where mining tenements cover areas which are in "reserves", the consent of the Minister responsible for administration of the Mining Act may be required before mining activities are permitted and conditions may be imposed on such activities.

### ***Protected Areas***

If an area or place is listed on either the National or Commonwealth Heritage Database, then it is protected under the *Environment Protection and Biodiversity Conservation Act 1999* (Commonwealth of Australia) (the "**EPBC Act**"). This means that approval from the Commonwealth Minister for the Environment and Heritage (the "**Environment Minister**") is required prior to taking an action that is likely to have a significant impact on the heritage value of the site (for example, activities associated with mining and exploration).

Generally speaking, a place listed on the Register of the National Estate is not subject to the same protections under the EPBC Act as a place that is listed on the National Heritage List or the Commonwealth Heritage List. The Register of the National Estate is kept for information purposes only. However, under limited circumstances, a place listed on the Register of the National Estate will be subject to the protections of the EPBC Act. At least both of the following must apply to the land in order for it to be subject to protection:

- the land within which the place is located, is owned or leased by the Commonwealth; and
- the place has been the subject of a written determination by the Environment Minister that the place is to be taken to be included in the Commonwealth Heritage List.

## *Private Land*

Parts of the land underlying the Tenements are private land. Generally and subject to certain exceptions and limitations, private land which is not already subject to a mining tenement is considered open for mining under the Mining Act, and a mining tenement may be issued in relation to such land, entitling the holder to the rights granted thereby. However, a tenement may not be granted in respect of private land which is:

- used as or situated within 100 m of a yard, stockyard, garden, orchard, vineyard, plant nursery or plantation or is land under cultivation;
- the site of a cemetery or burial ground or within 100 m of that site;
- the site of a dam, bore, well or spring or within 100 m of that site;
- on which there is erected a substantial improvement or within 100 m of that improvement; or
- a parcel of land with an area of 2,000 metres squared or less,

unless the consent of the private landholder is obtained or the tenement is only granted in respect of the land below 30 m from the surface of the private land. If the tenement is only granted in respect of the land below 30 m from the surface of the private land, the tenement holder can apply to the Minister for the land between the surface and 30 m depth to be included in the tenement, provided that the private landowner has consented to such land being included in the tenement.

The owners and occupiers of any land where mining takes place are entitled according to their respective interests to compensation for all loss and damage suffered or likely to be suffered by them resulting or arising from the mining. The tenement holder may not commence mining on the surface or within a depth of 30 m from the surface until compensation has been agreed with the private landowner. Compensation may be determined by agreement between the tenement holder and private landowner or occupier, or by the warden. The owner may be entitled to compensation for deprivation of the possession or use of the surface or any part of the surface of the land, damage to the surface or any part of the land, severance of the land from any other land of, or used by, the owner or occupier, loss or restriction of a right of way or other easement or right, loss of or damage to improvements, social disruption, disruption to agricultural activities (including, in the case of private land that is land under cultivation, any substantial loss of earnings, delay, loss of time, reasonable legal or other costs of negotiation, disruption to agricultural activities, disturbance of the balance of the agricultural holding, the failure on the part of a person concerned in the mining to observe the same laws or requirements in relation to that land as regards the spread of weeds, pests, disease, fire or erosion, or as to soil conservation practices, as are observed by the owner or occupier of that land) and reasonable expenses properly arising from the need to reduce or control the damage resulting or arising from mining.

## **Foreign Investment Review Board**

Certain transactions involving “foreign persons” relating to investment proposals with respect to Australian assets or companies require prior approval from the Treasurer of Australia (the “**Treasurer**”). Regulation of foreign investment proposals is made pursuant to the FATA and the Australian Federal Government’s foreign investment policy.

The Foreign Investment Review Board (“**FIRB**”) is a non-statutory body established to advise the Government of Australia on foreign investment policy and its administration.

The FATA empowers the Treasurer to prohibit an acquisition if he is satisfied that it would be “contrary to the national interest”. Although the FIRB’s functions are only advisory, the Treasurer has delegated authority to the FIRB to make decisions on foreign investment proposals that are consistent with policy. The Treasurer will still decide on matters involving issues of special sensitivity.

A corporation will be a “foreign person” for the purpose of the FATA if:

- a natural person not ordinarily resident in Australia or a corporation incorporated outside the Commonwealth of Australia, together with their associates, either are in a position to control at least 15% of the voting power in the corporation or hold at least 15% of the issued shares in the corporation; or
- two or more such natural persons or corporations either are in a position to control at least 40% of the voting power in the corporation or hold at least 40% of the issued shares in the corporation,

unless the Treasurer is satisfied that such a person or persons, together with their associates, are not in a position to determine the policy of the corporation. Talison Lithium is currently a “foreign person” for the purposes of the FATA.

The Australian Government’s foreign investment laws and policies provide that a foreign person or corporation may not acquire the following interests unless notification of the proposed acquisition is given to the Treasurer of Australia and the Treasurer indicates that he has no objection to the acquisition of:

- an interest in “Australian urban land”. The definition of Australian urban land is very broad and includes, among other things, an interest as lessee or licensee in a lease or licence (including, for example, a mining lease) or licence giving rights to occupy Australian urban land where the term of the lease or licence (including any extension) is reasonably likely, at the time the interest is acquired, to exceed five years; and
- a substantial interest in an Australian corporation (i.e. where a foreign person alone holds at least 15% or foreign persons in aggregate hold at least 40% of the corporation’s shares) or any interest in an Australian business (such as a joint venture) where the total assets of the corporation or business exceed the prescribed threshold (currently A\$231 million for foreign persons who are non-U.S. investors).

Notifiable transactions are examined by the Treasurer. Once notified of a transaction, the Treasurer is generally required to make a decision within a specified time. If a decision is not made within that time the Treasurer can not later make an order reversing the transaction under the foreign investment regime. For transactions which must be notified under the FATA as outlined above, the Treasurer generally has 40 days from the date of receipt of a compulsory notice to make and notify an order or decide that the Government does not object to the person entering into the agreement. The orders the Treasurer is empowered to make in relation to a notifiable transaction which is considered to be contrary to the national interest include an order:

- prohibiting an acquisition, agreement or arrangement;
- requiring the disposal of an interest which has been acquired; and

- requiring a person to do, or refrain from doing, specified acts for the purpose of restoring the former control of the particular corporation or business.

During the 40 day period referred to above, the Treasurer may also make an order extending the approval period by 90 days in the event there has not been sufficient time to consider the proposal and make a decision.

If no order is made by the Treasurer within the relevant approval period, the transaction may proceed. If approval is gained for a specific transaction, the parties have 12 months to enter into the transaction for which the approval was sought, otherwise approval will have to be sought again.

In addition, under section 26A of the FATA, it is compulsory for a foreign person who is proposing to enter into an agreement to acquire an interest in Australian urban land or a share in an Australian urban land corporation to provide prior notification to FIRB, irrespective of the size or value of the interest. An “Australian urban land corporation” is a corporation whose interest in Australian urban land (together with the interests in Australian urban land of its subsidiaries) exceeds 50% of the total assets of the corporation and its subsidiaries.

Talison Lithium is not currently an Australian urban land corporation. Nevertheless, if a foreign person proposes to acquire 15% or more of the shares or voting power in Talison Lithium, then that person may need to provide prior notification to FIRB of the proposed acquisition.

Further, depending on whether Talison Lithium remains a “foreign person”, and the availability of certain exemptions, Talison Lithium may be required to provide notifications to FIRB in relation to any future acquisitions of miscellaneous licenses or mining leases under the Mining Act or other leases or licenses of land which would be considered Australian urban land.

Investors who are “foreign persons” for the purposes of the FATA (see above) should consider the application of the FATA to their acquisition of shares in Talison Lithium and determine whether they have any notification obligations under the FATA.

### **Taxation Implications for Australian Companies**

The taxes applying to Australian companies include goods and services tax, income tax and other indirect taxes. A general summary of the major aspects of the Australian tax system is provided below. **This summary is not exhaustive of all Australian tax considerations. Accordingly, prospective purchasers are urged to consult their own tax advisors with respect to their particular circumstances.**

#### ***Goods and Services Tax***

A goods and services tax (“**GST**”) of 10% is imposed on the supply of most goods, services, real property and other things made in Australia. Businesses generally can claim back GST on most business inputs. The tax is designed essentially as an end user tax.

#### ***Income Tax***

A company resident in Australia is subject to income tax on its non-exempt worldwide taxable income at a flat rate of 30%. Taxable income equals assessable income less allowable deductions. Assessable income includes income as it is traditionally understood, including sales, income, interest, hedging, profits, rent and royalties. Most losses or outgoings incurred in producing such assessable income are allowable deductions except where they are capital in nature. Separate capital allowances may be available in respect of capital expenditure, including depreciation and amortization of mine development costs.

With reference to mining operations, the cost of depreciating assets, including plant and equipment, may be deducted over the asset's effective life (broadly based on the asset's economic life). Other capital expenditures incurred in carrying on mining operations are generally deductible over the life of the mining project concerned and exploration expenditure is generally deductible in the year in which it was incurred.

Companies within a wholly owned group can elect to adopt tax consolidation. Under tax consolidation, all members of the wholly owned group are taxed as a single tax-payer for income tax purposes. Specific transitional rules apply to corporate groups on entering consolidation.

Income tax losses incurred by Australian companies or a consolidated group, as the case may be, can be carried forward and utilized in future years subject to the satisfaction of specific statutory tests.

## THE GREENBUSHES LITHIUM OPERATIONS

The technical information in this section regarding the Greenbushes Lithium Operations is summarized or extracted from the technical report in respect of the Greenbushes Lithium Operations titled “Greenbushes Lithium Operations, Located in Western Australia – Australia” dated June 15, 2011 (the “**Greenbushes Technical Report**”) prepared by Mr. Peter D. Ingham, Mr. Adrian Brett and Mr. Ian R. White of Behre Dolbear Australia Pty Ltd (“**BDA**”), and Mr. Scott Jackson of Quantitative Group Pty Ltd (“**Quantitative Group**”), each of whom is an independent “qualified person” as defined in National Instrument 43-101. Portions of the following information are based on assumptions, qualifications and procedures which are described in the Greenbushes Technical Report but which are not fully described in this AIF. In addition, certain technical terms are described in the Glossary to the Greenbushes Technical Report. The following summary does not purport to be a complete summary of the Greenbushes Technical Report. Reference should be made to the full text of the Greenbushes Technical Report which is available for review on Talison Lithium’s SEDAR profile located at [www.sedar.com](http://www.sedar.com). Scientific and technical information regarding the Greenbushes Lithium Operations arising since the date of the Greenbushes Technical Report has been prepared under the supervision of Andy Purvis, General Manager – Geology of Talison Lithium who is a “qualified person” as defined in National Instrument 43-101.

### Introduction

Talison Lithium’s principal asset is the Greenbushes Lithium Operations. These operations produce a range of lithium mineral products, and are comprised of a crushing plant, two lithium ore treatment plants, three open pits and associated infrastructure at Greenbushes in south-west Western Australia.

In 2007, the Talison Minerals Group (prior to completion of the Reorganization) acquired the Greenbushes Lithium Operations from the court appointed administrators of Sons of Gwalia. Talison Lithium acquired the Greenbushes Lithium Operations as part of the Reorganization. See “General Development of the Business — Three Year History — Pre-Arrangement Reorganization”.

### Property Description and Location

The Greenbushes Lithium Operations are located approximately 250 kilometres south of Perth, Western Australia, at latitude 33° 52’ S and longitude 116° 04’ E and 90 kilometres southeast of the Port of Bunbury, a major bulk handling port in the southwest of Western Australia.

The Tenements underlying the Greenbushes Lithium Operations include mining leases, mining lease applications, general purpose leases, miscellaneous licences, and a prospecting licence application. The Tenements have been surveyed and registered under the Mining Act in the State of Western Australia.

The mining tenements which are held and controlled by Talison Lithium in the Greenbushes area are listed in the table below and are hereinafter referred to as the “**Tenements**”.

#### List of Mineral Tenements to be Held and/or Controlled by Talison Lithium

Tenement <sup>(1)</sup>	Grant Date	Expiry Date	Area (ha)	Holder
L01/01 .....	March 19, 1986	December 27, 2026	9.3	TLA
M01/02 .....	December 28, 1984	December 27, 2026	968.9	TLA
M01/03 .....	December 28, 1984	December 27, 2026	999.6	TLA
M01/04 .....	December 28, 1984	December 27, 2026	998.9	TLA
M01/05 .....	December 28, 1984	December 27, 2026	999.4	TLA

M01/06 .....	December 28, 1984	December 27, 2026	985.0	TLA
M01/07 .....	December 28, 1984	December 27, 2026	998.0	TLA
M01/08 .....	December 28, 1984	December 27, 2026	998.9	TLA
M01/09 .....	December 28, 1984	December 27, 2026	997.3	TLA
M01/10 .....	December 28, 1984	December 27, 2026	999.6	TLA
M01/11 .....	December 28, 1984	December 27, 2026	998.9	TLA
M01/16 .....	June 6, 1986	June 5, 2028	19.0	TLA
M01/18 .....	September 28, 1994	September 27, 2015	3.0	TLA
G01/01 .....	November 17, 1986	June 5, 2028	10.0	TLA
G01/02 .....	November 17, 1986	June 5, 2028	10.0	TLA
M70/765 .....	June 20, 1994	June 19, 2015	73.6	TLA
P70/1562 .....	Pending	—	64.1	TLA <sup>(2)</sup>

Notes:

- (1) G01/01 and G01/02 are linked to Mining Lease M01/16 and are General Purpose Leases; “G” denotes General Purpose Lease; “L” denotes Miscellaneous Licence, “M” denotes Mining Lease, “MLA” denotes Mining Lease Application, “P” denotes Prospecting Licence.
- (2) Registered applicant is GAM Greenbushes to be transferred into TLA’s name once granted.

Approximately 55% of the Tenements are covered by state forest which is under the authority of the DEC. The majority of the remaining land is private land (representing approximately 40% of the surface rights), and the remaining ground comprises Crown Land, road reserves and other miscellaneous reserves.

The Tenements cover an area totalling approximately 10,000 hectares (“ha”) and cover the historic Greenbushes tin, tantalum and current lithium mining areas. The operating lithium mining and processing plant area covers approximately 2,000 ha comprising Mining Leases M01/06, M01/07 and M01/16. These three leases contain the entire lithium measured, indicated and inferred mineral resource and all lithium mining activities, including tailings storage, processing plant, open pits and waste rock dumps, are currently carried out within the boundaries of Mining Leases M01/06, M01/07 and M01/16 plus General Purpose Leases G01/01 and G01/02.

Talison Lithium holds the mining rights for all lithium minerals on the Tenements, while GAM Greenbushes holds the mining rights to all minerals other than lithium through the Reserved Mineral Rights Agreement (described under the heading “General Development of the Business – Three Year History – Pre-Arrangement Reorganization”). Under Australian mining law, subject to the provisions of the Mining Act, the holder of a mining lease is entitled to work and mine the land, take and remove any minerals (except iron ore, unless expressly authorized by the Minister responsible for administration of the Mining Act (the “**Minister**”)) and do all things necessary to effectively carry out mining operations in, on or under the land.

In order to keep the Tenements in good standing, Talison Lithium is required to spend a yearly minimum expenditure of A\$1.02 million for all the permits. Annual rates of A\$27,257 and rent of A\$151,995 are also payable to the Shire of Bridgetown Greenbushes and Donnybrook Balingup and the DMP, respectively. Further, a condition of grant of a mining lease is the lodging of environmental bonds. Currently, the total principal amount of bonds lodged with the DMP for the Tenements to be held by Talison Lithium is A\$3.91 million.

In Western Australia, a royalty of 5% of the royalty value of lithium concentrate sales is payable for lithium mineral production as prescribed under the Mining Act. The royalty value is the difference between the gross invoice value of the sale and the allowable deductions on the sale. The gross invoice value of the sale is the Australian dollar value obtained by multiplying the amount of the mineral sold by the price of the mineral as shown in the invoice. Allowable deductions are any costs in Australian dollars incurred for transport of the mineral quantity by the seller after the shipment date. For minerals exported from Australia, the shipment date is deemed to be the date on which the ship or aircraft transporting the minerals first leaves

port in Western Australia. Further, Talison Lithium advises that no private royalties apply to the Greenbushes Lithium Operations.

The Greenbushes Lithium Operations are operated under a number of approvals and licences, including Mining Approvals, Works Approvals, environmental licences and licences under various Western Australian legislative acts and regulations pertaining to mining and dangerous activities. Where applicable, variations to these approvals have been granted. The Mining Notice of Intent (“**NOI**”) dated April 1991 is the main development approval which provides for current lithium and tantalum production activities at Greenbushes. Underground mining on M01/06 was approved by a subsequent NOI in August 2000 by the then Department of Minerals and Energy. Various works approvals under the *Environmental Protection Act 1986* (Western Australia) have been granted over time to provide for various process plant upgrades. Greenbushes also operates under an Environment Protection Licence (No. L4247/1991/12) issued by the DEC under the *Environmental Protection Act 1986* (Western Australia). Talison Minerals has achieved accreditation by Bureau Veritas for International Standards ISO 9001:2008 Quality Management System Requirements and ISO 14001:2004 Environmental Management System Requirements.

As part of the environmental legal framework, Talison Lithium is expected to participate in rehabilitation programmes for historical and inactive mining sites. These rehabilitation programmes require Talison Lithium to re-establish a self-sustaining native forest while maintaining recreation, conservation, landscape and hydrology objectives. Talison Lithium is finalizing the relinquishment of rehabilitation liabilities criteria for approximately 650ha of rehabilitated mine workings in the Greenbushes area with the intent of returning these areas to be managed as part of the state forest. Rehabilitation is monitored annually by assessing the variety of species and the density of plants growing in the area.

Each year as part of its annual environmental reporting to regulators, Talison Lithium is required to calculate site mine closure costs. As at the date of the Technical Report, the closure (rehabilitation liability) cost estimate, based on the 2010 disturbed areas totalling 1,804ha covering infrastructure areas, tailings storage facilities, overburden and waste rock dumps and open pits, was A\$16.3 million. Adjusting for inflation, we estimate that, as at June 30, 2012, the mine closure costs for the Greenbushes Lithium Operations, which includes remediation and the costs associated with the removal of contaminated materials, and capping and rehabilitating tailings and waste dumps, to be approximately A\$16.8 million.

### **Accessibility, Climate, Local Resources and Physiography**

The Greenbushes area is situated approximately 300 m above mean sea level and is accessed via the sealed South Western Highway between Bunbury and Bridgetown to Greenbushes Township and via Maranup Ford Road to the Greenbushes Lithium Operations.

The Greenbushes Lithium Operations area lies on the Darling Plateau and is dominated by a broad ridgeline which runs from the Greenbushes Township (310 m) towards the southeast (270 m) with the open pits located along this ridgeline (300 m). The current operating waste rock dump is located on an east facing hill slope which descends to 266 m and adjoins the South Western Highway, while the process plant area is located on the west facing hill slope which descends to 245 m. The tailings storage areas are located south of the mining and plant areas at 265 m.

The Greenbushes area has a temperate climate that is described as mild Mediterranean, with distinct summer and winter seasons. The mean minimum temperatures range from 4°C to 12°C, while the mean maximum temperatures range from 16°C to 30°C. The hottest month is January (mean maximum temperature 30°C), while the coldest month is August (mean minimum temperature 4°C). There is a distinct rainfall pattern for winter, with most of the rain occurring between May and October. The area is surrounded by vegetation broadly described as open Jarrah/Marri forest with a comparatively open understorey. Mining and processing operations are carried out throughout the year.

The Greenbushes Lithium Operations are a major employer in the region with a workforce of approximately 180 people, which includes a number of contractors. The workforce is characterized by a diversity of skills and knowledge. Employee training which includes skills and competency training is further enhanced by having health and safety, quality management and an environmental awareness emphasis.

The Greenbushes Lithium Operations are located in the Blackwood Valley Catchment. Water for current mineral processing is sourced from rainfall and stored in several process dams located on site, with the majority of the water used being recovered and recycled through the water circuit.

Talison Lithium purchases its power from Premier Power Sales Pty Ltd which is delivered to the site by a distribution system and reticulated and metered within the site by Talison Lithium. Demand is expected to increase following completion of the expansion of the chemical grade plant.

Talison Lithium uses liquefied petroleum gas (“LPG”), fired dryers and other equipment in the plants and the laboratory. The LPG used by the lithium operation is purchased and stored on site in bulk storage facilities.

## **History**

The Greenbushes mine is recognized as the longest continuously operated mine in Western Australia.

Mining in the Greenbushes area has continued almost uninterrupted since tin was first discovered in 1886. Tin was first mined in the Greenbushes area by the Bunbury Tin Mining Co in 1888. Greenbushes Tin NL commenced open cut mining of the softer oxidized rock in 1969, and although tin is still mined in the area, lower tin prices and the emergence of lithium and tantalum as major revenue earners has relegated tin to the position of a by-product.

Tantalum mining at the Greenbushes area started in the 1940s with the advancement of electronics. Tantalum hard rock operations commenced in 1992 with an ore processing capacity of 800,000 tpa. By the late 1990s, demand for tantalum reached all-time highs, and the existing high-grade pit (the “**Cornwall Pit**”) was nearing completion. In order to meet increasing demand a decision was made to expand the mill capacity to 4 million tpa and develop an underground mine to provide higher grade ore for blending with lower grade ore from the Central Lode pits.

An underground operation was commenced at the base of the Cornwall Pit in April 2001 to access high-grade ore prior to the completion of the available open pit high-grade resource. However, in 2002 the tantalum market collapsed due to a slow-down in the electronics industry. The underground operation was subsequently placed on care and maintenance but was restarted in 2004 due to increased demand. It was again placed on care and maintenance the following year. The tantalum mining operation and processing plants have been on care and maintenance since 2005, and only lithium minerals are currently mined from the open pits.

The mining of lithium minerals is a relatively recent event in the history of mining at Greenbushes, with Greenbushes Limited commencing production of lithium minerals in 1983 and commissioning a 30,000 tpa lithium mineral concentrator two years later in 1984-1985. The lithium assets were acquired by Lithium Australia Ltd in 1987 and Sons of Gwalia in 1989. Production capacity was increased to 100,000 tpa of lithium concentrate in the early 1990s and to 150,000 tpa of lithium concentrate by 1997, which included the capacity to produce a lithium concentrate for the lithium chemical converter market.

Talison Minerals was formed in August 2007 for the purpose of acquiring the assets of the advanced minerals business of Sons of Gwalia, which were sold to a consortium of private equity funds led

by Resource Capital Fund IV L.P. Upon completion of the Reorganization, Talison Lithium acquired the Greenbushes Lithium Operations and the remaining assets were acquired by GAM Greenbushes.

There are two lithium processing plants that recover and upgrade the spodumene mineral using gravity, heavy media, flotation and magnetic processes into a range of products for bulk or bagged shipment.

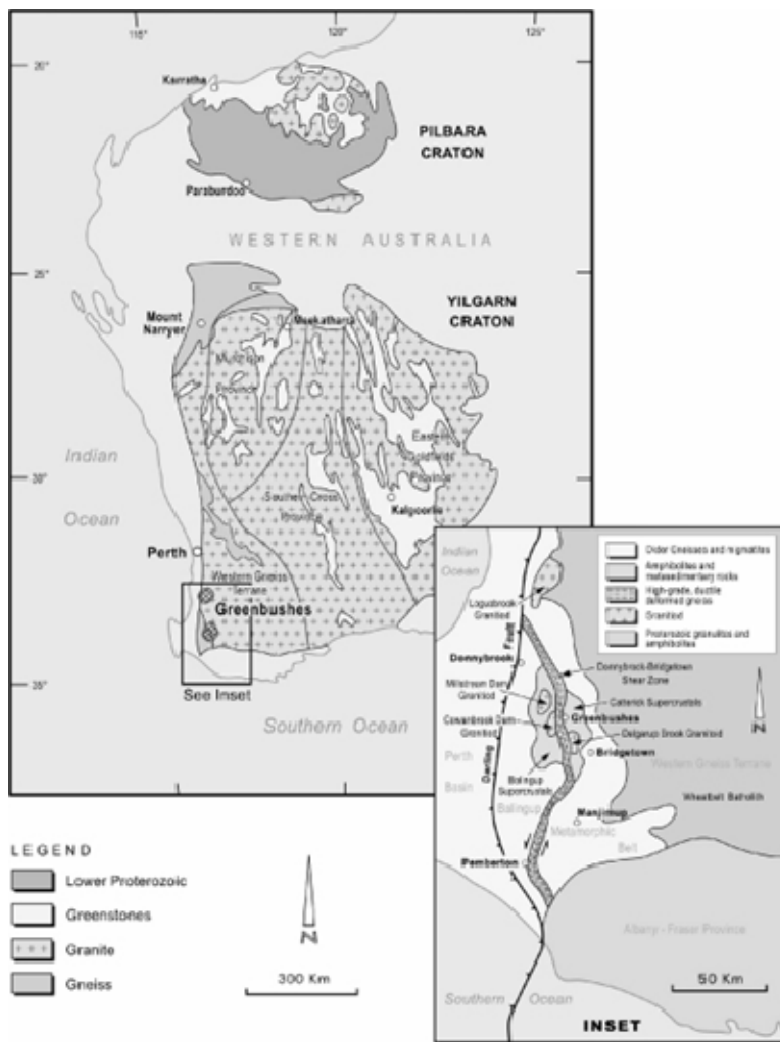
In the period 2005 to 2008, demand from the Chinese chemical producers was satisfied by using the Greenbushes primary tantalum plant which had been on care and maintenance. Products from that plant had a lower grade than preferred by the Chinese customers and were supplied as a temporary measure until Talison Lithium's lithium concentrate production capacity was increased.

In 2009, Talison Lithium's processing plants were upgraded to total nominal production capacity of approximately 260,000tpa of lithium concentrates and in late 2010 capacity was further increased to total nominal production capacity of approximately 700,000 tpa of ore feed yielding approximately 315,000 tpa of lithium concentrates. A further expansion to increase nominal production capacity to approximately 1,500,000 tpa of ore feed yielding approximately 740,000 tpa of lithium concentrates was completed and commissioned in June 2012.

### **Geological Setting**

The Greenbushes pegmatite intrudes rocks of the Balingup Metamorphic Belt (the “**BMB**”) which forms the southern portion of the Western Gneiss Province, one of four divisions of the Yilgarn Craton, Western Australia.

## Western Australia Regional Geology Plan



The BMB has limited exposure, being largely obscured by Tertiary sediments and laterite. It is bounded to the west by the Darling Fault and Phanerozoic rocks of the Perth Basin, to the south by the Proterozoic Albany Fraser Mobile Belt, and to the east by the Hester Lineament. The BMB extends as far north as the Loguebrook Granite, where it is truncated by intrusions of the Darling Range Batholith.

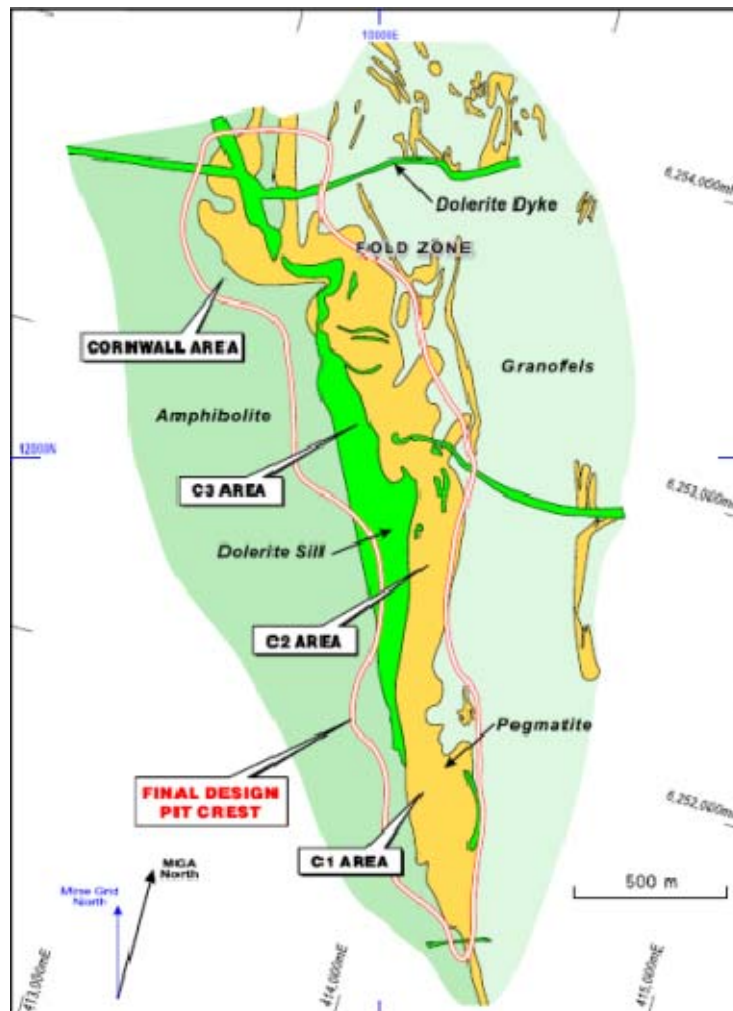
The Greenbushes pegmatite lies within a 15-20 km wide, north to north-west trending lineament known as the Donnybrook Bridgetown Shear Zone. A sequence of sheared gneiss, orthogneiss, amphibolite and migmatite outcrops along the trace of the lineament. A series of syn-tectonic granitoid intrusives occupy the BMB, elongated along the Donnybrook Bridgetown Shear Zone.

The Greenbushes pegmatites have been dated at approximately 2,525 million years, and appear to have been intruded during shearing, thereby accounting for the fine grain size and internal deformation. However, the pegmatites have been affected by subsequent deformation and/or hydrothermal re-crystallization, the last episode dated at around 1,100 million years.

The Greenbushes deposit consists of a main, rare-metal zoned pegmatite with numerous smaller pegmatite dykes and pods in the footwall of the main body. The main pegmatite and its subsidiary dykes and pods are concentrated within shear zones which form along the boundary between sequences of

granofels and amphibolite. The pegmatite body strikes in a north to north westerly direction and dips moderately to steeply towards the west-southwest.

### Greenbushes Local Geology Plan



The syn-tectonic development of the pegmatite has given rise to well developed mylonitic fabrics, particularly along host rock contacts.

The mine sequence has been intruded by Proterozoic dolerite dykes and sills. The dykes trend east-west and vary in width from a few centimetres to tens of metres.

The pegmatite bodies of the Greenbushes deposit are mineralogically zoned, but these do not conform to the conventional concentric zonation models of other pegmatite bodies. Rather, zones are generally lenticular in nature and interfinger along strike and down dip. The primary ore minerals are found in specific mineral assemblages displaying complex mineralogical zoning. The lithium or spodumene zone is enriched in the lithium bearing silicate mineral spodumene. Tantalite and cassiterite mineralization are concentrated in the sodium or albite zone which is characterized by albite (Na-plagioclase), tourmaline and muscovite. A third zone, of lesser commercial importance, contains concentrations of the potassium feldspar microcline. Other accessory minerals present in the pegmatite are phosphates such as apatite, minor beryl and garnet.

## Exploration

Exploration in the Greenbushes area dates back to the 19th century; however, modern exploration relevant to the current lithium operations and mineral resources has been undertaken since the mid-1980s. The primary target for exploration since the 1970s has been extensions of the tantalum mineralization, with lithium-rich zones being defined and extended during this work.

A major review of previous exploration data in 2004 was followed by a work programme of surface mapping and airborne geophysics primarily directed at building exploration models for tantalum targets but also providing insight into lithium potential. The mapping and compilation work was carried out by in-house geologists with assistance in database manipulation, and in geophysical data collection and reduction by industry contractors.

The Greenbushes pegmatite was mapped at a scale of 1:1000 to show the geometry and contact relationships of the pegmatites, the internal mineralogical zoning in the main pegmatite and superimposed structural features. The overall form of the pegmatite is several lens-shaped pods in a left stepping en echelon series joined by thinner linking sections as S-shaped asymmetric folds. The pegmatite is mineralogically zoned along strike and across strike. Lithium zones are generally “clean”, comprising quartz, albite and spodumene with little or no dark-coloured minerals. There is an overall increase in the degree of fractionation of the pegmatite from south to north in the Greenbushes pegmatite.

An aeromagnetic survey on 50 m spaced lines was flown in 2004 by contracting company Fugro Airborne Surveys. Radiometric data were collected simultaneously with magnetic data. The data were reduced and analysed with interpretive geology at 1:25,000 scale.

A composite grade control and exploration sampling geochemical database was built by contractor company Terra Search Proprietary Limited from results obtained in the Greenbushes Laboratory from 1995 to 2003. Internal geochemical zoning was analysed in Leapfrog and DataDesk software, showing the distribution of spodumene-rich lithium zones in the C3 pit, and highlighting a strong antipathetic relationship between Li<sub>2</sub>O and tantalum oxide. The geochemical model has produced indices illustrating magmatic fractionation trends guiding exploration to the most prospective targets.

This work has provided the basis for subsequent exploration in the Greenbushes area. However, since economic lithium mineralization does not occur at the surface, diamond drilling and reverse circulation (“RC”) percussion drilling have now become the primary tools in developing the lithium mineral resources.

## Mineralization

The Greenbushes lithium deposits belong to the spodumene sub-class of the lithium caesium tantalum pegmatite deposit class. The pegmatites are hosted in a major regional structure and represent a late stage product of cooling granite magma. Early crystallization of the pegmatite formed albite tourmaline zones, followed by albite, cassiterite and tantalite crystallization. Spodumene quartz assemblages crystallized at slightly lower temperatures.

The Greenbushes pegmatite is distinguished from many other rare-metal pegmatites by:

- not being symmetrically or truly asymmetrically zoned and not having a quartz core;
- having no indication of a parental granitoid at depth or in close proximity; and
- being formed at higher pressure/temperature, under synkinematic conditions.

The Greenbushes pegmatite consists of five mineralogically defined zones; the contact zone, the K-feldspar (potassium) zone, the albite (sodium) zone, the mixed zone and the spodumene (lithium) zone. The zones occur as a series of thick layers commonly with a lithium zone on the hangingwall or footwall, K-feldspar zone towards the hangingwall and a number of central albite zones. High-grade tantalum mineralization (>420 grams per tonne) is generally confined to the albite zone within the deposit. Major minerals and approximate abundances in the Greenbushes pegmatite are quartz 28%, spodumene 26%, albite 23%, K-feldspar 20%, tourmaline 1%, mica 1% and apatite 0.5%.

The Greenbushes pegmatite extends over a strike length of approximately 3 km north-south and a width of up to 300 m. It has been sub-divided into four sectors representing past and present open pit operations known as (from north to south) the Cornwall (tantalum only), the C3, C2 and C1 areas. The C3 area contains the main lithium deposit and in which spodumene makes up about 50% of the rock, with the remainder being largely quartz. The ore body is about 600 m long and up to 100 m wide, dipping at 30°-80° to the west or south west. The C1 area contains a second lithium deposit, some 500 m long by 150 m wide and dipping moderately to the west. The C2 lithium area lies between C1 and C3 and extends for about 600 m, varies in width up to about 30 m and dips moderately to the west. Limited mining has been undertaken in this part of the lithium bearing pegmatite. Continuity of lithium mineralization at 1.5% Li<sub>2</sub>O is demonstrated in the mineral resource block model estimates to be over 2 km from the south of the C1 area to north of the C3 area.

## **Drilling**

A total of 681 surface drill holes totalling 94,844 m of drilling are contained in the Greenbushes database, defining the lithium mineral resources and enclosing pegmatite and a further 229 underground mineral resource holes are in the database, targeting high-grade underground tantalum mineralization.

Diamond and RC drilling for definition of lithium mineral resources and mineral reserves within the pegmatite is typically on 50 m and locally 25 m spaced east-west cross sections. The drilling has been undertaken in staged programmes by several companies over the past 32 years. Drill holes are generally sited on the hangingwall side of the mineralization and drilled to intersect the pegmatites as close to normal to the dip as possible.

All holes were logged using the standard Greenbushes logging templates. Collars and down hole survey methods have varied over time. More recent holes have drill collars surveyed by the mining surveyor and down-hole surveys run by the drilling company using Eastman Single Shot Cameras, or a gyroscopic or reflex survey tool. All of the above information is captured in the site acQuire Technology Solutions Pty Limited database. Weights were not recorded for RC samples, however Talison Lithium reports that visual inspection of the size of the cutting piles was made and noted where these differed from the norm. Core recovery was measured and recorded during geological logging and logs are made of all diamond core as part of the standard logging procedure. Recovery in fresh rock is generally in the range of 95% to 100% and averaging 99%.

Commencing late September 2010, an extensive RC drilling resource extension programme was carried out at the Greenbushes Lithium Operations. This drilling tested the current known extent of the C1 area of the lithium deposit to a drill spacing of 25m x 25m, and tested the available areas of the C2 deposit to 200m below surface. Holes were also drilled around the C3 pit to test and understand outcropping footwall splays off the main lode and to infill the C3 main lode. The junction between the north end of the C3 pit and Cornwall pit was tested near surface where interpretation indicates the most prospective lithium mineralization to occur. A total of 119 holes were drilled to update the resource model for a total of 9,216 m.

As a part of the model update, 609 samples from diamond core or diamond core pulps and 35 RC pulps from existing holes where Li<sub>2</sub>O had not been analysed were re-submitted to the laboratory for analysis. These additional assays contributed to the estimation of the in situ mineral resource.

There were two parts to the drilling plan. The first was designed to convert the existing inferred mineral resource in the C1 pit to a JORC Code compliant indicated mineral resource and boost mineral reserves supporting processing expansion plans. The second part was to better define and extend the boundaries of the lithium mineralization and the Greenbushes pegmatite, also leading to increased indicated mineral resources and further mineral reserves.

The sampling from the drilling in the C1 area converted the inferred mineral resources to indicated mineral resources and defined additional unclassified material within the pegmatite as indicated mineral resources after block model estimation. The drilling in the C2 area refined pegmatite boundaries, raised resource block model confidence and further contributed mineral resources available to mineral reserves.

### **Sampling and Analysis**

The Greenbushes pegmatite and included lithium mineralization is sampled by a combination of RC and diamond drilling programmes. The drill patterns, collar spacings and hole diameters are guided by geological and geostatistical requirements for reliability of geological interpretation, and for confidence of estimation in mineral resource block models. Both diamond drill and RC drill holes are distributed throughout the lithium deposits. Diamond cored holes make up 44% and RC holes make up 56% of the surface holes available for mineral resource modelling in the lithium mineralization from approximately 10,550 metres North (“mN”) to 12,800 mN.

Pegmatite zones are selected by the geologists while logging diamond cores and marked for cutting and sampling. The core is reassembled in the tray, a line of symmetry is then drawn on the core and the core is then cut in half by diamond saw. One half of the core is bagged and numbered for submission to the laboratory while the other is returned to the core tray. The typical sample interval is 1 m but shorter intervals are sampled where required to honour geological boundaries and mineralogical variations. The drill core sample populations are considered representative of the mineralization.

RC samples are collected for every metre drilled for submission to the laboratory. For RC drilling post-2000, two splits have been taken from each pegmatite interval, one for analysis and the other for storage as a reference. A third sample is collected at every 20 m interval and submitted to the laboratory for quality assurance and quality control purposes. The RC sample populations are considered representative of the mineralization.

Drill hole sampling and analysis procedures at the Greenbushes Lithium Operations do not apply cut-off grades. The selection of intersections for sampling and analysis is based on the geological and mineralogical features including waste and ore type contact positions and major mineralogical assemblages, not on grade discrimination. For example, a choice is made for the sample preparation method based on spodumene mineralogy in drill core as described below.

All sample preparation and analytical work is undertaken at the Greenbushes Lithium Operations’ on-site laboratory by Company staff. All samples are dried and thereafter passed through a primary and secondary crusher to reduce them to 5 mm. A rotary splitter is then used to separate an approximate 1 kilogram sub-sample, which is ground in ring mill to minus 100 µm.

Two routes are available for grinding drill samples. The first route pulverises samples using standard bowls, and the second route involves low iron preparation of a 40 gram (“g”) sub-sample using a tungsten carbide bowl. The former is used routinely for RC drilling samples, and the latter is used only for diamond core from spodumene zones.

The majority of assays have been analyzed for 36 elements at the Greenbushes Lithium Operations' laboratory. Sodium peroxide dissolution and Absorption Spectroscopy ("AAS") is used for Li<sub>2</sub>O determination. The other elements/oxides are analysed by X-Ray Fluorescence following fusion with lithium metaborate. The analysis of these geological samples is documented in laboratory procedures.

It should be noted that Li<sub>2</sub>O in geological drill samples is not analysed in replicates; instead, the AAS machine is recalibrated before every batch of samples. Known solution standards and blanks are embedded in each batch and the accuracy of the calibration is monitored regularly during the analysis of each batch.

All results are captured electronically and transferred to the master database. Quantitative Group considers that the sample preparation, analytical and data management procedures adopted at the Greenbushes mine conform to industry standards and are appropriate for mineral resource modelling purposes.

Duplicate field sample analysis exists for RC drill holes but not diamond core samples. Distributions of sample analyses are assessed by calculating the mean and standard deviation values for the original and duplicate samples and the precision of the AAS analysis technique is statistically monitored by the laboratory, using plant processing and shipping data. The precision for field duplicate samples from mineral resource development drilling is acceptable for Li<sub>2</sub>O, sodium oxide and manganese oxide once a small number of poorly matched sample pairs are removed from the database. A preliminary review of the size of split samples from the RC rig for laboratory analysis suggests the current size of sample is adequate. Analytical precision of better than 5% is indicated for Li<sub>2</sub>O, based on repeat analyses of shipping products.

Overall, there is no major problem with the primary analytical data and Quantitative Group considers that the quality of the database is adequate for estimation of lithium mineral resources and lithium mineral reserves under National Instrument 43-101. However, Quantitative Group has minor concerns about the moderate to poor precision of the mineral resource assay data quality, which has the effect of making accurate distinction between technical grade and chemical grade materials more difficult. Accordingly, Quantitative Group recommends that Talison Lithium review sampling practices at the drill rigs to identify whether these methods can be improved in a cost-effective manner.

### **Sample Preparation and Security**

The Greenbushes Lithium Operations' laboratory undertakes a regime of check standards, duplicate analyses and round robin comparisons to support the quality of the analytical work. In addition, the laboratory produces results for shipping samples that are confirmed by independent analyses on behalf of product purchasers. The laboratory equipment appears well-maintained and the working spaces clear and tidy. Analytical methods and laboratory practices are in accordance with industry standards. Quantitative Group considers that current sample preparation, security and analytical procedures are adequate for the purpose of mineral resource estimation, grade control and reconciliation.

### **Mineral Processing and Metallurgical Testing**

#### ***Mineral Processing***

Talison Lithium's processing operations at the Greenbushes Lithium Operations include a crushing plant under a license/toll treatment arrangement, two processing plants and associated administrative, workshop, laboratory and other infrastructure, all located adjacent to the open pit mining operation. Lithium ore treatment commenced at the site in 1984-1985 and has been expanded progressively since that time to its current capacity of approximately 1,500,000 tpa of ore feed.

The two plants, the technical grade plant and the chemical grade plant, produce mineral products containing a range of lithium and iron grades with different iron impurity levels and size specifications. Low iron technical grade products are produced in the technical grade plant; chemical grade products which contain higher levels of iron are produced in the chemical grade plant and also in the technical grade plant when the latter plant is not required for production of low iron products. The main usage for low iron products is as feedstock for the glass and ceramic industries. The chemical grade products are mostly supplied to lithium chemical converters.

### ***Metallurgical Testing***

The Greenbushes processing operations have been treating lithium ores for over 20 years. The metallurgical process to produce concentrates from Greenbushes spodumene ore is well understood. Metallurgical testwork is undertaken on a routine basis for the purposes of continued optimization and improvement.

A critical aspect of the operation is the requirement to differentiate between technical grade ore and chemical grade ore in the mining process, with the key parameter being the iron content of the technical grade product (SC7.5) that can be produced from the ore. The results of analyses of samples from RC mineral resource and blast hole drilling cannot be used to differentiate between the technical grade ores and chemical grade ores as the drilling process and sample preparation procedures introduce sufficient iron to interfere with the differentiation and further because the iron analysis does not provide a true measure of iron that can be removed in the processing plant.

Talison Lithium personnel have developed a model which uses several non-iron component analyses to predict the iron content of the lithium concentrate that would be produced from a particular ore block. The model has been extensively tested against plant performance and is considered to be reliable.

Routine testwork on core and drill cuttings is not carried out as the application of the product iron grade predictive model to analyses obtained from core and drill cuttings provides a more comprehensive and reliable method for assessment of plant feed type.

### **Mineral Resources and Mineral Reserves Estimates**

Lithium mineral resources at the Greenbushes Lithium Operations are concentrated in the C1 and C3 areas.

A whole-of-mine lithium mineral resource model for the Greenbushes pegmatite deposits was prepared by Quantitative Group in 2007.

An updated model for the C3 deposit (between mine grid 11,800 mN and 12,600 mN and above 1,100 metres Reduced Level (“**mRL**”)) was completed and reported by Quantitative Group in 2009.

The C3 area constitutes the largest lithium mineral resource with the widest grade ranges and has been the source of most of the recent lithium production.

### ***Mineral Resource Estimates***

Lithium mineral resource estimates for the Greenbushes Lithium Operations’ C1, C2 and C3 lithium deposits have been prepared by Quantitative Group in accordance with the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves 2004 Edition (the “**JORC Code**”) which is comparable with the requirements of National Instrument 43-101. The mineral resources are not mineral reserves and, as such, do not have demonstrated economic viability.

The lithium mineral resources are estimated by Ordinary Kriging into 20 mN × 20 mE × 5 mRL parent blocks in a block model constrained by domains based on lithium and sodium grade distributions. Construction of the constraining geological boundaries was undertaken on site and in Perth, Western Australia. This work was overseen by Andrew Purvis who is a “Competent Person” as defined by the JORC Code and who is a “qualified person” for the purpose of National Instrument 43-101. Quantitative Group undertook statistical and geostatistical analysis of the data, and constructed the 3-D mineral resource block model. The Quantitative Group work was undertaken or supervised, and the data collection and data quality was reviewed by Scott Jackson, who is a “Competent Person” as defined under the JORC Code, and who is a “qualified person” for the purpose of National Instrument 43-101.

The mineralization was classified according to the definitions of National Instrument 43-101 and the guidelines published by the Council of the Canadian Institute of Mining, Metallurgy and Petroleum (the “**CIM Standards**”). The table below reports the estimated mineral resources at the Greenbushes Lithium Operations held by Talison Lithium by class.

### Greenbushes Lithium Mineral Resources by Category at March 31, 2011

Category	Update – March 31, 2011			Previous – March 31, 2010		
	Tonnage (Mt)	Li <sub>2</sub> O Grade (%)	LCE (Mt)	Tonnage (Mt)	Li <sub>2</sub> O Grade (%)	LCE (Mt)
Measured Mineral Resources	0.2	3.9	0.02	0.10	3.9	0.01
Indicated Mineral Resources	70.2	2.6	4.55	21.9	3.7	2.00
<b>Total Measured and Indicated Mineral Resources</b>	<b>70.4</b>	<b>2.6</b>	<b>4.56</b>	<b>22.0</b>	<b>3.7</b>	<b>2.01</b>
Total Inferred Mineral Resources	2.0	2.2	0.11	2.7	3.5	0.23

Note:

- (1) There may be some rounding errors in totals.
- (2) For the updated estimate (as of March 31, 2011) the lithium mineral resources are within lithium domains drawn at a 1% Li<sub>2</sub>O grade boundary, and above 1,000RL; and measured mineral resources comprises the Run of Mine and Fine Ore stockpiles. For the previous estimate (as of March 31, 2010) the lithium mineral resources are within lithium domains drawn at a 2.8% Li<sub>2</sub>O grade boundary.
- (3) Mineral resource estimation was performed using OK into 20mN×20mE×5mRL parent blocks, with each variable Li<sub>2</sub>O being estimated independently. This work was overseen by Andrew Purvis, a full-time employee of Talison, who is “qualified person” in accordance with NI 43-101 and a “Competent Person” as defined by the JORC Code.
- (4) Mineral reserves are included in mineral resources. Mineral resources are not mineral reserves and, as such, do not have demonstrated economic viability.
- (5) Mineralization was classified according to the definitions in NI 43-101 and the guidelines published by the Council of the CIM Standards.

The table below sets out those lithium mineral resources within each area, excluding the stockpiles of ore being the total of all estimated measured mineral resources at the Greenbushes Lithium Operations. All lithium mineral reserves are contained within the mineral resources.

## Greenbushes Lithium Mineral Resources by Category and Area at March 31, 2011

<b>C1 Lithium Domain Resources; 10,550mN to 11,200mN</b>			
<b>Category</b>	<b>Tonnes</b>	<b>Li<sub>2</sub>O %</b>	<b>LCE (Mt)</b>
Measured Mineral Resource			0.00
Indicated Mineral Resource	8.4	2.9	0.60
<b>Total Measured and Indicated Mineral Resources</b>	<b>8.4</b>	<b>2.9</b>	<b>0.60</b>
Inferred Mineral Resource	0.00	0	0.00
<b>C2 Lithium Domain Resources; 11,200mN to 11,800mN</b>			
<b>Category</b>	<b>Tonnes</b>	<b>Li<sub>2</sub>O %</b>	<b>LCE (Mt)</b>
Measured Mineral Resource			0.00
Indicated Mineral Resource	14.0	2.4	0.83
<b>Total Measured and Indicated Mineral Resources</b>	<b>14.0</b>	<b>2.4</b>	<b>0.83</b>
Inferred Mineral Resource	1.0	2.3	0.05
<b>C3 Lithium Domain Resources; 11,800mN to 12,700mN</b>			
<b>Category</b>	<b>Tonnes</b>	<b>Li<sub>2</sub>O %</b>	<b>LCE (Mt)</b>
Measured Mineral Resource			0.00
Indicated Mineral Resource	47.8	2.6	3.12
<b>Total Measured and Indicated Mineral Resources</b>	<b>47.8</b>	<b>2.6</b>	<b>3.12</b>
Inferred Mineral Resource	1.0	2.2	0.05

Note:

- (1) There may be some rounding errors in totals.
- (2) For the updated March 31, 2011 estimate the lithium mineral resources are within lithium domains drawn at a 1% Li<sub>2</sub>O grade boundary, and above 1,000RL;
- (3) There are no measured mineral resources. Stockpiles are not included.
- (4) Mineral resource estimation was performed using OK into 20mNx20mEx5mRL parent blocks, with each variable Li<sub>2</sub>O being estimated independently. This work was overseen by Andrew Purvis, a full-time employee of Talison, who is “qualified person” in accordance with NI 43-101 and a “Competent Person” as defined by the JORC Code.
- (5) Mineral reserves are included in mineral resources. Mineral resources are not mineral reserves and, as such, do not have demonstrated economic viability.
- (6) Mineralization was classified according to the definitions in NI 43-101 and the guidelines published by the Council of the CIM Standards.

The Quantitative Group is not aware of any aspects of the mineral resources that may be materially affected by mining, metallurgical, infrastructure or other relevant factors based on the information supplied by Talison Lithium.

### ***Mineral Reserve Estimates***

The lithium mineral reserves for the Greenbushes Lithium Operations’ Central Lode lithium deposits have been carried out under the guidelines of the JORC Code by “Competent Persons” as defined by those guidelines. The JORC Code guidelines are compatible with the requirements of National Instrument 43-101 in this regard. No work has been undertaken to determine lithium mineral reserves for the C2 area.

The mining team at the Greenbushes Lithium Operation’ undertook the determination of the lithium mineral reserves. This team was led by Stephen Green, Manager, Mining and Environment, of Talison

Lithium, who is a “Competent Person” as defined by the JORC Code. Peter Ingham of BDA, a “qualified person” under National Instrument 43-101, has reviewed the Greenbushes mineral reserve process and determined that the assumptions and parameters used in the preparation of the lithium mineral reserves as outlined below are appropriate and that the lithium mineral reserves statement fairly represents the lithium mineral reserves of Greenbushes. Peter Ingham is the “qualified person” for the purpose of National Instrument 43-101 responsible for the Greenbushes Lithium Operations lithium mineral reserves calculation.

In accordance with National Instrument 43-101, proven and probable mineral reserves are derived from measured and indicated mineral resources, respectively, once it has been shown that those mineral resources can be extracted at a profit. Mineral resources that are not mineral reserves do not have demonstrated economic viability. Mining, metallurgical, engineering and cost studies have been completed, and legal and environmental aspects confirmed. Inferred mineral resources cannot be converted to mineral reserves.

The lithium mineral reserves for the Central Lode area comprises open pit material, and were developed through Whittle pit optimization of indicated mineral resources within the 2011 mineral resource model. Mine design was completed in accordance with established slope stability criteria, using Gemcom Surpac Limited mining software. The Central Lode pit has been designed with 30 m benches, 18 m bench widths and overall wall angles of 50°. Local berm angles vary with local ground conditions. Ramp width is 18 m for single-way and 24 m for two-way traffic. Ramp gradient is 1:10. The pit design floor is at 1,090 mRL, with a high wall of approximately 240 m.

Product yields vary according to the product specification, and, in the case of chemical grade material, the plant producing the product. Consequently, no single yield figure can be applied to the various plant feed types and classes. Total product yield over the life of the project is estimated to be 40%.

A review of mine to mill reconciliation indicates a total mine recovery of ore types feeding the chemical grade and technical grade processing plants represents approximately 97% of mineral resource tonnes at about 100% of expected Li<sub>2</sub>O grade. The mineral resource model appears to understate recovery of the ore type feeding the technical grade plant and overstate recovery of the ore type feeding the chemical grade plant. It is considered probable that over-recovery of the former ore type will decline at depth as the C3 deposit geology becomes more complex. Considering the low tonnages of material mined, it is not possible to determine the recovery and dilution factors to a high degree of accuracy.

BDA has reviewed the production and reconciliation data and agrees that the definition of lithium ore distribution in the Mineral Resource model blocks is not particularly accurate compared to the detailed grade control drilling. However, significant improvement has been introduced to the model from the recent 2010 resource drilling programme and the subsequent review of the resource model estimations. BDA considers that Talison’s decision to use the 100% recovery and 0% dilution factors for Mineral Resource blocks for use in mine design and production planning can be justified on the basis of the recent reconciliation data and the review of additional ore availability, although it is possible that there may be a declining trend in future for ore types feeding the technical grade plant due to the increasing geological complexity at depth in C3.

The lithium mineral reserve estimates forming the basis of the table below remain current. The table below summarizes the lithium mineral reserves, including stockpiles, as of March 31, 2011.

## Greenbushes Lithium Mineral Reserves at March 31, 2011

Category	Update – March 31, 2011			Previous – March 31, 2010		
	Tonnage (Mt)	Li <sub>2</sub> O Grade (%)	LCE (Mt)	Tonnage (Mt)	Li <sub>2</sub> O Grade (%)	LCE (Mt)
Proven Mineral Reserves	0.2	3.9	0.02	0.1	3.9	0.01
Probable Mineral Reserves	31.3	3.1	2.38	9.5	3.9	0.92
<b>Total Proven and Probable Mineral Reserves</b>	<b>31.4</b>	<b>3.1</b>	<b>2.39</b>	<b>9.6</b>	<b>3.9</b>	<b>0.93</b>

Note:

- (1) There may be some rounding errors in totals.
- (2) For the updated calculation (as of March 31, 2011) a 2% Li<sub>2</sub>O cut-off grade has been applied.
- (3) Proven mineral reserves comprises the Run of Mine and Fine Ore stockpiles. All the probable mineral reserves are contained within the indicated mineral resources.
- (4) Mineralization was classified according to the definitions in NI 43-101 and the guidelines published by the Council of the CIM Standards.

BDA does not consider the lithium mineral reserves will be materially affected by any foreseeable permitting, title, environmental or metallurgical issues based on information supplied by Talison Lithium.

### Mining Operations

#### *Mining Method*

The Greenbushes Lithium Operations include open pit mines and lithium minerals plants.

The open pit operation currently utilises conventional mining methods with drilling and blasting both ore and waste. Within ore, the drill pattern is either 2.3 m × 2.7 m, or 2.5 m × 2.9 m for 5 m benches with nominal 115 mm diameter blast holes. Within the greenstone waste the drill pattern is 4.1 m × 4.8 m for 10 m benches with nominal 127 mm diameter blast holes. Emulsion explosives are used for blasting.

The load and haul fleet consists of a 120 t hydraulic excavator, four 100 t dump trucks (with six trucks available but requiring four trucks for most hauls) and an auxiliary fleet including front end loader, two track bulldozers, water truck and grader. Ore is taken to the Run of Mine (“**ROM**”) pad where it is stockpiled according to ore type, mineralogical characteristics and Li<sub>2</sub>O grade. Tantalum mineralization mined as a consequence of lithium mining are either stockpiled separately or within the open pit as Talison Lithium has no rights over the tantalum ore types. Waste is taken to the waste dump to the east of the pits. Total material movement is between 1.2 million bank cubic metres and 1.5 million bank cubic metres per annum. The new lithium mineral reserve will result in significant quantities of lithium ore (between 2.0% Li<sub>2</sub>O and 3.2% Li<sub>2</sub>O) being stockpiled in the first two years of the operation. This material will be blended into the ore feed over the project life to balance plant and mine production rates.

#### *Life of Mine*

As at March 31, 2011, there were 31.4 million tonnes (“**Mt**”) of lithium mineral reserves (proven and probable). All production to meet current demand is sourced from these mineral reserves. In 2009 and 2010, production capacity at the Greenbushes Lithium Operations was increased in response to growth in demand for lithium concentrates and nominal production capacity is currently approximately 1,500,000 tpa of ore feed yielding approximately 740,000 tpa of lithium concentrate (equivalent to approximately 110,000 tpa LCE).

As at March 31, 2011, the mine had delineated lithium mineral reserves sufficient for approximately 22 years of mine life and the orebody remains open both along strike and at depth. The conversion rate of tonnes from lithium mineral resources to mineral reserves is 45%. There are 39 Mt at 2.3% Li<sub>2</sub>O of indicated and 2.0 Mt at 2.2% Li<sub>2</sub>O of inferred mineral resources outside the mineral reserves that provide drilling targets for mineral resource upgrades and potential additions to mineral reserves.

Further opportunities exist to either increase production or extend the life of mine (“**LOM**”) with additional exploration drilling, as the orebody remains open both along strike and at depth.

Production in previous years has been limited by the capacity of the Greenbushes Lithium Operations processing plants. In 2009, Talison Lithium’s processing plants were upgraded to nominal production capacity of approximately 260,000 tpa of lithium concentrate and in late 2010 were increased to a nominal production capacity of approximately 315,000 tpa of lithium concentrates. A further expansion of the chemical grade plant to total nominal production capacity of approximately 1,500,000 tpa of ore feed yielding approximately 740,000 tpa of lithium concentrates to meet current and anticipated demand for lithium concentrate was completed and commissioned in June 2012.

Talison Lithium plans to increase production at the Greenbushes Lithium Operations in line with an anticipated strong demand growth, particularly in China. Talison Lithium does not anticipate that the expanded chemical grade plant will be operating at full capacity when it is first completed; however, the expanded chemical grade plant will provide Talison Lithium with the capacity to respond quickly to meet the expected strong growth in demand and to maintain market share.

### ***Production and Market Forecasts***

In 2009 and 2010, production capacity at the Greenbushes Lithium Operations was increased in response to growth in demand for lithium concentrates and nominal production capacity is currently 315,000 tpa of lithium concentrate (equivalent to approximately 47,000 tpa LCE). Since July 2009, both production plants have run at capacity and Talison Lithium has recently completed in June 2012 another expansion to increase production capacity to approximately 1,500,000 tpa of ore feed yielding approximately 740,000 tpa of lithium concentrate.

Global production of technical grade lithium concentrates declined in 2009 with the closure of Tantalum Mining Corporation of Canada’s spodumene operation. During the fiscal year ending June 30, 2011, supply tightened and Talison Lithium has not been able to meet global demand. Talison Lithium has advised that some contract prices for calendar year 2011 increased significantly and it anticipates further real price escalation in following years. As at the date of the Technical Report, technical grade prices are assumed to escalate by 3% in fiscal year ending June 30, 2013 with further real price increases of 1% in the fiscal year ending June 30, 2014 before remaining flat thereafter. Production of technical grade lithium concentrates is currently scheduled to finish in the 2020 fiscal year.

The price of chemical grade lithium concentrate was reduced in late 2008 in response to the global financial crisis and the announcement by SQM in late 2009 of a 20% reduction in lithium carbonate prices kept prices subdued in calendar 2010 and was expected to keep prices subdued during calendar 2011. Global demand for lithium is forecast by Talison Lithium’s management to continue to increase, driven primarily by the secondary lithium battery market for consumer applications in the next few years and by demand for batteries for electric vehicles from approximately 2015. As at the date of the Technical Report, Talison Lithium’s management was forecasting prices for chemical grade lithium concentrate to remain flat in real terms in the 2012 fiscal year before increasing by 6% in the 2013 fiscal year and again in the 2014 fiscal year. Further increases in real terms of 4% in the 2017 fiscal year and 3% in the 2018 fiscal year in chemical grade lithium concentrate prices are assumed.

The above mentioned pricing expectations reflect the information contained in the Greenbushes Technical Report dated June 15, 2011 prepared by representatives of BDA and Quantitative Group based on the medium term pricing expectation of Talison Lithium management at the time. On December 22, 2011 the Company announced that it had agreed to a price increase of 15% with customers for sales of technical-grade lithium concentrates in calendar 2012, and a price increase of 15% with customers for sales of chemical-grade lithium concentrates in first half calendar 2012. On July 12, 2012 the Company announced that it had agreed to an additional price increase of 10% with customers for sales of chemical grade lithium concentrate in the second half calendar 2012, which, together with the 15% price increase for the first half calendar 2012, represented a total agreed price increase of 25% for sales of chemical grade lithium concentrate in calendar 2012.

### ***Contracts for Sale of Products***

Talison Lithium sells the majority of its various lithium concentrates through sales contracts/agreements with a number of overseas customers under terms that vary from a per shipment basis to up to three years. These sale agreements are based on specific shipment volumes and specify grain size and the minimum and maximum chemical composition of various minerals within the products. The various contracts and sales agreements are considered by BDA to be in line with the norms for the industrial minerals industry.

### ***Environmental Conditions***

The Greenbushes Lithium Operations have stringent environmental operating conditions which are managed through an Environmental Management System which is certified under ISO 14001:2004 Environmental Management Standards.

### ***Economic Analysis***

BDA considers that Talison Lithium's financial model for the Greenbushes Lithium Operations provides a reasonable projection of future performance. At the date of the Technical Report, Talison projects that, over the LOM of 22 years, 31.2 Mt of ore will be processed to produce 12.7 Mt of lithium products; the LOM capital costs are projected to total A\$154 million, of which plant expansions and sustaining capital comprise 32% and 56%, respectively. Projected unit operating costs over the LOM are generally lower than recent actual unit operating costs as rates of production are expected to be higher and economies of scale achieved. Projections for revenue are based on the updated mineral resource and mineral reserve estimates, the expansion of production capacity currently in progress and on lithium concentrate prices which reflect Talison Lithium's supply and demand scenarios and a current consensus view of future exchange rates.

As at the date of the Technical Report, Talison Lithium has forecast that cash flow before income tax over the LOM will total A\$1,790 million and that the net present value of the Greenbushes Lithium Operation before income tax and applying a real discount rate of 8% is A\$816 million. The operation is most sensitive to variations in lithium concentrate prices.

The Greenbushes Lithium Operations have a history of reliable production of lithium products over more than 25 years. Talison Lithium's projections of future production levels include progressive increases in the tonnes of lithium concentrate produced. These increases are justified by market research which predicts continued growth in consumption of lithium driven primarily by the lithium secondary (rechargeable) battery market.

## Further Exploration and Development

As at the date of the Technical Report, the Greenbushes Lithium Operations have a LOM plan for 22 years based on the initial processing rate of 700,000 tpa of feed ore increasing to approximately 1,700,000 tpa of feed ore by the fiscal year ending June 30, 2017 after completion of the expansion and a program of optimizing the expanded plant capacity.

No significant extensions to the ore types feeding the technical grade plant in the lithium mineral resources or lithium mineral reserves are known at this time. However, there is potential for additional lithium mineral resources to be developed of the ore types feeding the chemical grade plant:

- from existing lithium indicated mineral resources not currently included in the mine schedule. Approximately 39 Mt of lithium indicated mineral resources remain outside the current pit designs and above 1,000 mRL, primarily in the C3 area. These lithium mineral resources are not economic under current operating parameters, but further improvement in lithium product prices, plant performance or operating costs could allow their development. Equally, re-opening of tantalum mining in the C3 area would provide low cost access to the adjacent lithium mineral resources; and
- north and south of the C1 and C3 mining areas and in the northern C2 area, based on current lithium inferred mineral resources of approximately 2 Mt above 1,000 mRL in these areas.

Talison Lithium is currently undertaking additional resource and reserve expansion drilling at the Greenbushes Lithium Operations, with a view to updating the resource and reserve estimates for the Greenbushes Lithium Operations.

## OTHER PROPERTIES

### Salares 7 Project

Talison Lithium has a 50% interest and the Option to acquire up to a 70% interest in the Salares 7 Project (by acquiring up to 70% of the outstanding shares of SALA, the owner of 100% of the Salares 7 Project), a lithium and potassium exploration property which consists of seven salars in Region III, Chile.

The Company assessed the carrying amount of the Salares 7 Project as at June 30, 2012 as substantive expenditure on further exploration for and evaluation of mineral resources in the specific area is no longer planned. As the carrying amount of the concessions of A\$62.6 million exceeded the estimated recoverable amount of A\$14.5 million, the latter based on fair value less costs to sell, an impairment provision of A\$48.1 million was recognised in profit and loss for the financial year ended June 30, 2012.

As no active market exists, the Company has estimated the fair value less costs to sell to be in the range of A\$9 to A\$20 million and the midpoint of A\$14.5 million was adopted as the recoverable amount. The estimation of fair value less costs to sell involved considerable judgement.

## RISK FACTORS

*The following information is a summary only and should be read in conjunction with detailed information appearing elsewhere in this AIF and in management's discussion and analysis of the financial condition and results of operations of the Company ("MD&A") as at and for the financial year ended June 30, 2012. Investment in mining companies such as Talison Lithium is highly speculative and subject to numerous and substantial risks. The Company faces risks in executing its business plan and achieving*

*revenues. The following risks are material risks that the Company faces. The Company also faces the risks identified elsewhere in this AIF. If any of these risks occur, the Company's business, operating results, cash flows and financial condition could be seriously harmed and, under certain circumstances, the Company may not be able to continue business operations as a going concern. Additional risks not currently known to the Company or that the Company currently deems immaterial may also materially and adversely affect the Company's business, operating results, cash flows and financial condition. Talison Lithium's business is subject to significant risks and past performance is no guarantee of future performance.*

### **Lithium Market and Lithium Concentrate Price**

The continuing success of the Greenbushes Lithium Operations and, accordingly, the Company's profitability will be primarily dependent on the future sales volumes and prices that the Company obtains for sales of lithium concentrate. Lithium concentrate contract prices are subject to fluctuation and are affected by a number of factors which are beyond our control. Such factors include, but are not limited to, interest rates, exchange rates, inflation or deflation, fluctuation in the value of the U.S. dollar and foreign currencies, global and regional supply and demand, increased supply from new projects, expansion of existing operations, or substitution with alternative products in downstream markets, technological advancements, competitors that supply lithium concentrates reducing their prices, and the political and economic conditions of major lithium producing and consuming countries throughout the world. Low cost producers of lithium concentrates may seek to increase their market share by substantially reducing prices. Further significant factors include China's ability to maintain current levels of growth and Chinese government policy with regard to importation of lithium concentrates, export of lithium chemicals and taxation or the imposition of tariffs on imports.

Determining the future growth in the electric vehicle ("EV") market is difficult to predict and there is a risk that the EV market may not grow at the rate anticipated which could in turn have a negative impact on growth in demand and consumption of lithium. Further, there is a risk that lithium ion batteries may not be introduced in EVs in the future.

Future serious declines in the sales volume and prices that the Company obtains for lithium concentrate could cause continued development of, and commercial production from, the Greenbushes Lithium Operations' mining and processing properties to be impracticable. Depending on the price the Company obtains for sales of lithium concentrate, projected cash flow from planned mining operations may not be sufficient and the Company could be forced to discontinue development and production and may lose its interest in, or may be forced to sell some or all of, its mining and processing properties. Future production from the Company's mining properties is dependent on lithium concentrate prices that are adequate to make these properties economic.

Furthermore, lithium mineral reserve calculations and LOM plans using significantly lower lithium concentrate prices and sales volumes could result in material write downs of the Company's investment in its mining and processing properties.

### **Sales Risk Related to China**

Currently, 100% of sales of chemical grade lithium concentrate are to customers in China. Any changes to Chinese regulations or policy regarding lithium, lithium imports or international trade in general may negatively impact the Company's ability to sell its chemical grade lithium concentrate in China which could have a material adverse effect on the Company's business, financial condition and results of operations.

## **Currency Risks**

The Company's revenue from operating activities is received in U.S. dollars, while the majority of operating expenses are incurred in Australian dollars. From time to time the Company may borrow funds and may incur capital expenditures that are denominated in foreign currencies. Accordingly, foreign currency fluctuations may adversely affect our financial position and operating results. The Company estimates that a one cent movement in the US\$ exchange rate affects annual pre-tax earnings and cash flows by approximately A\$1.1 million per year.

The Company has a policy to hedge a portion of future lithium concentrate sales against movements in the A\$/US\$ exchange rate. As at June 30, 2012, the Company hedged 66% and 57% of its U.S. dollar exposure for the period from July 2012 to June 2013 and from July 2013 to August 2014, respectively, with a combination of purchased currency options at an average exchange rate of US\$1.03, currency collars with an average cap exchange rate of US\$1.06 and an average floor exchange rate of US\$0.84, forward exchange contracts at an average exchange rate of US\$0.92 and offsetting U.S. dollar costs which provide a natural hedge. However, there is no assurance that a currency hedging program designed to reduce the risk associated with fluctuations in exchange rates will be successful. Hedging may not protect adequately against declines in the price of one currency relative to another. Although hedging may protect us from adverse movements in currency prices, it may also prevent the Company from benefiting fully from positive movements. As a result, the Company may be prevented from realizing possible revenues in the event that the price of one currency exceeds the price stated in such hedging arrangements.

## **Dependence on Limited Mining Properties**

The Tenements account for all of the Company's lithium mineral resources and lithium mineral reserves and the potential for the future generation of revenue. Any adverse development affecting the progress of mining and processing operations on the Tenements such as, but not limited to, hiring and retaining suitable personnel and contractors and securing supply agreements on commercially suitable terms may have a material adverse effect on our financial performance and results of operations.

Because mines have limited lives based on proven and probable mineral reserves, the Company will be required to continually replace and expand its lithium mineral reserves as it produces lithium concentrate if it wishes to extend its current LOM estimate. The LOM estimate included in this AIF and the LOM in the Greenbushes Technical Report in respect of lithium on the Tenements may not be correct. The Company's ability to maintain or increase its annual production of lithium concentrate in the future, beyond the current LOM estimated in the Greenbushes Technical Report, will be dependent in significant part on our ability to expand lithium mineral reserves at the Greenbushes Lithium Operations.

## **Uncertainty in the Estimation of Mineral Reserves and Mineral Resources**

There is a degree of uncertainty to the estimation of mineral reserves and mineral resources and corresponding grades being mined or dedicated to future production. Until mineral reserves or mineral resources are actually mined and processed, the quantity of mineral resource and mineral reserve grades must be considered as estimates only. By their nature, estimates are imprecise and depend to some extent on interpretation. Any material change in quantity of mineral reserves, mineral resources, grade or stripping ratio may affect the economic viability of the Greenbushes Lithium Operations.

Future fluctuation in the prices and sales volumes that Talison Lithium obtains for its lithium concentrates, results of drilling, metallurgical testing and production and the evaluation of mine plans subsequent to the date of any estimate may require revisions of such estimates. The volume and grade of mineral reserves mined and processed and recovery rates may not be the same as currently anticipated. Any material reductions in estimates of mineral reserves and mineral resources, or of the Company's ability to

extract these mineral reserves, could have a material adverse effect on our results of operations and financial condition.

As further information becomes available through actual mining, mineral reserve estimates may change. This may result in alterations to development and mining plans which may in turn adversely impact our operations.

Different ore types are required to feed the technical grade and chemical grade processing plants. The accurate definition of these ore types during mining depends on appropriate grade control procedures. An increase in the geological complexity of the relationship between ore types with depth could increase the risk in accurate definition of these ore types during grade control and may impact on the proportion of the ore types available to feed the technical grade plant.

### **Uncertainty Relating to Inferred Mineral Resources**

Inferred mineral resources are quoted in the Greenbushes Technical Report but these have not been considered in the economic assessment in the Greenbushes Technical Report. Due to the uncertainty which may attach to inferred mineral resources, there is no assurance that inferred mineral resources will be upgraded to resources with sufficient geological continuity to constitute additional proven and probable mineral reserves in the future.

### **Production and Operating Risk**

Mining operations, such as those at the Greenbushes Lithium Operations, generally involve a high degree of risk. Such operations are subject to all of the hazards and risks normally encountered in the mining and production of lithium concentrate, including unusual and unexpected geologic formations, seismic activity, open-pit wall failures, storage and handling of explosives, flooding and other conditions involved in the drilling and removal of material, any of which could result in damage to, or destruction of, mines and other producing facilities, damage to life or property, environmental damage and possible legal liability. Ore crushing and processing operations are subject to hazards such as equipment failure, fire (particularly in the processing plants), changes in ore characteristics such as rock hardness and mineralogy which may impact production rates and recovery of lithium concentrate, lithium yields, the ability to continue to produce products with current quality specifications, or failure of retaining dams around tailings disposal areas which may result in environmental pollution and consequent liability.

There are technical risks with the operation of the processing plant and related infrastructure required to produce the lithium concentrate. Because the Greenbushes Lithium Operations and infrastructure components of the project are interdependent, failure in any one of these areas would have adverse effects on our lithium operations as a whole. If any part of the infrastructure fails, production of lithium concentrate may become uneconomic.

Although our activities are primarily directed towards mining operations and the development of mineral deposits at the Greenbushes Lithium Operations, we may consider opportunities for expansion and/or opportunities to acquire other mining and processing rights as described under “Description of the Business”. There is no certainty that any expenditures made by us towards the search for, acquisition of or evaluation of mineral deposits or rights will result in commercial discoveries or acquisitions.

The mining industry has in the past been impacted by increased worldwide demand for critical resources such as input commodities, drilling equipment, tires and skilled labour, and these shortages may cause unanticipated cost increases and delays in delivery times, thereby impacting operating costs, capital expenditures and production schedules.

Our operations can also be adversely impacted by: difficulties in operating plant and equipment; mechanical failure or breakdown; industrial and environmental accidents; industrial disputes; unexpected shortages or increases in the costs of consumables, spare parts, plant and equipment; delays in shipping and risk of cost escalation; availability and quality of water; availability and cost of power, gas and other utilities; and bush fires, adverse weather conditions and other natural disasters.

### **Uncertainty Relating to Production Estimates**

We have prepared estimates of future production and future production costs for lithium concentrate at the Greenbushes Lithium Operations. No assurance can be given that production estimates will be achieved. These production estimates are based on, among other things: the future demand for lithium concentrates; the ability of the Company to successfully implement and commission expansions in capacity; the accuracy of mineral reserve estimates; the accuracy of assumptions regarding ground conditions and physical characteristics of ores, such as hardness and presence or absence of particular metallurgical characteristics, particularly relating to the ability to continue production of both technical grade and chemical grade lithium concentrates; and the accuracy of estimated rates and costs of mining and processing.

Actual production may vary from estimates for a variety of reasons, including, among other things: actual ore mined varying from estimates of grade, tonnage, dilution, metallurgical and other characteristics; short-term operating factors relating to the mineral reserves, such as the need for sequential development of ore bodies and the processing of new or different ore grades; risk and hazards associated with mining; natural phenomena, such as inclement weather conditions, floods, bush fires, earthquakes and pit wall failures; and unexpected labour shortages or strikes. Failure to achieve production estimates could have an adverse impact on our future cash flows, earnings, results of operations and financial condition.

There can be no assurances that the targeted level of expanded production capacity as a result of the stage 2 expansion can be achieved. Achieving the targeted level of expanded production capacity may be impacted by the availability of input commodities and skilled labour, as well as other factors identified in this AIF.

### **Total Cash Cost of Lithium Concentrate Production**

Our operating costs to produce lithium concentrate are dependent on a number of factors, including the grade of mineral reserves, mining costs, recovery, plant throughput, costs of utilities such as electricity and gas, the costs of consumables such as diesel, heavy fuel oil, chemical reagents, explosives and tires, shipping costs and labour costs. In the future, our actual performance may differ from its historical performance. Failure to achieve estimated performance could have an adverse impact on our future cash flows, earnings, results of operations and financial condition.

### **Environmental Risks and Hazards**

All phases of our operations are subject to environmental laws and regulations in the jurisdiction in which we operate, including laws regulating the removal of natural resources from the ground and the discharge of materials into the environment. These regulations mandate, among other things, the maintenance of air and water quality standards and land reclamation. They also set forth limitations on the generation, transportation, storage and disposal of solid and hazardous waste. Environmental legislation is evolving in a manner which will require stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects and a heightened degree of responsibility for companies and their officers, directors and employees. There is no assurance that future changes in environmental regulation or regulatory action, if any, will not adversely affect Talison Lithium's operations. Environmental laws may change and make the mining and processing of ore uneconomic, or result in significant environmental or reclamation costs. Environmental hazards, which are

unknown to us at the present time and which have been caused by previous or existing owners or operators of the properties, may exist on the properties on which we holds interests, and such hazards may cause us to incur significant costs that could have a material adverse effect upon our financial performance and results of operations.

We are not aware of any existing environmental laws or issues which cannot be resolved or would materially limit our ability to proceed with the ongoing mining and processing at our properties. However, production at the Greenbushes Lithium Operations involves the use of various chemicals, including those which are designated as hazardous substances. We have identified potential contamination from historic operations at our properties. In accordance with the *Contaminated Sites Act 2003* (Western Australia), we have reported various sites located on its properties as potential contaminated sites. The sites are yet to be formally classified by the Western Australian Department of Environment and Conservation (the “DEC”). We monitor water quality throughout our properties. The monitoring data is reviewed annually by an outside, independent company whose report is appended to Talison Lithium’s Annual Environmental Report which is submitted to both the DEC and DMP. Any trends in the data are investigated by Talison Lithium. Over a five year period, downward trends in pH have been noted at the Greenbushes Lithium Operations as well as upward trends in ions in the water such as sulphate and lithium. Total dissolved solids have also increased over this period. There is a risk that if water quality licence conditions are introduced in the future that require us to introduce additional control measures, there may be negative impacts on costs and potential for breaches of licence conditions.

Contamination from hazardous substances, either at its own properties, or other locations for which it may be responsible, may subject us to liability for the investigation and remediation of contamination, as well as for claims seeking to recover for related property damage, personal injury or damage to natural resources.

There have also been historical issues in relation to the Greenbushes Lithium Operations regarding noise, dust exposure (which have been reported to the DEC) and other risks inherent in standard mining operations.

The close proximity of the Greenbushes Lithium Operations to populated areas may increase the likelihood of pollution, contamination, and specifically the impacts of noise or dust produced as a result of our operations causing damage to life or property, environmental damage and possible legal liability.

## **Licenses and Permits**

Many of the mineral rights, interests and agreements of Talison Lithium are subject to government approvals, licenses and permits. We believe we hold all necessary licenses and permits under applicable laws and regulations to conduct operations at the Greenbushes Lithium Operations and the Tenements generally and believe that the Company is currently complying in all material respects with the terms of such license and permits. In the event that Talison Lithium breaches the conditions of its approvals, licences or permits, it may be subject to fines or penalties and mining, production and processing could be suspended by regulatory authorities. Such licenses and permits are subject to change in various circumstances. The granting, renewal and continued effectiveness of such approvals, licenses and permits are, as a practical matter, subject to the discretion of the applicable governments or governmental officials. No assurance can be given that we will be successful in maintaining any or all of the various approvals, agreements, licenses and permits in full force and effect without modification or revocation. To the extent such approvals are required and not obtained, we may be curtailed or prohibited from continuing with its mining and processing operations, or proceeding with any future exploration or development of the Tenements.

We have, in the past, identified a number of minor technical breaches of conditions of a licence granted under the *Environmental Protection Act 1986* (Western Australia) in relation to the Greenbushes Lithium Operations. These breaches were formally reported to the DEC. Talison Lithium has had (and continues to have) a co-operative relationship with the DEC and there is no expectation that a prosecution will be made in relation to the minor technical breaches.

In the event we become subject to an investigation or prosecution by the DEC as a result of a potential breach of a condition of a licence granted under the *Environmental Protection Act 1986* (Western Australia), the DEC may choose enforcement action ranging from a written warning through to the revocation or suspension of a licence. A revocation or suspension of a licence may result in the closure of premises or cessation of activity until any breach has been remedied. An enforcement action taken by the DEC, if any, would depend on the nature and severity of the breach.

### **Costs of Remediation are Uncertain**

We estimate that, as at June 30, 2012, the mine closure costs for the Greenbushes Lithium Operations, which includes remediation and the costs associated with the removal of contaminated materials, and capping and rehabilitating tailings and waste dumps, to be approximately A\$16.8 million. The actual costs of remediation are uncertain and planned expenditures may differ from the actual expenditures required. It is not possible to determine the exact amount that will be required to complete remediation activities, and the amount that Talison Lithium is required to spend could be materially different than current estimates. Environmental bonds or other forms of financial assurance represent only a portion of the total amount of money that will be spent on remediation over the life of a mine's operation. Although we include estimated remediation costs in our mining plans, it may be necessary to revise the planned expenditures and the operating plan for the Greenbushes Lithium Operations in order to fund required remediation activities. Any additional amounts required to be spent on remediation may have a material adverse affect on our financial condition and results of operations.

### **Minerals Resource Rent Tax**

The Australian Federal Government announced on July 2, 2010 that it would introduce a Minerals Resource Rent Tax (“**MRRT**”) on profits made from the exploitation of iron ore and coal projects in Australia that generate a profit in excess of \$50 million (at an effective rate of 22.5%). The MRRT was passed by the Australian parliament on March 19, 2012 with effect from July 1, 2012. Whilst there is currently no Federal Government endorsed proposal to extend the MRRT beyond iron ore and coal projects, there is no certainty that the MRRT will not be extended beyond iron ore and coal in the future.

### **Carbon Price Mechanism**

On September, 13, 2011, the Australian Federal Government introduced into Parliament the Clean Energy Bill 2011 (“**CPM**”), together with a suite of supporting bills, which will impose a price on carbon equivalent emissions if a facility emits greater than 25,000 tonnes of CO<sub>2</sub>-e a year or more (excluding emissions from transport fuels and some synthetic greenhouse gases) (“**covered facilities**”), or an entity consumes more than a threshold volume of natural gas. The Company believes that emissions at its current facilities are below this level and as such will not be considered “covered facilities”. The introduction of the CPM could have an adverse impact on Talison Lithium and cause increases in capital expenditures or production costs or a reduction in levels of production, either as a result of direct costs imposed under the CPM or as a result of suppliers of goods or services such as fuel, electricity or gas passing on any CPM costs (or both) to us, even if our facilities are not “covered facilities” under the CPM.

## **Government Regulation**

Talison Lithium's mining, processing and future exploration and development activities are subject to various laws governing prospecting, mining, development, production, royalties and taxes, export licenses, labour standards and occupational health, mine safety, toxic substances, land use, water use, land claims of local people and other matters. Although our mining and exploration activities are currently being conducted in a manner that complies in all material respects with all applicable rules and regulations, no assurance can be given that new rules and regulations will not be enacted or that existing rules and regulations will not be applied in a manner which could limit or curtail production or development or otherwise have a materially adverse effect on our financial condition and results of operations.

Amendments to current laws and regulations governing operations or more stringent implementation thereof could have a substantial adverse impact on Talison Lithium and cause increases in capital expenditures or production costs or a reduction in levels of production. In particular, the CPM may have a financial impact on us and our operations and cause increases in capital expenditures or production costs or a reduction in levels of production, either as a result of direct costs imposed under the CPM or as a result of suppliers of goods or services passing on any CPM costs to us.

Failure to comply with applicable laws, regulations, agreements and permitting requirements may result in enforcement actions thereunder, including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed, and may include corrective measures requiring capital expenditures, installation of additional equipment or remedial actions. Parties engaged in mining operations or in the exploration or development of mineral properties may be required to compensate those suffering loss or damage by reason of the mining activities and may have civil or criminal fines or penalties imposed for violations of applicable laws or regulations. See "Doing Business in Australia – Overview of Western Australian Mining Law Regime".

## **Lithium Exploration and Exploitation in Chile**

Chilean mining legislation establishes that certain specific mineral substances cannot be subject to mining concessions. Lithium is one of such excluded substances, along with liquid or gaseous hydrocarbons. While lithium is not susceptible to the creation of a mining concession like most other minerals, Chilean law has established that the exploration and exploitation of lithium may be undertaken: (a) directly by the state; (b) by state companies; and (c) by means of administrative concessions, or special operations contracts entered into between private parties and the state. Administrative concessions or special operations contracts by which a private party can explore and exploit lithium are granted on a case by case basis on the particular terms set out in each case by the Chilean authorities, as represented by the President of Chile. However, a mining concession may be granted on the non-excluded substances in a deposit even though such deposit also contains excluded substances.

The Chilean State should be notified of the existence of lithium found on occasion of the exploration, exploitation or processing of substances sourced from mining property. The Chilean State may require producers to separate the portion of those excluded substances with a significant presence in the product from mining products; that is, what may be separated from a technical and economic point of view for delivery or sale thereof on account of the Chilean State. As long as the Chilean State does not make such a request to the producer, it shall be legally presumed that the excluded substances contained in the respective mining products do not have a significant presence therein. The Chilean State should reimburse the expenses incurred by the producer to make the separation and delivery before such delivery and should also pay for the modifications and complementary works that must be performed in order to make the boiling down or separation possible in the country, in which case it shall also pay compensation for the damages caused on occasion of the execution of these modifications and complementary works. Failure to comply with the obligations shall lead to a fine thereof that shall be applied by the judge.

The convenience of maintaining the above-mentioned mining legislation is currently under discussion in Chile, and there is some prospect of being changed in the future. To the extent such legislation is not amended the only manner whereby Talison Lithium may be entitled to, exclusively, explore or exploit lithium is by means of administrative concessions or special operations contracts entered into between private parties and the state. There is a risk that until such legislation is changed and unless Talison Lithium is effectively granted an administrative concession or enters into a special operations contract, it will not be able to explore or exploit any lithium reserves that are found at its concessions.

### **Availability of Water Rights**

Talison Lithium may be required to obtain water rights to conduct any operation or processes in Chile. These rights have yet to be obtained from the Chilean State or other third parties holding such rights, and a failure to obtain such rights could have a material adverse effect on Talison Lithium. Certain concessions held by Talison Lithium are proximate to sites prioritised by the Chilean State as sites for the preservation of biological diversity. Talison Lithium will be required to file an environmental impact declaration as the exploration proceeds and subsequently an environmental impact study prior to actual exploitation is engaged. Consequently, we may encounter particular challenges in securing water rights in such areas and there can be no guarantee that full use of water rights will be granted.

### **Human Resources**

The Company's ability to manage its operations and development activities, and hence its success, depends in large part on its ability to retain current personnel and attract and retain new personnel, including management, technical workers, contractors and an operating workforce. The Company's ability to recruit and assimilate suitable new personnel will be critical to its performance. In addition, we depend on a relatively small number of key officers, the loss of any of whom could have an adverse effect on Talison Lithium. We currently do not have key person insurance for these individuals. The international mining industry is very active and we may face increased competition for personnel in all disciplines and areas of operation. There is no assurance that we will be able to attract and retain personnel to staff the development and operating teams.

### **Native Title**

Australian law recognizes a form of native title which reflects the rights, interests and entitlements of Australia's indigenous inhabitants to their traditional lands in circumstances where such title has not been extinguished ("**Native Title**"). The actual and potential existence of Native Title in Australia is recognized and protected in accordance with the NTA, which provides a procedural framework for Aboriginal and Torres Strait Islander people to claim Native Title.

The NTA and the recognition of Native Title at common law has created some uncertainty on ownership of and rights to develop some mining tenements in Australia and may impose restrictions on development and future production by us.

The effect of the laws in respect of Native Title that apply in Australia is that mining tenement applications and existing tenements may be affected by Native Title claims or procedures. In this regard:

- (a) the existence of Native Title or a registered Native Title claim may preclude or delay granting of exploration and mining tenements pending resolution of statutory procedures imposed by the NTA. Considerable expenses may be incurred negotiating and resolving issues; and
- (b) if Native Title is determined to exist over any exploration or mining tenements held or acquired by Talison Lithium, an obligation may arise to compensate the Native Title

holders for impairment to Native Title resulting from activities conducted on the exploration or mining tenements in question. Similar compensatory obligations may arise when settling Native Title claims lodged over any tenements acquired by Talison Lithium.

There are four registered and one unregistered Native Title claims which affect the Tenements. Three of the registered and the one unregistered Native Title claims affect Tenements which are material to the Greenbushes Lithium Operations. As at the date of this AIF, we are not aware of any determinations by the Federal Court of Australia that Native Title exists over the area of the Tenements. However, proceedings by various Native Title claimants for such determination have been commenced, and are continuing, in the Federal Court of Australia. We are unable to express an opinion on the likelihood of success of any application for determination of whether Native Title exists over the area of the Tenements.

Native Title which may exist or otherwise be claimed in respect of the Tenements will not prevent the exercise of any validly granted rights and interests under the Tenements. The granted Tenements have all been validly granted pursuant to the NTA. However, if Native Title is determined to exist over any part of the Tenements and Native Title has not otherwise been extinguished in respect of that part, we may be required to pay compensation to the Native Title holder for impairment to such title as a result of activities conducted on any such part of a Tenement covered by valid Native Title. It is not possible to currently assess the extent of compensation that may be payable to a current or subsequent Native Title holder. At this stage, no Native Title compensation claim has been determined by an Australian court although there are a number of claims for compensation that have been instituted but not yet heard. Timing of these determinations is uncertain.

While all granted Tenements are valid as against Native Title, the Tenements comprise applications for three new mining and exploration tenements, the grant of which will need to comply with the statutory procedures imposed by the NTA in respect of the grant of future interests in land.

### **Aboriginal Heritage**

The *Aboriginal Heritage Act 1972* (Western Australia) (the “**Aboriginal Heritage Act**”) seeks to protect Aboriginal sites and objects and is particularly relevant to exploration and mining activity. The Aboriginal Heritage Act provides a broad definition of both Aboriginal “site” and “objects”.

It is an offence under the Aboriginal Heritage Act for a person to:

- (a) excavate, destroy, damage, conceal or in any way alter any Aboriginal site; or
- (b) in any way alter, damage, remove, destroy, conceal or deal with in a manner not sanctioned by relevant custom, or assume the possession, custody or control of, any object on or under an Aboriginal site,

without obtaining the consent of the relevant Minister under the Aboriginal Heritage Act.

A Register of Aboriginal Sites is kept under the Aboriginal Heritage Act and administered by the Western Australian Department of Indigenous Affairs (the “**DIA**”). Aboriginal sites and objects are protected under the Aboriginal Heritage Act whether or not such sites or objects are recorded on the Register of Aboriginal Sites.

Searches conducted with the DIA indicate that there is one registered Aboriginal heritage site affecting five areas of land covered by the Tenements, being miscellaneous licence L01/01 and mining leases M01/02, M01/04, M01/05 and M01/10. Mining leases M01/06, M01/07 and M01/16 contain the entire measured, indicated and inferred mineral resource and the facilities comprising the Greenbushes Lithium Operations, including tailings storage, processing plant, open pits and waste rock dumps, are

currently carried out within the boundaries of Mining Leases M01/06, M01/07 and M01/16 plus General Purpose Leases G01/01 and G01/02. Searches conducted with the DIA indicate that there are no registered Aboriginal heritage sites on the areas of land covered by Mining Leases M01/06, M01/07 and M01/16 plus General Purpose Leases G01/01 and G01/02.

There may also be unregistered Aboriginal sites within the area covered by the Tenements. Although mining operations on parts of the Tenements have been conducted for over 100 years, the presence of sites of Aboriginal heritage significance on Tenements in which Talison Lithium has an interest may limit or preclude additional mining, exploration or construction activity within the area of those sites and delays and expenses may be experienced in obtaining clearances and approvals.

Talison Lithium is not aware of any current issues associated with sites of indigenous heritage significance relating to the Greenbushes Lithium Operations. However, failure to resolve issues associated with sites of indigenous heritage significance could impact adversely on the Greenbushes Lithium Operations.

### **No Assurance of Titles or Boundaries**

Although we have exercised due diligence with respect to determining title to properties in which we will have a material interest, there is no guarantee that title to such properties will not be challenged or impugned, and title insurance is generally not available. Our mineral properties may be subject to prior unregistered agreements, transfers or claims, and title may be affected by, among other things, undetected defects. There may be valid challenges to the title of our properties, which, if successful, could impair development and/or operations or limit our ability to enforce its rights with respect to its properties.

Title is also subject to continued compliance with obligations under applicable laws and regulations, including minimum expenditure requirements, rent and royalty payments.

### **Exploration and Mining Tenements Forfeiture**

The Western Australian title registration system provides for application for forfeiture of exploration and mining licences where there is, or has been, non-compliance with the prescribed royalties, rents or the conditions of the tenement including expenditure conditions. Forfeiture may occur in one of a number of ways. A third party may file a plaint (an application for forfeiture) with the mining warden, who may in the case of prospecting or miscellaneous licences elect to forfeit the tenement or impose a fine not exceeding A\$10,000 for non compliance with expenditure conditions and not exceeding A\$50,000 in any other case, or in the case of exploration licences, mining and general purpose leases make a recommendation to the Minister for or against forfeiture.

In the latter case, the Minister may decide to forfeit the tenement, impose a fine not exceeding A\$50,000 per tenement, or impose no penalty. A tenement may not be recommended for forfeiture unless non-compliance is of sufficient gravity to justify forfeiture. Alternatively, an application for forfeiture can be made by the Minister if there has been non-compliance with the conditions of the licence or lease. In such cases, the Minister can forfeit the lease or licence upon recommendation for forfeiture from the warden or impose a fine not exceeding A\$50,000 per tenement, which if unpaid will result in forfeiture.

### **Exploration Risk**

The exploration for, and development of, mineral deposits involves significant risks which even a combination of careful evaluation, experience and knowledge may not eliminate. While the discovery of an ore body may result in substantial rewards, few properties which are explored are ultimately developed into producing mines. Major expenses may be required to locate and establish additional mineral reserves, to develop metallurgical processes and to construct mining and processing facilities at a particular site.

Whether a mineral deposit will be commercially viable depends on a number of factors, some of which are: the particular attributes of the deposit, such as size, grade and proximity to infrastructure; product prices which are highly cyclical; and government regulations, including regulations relating to prices, taxes, royalties, land tenure, land use, importing and exporting of minerals and environmental protection. The exact effect of these factors cannot be accurately predicted, but the combination of these factors may result in Talison Lithium not receiving an adequate, or any, return on invested capital for any exploration activities that may be undertaken in the future.

### **Counterparty Risk**

Talison Lithium's revenues from sales of lithium concentrate may be affected by counterparties to its sales contracts being unable to or refusing to accept or pay for contracted volumes of lithium concentrate or pay the contracted price for lithium concentrate. We may incur significant costs and ultimately be unsuccessful in recovering from counterparties in breach of their contractual obligations with regarding to sales and supply of lithium concentrate.

### **Concentrated Customer Base**

A few large distributors and one major customer account for a significant percentage of our total revenue and we expect that those sales will continue to account, alone or in the aggregate, for a significant percentage of total revenue. This exposes us to the risk that a reduction of business volume from any of them could have a material adverse effect on our business, financial condition and results of operations.

### **Risks to Greenbushes Lithium Operations as a Result of the Pre-Arrangement Reorganization**

As described under the headings "General Development of the Business — Three Year History — Pre-Arrangement Reorganization", the lithium and tantalum businesses of Talison Minerals were separated such that all of the lithium assets are held by Talison Lithium and all of the tantalum assets are held by Talison Tantalum.

Pursuant to the terms of the Lithium Business Sale Agreement, although TLA (a subsidiary of Talison Lithium) holds title to the Tenements, mining rights to all minerals other than lithium on the Tenements are reserved by GAM Greenbushes (a subsidiary of Talison Tantalum) and are subject to the separate Reserved Mineral Rights Agreement. The Reserved Mineral Rights Agreement gives GAM Greenbushes the right to access the Tenements to explore for, and mine if economically viable, non-lithium minerals.

TLA owns the assets relating to the Greenbushes Lithium Operations including certain infrastructure at the Greenbushes Lithium Operations including the buildings, utilities (gas, water supply and power), waste dumps and tailings dams. The Shared Services Agreement provides mechanisms for GAM Greenbushes to access and share such infrastructure and utilities.

Although the tantalum mining operation is currently on care and maintenance due to prevailing market conditions for tantalum, in the event a tantalum mining (or exploration) operation becomes economically viable and restarts, then there is a risk that:

- Talison Lithium's access to utilities (gas, water or power) and infrastructure required to conduct its mining, processing and exploration activities may be restricted;
- there may be insufficient utilities (gas, water or power) or capacity in infrastructure to sustain both lithium concentrate and tantalum mining operations and Talison Lithium's production of lithium concentrate may be affected;

- the terms on which the parties have agreed to conduct concurrent mining operations and/or any amendments to the existing mine plan to allow concurrent mining operations may be less favourable to Talison Lithium than if no concurrent mining operations were undertaken or no amendments to the existing mine plan were made; and
- the appointment of a new third party mining contractor to conduct the new mining operations may impact upon Talison Lithium's ability to undertake mining operations under its existing mine plan.

Under the Reserved Mineral Rights Agreement, GAM Greenbushes retains the exclusive right to conduct exploration for all minerals other than lithium on the Tenements, and to conduct mining operations in respect of all minerals other than lithium on the Tenements, as described under the heading "General Development of the Business — Three Year History — Pre-Arrangement Reorganization — Summary of Pre-Arrangement Reorganization Agreements — Reserved Mineral Rights Agreement".

As described under the heading "General Development of the Business — Three Year History — Pre-Arrangement Reorganization — Summary of Pre-Arrangement Reorganization Agreements — Crusher Licence Agreement and Ore Tolling Agreement", GAM Greenbushes and TLA may elect to enter into the Ore Tolling Agreement when and if GAM Greenbushes elects to terminate the Crusher Licence Agreement and recommence use of the crusher. From the effective date of the Ore Tolling Agreement, the Crusher Licence Agreement will no longer be in force and the Ore Tolling Agreement will operate as a stand alone agreement between GAM Greenbushes and TLA. Either party may terminate the Ore Tolling Agreement on 12 months' notice. There is a risk that, if GAM Greenbushes terminates the Ore Tolling Agreement by the giving of 12 months' notice, TLA may not be able to obtain a replacement crusher or access to a crusher within the 12 month notice period and the Greenbushes Lithium Operations may be disrupted. The price of obtaining a replacement crusher or access to another crusher may also be high.

While we have considered the taxation implications of the Reorganization, it is possible that there may be some unintended taxation consequences. We have sought to reduce our exposure to any such taxation implications by obtaining indemnities from a number of the Founding Shareholders.

### **Insurance and Uninsured Risks**

Our business is subject to a number of risks and hazards generally, including adverse environmental conditions, industrial accidents, labour disputes, unusual or unexpected geological conditions, ground or slope failures, changes in the regulatory environment and natural phenomena such as inclement weather conditions, floods, earthquakes and bush fires. Such occurrences could result in damage to mineral properties or production facilities, personal injury or death, environmental damage to our properties or the properties of others, delays in development or mining, monetary losses (and associated economic loss) and possible legal liability.

Although the Company maintains insurance to protect against certain risks in such amounts as it considers reasonable, our insurance will not cover all the potential risks associated with our operations. We may also be unable to maintain insurance to cover these risks at economically feasible premiums. Insurance coverage may not continue to be available or may not be adequate to cover any resulting liability or may contain clauses which exclude liability in certain instances. Moreover, insurance against risks such as environmental pollution or other hazards as a result of exploration and production is not generally available to us or to other companies in the mining industry on acceptable terms. We might also become subject to liability for pollution or other hazards which may not be insured against or which we may elect not to insure against because of premium costs or other reasons. Losses from these events may cause us to incur significant costs that could have a material adverse effect upon its financial performance and results of operations.

To the extent that the Company incurs losses not covered by its insurance policies, the funds available for sustaining the current operations and for the development of future operations and exploration will be reduced.

### **Impairment of Asset Carrying Values**

At the end of each reporting period we assess whether there is any indication that an asset may be impaired. If any such indication exists, we undertake an impairment assessment of the asset. The recoverability of Talison Lithium's carrying values of its properties is assessed by comparing carrying values to estimated future net cash flows from each property. Factors which may affect carrying values include, but are not limited to, lithium prices, capital cost estimates, mining, processing and other operating costs, grade and metallurgical characteristics of ore, mine design and timing of production. In the event of a prolonged period of depressed lithium prices, we may be required to take material write downs of our assets.

### **General Economic Condition, Business Environment and Other Risks**

Current economic conditions or a further deterioration in the global economy may negatively impact demand, revenue, operating costs, results of financing efforts, timing and extent of capital expenditures or credit risk and counterparty risk. Volatility in lithium prices and fluctuations in interest rates and exchange rates, product supply and demand, market competition, risks associated with technology, risks of pandemics, our ability to generate sufficient cash flow from operations to meet its current and future obligations, our ability to access external sources of debt and equity capital, general economic and business conditions, our ability to make capital investments and the amounts of capital investments, risks associated with potential future regulations, assessments and audits (including income tax) against us, difficulty in obtaining necessary regulatory approvals, a significant decline in our reputation and such other risks and uncertainties could materially adversely impact our business, prospectus, financial condition, results of operation or cash flows.

In addition, current global economic conditions and uncertainties, the potential impact of a recession, the potential for future failures or realignments of financial institutions, and the related impact on available credit may have a material adverse effect on our business, financial condition, liquidity and results of operations.

There can be no assurance that any risk management steps taken by us with the objective of mitigating the foregoing risks will avoid future loss due to the occurrence of such risks.

### **Financing Requirements**

Talison Lithium may require additional financing in the future and, if required, there can be no assurance that such financing will be available to us or, if it is, that it will be offered on acceptable terms. Any issuance of additional equity or convertible debt securities of Talison Lithium will dilute the interests of our Shareholders. Any debt financing, if available, may involve financial covenants which limit our operations. Any failure by us to obtain the required financing on acceptable terms could have a material adverse effect on our financial condition, results of operations and liquidity and require us to cancel or postpone planned capital investments or reduce the scope of any expansion.

### **Control Risk**

The Founding Shareholders own an aggregate of approximately 74 million Ordinary Shares, representing approximately 65% of the issued and outstanding Ordinary Shares as at 21 September 2012. Accordingly, the Founding Shareholders continue to control the outcome of certain matters requiring shareholder approval and have the power to:

- elect directors to the board of directors of Talison Lithium (the “**Board of Directors**”);
- amend the constitution of Talison Lithium;
- agree to or prevent mergers, consolidations or the sale of all or substantially all of Talison Lithium’s assets; and
- guarantee, indemnify or grant a security interest for debts or obligations of third parties.

The significant ownership interest of the Founding Shareholders could adversely affect Shareholders’ perception of Talison Lithium’s corporate governance.

### **Dividend Policy**

No dividends on the Ordinary Shares have been paid to date or may be paid in the foreseeable future.

### **Director and Officer Conflicts of Interest**

Certain of our directors also serve as directors and/or officers of other companies involved in natural resource exploration and development and, consequently, there exists the possibility for such directors to be in a position of conflict with the best interests of Talison Lithium and its Shareholders. Our directors with conflicts of interests will be subject to and will follow the procedures set out in applicable corporate and securities legislation, regulations, rules and policies and in our mandates, charters and policies.

### **Difficulty Enforcing Judgements and Effecting Service of Process**

Some or all of the directors and officers of Talison Lithium, Talison Minerals and RCF Management L.L.C., a manager of private equity funds involved in founding the business of Talison Lithium and whose funds collectively represent the largest shareholder in Talison Lithium (“**RCF**”), and some or all of the experts named in this AIF reside outside of Canada. Some or all of the assets of those persons and Talison Lithium may be located outside of Canada. Furthermore, each of Talison Lithium, Talison Minerals and RCF is incorporated under the laws of a foreign jurisdiction and resides outside of Canada. It may not be possible for investors to collect from Talison Lithium, Talison Minerals or RCF or to enforce judgments obtained in Canadian courts predicated upon the civil liability provisions of applicable Canadian securities laws against Talison Lithium, Talison Minerals, RCF, and any of their respective directors and officers and certain of the experts named in this AIF. Moreover, it may not be possible for investors to effect service of process within Canada upon the directors, officers and experts referred to above.

## **DIVIDENDS**

No dividends on the Ordinary Shares have been paid to date. Talison Lithium anticipates that for the foreseeable future it will retain future earnings and other cash resources for the operation and development of its business. However, payment of any future dividends will be at the discretion of the Board of Directors after taking into account many factors, including Talison Lithium’s earnings/operating results, financial condition, current and anticipated cash needs, restrictions in financing agreements and such other factors as the directors of Talison Lithium consider appropriate.

## Description of Capital Structure

### General

Since July 1, 1998, share capital in Australian companies do not have a nominal (par) value, and Australian companies do not have authorized share capital. Under the constitution of Talison Lithium (the “**Constitution**”), which was adopted on October 21, 2009, the Board of Directors has the power to issue such number of Ordinary Shares as it determines in its absolute discretion, subject to the provisions of the Constitution and the Corporations Act. See “Description of Capital Structure — Constitution of Talison Lithium”.

As at 21 September, 2012, Talison Lithium had an aggregate of 114,581,029 Ordinary Shares issued and outstanding and one special voting share (the “**Special Voting Share**”) issued and outstanding. In addition, as at the date of this AIF, 4,292,910 Ordinary Shares are issuable upon the exercise of Talison Lithium’s outstanding options, and 191,277 Ordinary Shares are issuable upon the exercise of Talison Lithium’s outstanding warrants.

The Special Voting Share was issued to Computershare Trust Company of Canada on September 22, 2010 in connection with the Arrangement. Through the Special Voting Share, Computershare Trust Company of Canada served as trustee on voting matters on behalf of the holders of Exchangeable Shares. The Special Voting Share provided a mechanism for holders of Exchangeable Shares to vote with the holders of Ordinary Shares. On May 31, 2012, all of the issued and outstanding Exchangeable Shares were redeemed in exchange for Ordinary Shares.

### Constitution of Talison Lithium

The following is a summary of key provisions of the Constitution respecting the Ordinary Shares.

*Voting.* Subject to any rights or restrictions as to voting attached to any class of shares at any annual or general meeting of Shareholders:

- (i) each shareholder entitled to vote may vote in person or by proxy, attorney or representative;
- (ii) on a show of hands, every person present who is a shareholder or a proxy, attorney or representative of a shareholder has one vote; and
- (iii) on a poll, every shareholder who is present in person or by proxy, attorney or representative shall, in respect of each fully paid share held by him, or in respect of which he is appointed a proxy, attorney or representative, have one vote for the share, but in respect of partly paid shares, shall have such number of votes being equivalent to the proportion which the amount paid (not credited) is of the total amounts paid and payable in respect of those shares (excluding amounts credited).

A poll may be demanded by at least five Shareholders present in person or by proxy, attorney or representative; by Shareholders with at least 5% of the total voting rights of all Shareholders having the right to vote on the resolution; or by the Chairman.

*Dividends.* The Board of Directors may from time to time declare a dividend to be paid to Shareholders entitled to any such dividend. No dividend shall be payable except out of profits.

*Issue of Shares.* Subject to the Constitution and the Corporations Act, the Board of Directors may at any time issue such number of shares either as Ordinary Shares or shares of another named class and on such terms as the Board of Directors in its absolute discretion determines.

*Foreign Ownership of Shares.* Under the Constitution, there is no limit or restriction on the foreign ownership of Talison Lithium's securities except where such limits are prescribed or limited by Australian law.

*Transfer of Shares.* Subject to the Constitution, a shareholder may transfer any shares held by them by any method of transferring or dealing in shares that is permitted by the Corporations Act, or by an instrument in writing in any usual or common form or any other form the directors approve.

*Reduction of Share Capital.* Talison Lithium may reduce its share capital by any of the means authorized by the Corporations Act, subject to the provisions of that law. Talison Lithium may reduce its share capital in any way, including, but not limited to, distribution to Shareholders securities of any other body corporate and for the shareholder to be bound by the constitution of that body corporate. Any reduction in share capital must be authorized or approved in accordance with Part 2J.1 of the Corporations Act.

*Share Buy-Backs.* Talison Lithium may buy shares in itself by any of the means authorized by the Corporations Act, subject to the provisions of that law. Subject to the Corporations Act, Talison Lithium may give financial assistance to any person or entity for the purchase of its own shares on such terms and at such times as may be determined by the directors.

*Calls on Shares.* The Board of Directors may, subject to the requirements of the Corporations Act, make calls upon a shareholder in respect of any money unpaid on the shares of that shareholder. Under the Corporations Act, a shareholder who is liable to pay calls on partly-paid shares is liable to do so in accordance with the terms on which the shares are on issue. The Board of Directors may revoke or postpone a call once it has been made. A call is deemed to have been made at the time when the resolution of the Board of Directors authorizing the call was passed and may be required or permitted to be paid by instalments. An amount that, by the terms of issue of a share, becomes payable on allotment or at a fixed date is deemed to be a call made and payable. Each shareholder must pay to Talison Lithium at the time or times and place so specified the amount called on the shares, on receiving such notice, except that no call shall be payable earlier than ten business days from the day of the call. The joint holders of a share are jointly and severally liable to pay all calls in respect of the share. If a sum called in respect of a share is not paid before or on the day appointed for payment of the sum, the directors may require the person from whom the sum is due to pay interest on the sum from and including the day for payment to the time of actual payment.

*Winding Up.* If Talison Lithium is wound up, a liquidator may, with the authority of a special resolution of the Shareholders, divide among the Shareholders in kind the whole or any part of the property of Talison Lithium, and may for that purpose set such value for the property to be divided as the liquidator considers fair and may determine how the division is to be carried out as between the Shareholders or different classes of them. Under Australian law, a shareholder may only be liable to contribute to Talison Lithium's property, in the instance that Talison Lithium is being wound up, to the extent of which the shareholder is liable for any amounts unpaid on the shareholder's shares.

*Variation of Rights.* Under the Constitution and Section 246B of the Corporations Act, if at any time the share capital of Talison Lithium is divided into different classes of shares, the rights attached to the shares may be varied with the consent in writing of the holders of three quarters of the issued shares of that class, or if authorized by a special resolution passed at a separate meeting of the holders of the shares of that class. Any variation of rights is subject to the Corporations Act.

The Constitution can only be amended by a special resolution a copy of which, together with a copy of the modification to the Constitution, must be filed with Australian Securities and Investments Commission within 14 days of the resolution being passed.

## MARKET FOR SECURITIES

### Trading Price and Volume

The Ordinary Shares are listed on the TSX under the trading symbol “TLH”. The following table sets forth the reported high and low sale prices and the trading volume of the Ordinary Shares on the TSX for each of the periods indicated.

	<b>High</b>	<b>Low</b>	<b>Volume</b>
	(C\$)	(C\$)	
September 2011 .....	4.1	2.1	3,732,153
October 2011 .....	3.97	1.73	4,394,538
November 2011 .....	3.73	2.75	1,036,625
December 2011 .....	3.71	2.94	1,178,708
January 2012 .....	3.44	2.84	2,108,935
February 2012 .....	3.3	2.88	2,020,494
March 2012 .....	4.42	3.1	5,122,660
April 2012 .....	3.93	3.14	1,537,207
May 2012 .....	3.37	2.87	1,166,609
June 2012 .....	3.97	2.97	2,744,344
July 2012 .....	4.29	3.61	2,290,635
August 2012 .....	6.55	3.9	49,803,184
September 1 - 21, 2012 .....	6.67	6.37	17,336,491

## DIRECTORS AND OFFICERS

### Name, Occupation and Security Holdings

The following table sets forth information regarding Talison Lithium's directors and executive officers as at the date of this AIF.

Name and Place of Residence	Current Office with Talison Lithium	Principal Occupation	Director Since <sup>(5)</sup>
<b>DIRECTORS<sup>(1)</sup></b>			
PETER OLIVER..... Bunbury, Western Australia Australia	Chief Executive Officer and Managing Director	Chief Executive Officer and Managing Director of Talison Lithium	August 4, 2010
PETER ROBINSON <sup>(2)</sup> ..... Sydney, New South Wales Australia	Chairman of the Board of Directors	Chairman of the Board of Directors of Talison Lithium	August 4, 2010
RONNIE BEEVOR <sup>(3)(4)</sup> ..... Sydney, New South Wales Australia	Director	Professional Director	August 4, 2010
CHRISTOPHER CORBETT <sup>(2)(4)</sup> ..... Perth, Western Australia, Australia	Director	Principal, Resource Capital Funds Management Pty Ltd.	June 6, 2012
MARK SMITH <sup>(2)(3)</sup> ..... Highlands Ranch, Colorado USA	Director	President, Chief Executive Officer and a director of Molycorp, Inc. (a mining and technology company that operates the Mountain Pass rare earth mine and processing facility in California)	August 4, 2010
FRANK WHEATLEY..... Vancouver, British Columbia Canada	Executive Director — Corporate Affairs and Strategy	Executive Director — Corporate Affairs and Strategy of Talison Lithium	August 4, 2010
DAVID SHAW <sup>(3)(4)</sup> ..... Vancouver, British Columbia, Canada	Director	Management Consultant, Duckmanton Partners Ltd. (a wholly-owned company of Mr. Shaw); previously director, Chairman and Vice President, Exploration of Salares	September 22, 2010
<b>EXECUTIVE OFFICERS</b>			
LORRY MIGNACCA..... Perth, Western Australia Australia	—	Chief Financial Officer and Company Secretary of Talison Lithium	—
PAT SCALLAN..... Greenbushes, Western Australia Australia	—	General Manager of Greenbushes Lithium Operations of Talison Lithium	—
PAUL WALLWORK..... Perth, Western Australia, Australia	—	General Manager Marketing of Talison Lithium	—
EMMA HALL..... Perth, Western Australia, Australia	—	Executive General Manager – Corporate Development of Talison Lithium	—

Notes:

- (1) Messrs. Ronnie Beevor, Mark Smith and David Shaw are “independent directors” as defined under applicable Canadian securities laws. Messrs. Peter Oliver, Peter Robinson, Christopher Corbett and Frank Wheatley each have a material relationship with Talison Lithium by virtue of their respective past or current employment positions and therefore are not independent.
- (2) Member of the Health, Safety, Environment and Sustainability Committee.
- (3) Member of the Audit and Risk Management Committee.
- (4) Member of the Corporate Governance, Appointments and Remuneration Committee.
- (5) In accordance with the Constitution, each director of Talison Lithium, other than the managing director, must retire from office no later than the longer of the third annual meeting of Talison Lithium or three years following such director's last election or appointment.

As 21 September, 2012, the directors and executive officers of Talison Lithium and its subsidiaries, as a group, beneficially own, directly or indirectly, or exercise control or direction over 787,470 Ordinary Shares, representing approximately 0.7% of the aggregate number of issued and outstanding Ordinary Shares.

### **Cease Trade Orders or Bankruptcies**

Except as set out below, no director or executive officer of Talison Lithium and, to the knowledge of Talison Lithium, no shareholder holding a sufficient number of securities of Talison Lithium to affect materially the control of Talison Lithium is, as of the date of this AIF, or has been, within the 10 years before the date of this AIF, a director or executive officer of any company (including a personal holding company of such director, executive officer or shareholder) that:

- (a) while that person was acting in that capacity, was the subject of a cease order or similar order or an order that denied the relevant company access to any exemption under securities legislation for a period of more than 30 consecutive days;
- (b) while that person was acting in that capacity, was subject to an event that resulted, after the director or executive officer ceased to be a director or executive officer, in the company being the subject of a cease trade or similar order or an order that denied the relevant company access to any exemption under securities legislation for a period of more than 30 consecutive days; or
- (c) while that person was acting in that capacity or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets.

Mr. Mignacca was employed as General Manager — Planning with Sons of Gwalia in August 2004 when the directors of Sons of Gwalia voluntarily appointed administrators of Sons of Gwalia. As previously discussed under the headings “General Development of the Business — Three Year History — Pre-Arrangement Reorganization”, Talison Minerals acquired the advanced minerals business of Sons of Gwalia in August 2007 and Talison Minerals acquired the lithium assets component of such advanced minerals business (i.e., the Greenbushes Lithium Operations) pursuant to the Pre-Arrangement Reorganization. The administration of Sons of Gwalia is continuing, but the Greenbushes Lithium Operations are not subject to the administration. In addition, Mr. Mignacca is no longer employed by Sons of Gwalia or any subsidiary or affiliate thereof.

Mr. Wheatley was a director of Constellation Copper Corporation (“**Constellation Copper**”) until December 22, 2008. On November 14, 2007, management of Constellation Copper applied for and were issued a management cease trade order for failure to file Constellation Copper’s interim financial statements and related management’s discussion and analysis of financial condition and results of operations for the period ended September 30, 2007. This order was rescinded on January 16, 2008 following the filing of the financial statements and management’s discussion and analysis of financial condition and results of operations for the period ended September 30, 2007. On November 20, 2008, management of Constellation Copper applied for another management cease trade order covering Constellation Copper’s Chief Executive Officer and Chief Financial Officer as a result of a delay in filing interim financial statements for the period ended September 30, 2008 due to the possibility of the need to disclose a subsequent event. On December 23, 2008, Constellation Copper filed an assignment of bankruptcy under the *Bankruptcy and Insolvency Act* (Canada) and the securities regulatory authorities placed an issuer cease trade order to replace the management cease trade order.

## **Penalties or Sanctions and Personal Bankruptcies**

No director or executive officer of Talison Lithium and, to the knowledge of Talison Lithium, no shareholder holding a sufficient number of securities of Talison Lithium to affect materially the control of Talison Lithium has been subject to any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority, nor has any such director, executive officer or shareholder been subject to any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable investor in making an investment decision.

No director or executive officer of Talison Lithium and, to the knowledge of Talison Lithium, no shareholder holding a sufficient number of securities of Talison Lithium to affect materially the control of Talison Lithium has, within the 10 years before the date of this AIF, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of such director, executive officer or shareholder.

## **Conflicts of Interest**

To the best of Talison Lithium's knowledge, there are no known existing or potential conflicts of interest among Talison Lithium or any of its subsidiaries and a director or officer of Talison Lithium or any of its subsidiaries as a result of such directors and officers outside business interests at the date hereof. However, certain of the directors and officers of Talison Lithium also serve as directors and/or officers of other companies involved in natural resource exploration and development and, consequently, there exists the possibility for such directors and officers to be in a position of conflict with the best interests of Talison Lithium and its Shareholders. Directors and officers of Talison Lithium with conflicts of interests will be subject to and will follow the procedures set out in applicable corporate and securities legislation, regulations, rules and policies and in Talison Lithium's mandates, charters and policies.

## **PROMOTERS**

### **Talison Minerals**

Talison Minerals was considered a promoter of Talison Lithium within the meaning of Canadian provincial securities legislation by virtue of its initiative in founding the business of Talison Lithium. Talison Minerals is a now wholly-owned subsidiary of Talison Lithium.

A description of the nature of the relationship between Talison Lithium and Talison Minerals is described under the headings "Talison Lithium Limited — Intercorporate Relationships" and "General Development of the Business — Three Year History — Pre-Arrangement Reorganization".

### **Resource Management L.L.C.**

RCF was considered a promoter of the Company within the meaning of Canadian provincial securities legislation by virtue of its initiative in founding the business of Talison Lithium. Two of the funds managed by RCF, Resource Capital Fund IV L.P. and Resource Capital Fund V L.P., are collectively the largest shareholder in Talison Lithium and beneficially owns 41,385,727 Ordinary Shares, representing approximately 36.1% of the issued and outstanding ordinary number of Ordinary Shares as at 21 September, 2012.

A description of the nature of the relationship between Talison Lithium and RCF, including RCF's initiative in founding the business of the Talison Lithium, is described under the headings "General

Development of the Business — Three Year History — Pre-Arrangement Reorganization” and “The Greenbushes Lithium Operations — History”.

## AUDIT AND RISK MANAGEMENT COMMITTEE

### Audit and Risk Management Committee Charter

The main responsibilities of the Audit and Risk Management Committee are set out in its charter, which is included at Schedule “1” to this AIF. The text of the Audit and Risk Management Committee Charter is also available on Talison Lithium’s website at [www.talisonlithium.com](http://www.talisonlithium.com) and on its SEDAR profile located at [www.sedar.com](http://www.sedar.com).

### Composition of the Audit and Risk Management Committee

The Audit and Risk Management Committee has been structured to comply with the requirements of National Instrument 52-110 — *Audit Committees* (“**National Instrument 52-110**”). The Audit and Risk Management Committee is comprised of Messrs. Ronnie Beevor (Chair), David Shaw and Mark Smith, each of whom is independent and “financially literate”.

In addition to each member’s general business experience, the education and experience of each Audit and Risk Management Committee member that is relevant to the performance of his responsibilities as an Audit and Risk Management Committee member is as follows:

- *Ronnie Beevor (Lead Director)*: Mr. Beevor has been a Director of EMED Mining Public Limited (AIM:EMED; TSX:EMD), exploration and development company focusing on copper and gold in Europe, since December 2004 and Chairman since March 2007. Prior to joining EMED Mining Public Limited, Mr. Beevor was Head of Investment Banking at NM Rothschild & Sons (Australia) Limited from July 1986 to April 2002, and currently he is a Senior Advisor to Standard Chartered Gryphon Partners. Mr. Beevor has extensive experience in and involvement with the natural resources industry in Australia and internationally. Mr. Beevor has an Honours Degree in Philosophy, Politics and Economics from Oxford University and qualified as a Chartered Accountant with the Institute of Chartered Accountants in England and Wales in 1972. In addition to serving as Chairman of EMED Mining Public Limited, Mr. Beevor is also currently a Director of Ampella Mining Limited (ASX:AMX), Bannerman Resources Limited (ASX:BMN; TSX:BAN), Bullabulling Gold Limited (ASX:BAB; AIM:BGL) and Unity Mining Limited (ASX:UML).
- *David Shaw (Director)*: Mr. Shaw is a management consultant at Duckmanton Partners Ltd. Mr. Shaw has nearly three decades experience in the resource and finance industry with specific emphasis on technical and financial due diligence of resource projects. Mr. Shaw attained a Bachelor of Science - Geology from the University of Sheffield, England in 1973 and his Ph.D. in Structural Geology from Carleton University, Canada in 1980.
- *Mark Smith (Director)*: Mr. Smith is President, Chief Executive Officer and a director of Molycorp, Inc. Prior to joining Molycorp, Mr. Smith was the President and Chief Executive Officer of Chevron Mining, Inc., a wholly-owned subsidiary of Chevron Corporation, from August 2005 to September 2008. Prior to this, Mr. Smith was a Vice President where he managed the real estate, remediation, mining and carbon divisions of Unocal Corporation, an oil and gas production company, from May 1984 to August 2005. Mr. Smith has a Bachelor of Science Degree in Engineering from Colorado State University and a Juris Doctor, cum laude, from Western State University, College of Law.

Each of Messrs. Beevor, Smith and Shaw is independent within the meaning of National Instrument 52-110.

### **Policies and Procedures for the Engagement of Audit and Non-Audit Services**

The Audit and Risk Management Committee has not adopted specific policies and procedures for the engagement of non-audit services; however, the Audit and Risk Management Committee approves all non-audit services to be provided to Talison Lithium or its subsidiaries.

### **Auditor's Fees**

KPMG has served as Talison Minerals' auditor continuously for the past three years and auditor of Talison Lithium since incorporation. Fees billed by KPMG to the Talison Lithium Group in the financial years ended June 30, 2012 and June 30, 2011 are detailed below.

	<b>Fees for Year Ended June 30, 2012</b>	<b>Fees for Year Ended June 30, 2011</b>
	(A\$)	(A\$)
Audit fees <sup>(1)</sup> .....	211,700	195,000
Audit-related fees <sup>(2)</sup> .....	104,585	349,557
Tax fees <sup>(3)</sup> .....	287,882	254,688
All other fees.....	-	30,900
Total.....	<u>604,167</u>	<u>830,145</u>

Notes:

- (1) Audit fees billed were for professional services rendered for the audit and review of the financial statements of Talison Lithium and its subsidiaries.
- (2) Audit-related fees billed were for professional services rendered in connection with statutory and regulatory filings.
- (3) Tax fees billed were for tax compliance and tax advice.

### **LEGAL PROCEEDINGS, DISPUTES AND REGULATORY ACTIONS**

Management of Talison Lithium is not aware of any existing or contemplated legal proceedings or regulatory actions material to Talison Lithium, any of its subsidiaries or the Greenbushes Lithium Operations to which it is a party or to which its property is the subject.

### **INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS**

No director, executive officer or principal holder of securities or any associate or affiliate of the foregoing has, or has had, any material interest, directly or indirectly, in any transaction prior to the date hereof or any proposed transaction that has materially affected or is reasonably expected to materially affect Talison Lithium or any of its affiliates, except as disclosed elsewhere in this AIF. See "General Development of the Business — Three Year History — Pre-Arrangement Reorganization" and "General Development of the Business — Three Year History — Salares".

### **TRANSFER AGENT AND REGISTRAR**

The transfer agent and registrar for the Ordinary Shares in Canada is Computershare Investor Services Inc. at its principal offices in Toronto, Ontario. The transfer agent and registrar for the Ordinary Shares in Australia is Computershare Investor Services Pty Limited located at Perth, Western Australia.

## **MATERIAL CONTRACTS**

The following are the only material contracts, other than those contracts entered into in the ordinary course of business, which Talison Lithium entered into since the beginning of its financial year ended June 30, 2012 up to the date of this AIF or before its last financial year and which are still in effect.

The following agreements are referred to under the headings “General Development of the Business — Three Year History — Pre-Arrangement Reorganization”, “— The Greenbushes Lithium Operations” and “— Proposed Acquisition of Talison Lithium by Rockwood Holdings, Inc.”:

- (1) Lithium Business Sale Agreement dated as of November 13, 2009;
- (2) Reserved Mineral Rights Agreement dated as of November 13, 2009;
- (3) Shared Services Agreement dated as of November 13, 2009;
- (4) Crusher Licence Agreement dated as of November 13, 2009;
- (5) General Purpose Lease Secondary Sale Agreement dated as of November 13, 2009;
- (6) Arrangement Agreement dated August 12, 2010; and
- (7) Scheme of Implementation Agreement between Talison Lithium and Rockwood dated August 23, 2012.

Copies of the above material agreements may be inspected during ordinary office business hours at Talison Lithium’s principal executive offices located at Level 4, 37 St Georges Terrace, Perth, Western Australia, 6000, Australia or may be viewed on Talison Lithium’s SEDAR profile located at [www.sedar.com](http://www.sedar.com).

## **INTERESTS OF EXPERTS**

KPMG are Talison Lithium’s external auditors and have reported to the Shareholders on Talison Lithium’s comparative consolidated financial statements for the year ended June 30, 2012 in their report dated September 6, 2012.

Information of an economic (including economic analysis), scientific or technical nature regarding the Greenbushes Lithium Operations included in this AIF is based upon the Greenbushes Technical Report. Mr. Peter D. Ingham, Mr. Adrian Brett and Mr. Ian R. White of BDA and Mr. Scott Jackson of Quantitative Group are responsible for the Greenbushes Technical Report. Each of Messrs. Ingham, Brett, White and Jackson is a “qualified person” as such term is defined in National Instrument 43-101. Each of the authors of the Greenbushes Technical Report are independent of Talison Lithium within the meaning of National Instrument 43-101 and do not have an interest in the property of Talison Lithium. Scientific and technical information regarding the Greenbushes Lithium Operations arising since the date of the Greenbushes Technical Report has been prepared under the supervision of Andy Purvis, General Manager – Geology of Talison Lithium who is a “qualified person” as defined in National Instrument 43-101.

Each of the aforementioned firms or persons held less than one percent of the outstanding securities of the Talison Lithium or of any associate or affiliate of Talison Lithium when they prepared the Technical Report or following the preparation of Technical Report, as applicable.

None of the aforementioned firms or persons, nor any directors, officers or employees of such firms, are currently expected to be elected, appointed or employed as a director, officer or employee of Talison Lithium or of any associate or affiliate of Talison Lithium, other than Andy Purvis currently employed by Talison Lithium.

### **ADDITIONAL INFORMATION**

Additional information relating to Talison Lithium, including its financial statements and the MD&A as at and for the financial year ended June 30, 2012, may be found on Talison Lithium's SEDAR profile located at [www.sedar.com](http://www.sedar.com).

Additional information, including directors' and officers' remuneration and indebtedness, principal holders of Talison Lithium's securities and securities authorized for issuance under equity compensation plans, is contained in Talison Lithium's management information circular dated October 18, 2011.

## SCHEDULE 1 AUDIT COMMITTEE CHARTER

### 1. Introduction

The Audit and Risk Management Committee (the **Committee** or the **Audit and Risk Management Committee**) is a committee of the Board of directors (**Board**) of Talison Lithium Limited (**Talison** or the **Company**). The Committee shall oversee the accounting and financial reporting practices of the Company, the audits of the Company's financial statements, review the Company's systems of internal controls and risk management, administer the risk management policy, and exercise the responsibilities and duties set out in this Charter.

This Charter is established in compliance with Toronto Stock Exchange (**TSX**), Australian Securities Exchange (**ASX**) and other Canadian and Australian legal requirements.

### 2. Membership

#### 2.1 Number of members

The Committee shall be composed of at least three members of the Board. It should be of sufficient size to discharge its charter effectively.

#### 2.2 Independence of Members

Each member of the Committee should be independent. "Independent" shall have the meaning, as the context requires, given to it in the Canadian Securities Administrators' National Instrument 52-110 *Audit Committees* and, as and when the Company is listed on ASX, the ASX Corporate Governance Principles and Recommendations, as may be amended from time to time.

No director may serve as a member of the Committee if such director serves on the audit committee of more than two other public companies unless the Board determines that such simultaneous service would not impair the ability of such director to effectively serve on the Committee, and this determination is disclosed in Talison Lithium's management information circular.

#### 2.3 Chair

At the time of the annual appointment of the members of the Audit and Risk Management Committee, the Board shall appoint, on the recommendation of the Corporate Governance, Appointments and Remuneration Committee, a Chairman of the Audit and Risk Management Committee (the Chairman). The Chairman shall be a member of the Audit and Risk Management Committee, preside over all Audit and Risk Management Committee meetings, coordinate the Audit and Risk Management Committee's compliance with this Charter, work with management to develop the Audit and Risk Management Committee's annual work-plan and provide reports and recommendations of the Audit and Risk Management Committee to the Board.

#### 2.4 Technical expertise and financial literacy of members

The Audit and Risk Management Committee shall have sufficient technical expertise to carry out this charter effectively.

At the time of his or her appointment to the Committee, each member of the Committee shall have, or shall acquire within a reasonable time following appointment to the Committee, the ability to read and understand a set of financial statements that present a breadth and level of complexity of accounting

issues that are generally comparable to the breadth and complexity of the issues that can reasonably be expected to be raised by Talison Lithium's financial statements. At least one member of the Audit and Risk Management Committee shall have relevant qualifications and experience (that is, should be a qualified accountant or other finance professional with experience of financial and accounting matters) and some members must have an understanding of the industry in which Talison Lithium operates.

## **2.5 Term of members**

The members of the Committee shall be appointed annually by the Board, on the recommendation of the Corporate Governance, Appointments and Remuneration Committee, following the annual general meeting of shareholders. Each member of the Committee shall serve at the pleasure of the Board until the member resigns, is removed, or ceases to be a member of the Board. Unless a Chairman is elected by the Board, on the recommendation of the Corporate Governance, Appointments and Remuneration Committee, the members of the Committee may designate a Chairman by majority vote of the full Committee membership.

## **3. Meetings**

### **3.1 Number of meetings**

The Committee shall meet quarterly and may meet as many further times per year as necessary to carry out its responsibilities effectively.

### **3.2 Quorum**

No business may be transacted by the Committee at a meeting unless a quorum of the Committee is present. A majority of members of the Committee shall constitute a quorum.

### **3.3 Calling of meetings**

The Chairman, any member of the Audit and Risk Management Committee, the external auditors, the Chairman of the Board, or the Chief Executive Officer or the Chief Financial Officer may call a meeting of the Audit and Risk Management Committee by notifying Talison Lithium Secretary who will notify the members of the Audit and Risk Management Committee. The Chairman shall chair all Audit and Risk Management Committee meetings that he or she attends, and in the absence of the Chair, the members of the Audit and Risk Management Committee present may appoint a chair from their number for a meeting.

### **3.4 Minutes and reporting to the Board**

The Committee shall report to the Board. The Committee shall maintain minutes or other records of meetings and activities of the Committee in sufficient detail to convey the substance of all discussions held. Upon approval of the minutes by the Committee, the minutes shall be circulated to the members of the Board. The Chairman:

- (a) will report orally or electronically to the Board on the outcome of the Audit and Risk Management Committee Meeting prior to the Board approving the financial statements or other financial disclosure, and
- (b) may report orally to the Board on any matter in his or her view requiring the immediate attention of the Board.

### **3.5 Attendance of non-members**

The external auditors are entitled to attend and be heard at each Audit and Risk Management Committee meeting. In addition, the Committee may invite to a meeting any officers or employees of Talison Lithium, legal counsel, advisors and other persons whose attendance it considers necessary or desirable in order to carry out its responsibilities. At least once per year, the Committee shall meet with management in separate sessions to discuss any matters that the Committee or such individuals consider appropriate.

### **3.6 Meetings without management and auditors**

The Committee shall hold unscheduled or regularly scheduled meetings, or portions of meetings, at which management is not present, including with Talison Lithium's external auditors.

### **3.7 Procedure**

The procedures for calling, holding, conducting and adjourning meetings of the Committee shall be the same as those applicable to meetings of the Board.

### **3.8 Access to management and auditors**

The Committee shall have unrestricted access to Talison Lithium's management and employees, the books and records of Talison Lithium, and Talison Lithium's external auditors.

The Company's external auditors will also have direct access to the Committee at their own initiative.

## **4. Duties and responsibilities**

The Committee shall have the functions and responsibilities set out below as well as any other functions that are specifically delegated to the Committee by the Board and that the Board is authorized to delegate by applicable laws and regulations. In addition to these functions and responsibilities, the Committee shall perform the duties required of an audit committee by any exchange upon which securities of Talison Lithium are traded, or any governmental or regulatory body exercising authority over Talison Lithium, as are in effect from time to time (collectively, the **Applicable Requirements**).

### ***Financial Reports***

#### **(a) General**

The Audit and Risk Management Committee is responsible for overseeing the integrity of Talison Lithium's financial statements and financial disclosures and overseeing the independence of the external auditors. Management is responsible for the preparation, presentation and integrity of Talison Lithium's financial statements and financial disclosures and for the appropriateness of the accounting principles and the reporting policies used by Talison Lithium. The external auditors are responsible for auditing Talison Lithium's annual consolidated financial statements and for reviewing Talison Lithium's unaudited interim financial statements.

#### **(b) Reporting to shareholders**

The Audit and Risk Management Committee is responsible for reporting to shareholders on the carrying out of its responsibilities under this Charter and on other matters as required by applicable securities regulations.

(c) **Review of annual financial reports**

The Audit and Risk Management Committee shall review the annual consolidated audited financial statements of Talison Lithium, the external auditors' report thereon and the related management's discussion and analysis of Talison Lithium's financial condition and results of operation (**MD&A**). After completing its review, if advisable, the Audit and Risk Management Committee shall approve and recommend for Board approval the annual financial statements and the related MD&A.

(d) **Review of interim financial reports**

The Audit and Risk Management Committee shall review the interim consolidated financial statements of Talison Lithium, the external auditors' review report thereon and the related MD&A. After completing its review, if advisable, the Audit and Risk Management Committee shall approve and recommend for Board approval the interim financial statements and the related MD&A.

(e) **Review considerations**

In conducting its review of the annual financial statements or the interim financial statements, including related footnotes, MD&A, earnings releases and the annual information form, for the purpose of recommending approval by the Board of Directors prior to being released or filed with the regulators, the Audit and Risk Management Committee shall have the following responsibilities and report their fulfilment to the Board:

- (i) meet with management and the external auditors to discuss the financial statements and MD&A;
- (ii) discuss among itself, without management or the external auditors present, the information disclosed to the Committee;
- (iii) assess whether external reporting is consistent with Committee members' information and knowledge and is adequate for shareholders' needs;
- (iv) review the disclosures in the financial statements in light of the reliability and integrity of accounting policies and financial reporting and disclosure practices;
- (v) review the audit report or review report prepared by the external auditors;
- (vi) discuss with management, the external auditors and legal counsel, as requested, any litigation claim or other contingency that could have a material effect on the financial statements;
- (vii) review with management and the external auditors any serious issues with the audit;
- (viii) review the accounting policies followed and critical accounting and other significant estimates and judgements underlying the financial statements as presented by management;
- (ix) review the assurances received from both financial management and the external auditors that the financial statements are fairly presented in conformity with applicable accounting standards in all material respects;

- (x) review any material effects of regulatory accounting initiatives or off-balance sheet structures on the financial statements as presented by management, including requirements relating to complex or unusual transactions, significant changes to accounting principles and alternative treatments under applicable accounting standards;
- (xi) review any material changes in accounting policies and any significant changes in accounting practices and their impact on the financial statements as presented by management;
- (xii) review management's report on the effectiveness of internal controls over financial reporting and assess the management processes supporting external reporting;
- (xiii) review the factors identified by management as factors that may affect future financial results;
- (xiv) review results of Talison Lithium's audit committee whistleblower policy;
- (xv) review any other matters, related to the financial statements, that are brought forward by the external auditors, management or which are required to be communicated to the Audit and Risk Management Committee under accounting policies, auditing standards or Applicable Requirements; and
- (xvi) review with the external auditors any audit problems or difficulties and management's response and resolving disagreements between management and the auditors.

(f) **Approval of other financial disclosures**

The Audit and Risk Management Committee shall review and, if advisable, approve and recommend for Board approval financial disclosure in a prospectus or other securities offering document of the Company, press releases disclosing, or based upon, financial results of the Company and any other material financial disclosure, including financial guidance provided to analysts, rating agencies or otherwise publicly disseminated. The Audit and Risk Management Committee shall review and, if advisable, approve and recommend for Board approval financial disclosure or results required to be released, filed or lodged under TSX or, as and when applicable, ASX rules or any other Applicable Requirements.

***External auditors***

(a) **General**

The Audit and Risk Management Committee shall be responsible for oversight and evaluation of the work of the external auditors, including the external auditors' work in preparing or issuing an audit report, performing other audit, review or attest services or any other related work.

(b) **Appointment and compensation**

Subject to the powers of the Board and the shareholders under Talison Lithium's constitution and under the *Corporations Act 2001* (Cth), the Audit and Risk Management Committee shall review and, if advisable, select and recommend for shareholder approval the appointment of, or if necessary the removal of, the external auditors. The Audit and Risk Management Committee shall have ultimate authority to approve all audit engagement terms and fees, including the external auditors' audit plan.

The Company shall provide appropriate funding, as determined by the Audit and Risk Management Committee, for payment of: (i) compensation to the external auditors and any other public accounting firm engaged to prepare or issue an audit report or perform other audit, review or attestation services for Talison Lithium; (ii) compensation of any advisers retained by the Audit and Risk Management Committee; and (iii) ordinary administrative expenses of the Audit and Risk Management Committee that are necessary or appropriate in carrying out its duties.

(c) **Reporting to Audit and Risk Management Committee**

The Audit and Risk Management Committee shall ensure that the external auditors report directly to the Audit and Risk Management Committee and are made accountable to the Board and the Audit and Risk Management Committee, as representatives of the shareholders to whom the auditors are ultimately responsible.

(d) **Resolution of disagreements**

The Audit and Risk Management Committee shall resolve any disagreements between management and the external auditors as to financial reporting matters brought to its attention.

(e) **Discussions with external auditors**

At least annually, the Audit and Risk Management Committee shall discuss with the external auditors such matters as are required by applicable auditing standards to be discussed by the external auditors with the Audit and Risk Management Committee.

(f) **Audit plan**

At least annually, the Audit and Risk Management Committee shall review a summary of the external auditors' proposed annual audit plan and the audit procedures to be used. The Audit and Risk Management Committee shall consider and review with the external auditors any material changes to the scope of the plan and/or the audit procedures to be used.

(g) **Review reports**

The Audit and Risk Management Committee shall review a report prepared by the external auditors, and delivered in a timely manner, in respect of each of the interim financial statements of Talison Lithium.

In connection with any annual audited financial statements, the Audit and Risk Management Committee shall obtain a report from the external auditor describing all critical accounting policies and practices used, all alternative treatments within applicable accounting standards for policies and practices related to material items that have been discussed with management, ramifications of the use of such alternative disclosures and treatments, and the treatment preferred by the external auditors, and any material written communications between the external auditors and management (such as any "management" letter or schedule of unadjusted differences).

At least annually, the Audit and Risk Management Committee shall obtain and review a report prepared by the external auditors describing:

- (i) the auditors' internal quality-control procedures;

- (ii) any material issues raised by the most recent internal quality-control review, or peer review of the auditors, or by any inquiry of investigation by governmental or professional authorities, within the preceding five years, respecting one or more independent audits carried out by the auditors, and any steps taken to deal with any such issues; and
- (iii) the auditors' independence.

(h) **Independence of external auditors**

At least annually, and before the external auditors issue their report on the annual financial statements, the Audit and Risk Management Committee shall obtain from the external auditors a formal written statement describing all relationships between the external auditors and Talison Lithium; discuss with the external auditors any disclosed relationships or services that may affect the objectivity and independence of the external auditors; and obtain written confirmation from the external auditors that they are objective and independent within the meaning of the applicable Rules of Professional Conduct/Code of Ethics adopted by the provincial institute or order of chartered accountants to which the external auditors belong and other Applicable Requirements. The Audit and Risk Management Committee shall take appropriate action to oversee the independence of the external auditors.

(i) **Evaluation and rotation of lead partner**

At least annually, the Audit and Risk Management Committee shall review the qualifications and performance of the lead partner(s) of the external auditors and determine whether it is appropriate to adopt or continue a policy of rotating lead partners of the external auditors.

(j) **Requirement for pre-approval of non-audit services**

The Audit and Risk Management Committee shall approve in advance any retainer of the external auditors to perform any non-audit service to Talison Lithium that it deems advisable in accordance with Applicable Requirements and Board approved policies and procedures. The Audit and Risk Management Committee must be satisfied that provision of the services will not compromise the auditor's independence. The Audit and Risk Management Committee may delegate pre-approval authority to a member of the Audit and Risk Management Committee. The decisions of any member of the Audit and Risk Management Committee to whom this authority has been delegated must be presented to the full Audit and Risk Management Committee at its next scheduled Audit and Risk Management Committee meeting.

The Audit and Risk Management Committee shall ensure that the external auditors are prohibited from providing the following non-audit services and shall determine which other non-audit services the external auditors are prohibited from providing:

- bookkeeping or other services related to the accounting records or financial statements of Talison Lithium;
- financial information systems design and implementation;
- appraisal or valuation services, fairness opinions or contribution-in-kind reports;
- actuarial services;
- internal audit outsourcing services;

- management functions or human resources consulting;
- broker or dealer, investment advisor or banking services;
- legal or expert services unrelated to the audit; and
- any other services which a relevant regulatory authority determines to be impermissible.

(k) **Approval of hiring policies**

The Audit and Risk Management Committee shall review and approve Talison Lithium's hiring policies regarding partners, employees and former partners and employees of the present and former external auditors of Talison Lithium.

(l) **Financial executives**

The Committee shall review and discuss with management the appointment of key financial executives and recommend qualified candidates to the Board, as appropriate.

***Internal Controls***

(a) **General**

The Audit and Risk Management Committee shall review Talison Lithium's system of internal controls.

(b) **Establishment, review and approval**

The Audit and Risk Management Committee shall require management to implement and maintain appropriate systems of internal controls in accordance with Applicable Requirements, including internal controls over financial reporting and disclosure and to review, evaluate and approve these procedures. At least annually, the Audit and Risk Management Committee shall consider and review with management and the external auditors:

- (i) the effectiveness of, or weaknesses or deficiencies in: the design or operation of Talison Lithium's internal controls (including computerized information system controls and security); the overall control environment for managing business risks; and accounting, financial and disclosure controls (including, without limitation, controls over financial reporting), non-financial controls, and legal and regulatory controls and the impact of any identified weaknesses in internal controls on management's conclusions;
- (ii) the adequacy of procedures that are in place for the review of Talison Lithium's public disclosure or financial information extracted or derived from Talison Lithium's financial statements;
- (iii) the adequacy of procedures that are in place to ensure that management provides the Committee with timely analysis of significant issues and practices relating to accounting principles and policies, financial reporting and internal control over financial reporting;
- (iv) any significant changes in internal controls over financial reporting that are disclosed, or considered for disclosure, including those in Talison Lithium's periodic regulatory filings;

- (v) any material issues raised by any inquiry or investigation by Talison Lithium's regulators;
- (vi) Talison Lithium's fraud prevention and detection program, including deficiencies in internal controls that may impact the integrity of financial information, or may expose Talison Lithium to other significant internal or external fraud losses and the extent of those losses and any disciplinary action in respect of fraud taken against management or other employees who have a significant role in financial reporting;
- (vii) hiring policies for partners, employees or former partners and former employees of the external auditors;
- (viii) any related significant issues and recommendations of the external auditors together with management's responses thereto, including the timetable for implementation of recommendations to correct weaknesses in internal controls over financial reporting and disclosure controls;
- (ix) the detection of illegal acts;
- (x) the external auditors' responsibilities under applicable accounting standards;
- (xi) any restrictions on the scope of the external audit;
- (xii) any significant accounting policies;
- (xiii) management judgment and accounting estimates;
- (xiv) any accounting adjustments arising from the audit that were noted or proposed by the external auditors but were passed (as immaterial or otherwise);
- (xv) the responsibility of the external auditors for other information in documents containing audited financial statements;
- (xvi) disagreements and difficulties encountered with management in performing the audit;
- (xvii) consultation by management with other accountants;
- (xviii) major issues discussed with management prior to retention of the external auditors;
- (xix) the external auditor's judgment about the quality of the entity's accounting principles; and
- (xx) the responsibilities, budget and staffing of Talison Lithium's internal audit function.

***Risk management responsibilities***

The Audit and Risk Management Committee must establish and review Talison Lithium's systems of risk oversight and management and report the results to the Board.

The Committee must establish risk management systems in accordance with the Risk Management Policy.

### ***Compliance responsibilities***

The Audit and Risk Management Committee shall review reports from Talison Lithium's Corporate Secretary and other management members on legal or compliance matters that may have a material impact on Talison Lithium, the effectiveness of Talison Lithium's compliance policies and any material communications received from regulators. The Audit and Risk Management Committee shall review management's evaluation of and representations relating to compliance with specific applicable law and guidance, and management's plans to remediate any deficiencies identified.

### ***Disclosure responsibilities***

The Audit and Risk Management Committee shall prepare, review and approve any audit committee disclosures required by Applicable Requirements in Talison Lithium's disclosure documents.

### ***Audit and Risk Management Committee whistleblower procedures***

The Audit and Risk Management Committee shall establish procedures for:

- (a) the receipt, retention, and treatment of complaints received by Talison Lithium regarding accounting, internal accounting controls, or auditing matters; and
- (b) the confidential, anonymous submission by employees of Talison Lithium of concerns regarding questionable accounting or auditing matters.

Any such complaints or concerns that are received shall be reviewed by the Audit and Risk Management Committee and, if the Audit and Risk Management Committee determines that the matter requires further investigation, it will direct the Chair of the Audit and Risk Management Committee to engage outside advisors, as necessary or appropriate, to investigate the matter and will work with management and legal counsel to reach a satisfactory conclusion.

## **5. Delegation**

The Audit and Risk Management Committee may, to the extent permissible by Applicable Requirements, designate a sub-committee to review any matter within this Charter as the Audit and Risk Management Committee deems appropriate.

## **6. No rights created**

This Charter is a statement of broad policies and is intended as a component of the flexible governance framework within which the Audit and Risk Management Committee, functions. While it should be interpreted in the context of all applicable laws, regulations and listing requirements, as well as in the context of Talison Lithium's constitution, it is not intended to establish any legally binding obligations.

Adopted: November 10, 2009