

**1 March 2018**

## **ASX ANNOUNCEMENT**

Company Announcements Platform

Australian Securities Exchange

Level 4

20 Bridge Street

SYDNEY NSW 2000

Dear Sir/Madam

By Electronic Lodgement

### **NOTICE UNDER SECTION 708A(12C)(e) OF THE CORPORATIONS ACT 2001**

This cleansing notice (**Cleansing Notice**) is given by Lithium Australia NL (ACN 126 129 413) (**Company**) under Section 708A(12C)(e) of the Corporations Act 2001 (Cth) (**Corporations Act**) as amended by *ASIC Corporations (Sale Offers: Securities Issued on Conversion of Convertible Notes) Instrument 2016/82*.

The Company hereby confirms that:

- (a) the convertible notes were issued without disclosure to investors under Part 6D.2 of the Corporations Act; and
- (b) this Cleansing Notice has been given in accordance with section 708A(12C)(e) of the Corporations Act;

The issue of this Cleansing Notice enables the fully paid ordinary shares in the capital of the Company (**Shares**) issued on the conversion of the convertible notes issued by the Company on the terms described below, to be on-sold to retail investors without further disclosure.

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### **1. BACKGROUND**

As announced on 1 March 2018 the Company has entered into a deed in relation to a convertible note facility with Arena Investors, LP (**Noteholder**) with a face value of \$21,000,000 (**Facility**) (**Convertible Note Deed**).

The Company will shortly receive under the Facility an amount of \$3,045,000 in consideration for the issue of the first tranche Convertible Notes (**First Tranche**) with a face value of \$3,500,000 and, subject to approval by shareholders of the Company (**Shareholders**), 8,484,848 options over Company shares (assuming an indicative closing price of Company shares traded on ASX on the last day before the issue date of \$0.165 based on today's closing price).

The issue of further tranches of Convertible Notes and Options (**Follow On Tranches**) under the Facility remains subject to Shareholder approval.

The Company will be convening a meeting of its Shareholders shortly to seek approval for the Facility and the issue and convertibility of the first two tranches of Convertible Notes and associated options over Company shares (**Options**) under the Facility. Shareholder approval for subsequent tranches and associated Options will be sought at separate Shareholder meetings at the appropriate time during the term of the Facility.

The Convertible Notes are to be issued in six tranches in which the Company will receive a total of \$18,270,000:

- (a) First Tranche – \$3,045,000 (having a principal amount of \$3,500,000) has been received and all conditions to this issue have been met; and
- (b) Follow On Tranches – five conditional tranches of Convertible Notes, the first Follow On Tranche of \$4,350,000 (having a principal amount of \$5,000,000) and each subsequent Follow On Tranche (of which there are four) being of \$2,718,750 (each having a principal amount of \$3,125,000), to be issued by the Company to the Noteholder on the applicable issue date, being after the Company has given the Noteholder no less than 10 days' notice in advance of the proposed issue date of such Follow On Tranche which notice may not be given:
  - (i) in respect of the Second Tranche, in such time as to permit the issue of the Second Tranche and the Second Tranche Options within two Business Days after the Company meeting at which Shareholder approval for the issue of that Second Tranche was or will be obtained (being within 45 days of the date of the Deed);
  - (ii) in respect of the Third Tranche and Fourth Tranche, no earlier than four months after the issue date for the Second Tranche, unless otherwise agreed by the Company and the Noteholder. If the contemplated waiver (see below) is not obtained the timing of the delivery by the Company of the issue notice for the Fourth Tranche must allow for the issue of that Tranche at the last possible date of the 3 month period following the date of Shareholder approval prescribed under Listing Rule 7.3.2; and
  - (iii) in respect of the Fifth Tranche and Sixth Tranche, no earlier than four months after the issue date for the Fourth Tranche, unless otherwise agreed by the Company and the Noteholder. If the contemplated waiver (see below) is not obtained the timing of the delivery by the Company of the issue notice for the Sixth Tranche must allow for the issue of that Tranche at the last possible date of the 3 month period following the date of Shareholder approval prescribed under Listing Rule 7.3.2

The Company will apply to the ASX for a waiver (or waivers, as required) from the 3 month period prescribed under Listing Rule 7.3.2 to allow for the Fourth Tranche and the Fifth Tranche respectively to be issued 4 months after the date of the relevant Company shareholder meeting. If that waiver is granted, then, subject to the delivery by the Company of the relevant issue notice, the Fourth Tranche and the Sixth Tranche should be respectively issued at the last possible date of the respective 4 month period following the relevant date of Shareholder approval.

Each Convertible Note will be issued with a face value of \$1.00. Each tranche of Convertible Notes has a 12 month term.

Should the Company fail to draw any portion or all of the Follow On Tranches prior to the 12 month anniversary of the issue date of the First Tranche, or to obtain any required Shareholder approvals for the transaction, the Company must pay the Noteholder the

relevant Termination Payment (defined in Section 4(l) of this Cleansing Notice), in addition to any other obligation of the Company under the Convertible Note Deed, and the Noteholder's obligation to subscribe for further Convertible Notes under the Facility lapses.

The Company must pay in cash to the Noteholder a transaction fee in aggregate equal to 2% of the relevant principal amount on a pro rata basis upon each draw down of the First Tranche and each of the Follow On Tranches.

A summary of the rights, privileges and restrictions attaching to the Convertible Notes is set out in Section 4 of this Cleansing Notice.

The Directors consider that the Facility is in the best interests of Shareholders as it provides funding for the commitment for the development of the large-scale pilot plant (LSPP), including front-end engineering and design, procurement of long lead items and general working capital.

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## **2.**

### **CONTENTS OF THIS CLEANSING NOTICE**

This Cleansing Notice sets out the following:

- (a) in relation to the Convertible Notes:
  - (i) the effect of the issue on the Company;
  - (ii) a summary of the rights and liabilities attaching to the Convertible Notes; and
  - (iii) a summary of the rights and liabilities attaching to the Shares that will be issued on the conversion of the Convertible Notes; and
- (b) any information that:
  - (i) has been excluded from continuous disclosure notices in accordance with the ASX Listing Rules; and
  - (ii) is information that investors and their professional advisors would reasonably require for the purpose of making an informed assessment of:
    - (A) the assets and liabilities, financial position and performance, profits and losses and prospects of the Company; and
    - (B) the rights and liabilities attaching to Shares; and
  - (iii) other information relating to the Company's status as a disclosing entity.

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## **3. THE EFFECT OF THE ISSUE ON THE STRUCTURE OF THE COMPANY**

### **3.1 Effect of the issue on the Company**

The principal effect of the issue of the Convertible Notes on the Company will be to:

- (a) increase the Company's cash reserves by \$18,270,000 (before costs associated with the Convertible Note issue);
- (b) increase the number of unquoted unsecured Convertible Notes on issue from 0 to 21,000,000, assuming the full draw down under the Facility;
- (c) give rise to the Company having a liability for the amount of the face value of the Facility;

- (d) if the Convertible Notes or accrued interest are converted, either wholly or in part to Shares, increase the number of Shares on issue as a consequence of the issue of Shares on such conversion; and
- (e) increase the number of Options on issue as a consequence of the requirement to issue new Options with each tranche of Convertible Notes.

### 3.2 Pro Forma Consolidated Statement of Financial Position As at 31 January 2018 taking into account the issue of Convertible Notes

- (a) Set out in Annexure A is a pro forma consolidated Statement of Financial Position as at 31 January 2018 for the Company based on the unaudited 31 January 2018 Management Accounts adjusted to reflect the proposed Convertible Notes issue and has been prepared on the basis of the accounting policies normally adopted by the Company.
- (b) The pro forma financial information is presented in an abbreviated form in so far as it does not include all of the disclosures required by Australian Accounting Standards applicable to annual financial statements. The pro forma financial information is not audited. The classification of the allocations between debt and equity for the Convertible Notes may change in the future.

### 3.3 Potential effect on capital structure

- (a) As at the date of this Cleansing Notice, the total number of issued Shares is 409,652,317.
- (b) The capital structure of the Company will be affected by the conversion of the Convertible Notes by the Noteholder which will result in additional Shares being issued.
- (c) Subject to limits on the conversion under the Convertible Note Deed, the Convertible Notes can be converted at any time after their issue and prior to the date of maturity (being 12 months from the date of their respective issues (**Maturity Date**)) at the request of the Noteholder, or they will automatically be redeemed on the Maturity Date.
- (d) If the full amount of the Facility is drawn down and the Noteholder converts the entire Facility, then based on an average conversion price of \$0.165 per new Share (being the last closing price prior to announcement of the Facility) and assuming the full face value of \$21,000,000 is converted (**Assumptions**), 127,272,727 new Shares would be issued. The actual effect of the share capital of the Company will depend on what percentage of the Convertible Notes is actually converted and the price at which the conversion occurs.
- (e) 8,484,848 Options (assuming a Closing Price of Shares as traded on ASX and published by Bloomberg ending on the last trading day before the date of issue of the Convertible Notes of \$0.165) will be issued, subject to Shareholder approval, in relation to the First Tranche.
- (f) Options will also be issued for each of the Follow On Tranches. The number of Options to be issued in each tranche will be equal to 40% of the face value of the tranche (\$2,000,000 for the first Follow On Tranche and \$1,250,000 for each other Follow On Tranche) divided by the 5 trading day volume weighted average price (**VWAP**) of Shares as traded on ASX and published on Bloomberg ending on the last trading day before the date of issue of the Convertible Notes of the respective tranche (**5 Trading Day VWAP**). Assuming the 5 Trading Day VWAP is \$0.165 a total of 42,424,242 Options will be issued under the Follow On Tranches.
- (g) The effect on the issued share capital of the Company on conversion of all the Convertible Notes and the issue and exercise of all Options issued under the Facility is set out in the table below based on the Assumptions. This does not account for any interest payable

under the Facility being converted into Shares.

<b>Shares</b>	<b>Number</b>
Shares on issue prior to agreement of the Facility	409,652,317
Shares issued on the date of this Cleansing Notice	-
Shares issued upon conversion of the entire Facility <sup>1</sup>	127,272,727
Shares issued assuming the exercise of all Options issued under the Facility <sup>1</sup>	50,909,091
<b>Total Shares on issue following conversion of the entire Facility</b>	<b>587,834,135</b>

<b>Options</b>	<b>Number</b>
Options on issue prior to agreement of the Facility <sup>2</sup>	42,783,332
Options issued under the Facility	50,909,091
<b>Total Options on issue following conversion of the entire Facility</b>	<b>92,693,423</b>

<b>Performance Rights</b>	<b>Number</b>
Performance Rights on issue prior to agreement of the Facility <sup>2</sup>	25,340,000
Performance Rights issued under the Facility	Nil
<b>Total Performance Rights on issue following conversion of the entire Facility</b>	<b>25,340,000</b>

**Notes:**

- 1 The Noteholder has agreed not to convert any Convertible Notes, exercise any Options or receive Shares under the Equity Payment Option (defined in Section 4(g) of this Cleansing Notice), which would result in the Noteholder holding a relevant interest in more than 19.99% of the issued Shares (or such other limit prescribed by section 606(1)(c)(i) of the Corporations Act from time to time), except to the extent permitted under section 611 of the Corporations Act. Based on the Shares on issue at the date of this Cleansing Notice the maximum number of Shares the Noteholder can have a relevant interest in is 81,520,811 Shares.
- 2 Details of exercise prices expiry dates of the Options and performance milestone and expiry for the Performance Rights are set out in the Company's last Appendix 3B lodged with ASX.

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#### 4. RIGHTS AND LIABILITIES ATTACHING TO THE CONVERTIBLE NOTES UNDER THE FACILITY

The following is a broad summary of the rights, privileges and restrictions attaching to the Convertible Notes. The summary is not exhaustive and does not constitute a definitive statement of the rights and liabilities of the Noteholder.

(a) Term

Each tranche of Convertible Notes has a term of 12 months.

Should the Company fail to satisfy the conditions precedent to draw down, deliver an issue notice within the relevant periods or fails to draw any portion or all of the Follow On Tranches prior to the 1 year anniversary of the issue date of the First Tranche, the Company must pay the Noteholder the relevant Termination Payment (defined in Section (I) of this Cleansing Notice), in addition to any other obligation of the Company under the Convertible Note Deed, and the Noteholder's obligation to subscribe for further Convertible Notes under the Facility lapses.

(b) Face Value

The Facility has a total face value of \$21,000,000.

Each Convertible Note will be issued with a face value of \$1.00.

(c) Purchase Price

The purchase price is 87% of the Face Value and is therefore as follows:

- (i) the First Tranche has an aggregate face value of \$3,500,000 and therefore a purchase price of \$3,045,000;
- (ii) the first Follow On Tranche has an aggregate face value of \$5,000,000 and therefore a purchase price of \$4,350,000; and
- (iii) the remaining Follow On Tranches each have an aggregate face value of \$3,125,000 and therefore a purchase price of \$2,718,750.

Total purchase price being \$18,270,000 (**Purchase Price**).

(d) Conditions to draw down of First Tranche and Follow On Tranches

The drawdown of the First Tranche is subject to the satisfaction of the following conditions precedent:

- (i) evidence that the Company has received all necessary Board approvals to enter into the Convertible Note Deed and the transactions contemplated by it and comply with their obligations under it;
- (ii) the Company confirming in writing, signed by 2 directors that no Event of Default and no event or circumstance which with the passage of time or the fulfilment of any condition is reasonably likely to become an Event of Default is continuing unremedied or would occur as a result of the issue by the Company of any of the Tranches;
- (iii) the market capitalisation of the Company being at least \$30 million;

- (iv) the Company confirming in writing, signed by 2 directors, that no Material Adverse Change and no Change of Control has occurred and no event or circumstance which with the passage of time or the fulfilment of any condition is reasonably likely to become a Material Adverse Change or Change of Control is continuing unremedied or would occur as a result of the issue by the Company of any of the Tranches;
- (v) evidence that the Company has sufficient capacity to issue the First Tranche, and all Shares on conversion of the First Tranche, or has obtained Company shareholder approval in accordance with the Listing Rules for the issue of the First Tranche and all Shares on conversion of the First Tranche;
- (vi) evidence that the Company has obtained all necessary regulatory approvals, including under the Listing Rules, for the transactions under this Deed;
- (vii) the Noteholder has completed due diligence to its satisfaction; and
- (viii) there is no evidence that the Company does not operate in the normal course of its business

The drawdown of the Follow On Tranches is subject to the satisfaction of the following conditions precedent:

- (ix) evidence that the Company has obtained Company shareholder approval in accordance with the Listing Rules for the issue of the Follow On Tranche and relevant associated Options with all Tranches, and all Shares on conversion of the relevant Follow On Tranche and exercise of the relevant Options);
- (x) the market capitalisation of the Company being at least \$30 million;
- (xi) the Company confirming at the time that no Event of Default (as defined in Section 4(l) of this Cleansing Notice) and no event or circumstance which with the passage of time or the fulfilment of any condition is reasonably likely to become an Event of Default is continuing unremedied or would occur as a result of the issue by the Company of the relevant Tranche; and
- (xii) the Company confirming at the time that no Material Adverse Change or Change of Control (as defined in the Convertible Note Deed) has occurred and no event or circumstance which with the passage of time or the fulfilment of any condition is reasonably likely to become a Material Adverse Change or Change of Control is continuing unremedied or would occur as a result of the issue by the Company of any of the relevant Tranche or Options associated with the relevant Tranche.

(e) Issue dates

The Convertible Notes will be issued as follows:

- (i) First Tranche – on or about 1 March 2018;
- (ii) Follow On Tranches – after the Company has given the Noteholder no less than 10 days' notice in advance of the proposed issue date of such Follow On Tranche which notice may not be given:
  - (A) in respect of the Second Tranche, in such time as to permit the issue of the

Second Tranche and the Second Tranche Options within two Business Days after the Company meeting at which shareholder approval for the issue of that Second Tranche was or will be obtained (being within 45 days of the date of the Deed); and

- (B) in respect of the Third Tranche, Fourth Tranche, Fifth Tranche and Sixth Tranche, no earlier than four months after the issue date for the Second Tranche, unless otherwise agreed by the Company and the Noteholder.

(f) Options

- (i) Subject to Shareholder approval, upon issue of each tranche of Convertible Notes the Noteholder is entitled to an issue of Options calculated as follows:

- (A) In respect of the First Tranche Options

*Principal Amount of Convertible Notes issued x 40%*

*Last closing price of Shares before the issue date of the First Tranche*

- (B) In respect of the Options associated with the Follow On Tranches

*Principal Amount of Convertible Notes issued x 40%*

*5 trading day VWAP ending on the last trading day before the date of issue of the relevant Follow on Tranche*

- (ii) The exercise price of the Options will be 130% of the lower of the average VWAP of the Company's Shares for the 20 consecutive trading days prior to:

- (A) the relevant issue date of the Options; or

- (B) the date of the issue notice given for the relevant Follow On Tranche.

- (iii) The expiry date of the Options will be 3 years from the date of issue.

- (iv) The Company may, subject to the receipt of Shareholder approval (if required), instead of issuing Shares on exercise of an Option, pay cash to the Noteholder in immediately available funds within 2 business days of the date of receiving that Shareholder approval, calculated as follows:

*Cash = N x closing price on the last trading day before the date of the notice of exercise.*

*N = number of Options being exercised*

- (v) The Options are otherwise issued on the terms and conditions set out in Section 5 of this Cleansing Notice.

(g) Interest

The Company must pay interest at a rate equal to 2% per annum on accruing daily balances on 30 June and 31 December in each year and on the Maturity Date. The interest can be paid in cash or, at the election of the Company, by issuing Shares to the Noteholder (**Equity Payment Option**).

The Company must pay an additional 2% interest per annum on amounts payable to the Noteholder which are not paid in full when due, accruing on daily balances of the outstanding amount and capitalised on the last business day of each month if still not repaid (**Default Interest**). The Default Interest can also be paid in cash or at the election of the Company pursuant to the Equity Payment Option.

In order to exercise the Equity Payment Option:

- (i) the closing Company share price on the business day immediately preceding the exercise date must be at least 90% of the VWAP of the Company' shares for the period of 5 consecutive trading days ending on the day before the exercise date of the Equity Payment Option;
- (ii) the Shares must be freely tradeable;
- (iii) the Company must have received all requisite Shareholder approvals;
- (iv) the Noteholder and its associates must not hold more than a 19.99% interest in the Shares if the Equity Payment Option is elected; and
- (v) the Noteholder must not breach the following restrictions:
  - (A) The Noteholder agrees not to convert any portion of the Convertible Notes before the 30 day anniversary of the date of the Deed, provided that if an Event of Default (defined in Section 4(l) of this Cleansing Notice) has occurred at any time before that date, the Noteholder is free to convert any number of those Convertible Notes without restriction.
  - (B) The Noteholder also agrees not to convert any Convertible Notes, exercise any Options or receive any Shares under the Equity Payment Option, which would result in the Noteholder holding a relevant interest in more than 19.99% of the issued Shares (or such other limit prescribed by section 606(1)(c)(i) of the Corporations Act from time to time),

(together the **Conversion Restrictions**).

In the event the Equity Payment Option is exercised, the issue price of each Share is taken to be the lesser of:

- (i) an amount equal to 93% of the VWAP of Shares for the trading day immediately preceding the exercise of the Equity Payment Option; and
- (ii) a price equal to 150% of the average VWAP of Shares for the 20 trading days prior to Closing.

(h) Security

The Convertible Notes are unsecured.

(i) Conversion

Subject to the Conversion Restrictions, the Noteholder may convert Convertible Notes into Shares and interest on those Convertible Notes as at the conversion date at the conversion price, being the higher of:

- (i) the average of the VWAP over any 3 trading days selected by the Noteholder over the period of 20 trading days ending on the last trading day before the Conversion Date (being the date on which the Noteholder delivers a conversion notice to the Company); and
- (ii) the floor price, which is fixed at \$0.10 in relation to the First Tranche and is not adjustable in relation to the First Tranche, and which for each Follow On Tranche is:

\$0.10 unless

a Floor Price Adjustment Event (as set out below) occurs, in which case it is the Adjusted Floor Price being a price equal to 90% of the average VWAP of the Company's shares for the period of 10 consecutive trading days ending on the day before the issue date of the relevant Follow On tranche.

**(Conversion Price).**

The number of Shares issued will be equal to the aggregate principal amount of the relevant Convertible Notes divided by the Conversion Price. Alternatively, the Company can satisfy this obligation by paying to the Noteholder the equivalent amount in cash.

**A Floor Price Adjustment Event** means:

- (i) any consecutive period of 30 trading days in which the VWAP on each trading day in that period is below the floor price; and
- (ii) any issue of Shares by the Company at a price less than \$0.10, including (for the avoidance of doubt) any issue of Shares pursuant to an Excluded Transaction (as that term is defined below);

(j) **Protective Provisions**

Upon the occurrence of certain events, including a bonus issue of Shares, a rights issue, a private placement of Shares, a reorganisation or reconstruction of capital, a dividend, or issues of Shares at a discount to market (other than in respect of an Excluded Transaction), the Conversion Price that is not variable may be altered. An Excluded Transaction means any or all of the following:

- (a) the acquisition by the Company of up to 100% of the issued capital in Very Small Particle Company Limited and the issue of Company securities in connection with that acquisition;
- (b) the completion by the Company of a security purchase plan in accordance with the Listing Rules and Corporations Act and the issue of Company securities in connection with that plan;
- (c) subject to obtaining the Noteholder's prior written consent, Shares issued to or at the direction of Acuity Capital Investment Management Pty Ltd or its related entity;
- (d) issues of Company securities to the Company's directors, employees, consultants and contractors;
- (e) issues of Company securities on the exercise or conversion of Company options, performance rights and performance rights options;
- (f) the divestment of certain designated exploration assets of the Company if the Company ensures such sale is carried out for the best interests of Company's shareholders at no less than arm's length terms and at not less than market value.;
- (g) any lending or factoring agreement entered into by the Company in connection with any Research and Development Tax Incentive offset receivable by, or rebateable to, the Company from a government agency of Australia, and any funds received by the Company or payments made by the Company under any such agreement;
- (h) the acquisition by the Company of up to 100% of the issued capital in TIN International AG and the issue of Company securities in connection with that acquisition; and

(i) a bonus issue of partly paid shares in the capital of the Company;

(k) Redemption and Repayment

A Convertible Note must be redeemed on the Maturity Date if the note has not been converted into Shares before the Maturity Date.

The Company will pay to a Noteholder an amount equal to the outstanding principal amount plus accrued but unpaid interest.

The payment will be made in immediately available funds, without deduction, in Australian dollars.

The Company is unable to voluntarily redeem a Convertible Note before the Maturity Date.

(l) Events of Default

The Events of Default are as set out in Annexure B to this Cleansing Notice.

If an Event of Default occurs and continues unremedied for a period of 5 business days, the Noteholder may declare at any time by notice to the Company that:

(i) the entire outstanding principal amount, together with accrued interest, and all other amounts accrued or outstanding under the Convertible Note Deed or the Convertible Notes, is either:

(A) payable on demand; or

(B) immediately due for payment and payable,

and the Company must redeem all the Convertible Notes on issue and must pay the Termination Payment to the Noteholder;

(ii) the Noteholder's obligations specified in the notice are terminated; and/or

(iii) the Noteholder may exercise any or all of its rights, remedies, powers or discretions under the Convertible Note Deed.

**Termination Payment** means an amount equal to 15% of the total principal amount of all Convertible Notes which have not been issued under any Tranche and for which Company shareholder approval has been obtained .

(m) Transferability

The Convertible Notes are transferable, subject to the Company's consent and compliance at all times to the Corporations Act and any applicable law.

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## 5. RIGHTS AND LIABILITIES ATTACHING TO OPTIONS ISSUED UNDER THE FACILITY

(a) Subject to paragraph 5(g), each Option entitles the holder to one fully paid ordinary share (**Share**) in the capital of the Company.

(b) The Options may be exercised at any time prior to 5.00pm (Australian WST) on the date that is 36 months from the issue date.

(c) Subject to paragraph 5(h), the exercise price of the Options is 130% of the lower of the average VWAP of the Company's Shares for the 20 consecutive trading days prior to (a)

the issue date of the Options or (b) the date of the issue notice given for the relevant tranche of Options (**Exercise Price**).

- (d) To exercise the Options, the Option holder must duly complete, execute and deliver to the Company an exercise notice (**Notice of Exercise**). Options may be exercised by the Option holder in whole or in part by completing the Notice of Exercise and forwarding the same to the Secretary of the Company to be received prior to the expiry date. The Notice of Exercise must, among other things, state the number of Options exercised and the consequent number of Shares to be issued. The Notice of Exercise by an Option holder must be accompanied by payment in full for the relevant number of Shares being subscribed, being an amount of the exercise price per Share.
- (e) All Shares issued upon the exercise of the Options will rank equally in all respects with the Company's then issued Shares.
- (f) There are no participating rights or entitlements inherent in the Options and the holders will not be entitled to participate in new issues or pro-rata issues of capital to Shareholders during the term of the Options. The Option holder has no rights to a change in the exercise price of the Option or a change to the number of underlying securities over which the Option can be exercised other than in relation to a Bonus Issue.
- (g) If there is a bonus issue (**Bonus Issue**) to Shareholders, the number of Shares over which an Option is exercisable will be increased by the number of Shares which the holder would have received if the Option had been exercised before the record date for the Bonus Issue (**Bonus Shares**). The Bonus Shares must be paid up by the Company out of profits or reserves (as the case may be) in the same manner as was applied in the Bonus Issue, and upon issue will rank equally in all respects with the other Shares on issue as at the date of issue of the Bonus Shares.
- (h) In the event of any reconstruction (including consolidation, subdivision, reduction or return) of the issued capital of the Company, all rights of the Option holder shall be reconstructed (as appropriate) in accordance with the ASX Listing Rules.
- (i) The Options are transferable, subject at all times to any transfer restrictions imposed by ASX or under applicable securities laws, including the *Corporations Act 2001* (Cth) (**Act**).
- (j) The Options will not be listed.
- (k) The Company will, within 7 days of the exercise of the Options, apply for official quotation by the ASX of all Shares issued upon the exercise of the Options. If required, the Company will give ASX a notice that complies with section 708A(5)(e) of the Act, or, if the Company is unable to issue such a notice, lodge a prospectus prepared in accordance with the Act and do all such things necessary to satisfy section 708A(11) of the Act to ensure that an offer for sale of the Shares does not require disclosure to Noteholder.
- (l) The Options may not be exercised by or on behalf of a person in the United States unless the Options and the underlying Shares have been registered under the United State Securities Act of 1933, as amended, and applicable state securities laws, or exemptions from such registration requirements are available.

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## 6. RIGHTS AND LIABILITIES ATTACHING TO SHARES ISSUED UNDER THE CONVERTIBLE NOTES

The Shares issued to the Noteholder on the conversion of the Convertible Notes and upon the exercise of the Options issued under the Facility will rank equally in all respects with all of the Company's existing Shares. The rights attaching to the Shares, including new Shares to be issued to the Noteholder on the conversion of the Convertible Notes under the Facility, are set out in

the Company's Constitution, and, in certain circumstances, regulated by the Corporations Act, the ASX Listing Rules and the general law.

The Company intends to apply to ASX Limited for quotation of the Shares issued on conversion of any Convertible Notes.

Full details of the rights and liabilities attaching to Shares are set out in the Constitution, a copy of which can be inspected free of charge, at the Company's registered office during normal business hours.

The following is a broad summary of the rights, privileges and restrictions attaching to all Shares. This summary is not exhaustive and does not constitute a definitive statement of the rights and liabilities of Shareholders.

(a) General meetings

Shareholders are entitled to be present in person, or by proxy, attorney or representative to attend and vote at general meetings of the Company.

Shareholders may requisition meetings in accordance with section 249D of the Corporations Act and the Constitution of the Company.

(b) Voting rights

Subject to the Constitution and to any rights or restrictions attached to any shares or class of shares, at a general meeting:

- (i) on a show of hands, every member present has one vote;
- (ii) on a poll, every member present has:
  - (A) one vote for each fully paid share held by the member and in respect of which the member is entitled to vote; and
  - (B) a fraction of a vote for each partly paid share held by the member and in respect of which the member is entitled to vote, equivalent to the proportion which the amount paid (not credited) on the share bears to the total amounts paid and payable (excluding amounts credited) on the share.

(c) Dividend rights

Subject to the Corporations Act and the Company's Constitution, the directors may pay any interim, special or final dividends as, in their judgment, the financial position of the Company justifies. The directors may rescind a decision to pay a dividend if they decide, before the payment date, that the Company's financial position no longer justifies the payment.

Subject to any rights or restrictions attached to a share or class of shares:

- (i) all dividends in respect of a share must be paid in the proportion which the amount paid (not credited) on the share bears to the total amounts paid and payable (excluding amounts credited) on the share;
- (ii) all dividends must be apportioned and paid proportionately to the amount paid during any portion or portions of the period in respect of which the dividend is paid;

- (iii) an amount paid on a share in advance of a call is to be ignored; and
- (iv) interest is not payable by the Company in respect of any dividend.

Subject to the Company Constitution, the directors may set aside out of the profits of the Company reserves or provisions for any purpose as they think fit.

The directors may implement a dividend reinvestment plan on the terms they think fit under which the whole or any part of a dividend due to members who participate in the plan on their shares or any class of shares may be applied in subscribing for securities of the Company or of a related body corporate. The directors may amend, suspend or terminate a dividend reinvestment plan implemented by them.

(d) Winding-up

If the Company is wound up, the liquidator may, with the sanction of a special resolution:

- (i) divide among the members the whole or any part of the property of the Company; and
- (ii) determine how the division is to be carried out as between the members or different classes of members.

A division under paragraph 6(d)(i) may be otherwise than in accordance with the legal rights of the members and, in particular, any class may be given preferential or special rights or may be excluded altogether or in part.

If any of the property to be divided under paragraph 6(d)(i) includes securities with a liability to calls, a person entitled under the division to any of the securities may within 10 days after the passing of the special resolution referred to in that rule, by notice in writing direct the liquidator to sell the person's proportion of the securities and to account for the net proceeds and the liquidator must, if practicable, act accordingly.

(e) Shareholder liability

As the Shares issued will be fully paid shares, they will not be subject to any calls for money by the Directors and will therefore not become liable for forfeiture.

(f) Transfer of shares

Generally, shares in the Company are freely transferable, subject to formal requirements, the registration of the transfer not resulting in a contravention of or failure to observe the provisions of a law of Australia and the transfer not being in breach of the Corporations Act and the ASX Listing Rules.

(g) Future increase in capital

Subject to restrictions on the issue or grant of securities contained in the ASX Listing Rules, ASX Settlement Operating Rules, the Constitution and the Corporations Act (and without affecting any special right previously conferred on the holder of an existing share or class of shares), the directors have the right to issue shares or grant options over unissued shares to any person and they may do so at such times as they think fit and on the conditions they think fit.

Such shares may have preferred, deferred or other special rights or special restrictions about dividends, voting, return of capital, participation in the property of the Company on a winding up or otherwise, as the directors think fit.

(h) Variation of rights

The rights attached to any class of shares may, unless their terms of issue state otherwise, be varied:

- (i) with the written consent of the holders of 75% of the shares of the class; or
- (ii) by a special resolution passed at a separate meeting of the holders of shares of the class.

(i) Alteration of constitution

In accordance with the Corporations Act, the Constitution can only be amended by a special resolution passed by at least three quarters of Shareholders present and voting at the general meeting. In addition, at least 28 days written notice specifying the intention to propose the resolution as a special resolution must be given.

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## 7. COMPLIANCE WITH DISCLOSURE OBLIGATIONS

The Company is a “**disclosing entity**” under the Corporations Act and, as such, is subject to regular reporting and disclosure obligations under both the Corporations Act and the ASX Listing Rules.

These obligations require the Company to notify ASX of information about specific events and matters as they arise. In particular, the Company is obliged to continuously disclose to the market immediately any information which a reasonable person would expect to have a material effect on the price or the value of the Shares.

The Company is also required to prepare and lodge with ASIC yearly and half- yearly financial statements accompanied by a directors’ statement and report, and an audit report or review. Copies of documents lodged with ASIC in relation to the Company may be obtained from, or inspected at, an ASIC office.

The Company will provide a copy of each of the following documents, free of charge, to any person on request:

- (a) the annual financial report most recently lodged by the Company with ASIC, being the financial report of the Company for the year ended 30 June 2017;
- (b) any half-year financial report lodged by the Company with ASIC after the lodgement of the annual financial report referred to in (a) and before the lodgement of this Cleansing Notice with ASX; and
- (c) any continuous disclosure documents given by the Company to ASX after the lodgement of the annual financial report referred to in (a) and before the lodgement of this Cleansing Notice with ASX.

A list of the continuous disclosure documents given by the Company to ASX after lodgement of the annual financial report referred to in (a) and before the lodgement of this Cleansing Notice with ASX is set out below in the table.

Date	Announcement
30/10/2017	Notice of General Meeting/Proxy Form
31/10/2017	Appendix 3B
01/11/2017	VSPC cathode product passes major milestone

09/11/2017	LIT advises Priority Share Offer for BlackEarth Minerals NL
14/11/2017	Appendix 3B
14/11/2017	Lithium Australia low emission strategy
16/11/2017	LIT advises a weeks extension to Priority Offer Record Date
27/11/2017	BlackEarth Minerals Replacement Prospectus lodged
01/12/2017	Chairman's Address to Shareholders 2017 AGM
01/12/2017	LIT 2017 AGM Results of Meeting
05/12/2017	LIT Priority Entitlement in BEM IPO closes Thursday
07/12/2017	Maiden lithium Mineral Resource estimate for Sadisdorf
08/12/2017	BlackEarth Minerals IPO has reached Minimum Subscription
13/12/2017	LIT commences drilling at Sadisdorf Saxony Germany
20/12/2017	LIT advises RM Research report
28/12/2017	LIT graphite spinout BEM receives conditional ASX approval
12/01/2018	SiLeach process is novel and inventive and patentable
15/01/2018	LIT bolsters European strategy with German exploration licence
18/01/2018	BlackEarth Minerals NL admitted to Official List of ASX
18/01/2018	Becoming a substantial holder for BEM
25/01/2018	LIT Partner Tin Int. AG Granted Key Exploration Licence
31/01/2018	Quarterly Activities Report and Quarterly Cashflow Report
01/02/2018	Lithium Australia commits to SiLeach large-scale pilot plant
07/02/2018	Investor Presentation at 121 Mining Conference Cape Town SA
07/02/2018	LIT 121 Mining Investment Presentation
13/02/2018	Appendix 3B
27/02/2018	LIT and VSPC reach formal agreement
27/02/2018	Disclosure document
28/02/2018	LIT completing acquisition of VSPC
28/02/2018	Appendix 3B
01/03/2018	LIT secures net \$18m funding package from Arena

## 8. INFORMATION EXCLUDED FROM CONTINUOUS DISCLOSURE NOTICES

As at the date of this Cleansing Notice, the Company advises that it has fully complied with its disclosure obligations under the ASX Listing Rules and the Corporations Act, and, in particular, there is no information which the Company has excluded from any of its continuous disclosure notices given in accordance with the ASX Listing Rules and the Corporations Act as at the date of this Cleansing Notice which it would be reasonable for investors and their professional advisors to require for the purpose of making an informed assessment of:

- (a) the assets and liabilities, financial position and performance, profits and losses and prospects of the Company; and
- (b) the rights and liabilities attaching to the Convertible Notes under the Facility and the Shares.

For more information please contact the undersigned on +61 8 6145 0288.

BARRY WOODHOUSE

COMPANY SECRETARY  
LITHIUM AUSTRALIA NL

**ANNEXURE A – PRO-FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION FOR THE COMPANY AS AT 31 JANUARY 2018**

**LITHIUM AUSTRALIA NL  
ACN 126 129 413**

**STATEMENT OF FINANCIAL POSITION AS AT 31 JANUARY 2018**

	Note	Management Accounts 31 January 2018 \$	Unaudited Pro forma adjustments \$	Unaudited Pro forma 31 January 2018 \$
<b>ASSETS</b>				
<b>Current assets</b>				
Cash and cash equivalents	1	15,239,652	18,270,000	33,509,652
Trade and other receivables		173,409	-	173,409
<b>Total current assets</b>		<b>15,413,061</b>	18,270,000	<b>33,683,061</b>
<b>Non-current assets</b>				
Plant and equipment		95,022	-	95,022
Financial assets held at fair value		3,578,158	-	3,578,158
Intangible Assets		4,507,196	-	4,507,196
Exploration & evaluation assets		2,968,453	-	2,968,453
<b>Total non-current assets</b>		<b>11,148,829</b>	-	<b>11,148,829</b>
<b>TOTAL ASSETS</b>		<b>26,561,890</b>	18,270,000	<b>44,831,890</b>
<b>LIABILITIES</b>				
<b>Current liabilities</b>				
Trade and other payables		985,873	-	985,873
Interest bearing loans & borrowings			-	
Provisions		62,937	-	62,937
<b>Total current liabilities</b>		<b>1,048,810</b>		<b>1,048,810</b>
<b>Non-current liabilities</b>				
Interest bearing loans & borrowings	2	-	21,000,000	21,000,000
<b>Total non-current liabilities</b>		-	21,000,000	21,000,000
<b>TOTAL LIABILITIES</b>		<b>1,048,810</b>	21,000,000	<b>22,048,810</b>
<b>NET ASSETS</b>		<b>25,513,080</b>	(2,730,000)	<b>22,783,080</b>
<b>EQUITY</b>				
Contributed Equity		36,610,974		36,610,974
Reserves		3,641,218		3,641,218
Current Year PAT		1,551,760	(2,730,000)	(1,178,240)
Accumulated losses		(16,290,872)		(16,290,872)
<b>TOTAL EQUITY</b>		<b>25,513,080</b>	(2,730,000)	<b>22,783,080</b>

**Unaudited Pro forma**  
**31 January 2018**  
**\$**

**NOTE 1: CASH AND CASH EQUIVALENTS**

Management balance 31 January 2018	15,239,652
Funds received from Convertible Note Facility	18,270,000
Unaudited Proforma 31 January 2018	<hr/> 33,509,652 <hr/>

**NOTE 2: INTEREST BEARING LOANS AND BORROWINGS**

Management balance 31 January 2018	-
Convertible Note Facility with Arena Investors, LP with a face value of \$21 million with a 13% discount on issue.	
Unaudited Proforma 31 January 2018	<hr/> 21,000,000 <hr/> 21,000,000 <hr/>

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## ANNEXURE B – EVENTS OF DEFAULT

*Defined terms in this annexure are as used in the Convertible Note Deed.*

The following are Events of Default:

- (a) **(ASX)**: the ASX makes a determination that the terms of the Convertible Notes do not comply with the Listing Rules, including, for the avoidance of doubt, Listing Rule 6.1 and Listing Rule 6.12;
- (b) **(shareholder meeting)**: the Company fails to call the general meeting of its shareholders in accordance with the terms of the Convertible Note Deed or to obtain the approval of its shareholders at that meeting;
- (c) **(shareholder approval)**: the Company fails to obtain the approval of its shareholders for any transaction under the Convertible Note Deed;
- (d) **(failure to issue Shares)**: the Company has not issued any Shares to the Noteholder within 5 Business Days of receipt of a Conversion Notice or the date of exercise of the Equity Payment Option;
- (e) **(payment)**: the Company fails to pay any cash amount due under the Convertible Note Deed within 5 Business Days after its due date;
- (f) **(performance default)**: failure by the Company to perform any other material obligation, covenant or undertaking under the Convertible Note Deed, excluding payment default, and, in relation to any rectifiable failure, within 14 days following notice by the Noteholder requiring rectification;
- (g) **(Company Warranties)**: the Company is in material breach of any of the Company Warranties;
- (h) **(Market Capitalisation)** the Market Capitalisation of the Company, as calculated by the Noteholder, falls below \$30,000,000;
- (i) **(filings)** the Company fails to file any annual or quarterly reports required by law or the Listing Rules;
- (j) **(compliance)** the Company fails to comply with any of the Listing Rules;
- (k) **(Subsidiaries)**: an entity that is a subsidiary of the Company at the date of the Convertible Note Deed ceases to be a subsidiary of the Company;
- (l) **(merger)**: the Company consolidates with, merges or amalgamates into or transfers all or substantially all of its assets to any person (the consummation of any such event, a '**Merger**'), unless:
  - (A) the entity formed by such Merger or the person that acquired such properties and assets expressly assumes, by a supplemental agreement, all obligations of the Company under the Convertible Note

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Deed and the performance of every covenant and agreement applicable to it contained therein;

(B) immediately after giving effect to any such Merger, no Event of Default is continuing unremedied or would result from the Merger; and

(C) the entity formed by such Merger, or the person that acquired such properties and assets, expressly agrees, among other things, to indemnify the Noteholder against any Tax payable by withholding or deduction imposed on the Noteholder solely as a consequence of such Merger with respect to the payment of principal, premium and interest on the Convertible Notes;

- (m) **(insolvency)**: an insolvency event occurs in relation to the Company;
- (n) **(cross default)**: any indebtedness of the Company or any of its subsidiaries is not paid when due (or within any applicable grace period) or is or becomes due and payable prior to its stated maturity date for any reason;
- (o) **(attachment)**: a distress, attachment, execution or other legal process is levied, enforced or sued out on or against any part of the property, assets or revenues of the Company or any of its subsidiaries;
- (p) **(enforcement)**: a mortgagee, chargee or other encumbrancer takes possession of, exercises rights under any security in relation to, or a receiver, receiver and manager, administrator, liquidator, provisional liquidator or officer of the Court is appointed in relation to, the whole or any substantial part of the property, assets or revenues of the Company or any of its subsidiaries (as the case may be);
- (q) **(Authorisations)**: any authorisation, approval or consent (including any governmental, regulatory or corporate approval or consent) required for the issue redemption or conversion of the Convertible Notes (**Authorisation**) is not obtained or is suspended, terminated, revoked, withdrawn or expires, modified, restricted or otherwise fails to remain in full force and effect (in whole or in part) in any way unacceptable to the Noteholder;
- (r) **(winding up)**: an order is made or an effective resolution passed for the winding- up or dissolution, judicial management or administration of the Company or any of its subsidiaries, or the Company or any of its subsidiaries ceases or threatens to cease to carry on all or substantially all of its business or operations;
- (s) **(unlawful)**: it is or becomes unlawful for:
- (A) the Company to perform or comply with any one or more of its obligations under any of the Convertible Notes or the Convertible Note Deed;
- (B) the Noteholder to convert any Convertible Notes or hold any Shares, other than because of the operation of the terms of the Convertible Note

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Deed; or

- (C) the Company or any of its subsidiaries to carry on all or substantially all of its business or operations;
- (t) **(disposal)**: the Company or any of subsidiaries transfers or otherwise disposes of all or substantially all of its assets to any person;
- (u) **(expropriation)**: any governmental agency:
- (A) condemns, nationalises, seizes, compulsorily acquires or otherwise expropriates any material assets of any of the Company, any of its Subsidiaries or Projects;
- (B) nationalises, seizes, compulsorily acquires or otherwise expropriates all or any part of the share capital of any of the Company or any of its Subsidiaries;
- (C) assumes custody or control of all or any part of the material assets or business operation of any of the Company, any of its Subsidiaries or Projects; or
- (D) takes any action that would result in the dissolution or disestablishment of any of the Company, any of its Subsidiaries;
- (E) otherwise takes any other action which:
- prevents the Company or any of its subsidiaries or their respective management from conducting all or a substantial part of its business or operations;
  - deprives the Company or any of its subsidiaries of the use of any material asset;
- (v) **(business activity)**: all or any material part of the Company's business activity or Projects is abandoned, is placed on care and maintenance or is subject to an unscheduled stoppage for more than 60 consecutive days;
- (w) **(Project)**: all or any material part of any Project is abandoned, is placed on care and maintenance or is subject to an unscheduled stoppage for more than 60 consecutive days;
- (x) **(audit)**: a material qualification to its audit opinion is made by any auditor appointed by the Company or any of its subsidiaries to audit its financial statements;
- (bb) **(non-Listing)**: the Shares cease to be listed on the ASX or, except as agreed otherwise with the Noteholder, are suspended from trading for more than 5 trading days;

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- (cc) **(Material Adverse Change)**: a Material Adverse Change occurs or is reasonably likely to occur in relation to or affects the Company;
  - (dd) **(Change of Control)**: a Change of Control of the Company occurs, is agreed or is reasonably likely to occur; and
  - (ee) **(restrictions)**: the Company breaches any of its restrictions under the terms of the Convertible Note Deed.