

ASX ANNOUNCEMENT



19 December 2019

Australian Securities Exchange
Level 4
20 Bridge Street
SYDNEY NSW 2000

Dear Sir/Madam

By Electronic Lodgement

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ASX: LIT

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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 note was 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 note issued by the Company on the terms described below, to be on-sold to retail investors without further disclosure.

1. BACKGROUND

As announced on 16 December 2019 the Company has entered into an agreement in relation to a share purchase and convertible security agreement with Lind Global Macro Fund, LP (**Noteholder**) under which the Noteholder has agreed to subscribe for up to \$3,400,000 worth of shares in the capital of the Company (**Shares**) (**Share Purchase**) and for a convertible note having a face value of \$3,300,000 (**Convertible Note**) (**Agreement**). The Agreement comprises two separate funding streams being (1) Convertible Note provisions and (2) Share Purchase provisions.

No later than five (5) business days after the date of execution of the Agreement (**First Closing**) the Noteholder will advance to the Company, in immediately available funds, subject to any set-offs under the Agreement, the amount of \$2,900,000, in consideration of which the Company will issue to the Noteholder an uncertificated secured convertible note for the amount of \$3,300,000 (**Face Value**) and with a 24 month term on the terms set out in the Agreement (**Convertible Note**) together with 15,000,000 Shares (which are fully paid ordinary shares in the capital of the Company) to the Noteholder as consideration for the Noteholder entering into the Agreement (**Collateral Shares**). The Convertible Note will be secured by a general security over all of the assets of the Company, and of nominated subsidiaries of the Company.

Notwithstanding any other provision of the Agreement, the maximum aggregate number of Shares that may be issued upon conversion of the Convertible Note issued at First Closing (but excluding any Shares issued conversion of the Replacement Convertible Note as that term is defined below) under the Agreement without the Company obtaining Company shareholder (**Shareholder**) approval to the proposed issue is 71,440,776 Shares (**Maximum Number**). This number is the Company's present capacity under Listing Rule 7.1.

The issue of Collateral Shares will reduce the remaining available capacity under the maximum conversion limit i.e. only 56,440,776 securities can be issued without Shareholder approval. The Company has agreed to pay a commitment fee of \$87,000 to the Noteholder, to be deducted from the funds made available to the Company upon the First Closing.

The Company must, within 90 days of the First Closing, convene and hold a meeting of Sshareholder's seeking approval for the issue of:

1. 33,333,333 options to the Noteholder exercisable at \$0.055 on or before the date that is 36 months from the date of their issue (**Options**); and
2. a replacement convertible note to the Noteholder, on the basis that the replacement convertible note will be on the same terms as the Convertible Note issued at the First Closing, and will have the same outstanding Face Value, but the Maximum Number limit will not apply to it (**Replacement Convertible Note**).

An Event of Default under will occur if the Company does not, within 90 days of the First Closing, obtain either of these approvals and issue the Options or the Convertible Security.

After receipt of Shareholder approval, the Replacement Convertible Note will automatically issue to the Noteholder in replacement of the outstanding Convertible Note. The outstanding Convertible Note issued will be redeemed by the Company in full and all of the obligations of the Company in connection with the Convertible Note are discharged and satisfied in full including that there is no Amount Outstanding in respect of the Convertible Note, and the Replacement Convertible Note will be outstanding. The maximum securities issuance/conversion limit will not apply to the Replacement Convertible Note as Company shareholder approval will have been obtained prior to its issue.

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

The Directors consider that the Agreement (including the Convertible Note) is in the best interests of Shareholders as it provides funding for:

- (a) growth of the Company's Soluna Australia battery business;
- (b) commercialization of the Company's cathode business, owned by its subsidiary VSPC Ltd;
- (c) growth of the Company's battery recycling interests, owned by Envirostream Australia Pty Ltd;
- (d) development of its lithium processing technologies; and
- (e) costs of the funding, as well as for general working capital.

Under the Agreement, the Noteholder is also required to make various prepayments during the Term not exceeding an amount of \$3,400,000 to the Company, to either be repaid by the Company or where this amount is not repaid, the Company is to issue shares to the Noteholder (such number as is determined under the Agreement and subject to satisfaction or waiver of a number of conditions) (**Tranche Shares**).

The Agreement further provides that 33,333,333 Options will be issued to the Noteholder subject to Shareholder approval to be sought at the time the Company seeks Shareholder approval.

2. CONTENTS OF THIS CLEANSING NOTICE

This Cleansing Notice sets out the following:

- (a) in relation to the Convertible Note:
 - (i) the effect of the issue on the Company;
 - (ii) a summary of the rights and liabilities attaching to the Convertible Note; and
 - (iii) a summary of the rights and liabilities attaching to the Shares that will be issued on the conversion of the Convertible Note; 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.

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 Note on the Company will be to:

- (a) increase the Company's cash reserves by \$2,900,000 (before costs associated with the Convertible Note issue and excluding any funds received from the Noteholder's subscribing for Shares under the Agreement);
- (b) increase the number of unquoted secured Convertible Notes on issue from zero (0) to one (1);
- (c) give rise to the Company having a liability for the amount of the face value of the Convertible Note (being \$3,300,000);

- (d) increase the number of Shares on issue by 15,000,000 Shares being the Collateral Shares (as that term is defined below) excluding any Shares that may be issued upon conversion of the Convertible Note or upon the exercise of an Option;
- (e) if the Convertible Note is converted, either wholly or in part to Shares, assuming that no Conversion Collateral Capitalisation Election is made (see section 4(i)(ii)(B) of this Cleansing Notice), increase the number of Shares on issue as a consequence of the issue of Shares on such conversion; and
- (f) increase the number of Options on issue from 55,990,355 to 89,323,688.

3.2 Pro Forma Consolidated Statement of Financial Position As at 30 September 2019 taking into account the issue of the Convertible Note

- (a) Set out in Annexure A is a pro forma consolidated Statement of Financial Position as at 30 September 2019 for the Company based on the unaudited 30 September 2019 Management Accounts adjusted to reflect the proposed Convertible Note 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 Note 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 541,771,837.
- (b) The capital structure of the Company will be affected by the conversion of the Convertible Note by the Noteholder which will result in additional Shares being issued. The actual effect on the issued share capital of the Company will depend on what percentage of the Convertible Note is actually converted and on the applicable Conversion Price.
- (c) Subject to limits on the conversion under the Agreement (which do not apply to the Replacement Convertible Note), the Convertible Note can be converted at any time after the end of the Lock-Up Period (as that term is defined in paragraph 3.3(d) below) and prior to the date of maturity (being 24 months from the date of its issue (**Maturity Date**)) at the request of the Noteholder.
- (d) The Lock-Up Period means the period commencing on the date of execution of the Agreement and ending on the earlier of:
 - (i) the day which is 30 days after the First Closing;
 - (ii) the day of an Event of Default occurring under clause 13 of the Agreement;
 - (iii) the date upon which the Company terminates or pauses the operation of the Agreement generally or in respect of the issue of Shares under the Agreement; and
 - (iv) such date as is mutually agreed by the parties.
- (e) If the Noteholder converts the entire Convertible Note and subscribes for all of the Shares pursuant to the Convertible Note, then based on an average conversion price of \$0.0499

per new Share (based on the last closing price prior to announcement of the Agreement) and assuming the full face value of \$3,300,000 is converted (**Assumptions**), 66,132,265 new Shares would be issued. The actual effect of the share capital of the Company will depend on what percentage of the Convertible Note is actually converted and the price at which the conversion occurs.

- (f) 33,333,333 Options will be issued to the Noteholder under the terms of the Agreement, subject to Shareholder approval to be sought at the time the Company seeks Shareholder approval for the issue of the Replacement Convertible Note.
- (g) 15,000,000 Shares will be issued to the Noteholder or its nominee as a condition precedent to the First Closing as collateral Shares pursuant to the terms of the Agreement (**Collateral Shares**).
- (h) The effect on the issued share capital of the Company on conversion of all the Convertible Note and the issue and exercise of all Options issued under the Agreement is set out in the table below based on the Assumptions.

Shares	Number
Shares on issue prior to agreement of the Convertible Note	541,771,837
Shares issued upon conversion of the entire Convertible Note ^{1, 3}	66,132,265
Shares issued assuming the exercise of all Options issued under the Convertible Note	33,333,333
Collateral Shares issued upon execution of the Agreement	15,000,000
Total Shares on issue following conversion of the entire Convertible Note^{1, 3}	656,237,435

Options	Number
Options on issue prior to agreement of the Convertible Note ²	55,990,355
Options issued under the Convertible Note	33,333,333
Total Options on issue following conversion of the entire Convertible Note	89,323,688

Performance Rights	Number
Performance Rights on issue prior to agreement of the Convertible Note ²	21,375,000
Performance Rights issued under the Convertible Note	Nil
Total Performance Rights on issue following conversion of the entire Convertible Note	21,375,000

Notes:

- 1 Based on the last closing Share price as at the date of this notice.
- 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 on 10 December 2019.

3 Where the Company elects to issue Tranche Shares instead of repaying the prepaid amount detailed in section 1, the capital structure of the Company will also be affected by the issue of the Tranche Shares and the Tranche Share Issuance Options. These issues are not shown in the above tables.

(i) If an Issue of Shares to the Noteholder in accordance with the terms of the Agreement would result in the Noteholder acquiring a relevant interest in Equity Securities which would cause the Voting Power of the Noteholder and its Associates in the Company to exceed 9.99%, then without limiting any of the Noteholder's other rights under the Agreement:

(A) the Noteholder or the Company may by written notice to the other party (**Cash Substitution Notice**) require the Company to pay a cash amount to the Noteholder equal to Z multiplied by \$C in lieu of the issue of the Issue of Noteholder's Shares, where:

Z = the number of new Shares which would have been Issued to the Noteholder; and

\$C = the VWAP per Share on the date the Noteholder's Shares were to be Issued,

(Cash Substitution Amount); and

(B) upon either party giving a Cash Substitution Notice to the other, the Company must within 3 Business Days pay the Noteholder in immediately available funds the Cash Substitution Amount.

(j) The maximum number of Shares that may be issued upon conversion in full of the Convertible Note in various pricing scenarios is set out below.

	Based on a Share price equal to 50% of the Share price as at the date of announcing the Agreement (\$0.027)	Based on the Share price as at the date of announcing the Agreement (\$0.0054)	Based on a Share price equal to 200% of the Share price as at the date of announcing the Agreement (\$0.108)
Maximum Number of Shares issued upon conversion of Convertible Note	132,530,120	66,132,265	60,000,000 ¹

Notes:

1 In this circumstance the Conversion Price would be \$0.055 having regard to the definition of Conversion Price as set out in section 4 below.

4. RIGHTS AND LIABILITIES ATTACHING TO THE CONVERTIBLE NOTE

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

Maximum Conversion Shares Limit

Where an issuance of Conversion Shares under the Convertible Security would result in the Maximum Number being exceeded, and the Company has not obtained Shareholder approval under ASX Listing Rule 7.1 to the relevant issuance, that issuance of Conversion Shares will not be made by the Company. The Maximum Number does not apply to any Replacement Convertible Security or any issuance of Conversion Shares under any Replacement Convertible Security.

(a) Term

The Convertible Note has a term of 24 months.

(b) Face Value

The Convertible Note has a total face value of \$3,300,000.

(c) Purchase Price

The purchase price is \$2,900,000, being 87.88% of the Face Value (**Purchase Price**).

(d) Conditions to First Closing

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

- (i) The Company has delivered or caused to be delivered to the Noteholder, and the Noteholder has received, the following:
 - (A) a copy of the resolutions duly adopted by the board of directors of the Company, substantially in the form attached as Annexure B to the Agreement;
 - (B) the security documents (being a general security agreement by the Company in favour of the Noteholder and from certain nominated subsidiaries of the Company a deed of guarantee and indemnity in favour of the Noteholder and a general security agreement in favour of the Noteholder), executed by all parties to them other than the Noteholder; and
 - (C) the flow of funds request, substantially in the form set out in Annexure C to the Agreement.
- (ii) The Company has issued the Collateral Shares to the Noteholder or its nominee in accordance with the Agreement.
- (iii) The Company has duly executed and lodged with ASX a Convertible Cleansing Statement in respect of the Convertible Note (being this document) and the ASX has released that document to the market.
- (iv) The representations and warranties of the Company contained in the Agreement are true and correct in all material respects as of the dates on which they are made or deemed to be made under the Agreement.
- (v) No:

- (A) Event of Default has occurred; and
- (B) Event of Default would result from the First Closing, or the First Tranche Closing (as that term is defined in the Agreement) being effected.

(vi) The Company has performed and complied in all material respects with all agreements and covenants required by the Agreement to be performed and complied with by the Company as at or prior to the First Closing, or the First Tranche Closing (as applicable).

(vii) The Noteholder has received each of the documents required to be delivered, or which evidences satisfaction of the conditions, in accordance with paragraphs (i) – (vi) of this clause in connection with the First Closing, or the First Tranche Closing (as applicable).

(e) Issue date

The Convertible Note will be issued no later than five (5) business days after the date of execution of the Agreement, subject to the satisfaction of the conditions precedent set out above.

(f) Options

The Options (exercisable at \$0.055 on or before the date that is 36 months from the date of their issue) will be issued to the Noteholder promptly after the Company receives Shareholder approval for the issue of the Options (which approval will be sought at the same meeting at which the Company seeks Shareholder approval for the issue of the Replacement Convertible Note).

(g) Interest

Other than in circumstances of an Event of Default, no interest will be payable by the Company in respect of the Convertible Note.

(h) Security

The Convertible Note will rank senior secured and will be secured by a fixed and floating general security, registration pursuant to the *Personal Property Securities Act 2009* (Cth), subsidiary guarantees and a pledge of subsidiary shares but excluding any security over the mining tenements held by the Company or any of its subsidiaries.

(i) Conversion and Floor Price

(i) Subject to the restrictions contained in the Agreement concerning the Company's placement capacity and the Maximum Number, at any time during the Term after the Lock-Up Period, and on more than one occasion, the Noteholder may provide the Company no less than two (2) Business Days' prior notice (**Conversion Notice**) requiring the Company to effect a conversion of the Convertible Note (**Conversion**), on a date specified by the Noteholder in its sole discretion (each a **Conversion Date**) (each date of such notice, a **Conversion Notice Date**), the Noteholder may convert the Convertible Note into Shares at a rate equal to the lower of:

- (A) the price per Share equal to 92.5% of the average of three (3) daily volume weighted average prices (**VWAP**) for Shares on three (3) consecutive

trading days chosen by the Noteholder from among the twenty (20) consecutive trading days immediately prior to the relevant Conversion Notice Date or date of the buy-back conversion notice (provided that if the resultant average VWAP number is greater than \$0.01 and contains five or more decimal places, such number will be rounded down to the next lowest number containing four decimal places and where the resultant average VWAP number is less than or equal to \$0.01 and contains four or more decimal places, such number will be rounded down to the next lowest number containing three decimal places); and

(B) \$0.055,

(Conversion Price).

(ii) The Conversion Notice must specify:

(A) the Conversion amount, which must be at least the lesser of A\$50,000 and the Amount Outstanding (**Conversion Amount**); and

(B) whether the Conversion Amount will be constituted in whole or in part by a reduction in the number of Collateral Shares (**Conversion Collateral Capitalisation Election**); and

(C) the Conversion Price applicable to the Conversion due to be effected on the Conversion Date, and setting out the manner in which such Conversion Price was calculated by the Noteholder.

(iii) The number of Conversion Shares that the Company must Issue in a Conversion shall be determined by dividing the Australian dollar amount of the relevant Conversion Amount by the Conversion Price, provided that if the resultant number contains a fraction, such number shall be rounded up to the next highest whole number

(iv) The Noteholder will be limited to converting the following amounts during the Term:

(A) Month 1: Lock-Up (no conversions).

(B) Months 2 to 12: Up to \$150,000 per month (provided that if the Company terminates the operation of the share purchase provisions under the Agreement during that time, this amount will be increased to AU\$300,000).

(C) Months 13 to 24: Up to \$300,000 per month.

(v) In the event that the Company's market capitalisation exceeds \$35,000,000 or reduces below \$10,000,000, or if there is an Event of Default, the above conversion limits will not apply.

(vi) If the Noteholder converts any portion of the Convertible Note at a price below the Floor Price of \$0.03, the Company may at its election (**Conversion Floor Payment Notice**) within three business days of receiving the relevant Conversion Notice elect to pay that conversion in cash instead of Shares plus a 2.5% premium.

(vii) Where the Company has given the Noteholder a Conversion Floor Payment Notice, the Noteholder may elect, by written notice to the Company at any time prior to

the applicable Conversion Date to receive Conversion Shares that are the subject of the Conversion Floor Payment Notice, at a Conversion Price equal to the Floor Price; and/ or to exercise a Conversion Collateral Capitalisation Election in respect of Conversion Shares the subject of the Conversion Floor Payment Notice, at a Conversion Price equal to the Floor Price in lieu of a payment in immediately available funds.

(j) Redemption and Repayment

No part of the Amount Outstanding for the Convertible Security shall be redeemable by the Company at any time, except as expressly set out in the Buy Back Provisions of the Agreement (which are summarised in paragraph (k) immediately below) or otherwise where expressly permitted in accordance with the Agreement.

(k) Buy Back Provisions

In its sole discretion, the Company may buy-back the outstanding balance of the Convertible Note at any time. In the event of the Company electing to exercise its right to buy-back the outstanding balance, it must issue the Noteholder with a buy-back notice for the Convertible Note (**Buy-Back Notice**).

A Buy-Back Notice must exclude that part of the amount outstanding in respect of which, as of the time the Company gives the Noteholder a Buy-Back Notice, the Noteholder has already given a conversion notice to the Company (the **Excluded Converted Amount**).

Subject to the Maximum Number (prior to the issue of the Replacement Convertible Note), within five (5) business days of receiving a Buy-Back Notice, the Noteholder may give a Conversion Notice to the Company for up to 30% of the Face Value of the Convertible Note (**Buy-Back Conversion Notice**) at the time of issue, (**Buy-Back Conversion Amount**) at the Conversion Price.

Upon issuing a Buy-Back Notice to the Noteholder, the Company irrevocably and unconditionally agrees to, within five (5) Business Days of receiving the Buy-Back Conversion Notice, or if no Buy-Back Conversion Notice is received then within ten (10) Business Days of issuing the Buy-Back Notice:

- (i) buy-back the relevant Convertible Note (excluding the Buy-Back Conversion Amount and any Excluded Converted Amount), for the Buy-Back Amount Outstanding; and
- (ii) pay the Buy-Back Amount Outstanding to the Noteholder in immediately available funds.

If the Noteholder has given the Company a Conversion Notice and the Company is unable to Issue all of the required Conversion Shares the subject of the Conversion Notice to the Noteholder or to issue all of the required Conversion Shares the subject of the Conversion Notice as Freely Tradable Shares to the Noteholder, then without limiting any of the Noteholder's other rights under the Agreement the Noteholder may by written notice to the Company (**Cash Conversion Notice**) require the Company to pay a cash amount to the Noteholder equal to Y multiplied by $\$A$, where:

- (i) Y = the number of new Shares which would have been Issued under the relevant Conversion Notice (subject to any Collateral Share offset at the election of the Noteholder); and

- (ii) \$A = the VWAP per Share (in Australian dollars) on the date of issuance of the relevant Conversion Notice (as applicable),

(Cash Conversion Amount); and upon the Company receiving a Cash Conversion Notice from the Noteholder, the Company must within one (1) Business Day pay the Noteholder in immediately available funds the Cash Conversion Amount.

(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 seven (7) 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 Agreement or the Convertible Note is due and payable within thirty days (excluding the occurrence of certain Events of Default which will render the amount immediately due for payment) and the Company must redeem all the Convertible Notes on issue and must pay the Termination Payment to the Noteholder; and
- (ii) the Agreement is terminated.

(m) Termination by the Noteholder

The Agreement:

- (a) shall terminate immediately upon expiration of the Term (being 24 months from the date of issue of the Convertible Note); and
- (b) may be terminated:
 - (i) by the mutual written consent of the parties, at any time;
 - (ii) by either party, by notice to the other, on the occurrence or existence of a Securities Termination Event (as defined below).
 - (iii) by the Noteholder, if an Event of Default occurs which is not remediable, is a payment default, any Noteholder's Shares are not quoted or not able to be freely traded on ASX within three (3) business days of the date of their issue) or the Noteholder has not received all those items required to be delivered to it in connection with a Conversion or a Closing in accordance with the Agreement strictly within the required relevant timeframes) OR if it is remediable but is not remedied within 7 days of the Noteholder giving the Company written notice of the Event of Default or If there is a Change in Law Termination Event (defined below) or at any time there exists a Law which, or an official or reasonable interpretation of which, makes it, or may make it, illegal or impossible in practice for the Noteholder to undertake any of the Contemplated Transactions, or render any of the Contemplated Transactions unenforceable, void or voidable, the Noteholder may, by giving written notice to the Company, suspend or cancel some or all of its obligations under this Agreement, or terminate this Company written notice of the Event of Default; or

- (iv) by the Noteholder, if there is a change of control in relation to the Company where the Noteholder has not provided its prior written consent.

Any termination by either Party will give rise to the Noteholder's right to require repayment of the whole of the amount outstanding under the Agreement.

Change in Law Termination Event means:

- (a) there exists a Law which, or a generally accepted interpretation of which makes it illegal or impossible for the Noteholder or the Company to undertake any of the contemplated transactions under the Agreement or transactions of similar kind (including acquisition and/or disposition, at a time of the Noteholder's choosing, of any Noteholder's Shares), in accordance with the Agreement, or renders consummation of any of the contemplated transactions under the Agreement unenforceable, void, voidable or unlawful, or contrary to or inconsistent with any law (as defined in the Agreement); or
- (b) if:
 - (i) a change in a generally accepted interpretation or administration of a Law of the Commonwealth of Australia or the United States of America or any State or Territory of Australia or the United States of America, or by the ASIC or ASX or the U.S. Securities and Exchange Commission (**Australian or US Law**); or
 - (ii) compliance by the Noteholder or any of its Affiliates with an Australian or US Law or a generally accepted interpretation or administration of an Australian Law; or
 - (iii) a change after the date of the Agreement in an Australian or US Law or a generally accepted interpretation or administration of an Australian or US Law,

has the effect of:

- (iv) materially varying the duties, obligations or liabilities of the Company or the Noteholder in connection with any transaction document or contemplated transactions under the Agreement so that the Noteholder's rights, powers, benefits, remedies or economic burden (including any tax treatment in the hands of the Noteholder) are materially adversely affected (including by way of delay or postponement);
- (v) otherwise materially adversely affecting rights, powers, benefits, remedies or the economic burden of the Noteholder (including by way of delay or postponement); or
- (vi) otherwise making it impracticable for the Noteholder to undertake any of the Contemplated Transactions.

Securities Termination Event means any of the following has occurred:

- (i) trading in securities generally in Australia or the United States has been suspended or limited for a consecutive period of greater than three (3) Business Days;

- (ii) minimum trading prices have been established on securities in Australia or the United States or on the ASX for a consecutive period of greater than three (3) Business Days; or
- (iii) a banking moratorium has been declared by the Australian, the United States or the New York State authorities and is continuing for a consecutive period of greater than three (3) Business Days.

5. RIGHTS AND LIABILITIES ATTACHING TO OPTIONS ISSUED UNDER THE AGREEMENT

- (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 AU\$0.055 per Option (**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) If prior to an exercise of an Option, but after the issue of the Option, the Company makes an issue of Shares by way of capitalisation of profits or out of its reserves (other than pursuant to a dividend reinvestment plan), pursuant to an offer of such Shares to at least all the holders of Shares resident in Australia, then on exercise of the Option, the number of Shares over which an Option is exercisable will, subject to the Listing Rules, be increased by the number of Shares which the holder of the Option would have received if the Option had been exercised before the date on which entitlements to the issue were calculated.
- (g) If prior to an exercise of an Option, but after the issue of the Option, any offer or invitation is made by the Company to at least all the holders of Shares resident in Australia for the subscription for cash with respect to Shares, options or other securities of the Company on a pro rata basis relative to those holders' Shareholding at the time of the offer, the Exercise Price will be reduced as specified in the Listing Rules in relation to pro-rata issues (except bonus issues).
- (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.

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

The Shares issued to the Noteholder on the conversion of the Convertible Note and upon the exercise of the Options issued under the Agreement 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 Note under the Agreement, 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 any Shares issued on conversion of the Convertible Note, which is required under the Agreement.

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.

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 2019;

- (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
16/09/2019	Appendix 4G
19/09/2019	LIT establishes potential for recycled battery supply stream
27/09/2019	Youanmi option not exercised
03/10/2019	VSPC makes cathode material from recycled batteries
14/10/2019	Lithium Australia corporate dashboard
16/10/2019	LIT's stake in Envirostream Australia increased to 23.9%
24/10/2019	Lithium Australia's drive for sustainability
25/10/2019	Quarterly activities report and quarterly cash flow report
01/11/2019	Notice of Annual General Meeting/Proxy Form
06/11/2019	Envirostream confirms offtake with Korean battery recycler
20/11/2019	Raw materials review continues
21/11/2019	Lithium ferrophosphate as a future energy storage technology
26/11/2019	LIT increases stake in battery recycler Envirostream to 74%
27/11/2019	VSPC cathode power meets performance specifications
29/11/2019	Envirostream first production from battery recycling plant
29/11/2019	Chairman's address at 2019 AGM
29/11/2019	2019 AGM presentation
29/11/2019	Results of Meeting
06/12/2019	Lithium Australia to increase stake in Envirostream to 90%
09/12/2019	Lithium Australia enters the energy storage market
10/12/2019	Appendix 3B
11/12/2019	New World Metals conference presentation
16/12/2019	Lithium Australia secures A\$6.3m funding agreement
16/12/2019	Appendix 3B
18/12/2019	Appendix 3B
19/12/2019	Cleansing Notice

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 Note under the Agreement 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 30 SEPTEMBER 2019

LITHIUM AUSTRALIA NLACN 126 129 413

Lithium Australia NL Pro Forma Statement of Financial Position as at 30 September 2019

	LIT 30-Sep 2019 Unaudited	Pro Forma Adjustments	Ref	LIT Pro Forma Unaudited 30/09/2019
	\$			\$
Current Assets				
Cash and cash equivalents	2,360,094	2,813,000	1	5,173,094
Trade and other receivables	229,848			229,848
Financial assets	132,079			132,079
Total Current Assets	2,722,021			5,535,021
Non Current Assets				
Financial assets	1,365,901	675,000	2	2,040,901
Prepayment	996,096			996,096
Exploration Expenditure	6,322,191			6,322,191
Intangible assets	16,577,972			16,577,972
Property, plant and equipment	597,089			597,089
Total Non Current Assets	25,859,249			26,534,249
TOTAL ASSETS	28,581,270			32,069,270
Current Liabilities				
Trade and other payables	763,999			763,999
Provisions	0			0
Convertible Note - current	0	1,800,000	1	1,800,000
Total Current Liabilities	763,999			2,563,999
Non Current Liabilities				
Convertible Note - non current	0	1,500,000	1	1,500,000
Total Non Current Liabilities	0			1,500,000
TOTAL LIABILITIES	763,999			4,063,999
NET ASSETS	27,817,271			28,005,271
Equity				
Issued capital	59,093,749	675,000	2	59,768,749
Reserves	3,329,666			3,329,666
Accumulated losses	(34,606,144)	(487,000)	1	(35,093,144)
TOTAL EQUITY	27,817,271			28,005,271

Pro forma transactions

1. Convertible note drawdown showing an:

i. increase the Company's cash reserves by net \$2,813,000 (\$2,900,000 less \$87,000 in costs associated with the Convertible Note issue and excluding any funds received from the Noteholder's subscribing for Shares under the Agreement or other costs associated with the Convertible Note issue);

ii. increase the number of unquoted secured Convertible Notes on issue from zero (0) to one (1);

giving rise to the Company having a liability for the amount of the face value of the Convertible Note (being \$3,300,000). The current liability portion is \$1,800,000;

2. Issue of 15,000,000 Shares as collateral Shares and valued as at the date before this Cleansing Notice

ANNEXURE B – EVENTS OF DEFAULT

Defined terms in this annexure are as used in the Agreement.

The following are Events of Default:

- (a) Any of the representations, warranties, or covenants made by the Company or any of its agents, officers, directors, employees or representatives in any Transaction Document, Materials or public filing are inaccurate, false or misleading in any material respect, as of the date as of which it is made or deemed to be made, or any certificate or financial or other written statements furnished by or on behalf of the Company to the Noteholder, any of its representatives, or the Company's shareholders, is inaccurate, false or misleading, in any material respect, as of the date as of which it is made or deemed to be made, or on any Closing Date, Conversion Date, or date of issuance of any Noteholder's Shares.
- (b) The Company (or any of its Australian Subsidiaries unless otherwise agreed in writing by the Noteholder) suffers or incurs an Insolvency Event.
- (c) The Company (or any of its Australian Subsidiaries unless otherwise agreed in writing by the Noteholder) ceases, suspends, or threatens to cease or suspend, the conduct of all or a substantial part of its business, or disposes of, or threaten to disposes of, a substantial part of its assets.
- (d) The Company (or any of its Australian Subsidiaries unless otherwise agreed in writing by the Noteholder) takes action to reduce its capital or pass a resolution referred to in section 254N(1) of the Corporations Act without the Noteholder's prior written consent.
- (e) The Company does not comply with clause 11.9 of the Agreement which deals with the Company being required to lodge Cleansing Statements and Cleansing Prospectuses in the future (regardless of whether it is able to comply with clause 11.9 of the Agreement) or, despite so complying, any of the Noteholder's Shares cannot be Freely Traded from the date of their quotation on ASX.
- (f) Any Noteholder's Shares are not quoted or not able to be Freely Traded on ASX within three (3) Business Days of the date of their Issue.
- (g) A stop order, suspension of trading, cessation of quotation, or removal of the Company or the Shares from the ASX Official List has been requested by the Company or imposed by ASIC, the ASX, or any other Governmental Authority or regulatory body with respect to public trading in the Shares on the ASX; except for a suspension of trading not exceeding five (5) Trading Days or as agreed to by the Noteholder in any twelve (12) month period or as agreed to by the Noteholder. For the avoidance of doubt, trading halts not longer than 2 days do not constitute an Event of Default or a suspension of trading.
- (h) Any of the conditions set out in clause 4.1 of the Agreement (Conditions Precedent to First Closing), clause 5.1 of the Agreement (Conditions Precedent to each Subsequent Closing – Investor) or clause 6.6 of the Agreement (Conditions to Tranche Share Issuance and Conversion) of the Agreement have not have been fulfilled in a timely manner or the time prescribed and the satisfaction of such conditions has not been waived in writing by the Noteholder.
- (i) The Company disputes or denies the right of the Noteholder to receive any Noteholder's Shares or Options.

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- (j) A transaction document or the Agreement has become, or is claimed (other than in a vexatious or frivolous proceeding) by any person that is not the Noteholder or its Affiliate to be, wholly or partly void, voidable or unenforceable.
 - (k) Any person has commenced any action, claim, proceeding, suit, investigation, or action against any other person or otherwise asserted any claim before any Governmental Authority, which seeks to restrain, challenge, deny, enjoin, limit, modify, delay, or dispute, the right of the Noteholder or the Company to enter into any Transaction Documents or undertake any of the Contemplated Transactions (other than a vexatious or frivolous proceeding or claim).
 - (l) Any event, development or condition occurs or arises which has or would be likely to have a material adverse effect.
 - (m) Any consent, permit, approval, registration or waiver necessary or appropriate for the consummation of those contemplated transactions under the Agreement that remain to be consummated at the applicable time, has not been issued or received, or does not remain in full force and effect.
 - (n) The transactions to be undertaken at a Closing, or a Conversion would result in the Company breaching Listing Rule 7.1 unless the Company has complied with its obligations under clause 11.18(d) of the Agreement (insufficient placement capacity) (by calling a Shareholder meeting to consider resolutions to refresh the Company's capacity or approve a specific issue of securities within 30 calendar days of the Company failing to have sufficient capacity under Listing Rule 7.1) and obtained the necessary Company shareholder approval. For the avoidance of doubt, if such approval is not obtained, an Event of Default will have occurred.
 - (o) The Noteholder has not received all those items required to be delivered to it in connection with a Tranche Share Issuance, Conversion or a Closing in accordance with the Agreement, strictly within the relevant timeframes required under the Agreement.
 - (p) The Company fails to perform, comply with, or observe, in a material respect, any other term, covenant, undertaking, obligation or agreement under any transaction document.
 - (q) A default judgment of an amount of AU\$500,000 or greater is entered against the Company or any of its Australian subsidiaries.
 - (r) The Company and/or any of its Australian subsidiaries defaults in relation to any payment obligation under any financial accommodation, including any loan, advance, debenture or other form of financing entered into with a third party (taking into account any applicable grace period adopted by the relevant third party) for an amount in excess of AU\$500,000.
 - (s) Any present or future liabilities, including contingent liabilities, of the Company or any of its Australian Subsidiaries for an amount or amounts totalling more than AU\$500,000 have not been satisfied on time, or have become prematurely payable.
 - (t) The Company does not, within 90 days of the First Closing, obtain Company shareholder approval to the issue of the Replacement Convertible Note to the Noteholder and issue the Replacement Convertible Note to the Noteholder in accordance with the Agreement.
 - (u) The Company does not, within 90 days of the First Closing, obtain Company shareholder

approval to the issue of the Options to the Noteholder and issue the Options to the Noteholder in accordance with the Agreement.

- (v) The Shares are offered on ASX at AU\$0.001 and there is no bid for the Shares on ASX for 10 consecutive trading days.
- (w) Any event of default (however described) occurs under the security documents.
- (x) Any other matter which is referred to as an Event of Default under the Agreement (if any).
- (y) The Company breaches clause 11.23 of the Agreement, which requires that it not during the Term make use of or give effect to its Controlled Placement Deed with Acuity Capital Investment Management Pty Ltd or otherwise receive funds from Acuity Capital Investment Management Pty Ltd (or any associated or related party).