

3 July 2012

Company Announcements Office
ASX Limited
4th Floor
20 Bridge Street
SYDNEY NSW 2000

Via: www.asxonline.com

Dear Sir/Madam,

CLEANSING STATEMENT – CONVERTIBLE NOTE ISSUE

Notice given under Section 708A(12C)(e) of the *Corporations Act 2001* (Cth) for the purposes of ASIC Class Order [CO 10/322]

This Cleansing Statement has been prepared for the purposes of and in accordance with the requirements of Section 708A(12C)(e) of the *Corporations Act 2001* (Cth) (***Corporations Act***) (as inserted by ASIC Class Order [CO 10/322]) to enable fully paid ordinary shares (***Shares***) in the capital of Galaxy Resources Limited (**ASX: GXY**) (***Galaxy*** or ***the Company***) issued on the conversion of convertible notes issued by Galaxy to be on-sold to retail investors.

This Cleansing Statement is important and should be read in its entirety.

1 BACKGROUND AND CONTENTS OF CLEANSING STATEMENT

As announced to the ASX on 30 March 2012, the Company has entered into an arrangement agreement (***Arrangement Agreement***) to effect the merger of Galaxy and Lithium One Inc (***Lithium One***) via a plan of arrangement under Canadian corporate and securities law (the *Business Corporations Act* (Ontario)) (***Merger***).

Lithium One has nine (9) convertible notes for the aggregate amount of C\$5 million on issue (***Lithium One Convertible Notes***).

Under the terms of the Arrangement Agreement, upon implementation of the Merger, Galaxy is required to exchange each Lithium One Convertible Note for a convertible note in Galaxy on substantially the same terms and conditions as the Lithium One Convertible Notes (***Galaxy Convertible Notes***).

Detailed information relating to the Merger, including details relating to the Galaxy Convertible Notes, is contained in the Notice of Meeting which was released to ASX on 15 May 2012 (***Notice of Meeting***).

This Cleansing Statement sets out the following:

- (a) in relation to the Galaxy Convertible Notes:
 - (i) the effect of the issue on the Company;
 - (ii) a summary of the rights and liabilities attaching to the Galaxy Convertible Notes;
 - (iii) a summary of the rights and liabilities attaching to options to acquire Shares (**Options**) that will be issued on conversion of the Galaxy Convertible Notes; and
 - (iv) a summary of the rights and liabilities attaching to the Shares that will be issued on conversion of the Galaxy Convertible Notes and on the conversion of the Options;
- (b) any information that:
 - (i) has been excluded from a continuous disclosure notice in accordance with the ASX Listing Rules; and
 - (ii) is information that investors and their professional advisers 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 Galaxy; and
 - (B) the rights and liabilities attaching to the Options and Shares; and
- (c) any other additional information relating to the Company's status as a disclosing entity and where documents may be obtained.

2 EFFECT OF THE ISSUE OF THE GALAXY CONVERTIBLE NOTES ON GALAXY

Assuming full conversion of all Galaxy Convertible Notes (and no adjustment of the conversion price), there would be a maximum issue of 8,169,934 Shares and 4,084,967 Options (which would themselves be convertible into 4,084,967 Shares).

The unaudited pro forma combined condensed financial statements as of 31 December 2011 are provided at page 16 of the Notice of Meeting to show the results of operations and financial position of Galaxy as if the Merger with Lithium One had occurred as of 31 December 2011, including the pro-forma effect of the issue of the Galaxy Convertible Notes on Galaxy's balance sheet.

No funds will be raised from the issue of the Galaxy Convertible Notes as they are in substitution for the Lithium One Convertible Notes.

The table below sets out the capital structure of Galaxy following the completion of the Merger and issue of the Galaxy Convertible Notes:

Security	Galaxy Pre Merger	Lithium One Merger	Galaxy Post Merger
Shares	365.2 million	141.3 million ³	506.5 million
Options to be issued on conversion of Galaxy Convertible Notes	59.9 million ¹	4.1 million	64 million
Shares to be issued on conversion of Galaxy Convertible Notes	54.1 million ²	8.2 million	62.3 million
Fully Diluted Shares	479.2 million	153.6 million	632.8 million

Notes:

1. Includes both in the money Options and out of the money Options. All Options are assumed to be converted for the purpose of this analysis.
2. Based on a conversion price of A\$1.160 prior to the recently undertaken capital raising, adjusted to A\$1.136 as a result of the capital raising. Galaxy Convertible Notes are, at the time of preparing this document, out of the money, however are assumed to be converted for the purpose of this table.
3. This figure represents both Shares and Exchangeable Shares (and corresponding number of Special Voting Shares) to be issued as Merger consideration for the Lithium One Shares, in the money Lithium One Options (with any Lithium One Options with an exercise price greater than C\$1.55 will be automatically cancelled) and Lithium One Warrants.

Shareholders should note that the amount of securities disclosed above are approximate and subject to change as a result of the rounding up of fractional entitlements issued in connection with the Merger.

3 RIGHTS AND LIABILITIES ATTACHING TO THE GALAXY CONVERTIBLE NOTES

The Galaxy Convertible Notes will be unlisted and convertible into Shares and Options (the terms of which are set out in section 4 and 5 of this Cleansing Statement respectively).

The full terms of the Galaxy Convertible Notes are annexed as Schedule K to the Arrangement Agreement which was released to ASX on 30 March 2012.¹

A summary of the rights, privileges and restrictions attaching to the Galaxy Convertible Notes is set out in Annexure A of this Cleansing Statement.

¹ The full terms of the Galaxy Convertible Notes are annexed as Schedule K to the Arrangement Agreement which was released to ASX on 30 March 2012. These terms describe the "Options" to be issued upon exchange of the Galaxy Convertible Notes as "Warrants". This is a terminology difference that arises as a result of the Arrangement Agreement being prepared in accordance with Canadian law. The full terms of the Options to be issued upon conversion of the Galaxy Convertible Notes are set out at Annexure C of this Cleansing Statement.

4 RIGHTS AND LIABILITIES ATTACHING TO THE SHARES

The Shares issued on conversion of the Galaxy Convertible Notes will be fully paid ordinary shares in the capital of the Company and will rank equally with the Company's Shares that are currently on issue.

The Company intends to apply to ASX Limited for quotation of the Shares.

The rights and liabilities attaching to Shares, including the new Shares to be issued upon conversion of the Galaxy Convertible Notes, are set out in Galaxy's Constitution and, in certain circumstances, regulated by the Corporations Act and the ASX Listing Rules.

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

A summary of the rights, privileges and restrictions attaching to Shares is set out in Annexure B of this Cleansing Statement.

5 RIGHTS AND LIABILITIES ATTACHING TO THE OPTIONS

The Options issued on conversion of the Galaxy Convertible Notes will be options entitling the holder to acquire one Share, for each Option held, for C\$0.765 up to and including 29 October 2012.

A broad summary of the rights, privileges and restrictions attaching to the Options is set out in Annexure C of this Cleansing Statement.

6 COMPLIANCE WITH CONTINUOUS DISCLOSURE OBLIGATIONS

The Company is a "disclosing entity" (as defined in Section 111AC of the Corporations Act) and, as such, is subject to regular reporting and disclosure obligations under the Corporations Act and the ASX Listing Rules.

Specifically, like all listed companies, Galaxy is required to continuously disclose any information it has to the market which a reasonable person would expect to have a material effect on the price or the value of the Company's securities.

The Company, as a disclosing entity under the Corporations Act states that:

- (a) it is subject to regular reporting and disclosure obligations;
- (b) copies of documents lodged with the ASIC in relation to the Company (not being documents referred to in Section 1274(2)(a) of the Corporations Act) may be obtained from, or inspected at, the offices of the ASIC; and

- (c) it will provide a copy of each of the following documents, free of charge, to any person on request:
- (i) the annual financial report of the Company for the financial year ended 31 December 2011 (**2011 Annual Report**), being the most recent annual financial report of the Company lodged with the ASIC before the issue of this Cleansing Statement;
 - (ii) any half-year financial report lodged by the Company with the ASIC after the lodgment of the 2011 Annual Report and before the lodgment of this Cleansing Statement with ASIC; and
 - (iii) any documents used to notify ASX of information relating to the Company in the period from lodgment of the 2011 Annual Report until the issue of this Cleansing Statement in accordance with the ASX Listing Rules as referred to in Section 674(1) of the Corporations Act.

Copies of all documents lodged with the ASIC in relation to the Company can be inspected at the registered office of the Company during normal office hours.

The Company has lodged the following announcements with ASX since the lodgment of the 2011 Annual Report on 21 March 2012:

Date	Description of Announcement
2 July 2012	Appendix 3B - Lapsing of Options
27 June 2012	Court Grants Final Order Approving Merger
19 June 2012	Lithium One and Galaxy Shareholders Approve Merger
18 June 2012	Results of General Meeting
15 June 2012	Change of Director's Interest Notice - Readhead
15 June 2012	Cleansing Notice
15 June 2012	Appendix 3B
8 June 2012	Redemption Date Extension on L1 Exchangeable Shares
8 June 2012	ASX Small to Mid Caps Conference Webcast
4 June 2012	Change in substantial holding
30 May 2012	Galaxy Sells First Commercial Shipment Mt Cattlin Spodumene
24 May 2012	Galaxy Sells First Lithium Carbonate from Jiangsu
23 May 2012	MD Corporate Presentation - AGM
23 May 2012	Appendix 3B - removal of SEHK vesting condition

23 May 2012	Results of Annual General Meeting
22 May 2012	EL and C Ballieu Research Report
21 May 2012	Change in substantial holding - Fengli
16 May 2012	Galaxy Welcomes Further Lithium Product Price Increases
15 May 2012	Galaxy Lithium One Merger Information Circular
15 May 2012	Notice of General Meeting/Proxy Form - Lithium One Merger
11 May 2012	Change of Director's Interest Notice - Whitfield
2 May 2012	Change of Director's Interest Notice - Tan
2 May 2012	Change of Director's Interest Notice - Readhead
2 May 2012	Cleansing Notice
2 May 2012	Appendix 3B
1 May 2012	Change of Director's Interest Notice - Readhead
1 May 2012	Galaxy Raises \$2.25 Million through Share Purchase Plan
30 April 2012	Amendment to Notice of Annual General Meeting
30 April 2012	Quarterly Activities and Cashlow Report - March 2012
27 April 2012	Change in substantial holding - Creat
27 April 2012	FORM 604 CHANGE OF INTERESTS OF SUB HOLDER
26 April 2012	Seymour Pierce Research Report
24 April 2012	Cleansing Notice
24 April 2012	Appendix 3B
24 April 2012	Galaxy Reports High Lithium Oxide Grades James Bay (amended)
24 April 2012	Galaxy Reports High Lithium Oxide Grades at James Bay
23 April 2012	Cleansing Notice
23 April 2012	Appendix 3B
23 April 2012	Notice of Annual General Meeting and Proxy Form
23 April 2012	Change in substantial holding

20 April 2012	Galaxy Extends Share Purchase Plan
19 April 2012	Galaxy's Lithium One Merger Advances to Next Stage
16 April 2012	Resignation of Company Secretary (Hong Kong)
13 April 2012	Galaxy Share Purchase Plan Offer Document
12 April 2012	Reinstatement to Official Quotation
12 April 2012	Galaxy Completes Capital Raising to Support L1 Merger
11 April 2012	Voluntary Suspension Extension
10 April 2012	Galaxy Produces First Lithium Carbonate at Jiangsu Plant
3 April 2012	Becoming a substantial holder
3 April 2012	Merger Interview with Galaxy's Managing Director
3 April 2012	Voluntary Suspension from Official Quotation
30 March 2012	Galaxy and Lithium One Merger Arrangement Agreement
30 March 2012	Galaxy and Lithium One Merger Presentation
30 March 2012	Galaxy to Merge with Canada's Lithium One
30 March 2012	Trading Halt
28 March 2012	Galaxy's Mt Cattlin Exceeds Design Output

7 INFORMATION EXCLUDED FROM CONTINUOUS DISCLOSURE NOTICES

As at the date of this Cleansing Statement, the Company is not aware of any other information that:

- (a) has been excluded from a continuous disclosure notice in accordance with the ASX Listing Rules; and
- (b) is information that investors and their professional advisers would reasonably require for the purpose of making an informed assessment of:
 - (i) the assets and liabilities, financial position and performance, profits and losses and prospects of Galaxy; and
 - (ii) the rights and liabilities attaching to the Options and Shares.

Yours faithfully

A handwritten signature in black ink, appearing to read "A L Meloncelli". The signature is fluid and cursive, with a distinct loop at the end.

A L Meloncelli
Company Secretary

ANNEXURE A

TERMS OF GALAXY CONVERTIBLE NOTES

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

Issuer

Galaxy Resources Limited ACN 071 976 442

Issue Date

The Company will issue and allot the Galaxy Convertible Notes on the effective date of the Merger (currently proposed to be 3 July 2012), but in any event by no later than three months after 18 June 2012, being the date of Galaxy's general meeting at which the issue of the Galaxy Convertible Notes was approved by Shareholders of Galaxy.

Issue Price

The aggregate principal amount of the Galaxy Convertible Notes is C\$5,000,000.

The issue price is 100% of the principal amount of each Galaxy Convertible Note. The Galaxy Convertible Notes are being issued in exchange for the Lithium One Convertible Notes.

Term

The term expires and the principal outstanding under each Galaxy Convertible Note becomes repayable on 29 October 2012, subject to the relevant Galaxy Convertible Note not having been exchanged for Galaxy securities in accordance with the terms of the note.

The principal will become repayable earlier if Galaxy or any other subsidiaries (as relevant) commits an event of default under the terms of the Galaxy Convertible Note.

Interest

The principal outstanding shall bear interest at a rate of 8% per annum, compounded daily. Interest shall be paid in cash.

Exchange

If an exchange notice is given by a holder of a Galaxy Convertible Note, the principal outstanding under the Galaxy Convertible Note shall be converted, at a conversion price of CAD\$0.612, into one Share and half an Option (with any fractional entitlements upon conversion being rounded down). The Galaxy Convertible Notes cannot be converted into Exchangeable Shares (as defined in the Notice of Meeting) or Special Voting Shares (as defined in the Notice of Meeting).

The conversion price and number of securities a noteholder is entitled to receive on exchange of their Galaxy Convertible Notes is subject to adjustment, under the terms of the Galaxy Convertible Notes, for certain prescribed future dilutive events.

The events which may result in an adjustment to the initial conversion price, include (among other things): subdivision, consolidation or division of the Company's Shares; the Company undertaking a corporate reorganisation (via a merger, amalgamation or other corporate action); the Company issuing securities at a price less than the conversion price; the Company undertaking a rights issue, grant of options or other securities issue at a price less than 96% of the current market price on the record date at which participants for the offer are determined; and other anti-dilution adjustment events.

Status

Unsecured

Assignment

The Galaxy Convertible Notes are non-transferable without Galaxy's express written consent, not to be unreasonably withheld.

ANNEXURE B

TERMS OF SHARES

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

Voting Rights

Subject to Galaxy's Constitution and any rights or restrictions at the time being attached to a class of Shares, at a general meeting of the Company every Shareholder present in person, or by proxy, attorney or representative has one vote on a show of hands, and upon a poll, one vote for each fully paid Share held by the Shareholder and for each partly paid share held, a fraction of one vote equal to the proportion which the amount paid up bears to the amounts paid or payable on that Share.

Dividends

Subject to Galaxy's Constitution, the Corporations Act and the terms of issue or rights of any Shares with special rights to dividends, the directors may determine that a dividend is payable, fix the amount and the time for payment and authorise the payment or crediting by Galaxy to, or at the direction of, each Shareholder entitled to that dividend.

Winding up

If the Company is wound up, the liquidator may with the sanction of a special resolution of the Company, divide among the Shareholders in kind the whole or any part of the property of the Company and may for that purpose set such value as the liquidator deems fair on any property to be so divided and may determine how the division is to be carried out as between Shareholders or different classes of Shareholders.

Transfer of Shares

Subject to Galaxy's Constitution and the ASX Listing Rules, Share are transferable:

- as provided by the operating rules of a CS Facility (as defined in the Corporations Act) if applicable; or
- by any other method of transfer which is required or permitted by the Corporations Act and ASX or by any other applicable legislation, stock exchange or regulatory body.

If permitted by the ASX Listing Rules, the directors may request the applicable operator of a CS Facility to apply a holding lock to prevent a transfer of Shares from being registered on the CS Facility's subregister or may decline to register any transfer of Shares.

Lien

To the extent permitted by law, Galaxy has a first and paramount lien on every Share for all due and unpaid calls and instalments in respect of that Share, all money which Galaxy is required by law to pay, and has paid, in respect of that Share, reasonable interest on the amount due from the date it becomes due until payment and reasonable expenses of Galaxy in respect of the default on

payment.

Calls on Shares

The directors may make calls on a Shareholder for all, or any part of, the amount of money unpaid on the Share, provided the money is not by the terms of issue of the Share made payable at fixed times. If a Shareholder fails to pay a call or instalment of a call, the directors may, at any time afterwards during such time as any part of the call or instalment remains unpaid, give a notice to the Shareholder requiring payment of so much of the call or instalment as is unpaid, specifying the time by which payment is required to be made. If the notice has not been complied with, the directors may by resolution forfeit the relevant Shares. The forfeited Share may be sold, re-issued or otherwise disposed of to such persons and on such terms as the directors think fit.

Further Increases in Capital

Subject to the Corporations Act, the ASX Listing Rules and any special rights conferred on the holders of any Shares or class of Shares, the directors may issue and cancel Shares, grant options over unissued Shares and settle the manner in which fractions of a Share, however arising, are to be dealt with.

Variation of Rights Attaching to Shares

The Corporations Act provides that the rights attached to Shares in a class of Shares may be varied or cancelled only by either special resolution passed at a general meeting of the holders of the Shares in that class, or with the written consent of the holders of at least 75% of the votes in that class.

ANNEXURE C

TERMS OF OPTIONS

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

Exercise Date

The Options are exercisable wholly or in part at any time before 5.00 pm (Toronto time) on 29 October 2012. Options not exercised by this date shall lapse.

Exercise Price

Each Option shall entitle the Option holder to acquire one fully paid ordinary share upon payment of the exercise price of C\$0.765.

Transfer of Options

The Options are non-transferable.

Notice of Exercise

Each Option may be exercised by notice in writing to the Company at any time before their date of expiry. Any notice of exercise of an Option received by the Company with payment on full of the exercise price will be deemed to be a notice of the exercise of that Option as at the date of receipt.

Quotation of Options and Shares on Exercise

Application will not be made to Australian Securities Exchange (**ASX**) for official quotation of the options. Application will be made to the ASX for official quotation of the shares issued upon exercise of Options.

Shares Allotted on Exercise

Shares allotted pursuant to the exercise of Options will be allotted following receipt of all the relevant documents and payments and will rank equally with the issued shares.

Participation Rights or Entitlements

There are no participating rights or entitlements inherent in the Options and Option holders will not be entitled to participate in new issues of securities offered to shareholders during the currency of the Options. However, the Company will ensure that for the purposes of determining entitlements to any such issue, the record date will be at least six business days after the issue is announced so as to give Option holders the opportunity to exercise their Options before the date for determining entitlements to participate in any issue.

Reconstruction of Share Capital

In the event of a reconstruction (including consolidation, subdivision, reduction or return) of the issued capital of the Company, all rights of the Option holder shall be reconstructed in accordance with the ASX Listing Rules.

Bonus Issues

If, from time to time, before the expiry of the Options the Company makes a pro-rata issue of shares to shareholders for no consideration, the number of shares over which an Option is exercisable will be increased by the number of shares which the Option holder would have received if the Option had been exercised before the date for calculating entitlements to the pro-rata issue.

Change of Control

If, in the opinion of the board, a "Change of Control Event" has occurred, or is likely to occur, the board may declare an Option to be free of any conditions of exercise and options which are so declared may, be exercised at any time and in any number.

A Change of Control Event occurs if a takeover bid is made to acquire all of the issued shares in the Company (or other transaction is initiated which, in the board's opinion, has an effect similar to a full takeover bid for the shares in the Company, including a scheme of arrangement) and the bid has resulted in or (in the opinion of the board) will result in the proponent of the bid acquiring more than 50% of the issued shares in the Company.