

30 March 2012

## GALAXY TO MERGE WITH CANADA'S LITHIUM ONE

### Highlights

- Merger will result in a vertically integrated lithium company of global significance
- Galaxy to acquire all Lithium One shares via a Plan of Arrangement
- Scrip offer comprising not less than 1.8 Galaxy shares for each Lithium One share
- Galaxy's resource base will grow significantly through Lithium One's world class Sal de Vida lithium-potash project in Argentina
- Offer values Lithium One at approximately C\$1.55 per share, or C\$112 million on an undiluted basis<sup>1</sup>
- Offer price of C\$1.55 represents a **27% premium** to Lithium One's 30 day VWAP up to and including 15 March 2012, the date Galaxy submitted its offer
- The merger is unanimously recommended by both the Lithium One and Galaxy Boards
- Lithium One Directors and officers holding 13% of Lithium One (fully diluted), and Galaxy shareholders holding 16% of Galaxy shares (undiluted) have executed binding commitments to support the merger

Galaxy Resources Ltd (ASX: GXY, "Galaxy" or the "Company") is pleased to announce it has entered into an agreement to effect a merger of Galaxy and Canadian lithium and potash exploration and development company Lithium One Inc. (TSX-V: LI, "Lithium One")

Lithium One owns the highly prospective Sal de Vida lithium and potash brine project in Argentina ("Sal de Vida"), for which a preliminary economic assessment ("PEA") completed in October 2011 estimated a net present value of US\$1.07 billion (at 8% discount; see further below). Lithium One also owns the James Bay lithium pegmatite project in Quebec ("James Bay"), in which Galaxy has an existing 20% stake under a farm-in arrangement (Galaxy can earn up to 70% by completion of a Definitive Feasibility Study ("DFS")).

Galaxy Managing Director, Iggy Tan, said a merger with Lithium One represented an excellent opportunity for Galaxy to boost its global lithium resource base and become a major global lithium company.

"Galaxy has spent the last 18 months searching the world for a high quality, undeveloped lithium brine deposit and we believe Sal de Vida fits that criterion. The Sal de Vida brine chemistry is highly favourable, with high levels of lithium and potash, and low levels of magnesium and sulphate impurities. Sal de Vida is located adjacent to FMC Lithium's El Fenix lithium operation in the Salar del Hombre Muerto, which has been in operation for the last 15 years."

"Galaxy will require more lithium resources over the next few years, and Sal de Vida along with James Bay will significantly add to our existing Australian resource inventory and gives us ample resources to continue to grow the lithium business and drive the long term value of the company. The merger is not only a good strategic fit for Galaxy, it also represents an opportunity for Lithium One shareholders to become part of a lithium producing company with hard rock and brine assets around the world."

"With Galaxy's expertise across project development and lithium mining, processing and marketing, we would be able to fast track development of Sal de Vida as we did at our Mt Cattlin lithium mine and Jiangsu lithium carbonate plant. In addition, Galaxy plans to retain Lithium One's current management team and incorporate it into Galaxy's successful business."

<sup>1</sup> Based on Galaxy 30 day VWAP of A\$0.829 up to and including 15 March 2012

"The Galaxy Board of Directors unanimously support the merger and recommend that Galaxy shareholders vote in favour of it at the Annual General Meeting, which is intended to be held on 17 May 2012," Mr Tan said.

Lithium One Chairman, Martin Rowley, said this offer represented an outstanding opportunity for Lithium One shareholders to realise the value of their investment.

"The Lithium One Board and management have done an outstanding job in building a successful lithium exploration and development company within a short period of time, which is reflected in the attractive offer received from Galaxy. By combining the assets, we will be a major player in the lithium sector. We look forward to joining the Galaxy team. The merger is unanimously supported by the Lithium One Board of Directors, which recommends that Lithium One shareholders vote in favour accordingly."

## Merger Metrics

Under the agreement, Galaxy will acquire 100% of the outstanding securities of Lithium One via a Plan of Arrangement whereby Lithium One shareholders will receive Galaxy shares in exchange for their Lithium One shares ("Offer").

Lithium One shareholders will receive not less than 1.8 Galaxy fully paid ordinary shares for each Lithium One common share (see note 1). This exchange ratio was set based on the 30 day volume weighted average price ("VWAP") of Galaxy shares up to and including 15 March 2012 (when the non-binding offer was submitted to Lithium One) of A\$0.829 and a CAD:AUD exchange rate of 0.962, and values each Lithium One share at **C\$1.55**, or C\$112 million on an undiluted basis. This represents a **premium of 27%** to Lithium One's 30 day VWAP of C\$1.217, and a premium of **36%** to its 10 day VWAP of C\$1.141, up to and including 15 March 2012.

Lithium One has a current cash balance of approximately C\$10 million.

## Lithium One Equity Research Reports

Various research houses and brokers cover Lithium One. The following is a summary of the research reports and their associated target price recommendations. These reports are available on Lithium One's company web site [www.lithium1.com](http://www.lithium1.com). The target price recommendation average is C\$2.75 per Lithium One share.

Research Company	Date	Comment	Target Price C\$
Byron Capital	Mar-11	Pre PEA	2.45
Clarus Securities	Mar-11	Pre PEA	3.00
Cormark Securities	Jun-11	Pre PEA	2.40
Clarus Securities	Jun-11	Pump Tests	3.00
Mackie Research	Dec-11	Initiating	2.60
Stifel Nicolaus	Feb-12	PEA Completed	2.30
Byron Capital	Jan-12	PEA Completed	3.25
Byron Capital	Feb-12	C\$9.8m Raising	3.00
Average			2.75

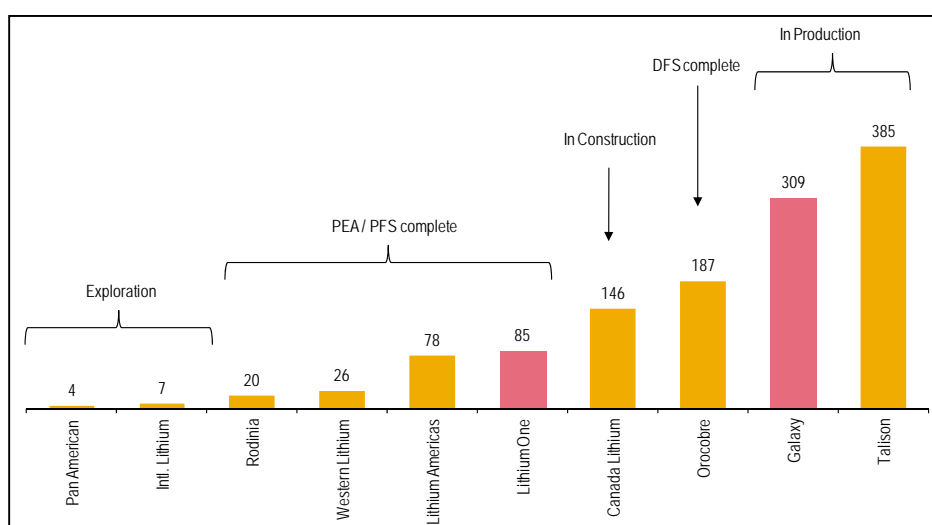
## Galaxy Equity Raising

As an agreed pre-cursor to the transaction, Galaxy intends to undertake an equity raising of A\$50 million (before costs) to strengthen the merged entity's ("Galaxy Mergeco") balance sheet and increase its financial flexibility to progress its development plans and pursue additional growth opportunities. Galaxy will consider oversubscriptions based on demand. Funds raised will be used for working capital for the Mt Cattlin and Jiangsu projects, to accelerate development of Sal de Vida; debt servicing, capital raising fees and merger costs. The finalisation of the capital raising is not conditional on the merger with Lithium One proceeding. Both companies are committed to the success of the merger, however, in the event it does not complete, Galaxy will use the residual funds to pursue acquisition of other lithium related properties.

The equity raising is expected to be completed before the merger is completed, through an equity placement and share purchase plan. Galaxy anticipates making a further announcement regarding the capital raising shortly.

### Lithium One at Pre-DFS Value

With a current market capitalisation of approximately A\$85 million, Galaxy believes that Lithium One is currently valued as a PEA-staged company. Lithium One has announced that its DFS should be completed by the end of 2012. For the sake of peer comparison, Orocobre, a similar lithium brine company, has completed a DFS and its market capitalisation is close to A\$187 million, or 2.2 times that of Lithium One. Galaxy believes that with its additional lithium processing and project development experience, the Sal de Vida DFS can be fast tracked and the full value of this project reflected in the market.



### Galaxy Mergeco Market Capitalisation

As noted above, Galaxy intends to undertake an equity raising of A\$50 million prior to the merger. Assuming this is successful, as shown in the table below, the merged entity ("Galaxy Mergeco") will have a market capitalisation of just under A\$0.5 billion making it the **largest lithium pure play company in the world**.

Item	Galaxy	Lithium One	Lithium One acquisition (pro-forma adjustments)	Pro-forma Galaxy Mergeco
Share price <sup>1</sup>	A\$0.95	C\$1.25	A\$0.829 <sup>2</sup>	A\$0.95
Shares (million)	323.3	70.4	130.0 <sup>3</sup>	513.5 <sup>4</sup>
Options / warrants (million)	59.9	4.9	-	59.9
Undiluted market cap	A\$308.7m	A\$88.0m	A\$107.7m	A\$490.3m
Cash (as at 31 December 2011)	A\$18.0m	C\$10.7m <sup>5</sup>	A\$6.0m <sup>6,7</sup>	A\$71.5m <sup>8</sup>
Debt (as at 31 December 2011)	A\$99.6m <sup>9</sup>	C\$5.0m <sup>9</sup>	A\$4.8m <sup>6</sup>	A\$104.4m
Production capacity (tpa LCE)	17,000	25,000 <sup>10</sup>	25,000 <sup>10</sup>	42,000 <sup>10</sup>

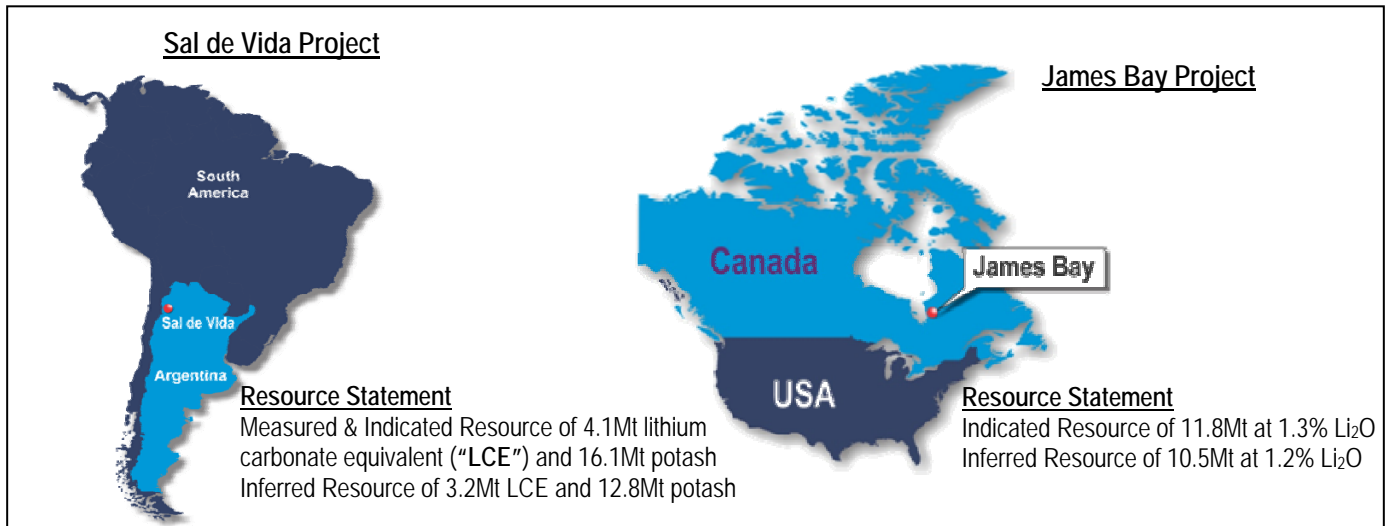
Notes:

- 5 day VWAPs as at 29 March 2012 for Galaxy and 28 March 2012 for Lithium One
- Galaxy 30 day VWAP prior to submission of a non-binding indicative offer to Lithium One on 15 March 2012
- Galaxy shares issued for Lithium One shares (at a ratio of 1.8 to 1) and for Lithium One options / warrants (based on in-the-money value)
- Includes an assumed 60.2 million shares to be issued in the capital raising (see footnote 8)
- Includes proceeds from C\$9.8 million capital raising completed on 24 February 2012
- Converted at AUD:CAD exchange rate of 1.04
- Less estimated merger costs of 4%
- Includes assumed proceeds of A\$50 million capital raising at assumed price of A\$0.83, less 5% transaction costs
- For Galaxy A\$99.6 million in debt includes A\$66.1 million of convertible bonds, for Lithium One C\$5.0 million is solely convertible notes
- 100% basis. Lithium One holds a 70% equity share of Sal de Vida

## LITHIUM ONE'S ASSETS

Lithium One owns 70% of the Sal de Vida lithium and potash brine project in Argentina and 80% of the James Bay lithium pegmatite project (in joint venture with Galaxy) in Quebec, Canada.

### *Lithium One's Assets*



\*Resource is a National Instrument 43-101 compliant statement.

### James Bay Project (80%)

The James Bay lithium pegmatite project in Quebec is an extensive high-grade spodumene pegmatite deposit that occurs at surface. Situated adjacent to key infrastructure including high-tension power, roads and readily accessible water, James Bay is well located to potentially provide a stable supply of lithium to the emerging lithium battery sector in the northeast United States and Eastern Canada. Galaxy signed a Memorandum of Understanding with Lithium One to acquire up to 70% of James Bay as part of a farm-in arrangement in December 2010. Galaxy currently owns 20% of James Bay. As shown below, James Bay has a NI 43-101 compliant resource of 22.2 Mt at 1.28% Li<sub>2</sub>O.

Resource	Tonnes	Li <sub>2</sub> O %
Indicated	11,750,000	1.30%
Inferred	10,470,000	1.20%
<b>TOTAL</b>	<b>22,220,000</b>	<b>1.28%</b>

### Sal de Vida Project (70%)

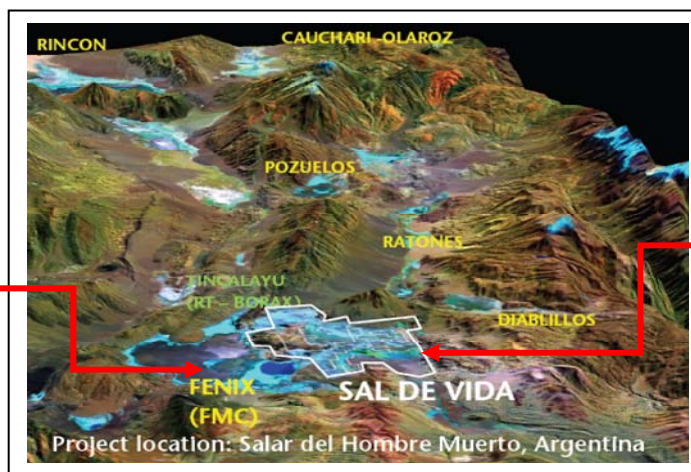
The Sal de Vida lithium and potash brine project in Argentina is Lithium One's flagship property and is situated in the lithium triangle. The lithium triangle (where Chile, Argentina and Bolivia meet) is currently the source of 60% of global lithium production. Lithium is found in the brine (salty water) below the dry lake beds (called salars) at high altitude.

There are only two producing areas in the lithium triangle; Salar de Atacama in Chile and Salar del Hombre Muerto in Argentina. Sal de Vida is located close to projects owned by major lithium producer FMC Lithium, which in 2011, produced 16% of the global lithium supply. FMC Lithium has been operating in the region for 15 years. **Sal de Vida has excellent promise as a future low cost brine mine and lithium carbonate processing facility.**



Sal De Vida is next to FMC Lithium's Fenix operation

FMC Lithium operation  
on Salar del Hombre  
Muerto



Lithium One's  
Sal de Vida Project is also  
on Salar del Hombre  
Muerto

### Resource Statement

The NI 43-101 compliant resource for Sal de Vida was recently upgraded and currently stands at approximately 7.2 Mt of lithium carbonate equivalent ("LCE") and 28.8 Mt of potash (KCl) (potash is an important by-product of brine-sourced lithium). This comprises a Measured and Indicated resource of 4.1 Mt of LCE and 16.1 Mt of potash, and an Inferred resource of 3.2 Mt of LCE and 12.8 Mt of potash. **Galaxy believes that this makes Sal de Vida one of the largest undeveloped lithium brine deposits in the world.**

### Sal de Vida Resource Statement\*

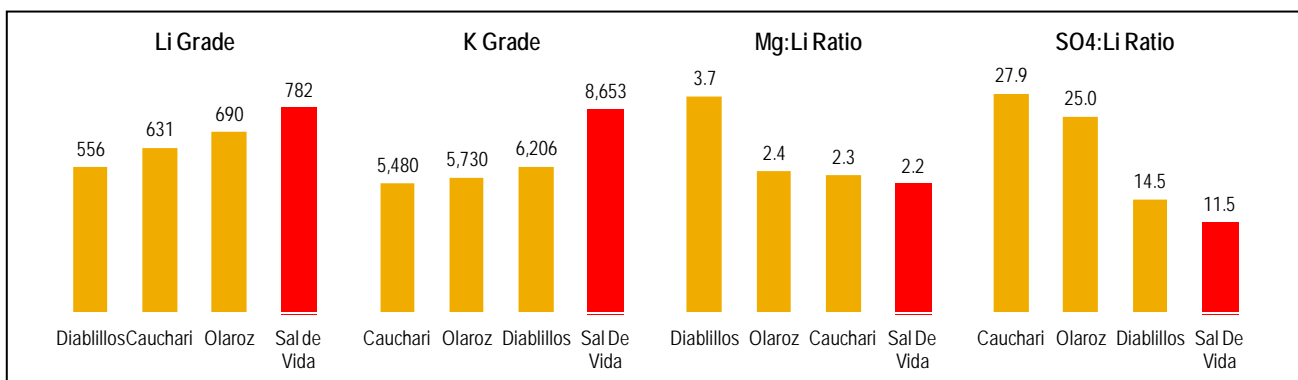
Category	Brine Volume (m <sup>3</sup> )	Li Grade (mg/L)	In Situ Li (tonnes)	Li <sub>2</sub> CO <sub>3</sub> Equiv (tonnes)	K Grade (mg/L)	In Situ K (tonnes)	KCl Equiv (tonnes)
Measured	7.2 x 10 <sup>8</sup>	787	565,000	3,005,000	8,695	6,241,000	11,902,000
Indicated	2.6 x 10 <sup>8</sup>	768	197,000	1,048,000	8,534	2,186,000	4,169,000
M & I	9.8 x 10 <sup>8</sup>	782	762,000	4,053,000	8,653	8,427,000	16,071,000
Inferred	8.3 x 10 <sup>8</sup>	718	597,000	3,180,000	8,051	6,692,000	12,762,000

\*Resource is a National Instrument 43-101 compliant statement.

### Brine Chemistry

The quality of a brine deposit depends on the chemistry of the brine. Sal de Vida's **brine chemistry is world class with high levels of lithium** (average of 782 mg/L) and potash (average of 8,653 mg/L) in comparison to other undeveloped brine deposits. Another important aspect is the level of magnesium and sulphate impurities measured by the magnesium:lithium and sulphate:lithium ratios. Lower ratios are more advantageous and as shown below, Sal de Vida has the **lowest ratios of all undeveloped brine projects in Argentina.**

### Sal de Vida Brine Chemistry Comparison



Lithium One's partners in Sal de Vida, KORES, LG International and GS Caltex, (the "**Korea Consortium**") are funding up to US\$15 million towards a feasibility program to earn a 30% interest in Sal de Vida. As part of the joint venture agreement, the Korea Consortium will also have the right and obligation to purchase 30% of the lithium products produced from Sal de Vida at market prices, as well as a right of first offer to purchase an additional 20% of the product. The Korea Consortium has marketing rights over the lithium products in the Chinese, Japanese and Korean markets, while Lithium One will market the potash and any boron by-products worldwide. Under the agreement, the Korea Consortium will provide a project completion guarantee for Lithium One's portion of project debt financing until completion, and use commercially reasonable best efforts to obtain project finance.

### Preliminary Economic Assessment

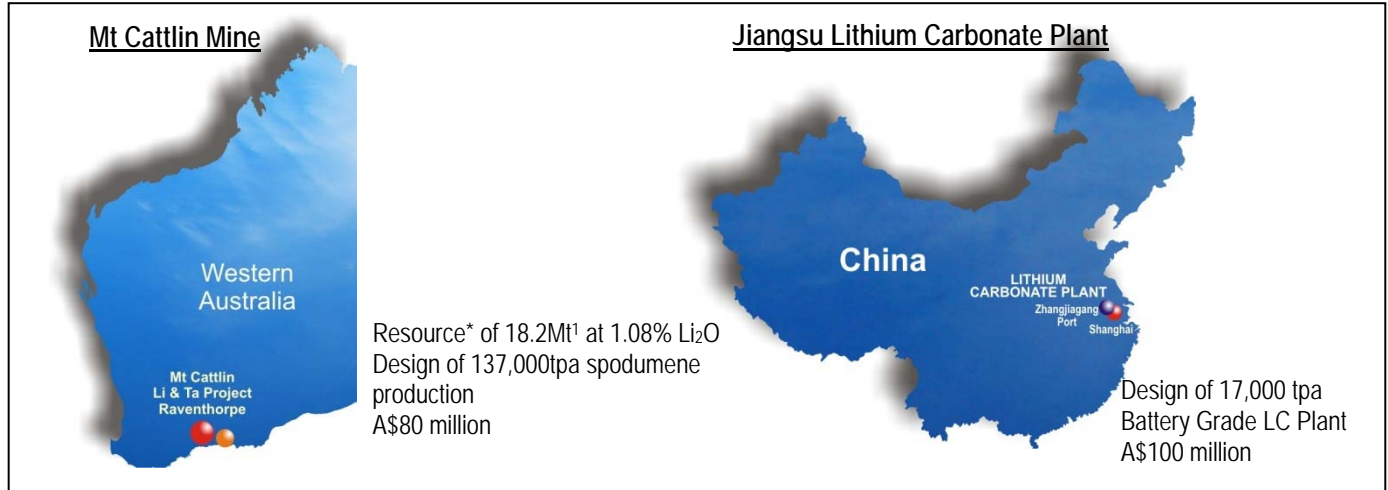
On 5 October 2011, Lithium One announced that it had completed a positive PEA for Sal de Vida. Lithium One's announcement indicated that the PEA outlined an operation producing 25,000 tonnes per annum of lithium carbonate and 107,000 tonnes per annum of potash, with an IRR of 28% and an NPV at 8% discount rate of **US\$1.07 billion** (see note 2). The full results of the PEA are shown in the table below.

Lithium carbonate production (tpa)	25,000
Potash production (tpa)	107,000
Estimated mine life (years)	40+
Estimated capital costs (US\$m)	356
Estimated operating costs (US\$/t Li <sub>2</sub> CO <sub>3</sub> , FOB Antofagasta, Chile)	1,537
Estimated operating costs (US\$/t KCl, FOR Guemes, Argentina)	184
Average 2011 to 2025 Li <sub>2</sub> CO <sub>3</sub> price (US\$/t)	5,490
Average 2011 to 2025 KCl price (US\$/t)	620
Average annual cash flow for first 20 years (US\$m, pre-tax)	139
Project commencement of revenue generation (year)	2015
Net present value at 8% pre-tax real discount rate (US\$m)	1,066
Internal rate of return (%)	28%
Project payback period (years)	<4

### GALAXY'S ASSETS

Galaxy owns 100% of the Mt Cattlin lithium mine and processing plant in Western Australia ("**Mt Cattlin Mine**"). In early March, Galaxy officially opened the Jiangsu lithium carbonate plant in China's Jiangsu Province ("**Jiangsu Lithium Carbonate Plant**"). Galaxy also owns 20% of James Bay (in JV with Lithium One) and the Company is also currently progressing plans to develop a lithium battery project also in Jiangsu, China ("**Jiangsu Lithium Battery Project**").

## Galaxy's Assets



<sup>1</sup> Resource statement is JORC compliant statement

### Mt Cattlin Mine (100%)

The Mt Cattlin Mine commenced production in 2010 and, at full capacity, will be the world's second largest producing hard rock lithium mine, with a Resource of 18.2 Mt at 1.08% Li<sub>2</sub>O.

Resource	Tonnes	Li <sub>2</sub> O %	Ta <sub>2</sub> O <sub>5</sub> ppm
Measured	3,193,000	1.17	149
Indicated	10,613,000	1.06	168
Inferred	4,382,000	1.07	132
<b>TOTAL</b>	<b>18,188,000</b>	<b>1.08</b>	<b>156</b>

During 2011, Galaxy recorded total ore movement of 0.62 Mt and total waste movement of 1.97 million BCMs at the Mt Cattlin Mine. The mine produced a total of 63,853 tonnes of spodumene concentrate product, which was shipped to Jiangsu, China in preparation for the start-up of the Jiangsu Lithium Carbonate Plant. In addition, 464 tonnes of tantalum concentrate @ 3.3% Ta<sub>2</sub>O<sub>5</sub> was produced, of which 234 tonnes (containing 15,117 lbs Ta<sub>2</sub>O<sub>5</sub>) was sold to Global Advanced Metals under a long term agreement with Galaxy. Ramp-up at Mt Cattlin continues to meet the feedstock requirements for the Jiangsu Lithium Carbonate Plant. On 28 March 2012, Galaxy announced that the ramp-up of Mt Cattlin is progressing well, with the mine and processing plant consistently exceeding design throughput levels during the second half of March 2012.



Galaxy's Mt Cattlin Mine

### Jiangsu Lithium Carbonate Plant (100%)

Galaxy has recently officially opened the Jiangsu Lithium Carbonate Plant located in the port city of Zhangjiagang in China's Jiangsu Province. The Jiangsu Lithium Carbonate Plant has a production capacity of 17,000 tpa of lithium carbonate and capability to produce high purity (99.9%) "EV Grade" lithium carbonate. The Jiangsu Lithium Carbonate Plant will be the largest-capacity battery grade lithium carbonate plant in the Asia Pacific region. Galaxy is currently commissioning the plant, which is scheduled to begin production by the end of Q1 2012.

Galaxy is primarily targeting the battery materials sector and has successfully completed offtake framework agreements for 100% of its production with Mitsubishi Corporation of Japan and 13 major cathode producers in China. 400 delegates travelled to the Jiangsu Plant for its official opening ceremony, including Chinese and Australian Government officials, customers and Galaxy shareholders.



Opening ceremony video link: <http://www.brrmedia.com/event/94722/official-opening>

*Galaxy's Jiangsu Lithium Carbonate Plant*

### Jiangsu Lithium Battery Project (100%)

Galaxy's Battery Division is advancing plans to build a lithium-ion battery plant in Jiangsu, near to the existing Jiangsu Lithium Carbonate Plant. Proposed production is 620,000 battery packs per year for the e-bike market. The Company has aligned with a turn-key Korean battery plant builder acquired a technology licence from K2 Energy; acquired land in Jiangsu; secured 80% of production in offtake arrangements and has received funding interest from three major Chinese banks.

The Galaxy Board has yet to make the final investment decision on the Jiangsu Lithium Battery Project, before seeking joint venture partnerships. The financial and economic details of the project are as follows:

Item	Description
Production	620K packs/annum
Total Capital Costs	US\$142.6 million
Average Net Cash Flow	US\$67.8 million/annum
Net Present Value (10% Discount)	US\$364.9 million
Internal Rate Of Return	43%
Payback Period	2.5 years
Average Operating Cost (Pack/KWh)	US\$122/pack [equivalent US\$340/KWh]
Average Revenue (Pack/KWh)	US\$201/pack [equivalent US\$560/KWh] ~ yielding 40% margin

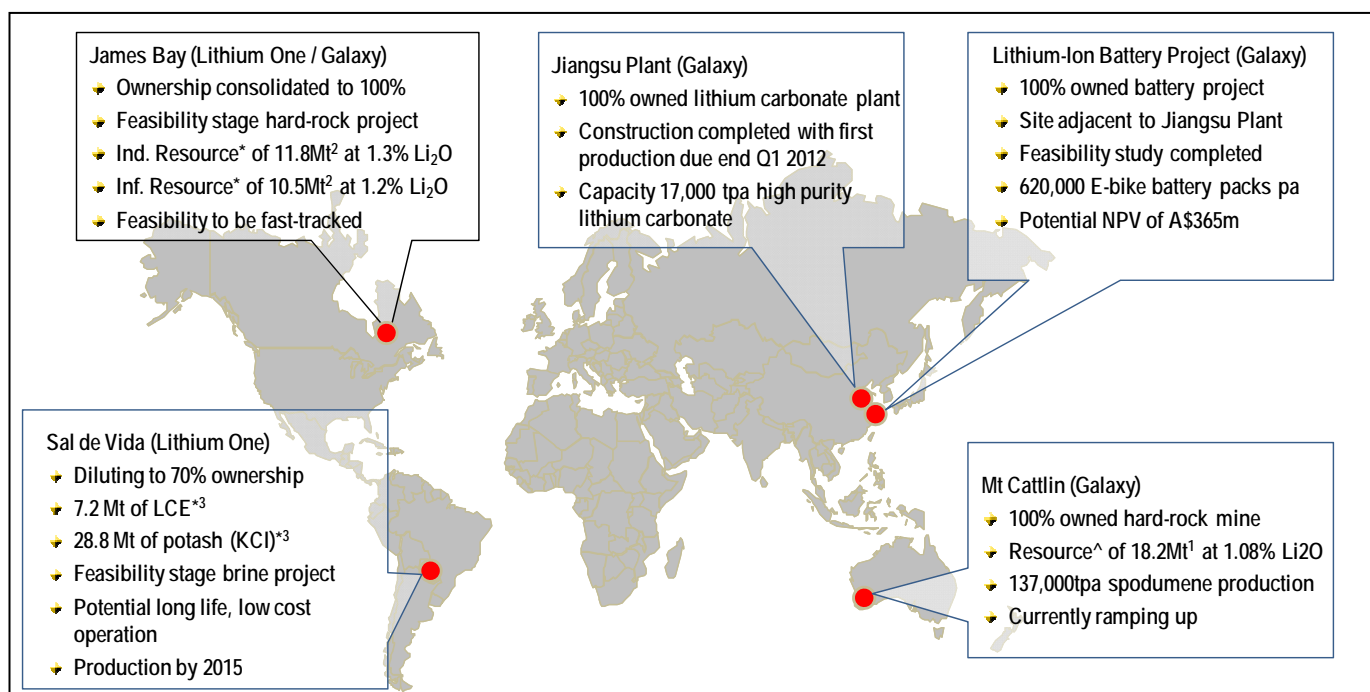
## RATIONALE FOR THE MERGER

Both companies believe there are a number of compelling reasons for a merger of Galaxy and Lithium One, and that the proposed transaction provides a strong value proposition to both companies' shareholders.

Both companies' shareholders will have the opportunity to become part of a vertically integrated lithium company of global significance. With enhanced scale, Galaxy Mergeco will have a portfolio of production and development assets located in four continents, comprising hard rock and brine resource projects and processing facilities, including:

- The Mt Cattlin Mine, an operating lithium mine which contains the third largest JORC-compliant (or similar) hard rock lithium Ore Reserve globally;
- The Jiangsu Lithium Carbonate Plant, which will be the largest and most modern hard rock lithium carbonate plant in the world;
- The Sal de Vida project, a large, high quality brine development project located adjacent to one of the world's largest existing lithium producers;
- The James Bay project, a longer term development project which presents a future opportunity to supply the North American market; and
- The Jiangsu Lithium Battery Project, a value adding downstream project to supply lithium-ion batteries to the rapidly growing electric bicycle and electric vehicle market.

### *Galaxy Mergeco Assets*



\*Resource statement is a National Instrument 43-101 compliant statement. ^ Resource statement is JORC compliant statement

Galaxy Mergeco will have a combined resource base of 1.2 Mt of LCE in hard rock projects and 7.2 Mt of LCE in brine projects, with potential production capacity of 42,000 tpa of lithium carbonate once Sal de Vida is brought on line (based on the Lithium One PEA and 100% of total output).

Galaxy and Lithium One's current shareholders will diversify their risk by holding shares in a company with multiple operations, whilst continuing to enjoy exposure to Lithium One's development projects.

In addition, Galaxy Mergeco shareholders will obtain near term exposure to rising lithium prices through Galaxy's production assets and have an investment in a company that is becoming a lithium producer.

Galaxy has a liquid and well-covered equity base. The shareholder register has major institutional and strategic investors with ongoing commitment to the Company's future.

Galaxy Mergeco will have a unique opportunity to capitalise on favourable industry dynamics through the strong position Galaxy has developed:

- Demand for lithium carbonate is growing strongly, driven by the electric vehicle industry. Existing producers and first movers, such as Galaxy, will be best positioned to take advantage of the growth;
- Galaxy believes electric vehicle manufacturers will prefer batteries and battery components made from higher quality lithium carbonate to deliver higher power output and longer battery life. Galaxy has developed a proprietary process to produce lithium carbonate with grades of 99.9% and above through re-crystallization;
- Lithium One's projects will be de-risked by access to Galaxy's strong corporate, resource and chemical teams, which have significant development and operating experience. Galaxy achieved spodumene concentrate production at the Mt Cattlin Mine within 11 months from groundbreaking and expects to achieve lithium carbonate production in just 3 years; and
- Galaxy Mergeco will benefit from Galaxy's marketing expertise and existing customer relationships. Galaxy's marketing team has already secured offtake agreements for all of the expected lithium carbonate production from the Jiangsu Lithium Carbonate Plant with Mitsubishi Corporation (5,000 tpa) and 13 Chinese lithium cathode producers (combined 12,000 tpa) and has also established markets for its by-products in Australia and China.

#### **Recommendation by Lithium One Board**

After receiving a Canadian fairness opinion, the Board of Directors of Lithium One has, in the absence of a superior proposal, committed to unanimously recommend the transaction to its shareholders and vote in favour of the transaction at the Plan meeting.

#### **Lithium One Shareholder Support**

The directors and senior officers of Lithium One, holding in aggregate approximately 13% of the fully diluted share capital of Lithium One, have entered into voting agreements with Galaxy, pursuant to which they have agreed to vote their securities (including Options) in favour of the transaction, in the absence of a superior proposal. In addition, certain convertible note holders, representing approximately 100% of the principal value of the outstanding notes, have agreed to support Galaxy's offer, in the absence of a superior proposal.

#### **Galaxy Shareholder Support**

Galaxy shareholders holding approximately 16% of the undiluted issued capital of Galaxy have, in the absence of a superior proposal, confirmed their intention to vote in favour of the transaction at the Galaxy shareholder meeting.

#### **Galaxy Mergeco Board**

Immediately following completion of the proposed merger, Lithium One Chairman Martin Rowley and CEO Paul Matysek will be appointed to Galaxy Mergeco's board of directors as non-executive directors, and all current Galaxy directors will remain on the board of Galaxy Mergeco. Galaxy's current Chairman, Craig Readhead, and Managing Director, Iggy Tan, will retain their existing positions. Galaxy proposes that key Lithium One management wishing to continue with Galaxy Mergeco be offered ongoing positions.

### Transaction is Fair and Reasonable

Lithium One's financial advisor, BMO Capital Markets, has provided an opinion to the Board of Directors of Lithium One that, based upon and subject to the assumptions, limitations, and qualifications stated in such opinion, including that Galaxy complete the proposed equity financing, the consideration proposed to be received by the Lithium One shareholders pursuant to the Plan is fair from a financial point of view to such shareholders..

### Transaction Implementation

The parties have entered into an arrangement agreement ("**Arrangement Agreement**"), which sets out the terms of the proposed transaction. The proposed transaction will be implemented through the Plan under Canadian corporate and securities law (which is generally analogous to an Australian scheme of arrangement under Part 5.1 of the Australian *Corporations Act 2001* (Cth)). Completion of the Plan is subject to certain conditions, including receipt of all necessary regulatory approvals (including receipt of the interim and final court order in Canada), absence of material adverse changes, Galaxy shareholder approval and Lithium One shareholder approval as set out in note 3.

The full terms of the Arrangement Agreement will be released to the ASX shortly. Full details of the Plan will be included in a management information circular ("**Circular**") to be prepared by Lithium One. The Circular will be filed with securities regulatory authorities and mailed to Lithium One shareholders in due course.

### Transaction Structure

It is expected the Plan will incorporate an exchangeable share structure to allow Lithium One shareholders to benefit from deferral of capital gains tax consequences. Full details of this structure will be included in the Circular.

### Exclusivity Arrangements

As part of the Arrangement Agreement entered into by the parties, Lithium One and Galaxy have agreed certain exclusivity arrangements, under which neither Galaxy nor Lithium One will solicit any competing proposal or participate in any discussions or negotiations in relation to any competing proposal unless the Arrangement Agreement is terminated or to enable the directors to comply with their fiduciary duties.

Under the Arrangement Agreement, Lithium One and Galaxy has agreed to pay the other a termination fee of C\$3 million in certain circumstances. Lithium One and Galaxy have also provided each other with certain reciprocal customary rights, including a five day period to match any superior proposal.

### Indicative Timetable

The table below contains an indicative timetable for the merger to be implemented. It should be noted that these dates are indicative only and are subject to change.

Announcement of Arrangement	30 March 2012
Completion of Circular (including pro-forma financials)	20 April 2012
Record Date	20 April 2012
Interim Court Order (Lithium One)	23 April 2012
Mail Circular and Meeting Materials to Registered Security Holders	25 April 2012
Galaxy Shareholder Meeting	23 May 2012
Lithium One Shareholder Meeting	25 May 2012
Final Court Order (Lithium One)	28 May 2012
Pre-closing	30 May 2012
Closing Date	31 May 2012

### Advisers

Galaxy's financial advisers are Azure Capital (Australia) and Paradigm Capital Inc (Canada), and its legal advisers are Allion Legal (Australia) and Fasken Martineau DuMoulin LLP (Canada).

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## About Galaxy (ASX: GXY)

Galaxy Resources Ltd ("Galaxy") is an Australian-based integrated lithium mining, chemicals and battery company listed on the Australian Securities Exchange (Code: GXY) and is a S&P/ASX 300 Index Company. Galaxy wholly owns the Mt Cattlin project near Ravensthorpe in Western Australia where it mines lithium pegmatite ore and processes it on site to produce a spodumene concentrate and tantalum by-product. At full capacity, Galaxy will be able to process 137,000 tpa of spodumene concentrate and 56,000 lbs per annum of contained tantalum. The concentrated spodumene is to be shipped to Galaxy's wholly-owned Lithium Carbonate Plant in China's Jiangsu province. Once complete, the Jiangsu plant is expected to produce 17,000 tpa of battery grade lithium carbonate, which, on that basis and current global production, would make Galaxy the largest producer in the Asia Pacific region and the fourth largest in the world.

Galaxy is also advancing plans for a lithium-ion battery plant, to produce 620,000 battery packs per annum for the electric bike (e-bike) market. The Company also has a farm in agreement with TSX-listed Lithium One Inc to acquire up to 70% of the James Bay Lithium Pegmatite Project in Quebec, Canada.

Lithium compounds are used in the manufacture of ceramics, glass, electronics and are an essential cathode material for long life lithium-ion batteries used to power e-bikes and hybrid and electric vehicles. Galaxy is bullish about the current global lithium demand outlook and is positioning itself to achieve its goal of being involved in every step of the lithium supply chain.

### Note 1 – Ratio Adjustment

If the Galaxy equity raising results in Galaxy offering its shares at a price of less than A\$0.829 per share, the exchange ratio will be revised by dividing C\$1.55 by the Canadian dollar equivalent of the offer price under the Galaxy equity raising. The result of this calculation will be a new exchange ratio of Galaxy shares that Lithium One shareholders will receive in exchange for their Lithium One shares. Lithium One shareholders will not receive less than 1.8 Galaxy shares in exchange for each Lithium One share they hold. For example, if Galaxy shares are offered under the Galaxy equity raising at A\$0.80 per share, the new exchange ratio of Galaxy shares that Lithium One shareholders will receive in exchange for their Lithium One shares will be 1.86 Galaxy shares for each Lithium One share they hold.

### Note 2 – The Preliminary Economic Assessment Cautionary Note

At the time of announcement of the PEA Lithium One made a "Cautionary Note" statement regarding the PEA, which is repeated below. Galaxy has not verified, considered or assessed the results or outcomes of the PEA and makes no representation in this regard.

"The Preliminary Economic Assessment (PEA) was prepared to broadly quantify the Sal de Vida project's capital and operating cost parameters and to provide guidance on the type and scale of future project engineering and development work that will be needed to ultimately define the project's likelihood of a positive feasibility determination and optimal production rate. It was not prepared to be used as a valuation of the project nor should it be considered to be a final feasibility study on which a commercial production decision could be made as mineral resources that are not mineral reserves do not have demonstrated economic viability. The PEA includes inferred mineral resources that are considered too speculative geologically to have the economic considerations applied to them that would enable them to be categorised as mineral reserves, and there is no certainty that the results predicted by the PEA will be realised. The capital and operating cost estimates which were used have been developed only to an approximate order of magnitude based on generally understood capital cost to production level relationships, and although they are based on engineering studies, these are preliminary so the ultimate costs may vary widely from the amounts set out in the PEA. This could materially adversely impact the projected economics of the project. As is normal at this stage of a project, data in some areas was incomplete and estimates were developed based solely on the expertise of the Company's employees and consultants. At this level of engineering, the criteria, methods and estimates are preliminary and result in a high level of subjective judgment being employed. There can be no assurance that the potential results contained in the PEA will be realised."

### Note 3 – Voting Thresholds Required

For the transaction to proceed, it requires:

- (i) 66.67% of votes cast at the Plan meeting by Lithium One shareholders to be cast in favour of it;
- (ii) 66.67% of votes cast at the Plan meeting by Lithium One shareholders and option holders, voting as a single class, to be cast in favour of it;
- (iii) 66.67% of the principal amount of the Lithium One convertible notes represented in person or by proxy at the Plan meeting; and
- (iv) 50.01% of the votes cast by minority shareholders of Lithium One in accordance with minority approval requirements of M1 61-101

## Competent Persons & Qualified Persons

### Mt Cattlin

The information in this report that relates to Mineral Resources and Exploration Results is based on information compiled by Mr Robert Spiers who is a full time employee of Hellman and Schofield Pty Ltd and Dr Mike Grigson who is a full time employee of Arc Minerals. Mr Spiers and Dr Grigson have sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity they are undertaking to qualify as a Competent Person as defined in the 2004 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Mr Spiers and Dr Grigson consent to the inclusion in the report of the matters based on their information in the form and context in which it appears.

### James Bay

#### Competent Person

The information in this report that relates to Mineral Resources for the James Bay project is based on work completed by Mr. Sébastien Bernier, who is a Member of a Recognised Overseas Professional Organisation. Mr Bernier is a full time employee of SRK Consulting (Canada) Inc. and has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2004 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Mr Bernier consents to the inclusion in this report of the matters based on his information in the form and context in which it appears.

#### National Instrument 43-101 - Qualified Person

The mineral resources for the James Bay project are reported in accordance with National Instrument 43-101 and have been estimated in conformity with generally accepted CIM "Estimation of Mineral Resource and Mineral Reserves Best Practices" guidelines. Resource evaluation work was completed by Mr. Sébastien Bernier, P.Ge (OGQ#1034, APGO#1847) an independent Qualified Person as defined by NI 43-101. Mr. Bernier has read and approved the content of this news release. A Technical Report compliant with NI 43-101 standards describing the resource estimation was filed on SEDAR within 45 days of its release.

### Sal de Vida

#### Competent Persons

The information in this report that relates to Mineral Resources for the Sal de Vida lithium project is based on work completed by Mr. Michael Rosko, who is a Member of a Recognised Overseas Professional Organisation. Mr. Rosko is a full time employee of E. L. Montgomery and Associates and has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2004 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Mr. Rosko consents to the inclusion in this report of the matters based on his information in the form and context in which it appears.

#### National Instrument 43-101 - Qualified Person

The mineral resources for the Sal de Vida lithium project are reported in accordance with National Instrument 43-101 and have been estimated in conformity with generally accepted CIM "Estimation of Mineral Resource and Mineral Reserves Best Practices" guidelines. Resource evaluation work was completed by Mr. Michael Rosko, P.Ge (Arizona 25065, Texas 6359, California 5236) an independent Qualified Person as defined by NI 43-101. Mr. Rosko has read and approved the content of this news release. A Technical Report compliant with NI 43-101 standards describing the resource estimation was filed on SEDAR within 45 days of its release.

### Caution Regarding Forward Looking Information.

This document contains forward looking statements concerning the projects owned by Galaxy and Lithium One. Statements concerning mining reserves and resources may also be deemed to be forward looking statements in that they involve estimates based on specific assumptions.

Forward-looking statements are not statements of historical fact and actual events and results may differ materially from those described in the forward looking statements as a result of a variety of risks, uncertainties and other factors. Forward-looking statements are inherently subject to business, economic, competitive, political and social uncertainties and contingencies. Many factors could cause the Company's actual results to differ materially from those expressed or implied in any forward-looking information provided by the Company, or on behalf of, the Company. Such factors include, among other things, risks relating to additional funding requirements, metal prices, exploration, development and operating risks, competition, production risks, regulatory restrictions, including environmental regulation and liability and potential title disputes.

Forward looking statements in this document are based on Galaxy's beliefs, opinions and estimates of Galaxy (and Lithium One) as of the dates the forward looking statements are made, and no obligation is assumed to update forward looking statements if these beliefs, opinions and estimates should change or to reflect other future developments.

There can be no assurance that Galaxy's plans for development of its mineral properties (and those of Lithium One, assuming successful completion of the merger with Lithium One) will proceed as currently expected. There can also be no assurance that Galaxy (or Lithium One) will be able to confirm the presence of additional mineral deposits, that any mineralization will prove to be economic or that a mine will successfully be developed on any of Galaxy's (or Lithium One's) mineral properties. Circumstances or management's estimates or opinions could change. The reader is cautioned not to place undue reliance on forward-looking statements.

Data and amounts shown in this document relating to capital costs, operating costs and project timelines are internally generated best estimates only. All such information and data is currently under review as part of Galaxy's ongoing development and feasibility studies. Accordingly, Galaxy makes no representation as to the accuracy and/or completeness of the figures or data included in the document until the feasibility studies are completed.

### Not For Release in US

This announcement has been prepared for publication in Australia and may not be released in the U.S. This announcement does not constitute an offer of securities for sale in any jurisdiction, including the United States, and any securities described in this announcement may not be offered or sold in the United States absent registration or an exemption from registration under the United States Securities Act of 1933, as amended. Any public offering of securities to be made in the United States will be made by means of a prospectus that may be obtained from the issuer and that will contain detailed information about the company and management, as well as financial statements.