

# QUARTERLY REPORT

For the three months ending 31 December 2009

Galaxy Resources Limited (ASX: GXY) is pleased to provide shareholders with the December 2009 Quarterly Report which outlines the progress made by your company during the quarter. The Company is now fully funded and will hold a significant cash position to support the development of both the Mt Cattlin and Jiangsu projects.



Construction Progress at Mt Cattlin

## SIGNIFICANT EVENTS DURING THE QUARTER

- \$65 million institutional placement completed and first stage of Share Placement completed with Creat.
- Shareholder approval for the second stage of Creat Share Subscription to be held on 10 February 2010.
- Appointment of Dr Yuewen Zheng as a Non Executive Director on 7 January 2010.
- First facility loan drawdown occurred in December 2009.
- China Development Bank (CDB) and RZB join the project finance syndicate.
- Galaxy wins the China Business Entrepreneurial Excellence Award.
- Change of Financial Year End to 31 December to synchronise with overseas operations.
- Ground Breaking Ceremony for Mt Cattlin, opened by Hon Colin Barnett, Premier of Western Australia.
- Mining Approval granted and Mining Leases approved – Mt Cattlin and West Kundip.
- Mt Cattlin construction progressing on schedule.
- General Mining Corporation (GMC) successfully listed on ASX – Galaxy is 8.91% shareholder.
- Environmental and Safety Approvals received for Jiangsu Lithium Carbonate Plant.
- Final Jiangsu Definitive Feasibility Study results positive.
- The Engineering, Procurement and Construction Management (EPCM) contract awarded to Hatch Consulting Shanghai.
- Jiangsu site preparation has commenced.
- Project Investment Contract (PIC) for Jiangsu Site signed.
- Key staff appointments made for Jiangsu.
- Update economic modelling at current foreign exchange rates highlights the robust nature of the project with the pre tax Net Present Value (NPV) at **\$425 million**.
- The **post tax NPV is estimated at A\$297 million**.

## Corporate

### \$65 Million Institutional Raising

The Company placed 51 million shares to sophisticated and institutional investors on 21 October 2009. The placement was approved by shareholders at a General Meeting held on 14 October 2009.

The joint lead managers of the raising were State One Stockbroking Ltd and Helmsec Global Capital Ltd.

### Creat Equity Raising

The Company received A\$ 6 million on 15 December 2009 being the first stage share subscription placement ("First Subscription") from Creat Resources Holdings Limited ("CRHL"), an investment vehicle for Creat Group Co Limited ("Creat").

The second and final stage share subscription placement of approximately A\$ 27 million ("Final Subscription") will occur after the CRHL AGM to formally approve this Final Subscription.

Creat is a 70% major shareholder of CRHL listed on the AIM market of the London Stock Exchange. The owners and employees of Creat also comprise the Chairman, Managing Director/CEO and CFO of CRHL. Galaxy issued 6,818,182 shares to CRHL on 15 December 2009.

Creat Group has nominated CRHL as the subscriber for the Galaxy shares in accordance with its right to do so under the Share Subscription Agreement. Galaxy has agreed with Creat to a delayed and staged share placement program because of the nomination of CRHL as the subscriber and the need for CRHL to comply with AIM listing requirements.

As a result of this delay, Galaxy will need to refresh its shareholder approval for these placements and the nomination of CRHL, which it will do at a General Meeting to be convened for 10 February 2010.

Subsequent to the end of the quarter, Dr Yuewen Zhang has been appointed as a Non Executive Director of the Company on 7 January 2010.

### Project Finance from RZB and CDB

At the end of last year, Galaxy transferred its Debt Facility Agreement for financing its lithium project from Creat to a syndicate of banks led by Austrian bank, Raiffeisen Zentralbank Österreich AG (RZB).

China Development Bank Corporation (CDB), China's leading financial institution, also joined the project finance syndicate.

On 27 November 2009 the Company received US\$ 20 million from RZB as a bridging loan, meeting the first drawdown.

Galaxy and Creat are of the view that it is in the best interests of the project over the longer term for the project funding to be provided by an independent banking arrangement rather than by a major shareholder of Galaxy. Creat has fulfilled its funding obligation by procuring the bank funding through its significant banking relationships. In effect, the parties have decided that it is better to accelerate that envisaged outcome now rather than putting in place these arrangements at a later date.

Both banks, RZB and CDB have conducted their respective due diligence on the Mt Cattlin and Jiangsu Projects and approved the loan for A\$130 million (US\$ 105 million).

### Galaxy Wins Australia Business Award

The Company was announced as the winner of the entrepreneurial excellence award at the AustCham Australia-China Business Awards in Beijing on 4 December 2009. The award recognised an Australian business that has demonstrated entrepreneurial excellence in greater China over the past year.



L to R, Jiangsu Operations Manager (Wang), GM Marketing (A Sheth) and WA State Development Manager (M Tang)

### Annual General Meeting

A General Meeting was held on Thursday, 19 November 2009 and the following resolutions were all passed on a show of hands:

1. Adoption of Remuneration Report;
2. Election of Dr Zheng as a Director; and the
3. Appointment of KPMG as auditor.

### General Meeting

A General meeting will be held at Level 2, 16 Ord Street, West Perth WA on Wednesday, 10 February 2010 commencing at 10.00 am (WST) to consider the following resolutions:

1. Approval of prior Share Issue;
2. Approval of future issue of Shares; and
3. Increase remuneration of non executive Directors fees

### Change of Financial Year End

The Company will be changing its financial year end from 30 June to 31 December, effective from 1 July 2009. The Company has been granted approval from the Australian Securities and Investments Commission ('ASIC') to make this change on 23 December 2009. The purpose of the change of financial year end is to synchronise with the overseas operations of Galaxy.

The Company has prepared its normal annual financial report for the year ending 30 June 2009 and will then prepare a further financial report covering the six month period 1 July 2009 to 31 December 2009. Annual reports thereafter will be prepared for a 12 month period from 1 January to 31 December each subsequent year.

### Change of Auditors

The Company's new auditors, KPMG, were approved by the shareholders at the Company's Annual General Meeting on 19 November 2009.

### Change of Share Registry

The Company changed the Company's Share Registry to Computershare Investor Services Pty Ltd on 31 December 2009.

### Appointment of Company Secretary

Mr Andrew Meloncelli was appointed as Company Secretary on 23 November 2009, replacing Mr John Sobolewski, who will continue to focus on his role as CFO.

## Mt Cattlin Spodumene Project

### Ground Breaking Ceremony

At the beginning of November, more than 100 guests descended upon Ravensthorpe to witness Western Australia's Premier Colin Barnett officially break the ground at the Company's Mt Cattlin Spodumene Project.



Premier of Western Australia, Colin Barnett

The Ground Breaking Ceremony marked a significant milestone in the development of the Mt Cattlin Spodumene Project – with construction and earthworks on the site commencing immediately.

### Mining Approval Granted

The Company secured Mining Approval from the Department of Mines and Petroleum (DoMP) for its Mt Cattlin Spodumene Project, near Ravensthorpe, Western Australia.

The granting of Mining Approval marks the final stage of pre-development for the Mt Cattlin project, effectively enabling the Company to commence mining and production in Q3 2010. With Works Approval secured, Galaxy commenced construction of the project including earthworks and the minerals processing plant in the second week of November 2009.

### Mining Leases Granted

On 1 December 2009, four mining leases (M74/158, M74/159, M74/196 and M74/197) surrounding the Mt Cattlin Spodumene mine were granted to the Company by the Department of Mines and Petroleum (DoMP). The leases further consolidate the Company's tenement holding in the area.

The tenements are considered very prospective for pegmatite-hosted lithium-tantalum mineralisation, and outcropping spodumene (lithium) bearing pegmatite has been recorded from several areas on the new leases. The Company is currently planning sampling and drill programs to follow up on pegmatite mineral occurrences with the aim of expanding the Mt Cattlin resource base.

Figure 1. Mt Cattlin Mining Leases



## Updated Economic Modelling

The Company has now received the updated project economics for Galaxy's vertically integrated Mt Cattlin Spodumene Mine and the Jiangsu Lithium Carbonate Plant. The update, prepared following the finalisation of capital, operating costs, and at the current exchange rate of USD:AUD of \$0.90, verifies the robust nature of the project.

The construction budget for the Mt Cattlin Spodumene Project has been finalised at \$79 million. While this represents a 16% increase from the Definitive Feasibility Study, it reflects changes to the initial design that will improve the robustness, reliability and safety margin of the plant. The changes to the original design include the introduction of quaternary crushing (from three to four stage crushing); a standby crusher, up-flow classification for mica removal, and a larger capacity spirals circuit. In addition, extra physical quantities of structural steel, concrete, platework, piping and electrical materials have been required supplementary to the DFS estimate. Early recruitment costs have also been incorporated into the revised construction budget for Mt Cattlin to ensure operational readiness when the plant undergoes commissioning in July 2010.

The \$55 million cost of the Lithium Carbonate Plant in China is derived from the Jiangsu DFS which was finalised in October 2009 and remains unchanged. Various supplier and contractor negotiations have also now been finalised, with the majority of costs decreasing in comparison to the DFS projections. Reductions in ocean shipping rates as well as reduced mining costs, following the successful outcome of the mining tender, will deliver an overall improvement in operating costs from the DFS.

The Company also recently announced it had extended the mine life from 15 to 16 years following the release of an updated and improved resource statement which will boost the project economics.

Financial modelling at current foreign exchange rates highlights the robust nature of the project with the pre tax Net Present Value (NPV) at **\$425 million**. The **post tax NPV is estimated at A\$297 million**.

Galaxy ensured that the DFS had very conservative assumptions and estimates and this has proved to be the case with most cost assumptions arriving at less than the DFS figures.

A summary of the updated economic model, including revisions to capital and operating costs from the DFS, has been provided below:

Project Economics (LOM Ave)	\$0.90 USD/AUD FX Rate
Capital Costs	A\$ 145 million
Mine Life	16 Years
Revenue pa	A\$ 143 million
Net Cash (pre tax) pa	A\$ 69 million
Net Present Value NPV (non-g geared, real @8%)	<b>A\$ 425 million</b>
Internal rate of Return IRR%	36%
Payback	2.7 Years

## Construction Progress

That construction of the processing plant at the Mt Cattlin Spodumene Project near Ravensthorpe, Western Australia is progressing on schedule.



Mt Cattlin Crusher Foundations

Earthworks at the Mt Cattlin site commenced in early November and are being carried out by Esperance based Martin's Mining and Civil. Earthworks have been completed over a large percentage of the site, with handover to the concrete contractor achieved. Construction of the run of mine (ROM) stockpile is also well advanced using material from the plant site earthworks and will be completed to final design when mining commences in early April 2010.

Construction of the new site access road from the Lake King road to the west of the site is also well advanced, with Roadtech Constructions having been awarded the contract in early December. Completion of the main access road including bitumen sealing is expected in late January.

Mobilisation of the concrete contractor S & N Constructions commenced on 4 December and the first major concrete pour which was the base of the fine ore bin tunnel occurred on 19 December.



Mt Cattlin Bulk Earthworks

A number of other major contracts were awarded recently. These include the mine and maintenance offices which were awarded to local Ravensthorpe company R & L Constructions, the mine workshop to S & N Constructions, the power station supply contract to the Contract Power Group of Companies and the mining contract was awarded to Orionstone Pty Ltd. Other major contracts are to be awarded in the coming months.

Procurement of all the major long lead equipment items has been completed and the balance of the procurement process will be complete by the end of January 2010.

### Shoemaker Joint Venture

As announced in the September 2009 quarterly, the proposed 50% sale and joint venture of Shoemaker to General Mining Corporation Limited (GMC) was subject to the successful listing of GMC on the Australian Securities Exchange or completion of corresponding capital raising of at least \$3 million.

GMC successfully listed on the ASX on 18 December 2009. Galaxy holds a 8.91% interest.

### Mt Chester Manganese Project

The Company disposed of the 25% residual interest in the Mt Chester Manganese Project to Pioneer Resources Limited for \$75,000.

## West Kundip Manganese Project

### Mining Leases Granted

On 1 December 2009, Two mining leases (M74/133 and M74/238) making up Galaxy's West Kundip Manganese Project were also granted recently (Figure 3). The leases are approximately 15km south of Ravensthorpe and cover a sequence of Proterozoic sediments including dolomite units, which are prospective for manganese mineralisation. Work conducted by Galaxy several years ago, prior to the tenements being converted to mining leases, outlined the presence of scattered pods of high grade manganese mineralisation. Galaxy will carry out a VTEM airborne geophysical survey in the near future to follow up on the potential for manganese mineralisation and to define drill targets with economic tonnage potential.

The mineralisation at West Kundip is considered to be of a similar style to Woodie Woodie, which is a significant manganese producing mine in Western Australia's Pilbara region.

The style consists of high grades pods of manganese ore produced from dolomitic sediments as a result of hydrothermal alteration is being used by Galaxy in the West Kundip area to target manganese mineralisation. Past exploration in the region in the same geological sequence has previously defined small manganese ore bodies at the Copper Mine Creek Deposit, Dempster River Crossing and Hamersley Gorge (which now lie in the Fitzgerald River National Park).

A sample of manganese from a 7 tonne bulk sample in 1998 gave assays of 38% Mn, 3.22% Fe, 2.80% Si, 0.03% P and 2.00% Al. Surface rock chip grab samples from the same area taken in 2008 and 2009 have returned up to 46.6% Mn, with 8.5% Fe, 1.0% Si, 0.002% P and 0.6% Al.

Galaxy's experience in heavy media separation processing techniques, its mining fleet in the Ravensthorpe area and Esperance port facility agreements provide the Company with an advantage in exploiting potential manganese mineralisation in the Ravensthorpe region.

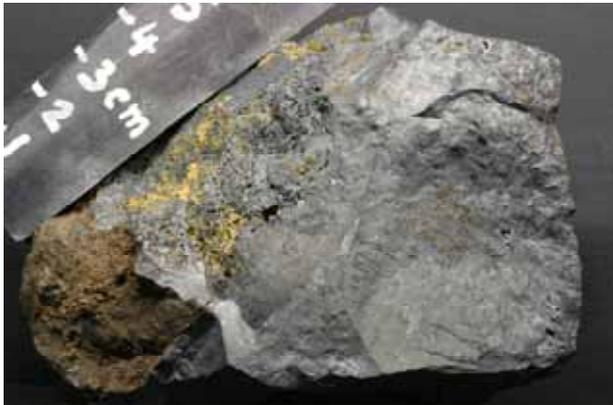
### Manganese Ore

Manganese ore is used to produce Electrolytic Manganese Dioxide (EMD) a valuable feedstock in cathode electrode material for alkaline manganese dioxide batteries, lithium manganese primary batteries and lithium ion manganese rechargeable batteries. The production of EMD follows a very similar process used for lithium carbonate, utilising calcination, sulphuric acid leaching and impurity removal through neutralisation. The only difference is the last step of electro-winning EMD from a manganese sulphate solution.

The world demand for EMD is around 225,000 tpa. In 2008, there was a supply shortfall of around 65,000 tpa of EMD due to high

costs plants being shutdown around the world and the limited amount of manganese ore available in China.

**Figure 3. Tenements over Quickbird image**

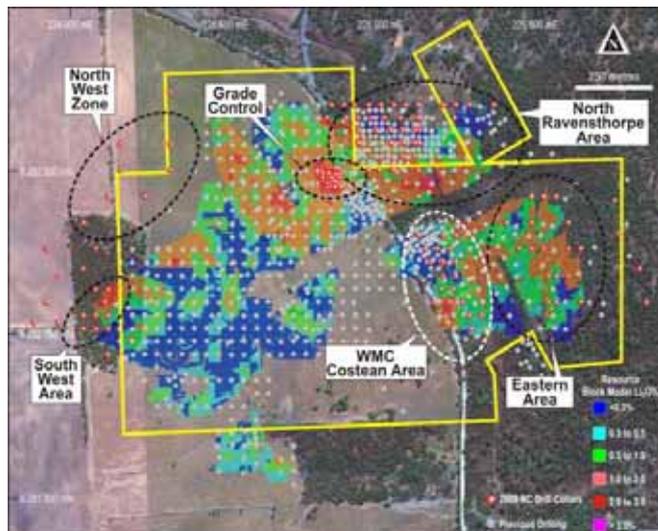


Surface Rock Chip grading 46.6% Mn, collected in 2009

### Geological Activities

**Mt Cattlin** – half of a significant 9,260m RC drilling program aimed at upgrading and extending resources at the Mt Cattlin Spodumene Project was completed. The overall resource grade for Mt Cattlin is 1.08% Li<sub>2</sub>O so intercept grades above this level are considered significant.

**Figure 4. Zone Areas targeted with recent drill hole collars in red**



#### North West Zone

The program has discovered a new zone of lithium-bearing pegmatite mineralisation to the northwest of the current resource (see Figure 4). Eight widely-spaced holes intersected pegmatite at a depth of around 80-100m, with best intercepts of **16m @ 1.35%Li<sub>2</sub>O** in GX1054 and **9m @ 2.13%Li<sub>2</sub>O** in GX947. The mineralised pegmatite has been intersected over an area of around

400m x 400m in plan view and varies from around 6m to 16m in width. The zone is still open to the west, although narrowing in this direction.

The North West zone appears to represent the north western extension of the main pegmatite horizon in the Dowling pit area. It lies to the west of a fault and northeast-trending dyke, which until now has defined the western limit of the resource.

#### South West Zone

Drilling at the South West margin of the resource (see Figure 1) indicates that some extension of the resource to the west is possible. Several holes intersected significant pegmatite mineralisation, including **5m @ 1.93% Li<sub>2</sub>O** in GX926 and **4m @ 1.82% Li<sub>2</sub>O** in GX925. A full list of significant intercepts from this area is given in Table 2 below.

Further step out drilling to the west did not intersect pegmatite at a depth however, geology in this area is complex, with several cross-cutting faults and dykes, and interpretation of results is ongoing. Sterilisation drilling to the west of the resource over the plant site failed to intersect pegmatite.

#### Eastern Zone

In the east of the Mt Cattlin resource, infill and minor step out drilling has confirmed the geological interpretation and returned excellent results, with the best of these including **9m @ 1.78% Li<sub>2</sub>O** in GX968 and **9m @ 1.41% Li<sub>2</sub>O** in GX969.

Several widely spaced holes around 200m east of the resource did not intersect any significant pegmatite mineralisation. It appears that the eastern margin of the main pegmatite horizon is controlled by a north-south trending structure in this area, and the continuation of the pegmatite has not yet been encountered to the east of this structure. However, outcropping spodumene-bearing pegmatite has been mapped around 300m to the south east of the area, on an adjoining Galaxy tenement. This zone will be followed up by drilling when permitting has been completed.

#### WMC Costean Area

Resource upgrade drilling in the WMC Costean Area to the east of Floater Road has intersected some excellent near surface mineralisation. This drilling was designed to upgrade resources from inferred to measured and indicated, and thereby increase reserves. Some historic drilling in this area was not assayed for lithium or was drilled using inappropriate techniques for resource estimation, so additional drilling was required.

High grade intercepts were returned from some areas that previously showed gaps in the resource or low grades, due to insufficient drilling or interpolation from surrounding lower grade drill holes (see Figure 2). Intercepts include **15m @ 1.71% Li<sub>2</sub>O** in GX984 and **14m @ 1.91% Li<sub>2</sub>O** in GX986 (from surface).

### North Ravensthorpe Area

Drilling in the "North Ravensthorpe" area, which was not assayed for lithium in most historic holes, has also been completed. The mineralisation shows excellent grade and continuity. Some very high grade intercepts over wide zones have been returned, including **21m @ 1.88% Li<sub>2</sub>O** in GX1008, **14m @ 2.06% Li<sub>2</sub>O** in GX1007 and **13m @ 2.10% Li<sub>2</sub>O** in GX1009. This area also showed some very high grade tantalum results, including **2m @ 5,513ppmTa<sub>2</sub>O<sub>5</sub>** in GX1037.

### Dowling Pit Area

A 10m x 10m grade control pattern over a small area of the Dowling pit was also completed. This work was carried out to investigate short range continuity of mineralisation, aid in grade control planning, and to gain further information on rock hardness and blasting characteristics. The drilling has returned some excellent intercepts, including **10m @ 3.37% Li<sub>2</sub>O** in GX921, **14m @ 2.07% Li<sub>2</sub>O** in GX996 and **10m @ 2.42% Li<sub>2</sub>O** in GX1002. It should be noted that some of the intercepts from this area, in addition to North Ravensthorpe, include a small proportion of the lithium-bearing mineral lepidolite, in addition to spodumene. Significant tantalum was reported from hole GX1059, which returned **8m @ 1,074 ppmTa<sub>2</sub>O<sub>5</sub>**.

### Jiangsu Definitive Feasibility Study

During the quarter, Galaxy released the final result of the Definitive Feasibility Study for the Jiangsu Lithium Carbonate Project.

The estimated capital cost is CNY 342 million or A\$ 55 million (based on an exchange rate of RMB:AUD of 6.2).

The final DFS capital cost estimation of A\$55 million is well in line with Galaxy's earlier estimates (A\$ 50 million) and confirms the estimated returns of the project. The estimate also incorporates a conservative 24% in contingency costs which will allow Galaxy to manage any changes to projected costs or in the future economic environment.

The study was conducted by Hatch Engineering in China. Hatch China has 20 years project experience in the Peoples Republic of China (PRC). The Hatch China team has successfully completed assignments on over 260 projects with a capital value in excess of US\$2 billion.

### EPCM Contract Awarded

In December 2009, the Company awarded the EPCM contract to design and build the Jiangsu Lithium Carbonate plant to Hatch Consulting Shanghai (Hatch).

The contract appoints Hatch to provide the engineering services, procurement and management of construction of the Jiangsu Battery Grade Lithium Carbonate Plant in the Zhangjiagang Yangtze River International Chemical Industrial Park.

The contract strengthens the association between Galaxy and Hatch and their appointment as EPCM contractor will provide a seamless transition into the project delivery phase.

Hatch delivered the comprehensive project DFS report for Galaxy on time and within budget earlier this year and has already commenced the process design and preliminary site preparation works at Jiangsu.

Hatch has coordinated the application for the business license which is due to be awarded shortly.

## Jiangsu Lithium Carbonate Project

### Project Investment Contract signed

The Company signed the Project Investment Contract (PIC) for the Jiangsu Lithium Carbonate Plant with the Zhangjiagang Free Trade Zone Administrative Committee (ZFTZAC). Mayor Xu, head of the ZFTZAC visited the Company in Perth in December 2009 to finalise the PIC which supersedes the Letter of Intent (LOI) between the parties and confirms all commitments made to Galaxy that were announced in May 2009.

The PIC provides for land use for 50 years in an ideal location for the production of battery grade lithium carbonate. The site will be serviced by a 500m conveyor between the ocean bulk shipping wharf and the plant to facilitate inexpensive delivery of the Mt Cattlin spodumene from the mine.

The site will be serviced by reticulated natural gas, electricity, water, waste water drainage, steam and telecommunications to the site boundary at no cost to Galaxy as a condition of the contract. Generous taxation concessions are also a provision of the contract and will assist Galaxy in being the lowest cost lithium carbonate producer in China.

In addition, the site is next to a 2.4 million tpa sulphuric acid plant that will provide cheap concentrated sulphuric acid, a major cost item in the lithium carbonate process. The other major consumable is soda ash (sodium carbonate) which will be sourced from China's second largest synthetic soda ash plant also located within the chemical park.

### Approvals

In November 2009, the Company received the Environmental Approval for its Jiangsu Lithium Carbonate Plant. The final Environment Approval Report has been approved by the Jiangsu Province Environmental Bureau. This approval is an important step toward full project approval for the Company's Jiangsu Lithium Carbonate Plant.

The environmental approval application required extensive testing and the submission of a detailed report which was compiled by a qualified competent organisation and was assessed by an expert

review panel. The process also required the project to be publicly advertised twice as a condition of the approval. The Zhangjiagang Industrial Park where the Jiangsu plant is situated has very tight environmental regulations having won awards for eco friendly development.

On 7 January 2010, the Company also received the safety and energy saving approvals for its Jiangsu Lithium Carbonate Plant. Both approvals were granted by the Suzhou Municipal Administration of Work Safety. These approvals are important steps toward full project approval for the Company's lithium carbonate plant.

### Site Preparation commences

The preparation works for the Jiangsu Lithium Carbonate Plant in the Zhangjiagang Yangtze River International Chemical Industrial Park have commenced.

The work involves clearing the vegetation from the site in preparation for back-filling, levelling and compaction by the Zhangjiagang Free Trade Zone (ZFTZ) authorities. The site will be levelled to a height of 4.4m (higher than flood level) before being handed over for the erection of security fencing by Galaxy.



**Work commences at Jiangsu site**

The Galaxy component of the site preparation works commenced in December, 2009. Galaxy recently awarded contracts to Times Engineering Design and Project Management Co Ltd for design institute and construction supervision services and to Shanghai No. 1 Construction Company for the site preparation services.

Construction of the plant is expected to commence on schedule in Q1 2010 with piling and foundations. This schedule is in accordance with the intended plant start-up in Q4 2010.



In December 2009, the Company appointed three key personnel to the Jiangsu Lithium Carbonate Plant operational and business team; Mr Wang Xiao Yi (Jiangsu Operations Manager), Ms Ayigul Baghdati (Commercial & Export Manager) and Ms Laura Lv (Financial Controller).

### Lithium Market Update

The unanimous message received from all of the lithium cathode producers during several marketing trips last year to China was that Galaxy's project is:

**At the Right Time  
At the Right Place  
With the Right Product**

These potential customers indicated a strong interest in Galaxy's project as it provides security of supply for battery grade lithium carbonate to underpin their expansion plans. Almost all of the lithium cathode producers engaged are doubling capacities over the coming 12 to 24 months.

The demand for lithium batteries in electric vehicles (EVs) and in the energy storage segment is forecast to grow exponentially in the next two years as the Chinese Government implements policies aimed at reducing greenhouse gas emissions.

To meet this demand, there are more than 100 companies in the value adding chain that produce lithium cathode, anode and electrolyte materials, battery assemblers and power management systems. Additionally, several Chinese car manufacturers have announced the release of EVs in the next one to two years.

EVs are listed as one of the major projects of national importance. In total, the planned investment in policies to reduce pollution and promote energy conservation is expected to reach US\$1.6 billion. In

addition, local provincial governments have developed regulations to support the development of EVs.

China's State Grid has commenced pilot operations in Beijing, Shanghai, Tianjin, Shandong, Zhejiang, Hubei, Hunan and other provinces to replace current fleet vehicles with approximately 2,000 EVs as well as building a recharging network.

A year ago, the Chinese Department of Science & Technology and the Ministry of Finance jointly launched a program to have 1,000 new-energy cars on the roads in each of the nominated 10 cities across China.

China is now the largest market for automobiles and potentially of EVs in the future. The Government aims to increase ownership of

EVs to 50% in 2030, the equivalent of between 10 million and 19.5 million annually. It could reach this target earlier if the battery cost reduces and the recharging station network is established country wide.

The current market of lithium batteries in power tools, lap tops, mobiles, PDA's and other consumer electronics in China is forecast to increase as manufacturers of these products shift their facilities from Japan into China. China currently supplies 48% of the total demand.

With strong progress being made on the development of both the Mt Cattlin and Jiangsu projects, Galaxy is well positioned to capitalise on the burgeoning demand for lithium.

#### For more information, please contact:

**Iggy Tan**  
Managing Director  
08 9215 1700  
0419 046 397

**Jon Snowball**  
FD Third Person  
08 9386 1233  
0424 473 841

#### Competent Persons

The information in this report that relates to Exploration Results is based on information compiled by Mr Philip Tornatora who is a full time employee of the Company and who is a Member of the Australasian Institute of Mining and Metallurgy and the Australian Institute of Geoscientists. Mr. Tornatora has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity 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 Tornatora consents to the inclusion in this report of the matters based on his information in the form and context in which it appears.

#### Caution Regarding Forward Looking Statements

Statements regarding Galaxy's plans with respect to its mineral properties are forward-looking statements. There can be no assurance that Galaxy's plans for development of its mineral properties will proceed as currently expected. There can also be no assurance that Galaxy 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 mineral properties. Circumstances or management's estimates or opinions could change. The reader is cautioned not to place undue reliance on forward-looking statements.

#### About Galaxy (ASX: GXY)

Galaxy Resources is a Western Australian company which is soon to become one of the world's leading producers of lithium – the essential component for powering the world's fast expanding fleet of hybrid and electric cars.

By 2010, GXY's Mt Cattlin mine will be the world's second largest hard rock producer of lithium and, through the development of its value adding lithium carbonate plant (17,000 tpa), the Company will be the largest and lowest cost lithium producer in China.

Lithium concentrate and lithium carbonate materials are forecast to be in short supply against high future demand due to advances in long life batteries and sophisticated electronics including mobile phones and computers.

Galaxy Resources has positioned itself to meet this lithium future by not only mining the lithium but by downstream processing to supply lithium carbonate to the lucrative Asian market.

# Appendix 5B

## Mining exploration entity quarterly report

Name of entity

**GALAXY RESOURCES LIMITED**

ABN

**11 071 976 442**

Quarter ended ("current quarter")

**31 December 2009**

### Consolidated statement of cash flows

	Current Quarter \$A'000	Year to date (6 Months) \$A'000
<b>Cash flows related to operating activities</b>		
1.1 Receipts from product sales and related debtors	-	-
1.2 Payments for		
(a) exploration and evaluation	(2,816)	(5,690)
(b) development	-	-
(c) production	-	-
(d) administration	* (3,296)	(4,527)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	240	259
1.5 Interest and other costs of finance paid	(1)	(1)
1.6 Income taxes paid	-	-
1.7 Other (provide details if material) - R&D taxation rebate	-	-
<b>Net operating cash flows</b>	<b>(5,873)</b>	<b>(9,959)</b>
<b>Cash flows related to investing activities</b>		
1.8 Payment for purchases of		
(a) prospects	-	-
(b) equity investments	-	-
(c) other fixed assets	(3,234)	(3,649)
1.9 Proceeds from sale of		
(a) prospects	175	175
(b) equity investments	-	-
(c) other fixed assets	-	-
1.10 Loans to other entities	-	-
1.11 Loans repaid by other entities	-	-
1.12 Other (provide details if material) – Security bonds	(868)	(869)
<b>Net investing cash flows</b>	<b>(3,927)</b>	<b>(4,343)</b>
1.13 Total operating and investing cash flows (carried forward)	(9,800)	(14,302)

**Appendix 5B**  
**Mining exploration entity quarterly report**

1.13	Total operating and investing cash flows (brought forward)	(9,800)	(14,302)
	<b>Cash flows related to financing activities</b>		
1.14	Proceeds from issues of shares, options, etc.	73,140	76,597
1.15	Proceeds from sale of forfeited shares	-	-
1.16	Proceeds from borrowings	21,810	21,880
1.17	Repayment of borrowings	-	-
1.18	Dividends paid	-	-
1.19	Other (provide details if material) – costs of issues	(4,469)	(4,681)
	<b>Net Financing Cash Flows</b>	90,481	93,796
	<b>Net increase (decrease) in cash held</b>	80,681	79,494
1.20	Cash at beginning of quarter/year to date	2,254	3,441
1.21	Exchange rate adjustments to Item 1.20	506	506
1.22	<b>Cash at end of quarter</b>	83,441	83,441

\* Administration Expenses for the December 2009 quarter includes \$1.8 million of debt fund raising fee.

**Payments to directors of the entity and associates of the directors**  
**Payments to related entities of the entity and associates of the related entities**

		Current quarter \$A'000
1.23	Aggregate amount of payments to the parties included in item 1.2	218
1.24	Aggregate amount of loans to the parties included in item 1.10	-

Explanation necessary for an understanding of the transactions

Includes directors' fees, salary and superannuation and also fees paid to directors or director related entities for professional and technical services.

**Non-cash financing and investing activities**

2.1 Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows

N/A

2.2 Details of outlays made by other entities to establish or increase their share in projects in which the reporting entity has an interest

N/A

**Financing facilities available**

*add notes as necessary for an understanding of the position*

	Amount available \$A'000	Amount used \$A'000
3.1 Loan facilities	22,361	22,361
3.2 Credit standby arrangements	-	-

**Estimated cash outlays for next quarter**

	\$A'000
4.1 Exploration and evaluation	500
4.2 Development	1,500
<b>TOTAL</b>	<b>2,000</b>

**Reconciliation of cash**

Reconciliation of cash at the end of the quarter (as shown in the statement of cash flows) to the related items in the accounts is follows.

	Current Quarter \$A'000	Previous Quarter \$A'000
5.1 Cash on hand and at bank	21,999	169
5.2 Deposits at call	61,442	2,085
5.3 Bank overdraft	-	-
5.4 Other – investment commercial bills of 6 months or less	-	-
<b>Total: cash at end of quarter (item 1.22)</b>	<b>83,441</b>	<b>2,254</b>

**Changes in interests in mining tenements – refer attached tenement schedule**

	Tenement Reference	Nature of Interest [note (2)]	Interest at Beginning of Quarter	Interest at End of Quarter
6.1	Interests in mining tenements relinquished, reduced or lapsed			
6.2	Interests in mining tenements acquired or increased			

**Appendix 5B**  
**Mining exploration entity quarterly report**

**Issued and quoted securities at end of current quarter**

*Description includes rate of interest and any redemption or conversion rights together with prices and dates*

	Total number	Number quoted	Issue price per security (see note 3) (\$)	Amount paid up per security (see note 3) (\$)
7.1 <b>Preferences securities</b> <i>(description)</i>				
7.2 Changes during quarter (a) increases through issues (b) decreases through returns of capital, buybacks, redemptions				
7.3 <b>Ordinary securities</b>	149,934,608	149,934,608		
7.4 Changes during quarter (a) increases through issues	51,000,000	51,000,000	\$1.28	\$1.28
	500,000	500,000	\$0.90	\$0.90
	6,818,182	6,818,182	\$0.88	\$0.88
	3,410,360	3,410,360	\$0.35	\$0.35
	731,250	731,250	\$0.30	\$0.30
(b) decreases through returns of capital, buybacks				
7.5 <b>Convertible debt securities</b>				
7.6 Changes during quarter (a) increases through issues (b) decreases through securities matured, converted				
7.7 <b>Options</b>			<i>Exercise price</i>	<i>Expiry date</i>
GXYAO	500,000	-	\$0.30	06/02/10
GXYAQ	1,500,000	-	\$0.40	06/02/11
GXYAS	18,750	-	\$0.30	30/01/10
GXYAK	20,950,000	-	Various	Various
7.8 Issued during quarter GXYAK	8,250,000	-	Various	Various
7.9 Exercised during quarter				
GXYAS	731,250	-	\$0.30	30/01/10
GXYAI	3,410,360	-	\$0.35	31/12/09
GXYAK	500,000	-	Various	26/11/14

7.10 Expired/Cancelled during quarter GXYAI	2,140	-	\$0.35	31/12/09
7.11 <b>Debentures</b> (totals only)				
7.12 <b>Unsecured notes</b> (totals only)				

## Compliance statement

- 1 This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Act or other standards acceptable to ASX (see note 4).
- 2 This statement does/~~does not~~\* (*delete one*) give a true and fair view of the matters disclosed.

Sign here: ..... Date: 29/01/2010  
(Company Secretary)

Print name: A L Meloncelli

## Notes

- 1 The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.
- 2 The "Nature of interest" (items 6.1 and 6.2) includes options in respect of interests in mining tenements acquired, exercised or lapsed during the reporting period. If the entity is involved in a joint venture agreement and there are conditions precedent which will change its percentage interest in a mining tenement, it should disclose the change of percentage interest and conditions precedent in the list required for items 6.1 and 6.2.
- 3 **Issued and quoted securities** The issue price and amount paid up is not required in items 7.1 and 7.3 for fully paid securities.
- 4 The definitions in, and provisions of, *AASB 1022: Accounting for Extractive Industries* and *AASB 1026: Statement of Cash Flows* apply to this report.
- 5 **Accounting Standards** ASX will accept, for example, the use of International Accounting Standards for foreign entities. If the standards used do not address the topic, the Australian standard on that topic (if any) must be complied with.

**Tenement Schedule as at 31 December 2009**

<b>Project</b>	<b>Tenement</b>	<b>Notes</b>
<b><u>Boxwood Hill</u></b>	E70/1988	
	E70/2493	
	E70/2513-E70/2514	
	E70/2547	
<b><u>Connolly</u></b>	E69/1878	
<b><u>Ponton</u></b>	E28/1317	
	E28/1830	
<b><u>Shoemaker</u></b>	E69/1869-1871	1
<b><u>Ravensthorpe</u></b>		
Aerodrome	E74/334	
	E74/398	
Bakers Hill	E74/287	
	E74/295	
	E74/299	
	E74/415	
	P74/278	
	P74/336	
McMahon	M74/165	
	M74/184	
	P74/334	
Mt Cattlin	L74/46	
	M74/244	
Mosaic	M74/136	
West Kundip	M74/133	
	M74/238	
Floater	E74/400	
	P74/307-P74/308	
Sirdar	E74/401	
	P74/309-P74/310	

1) 50% Interest with GMC.