



March 2016

GALAXY

QUARTERLY REPORT

Highlights

Significant events during the quarter

- **Spodumene production recommenced at Mt Cattlin on 31 March 2016**
- **Lithium concentrate offtake agreements signed with major Chinese customers**
- **Mt Cattlin diamond drilling reported repetitions under main pegmatite**
- **Formal revisions and updates to the DFS for the Sal de Vida Project**
- **Sal de Vida Owners Team being assembled and planned reactivation of the pilot program**
- **Galaxy included into the S&P/ASX All Ordinaries Index**

Corporate

During the quarter Galaxy received a Production Commencement Notice from its joint venture partner, GMM, indicating that mining and processing operations had recommenced at the Mt Cattlin lithium project in Western Australia. Galaxy also announced that 60,000t of lithium concentrate offtake has been secured with two Chinese buyers at US\$600/t for delivery in CY 2016 (FOB, minimum 5.5% Li₂O). Of the US\$36 million total contract value, US\$18 million is to be received as a prepayment, with first shipment targeted for July/August 2016.

Galaxy and GMM have also agreed to deliver 120,000t of lithium concentrate in 2017 to the same Chinese customers at a sale price to be confirmed in Q4 2016, which will be contingent upon the prevailing market conditions at that time.

The sale of 60,000t of lithium concentrate had been targeted at converters in the lithium carbonate and lithium hydroxide market. It is intended that the balance of any additional and future production may also be sold to a range of downstream converters, including lithium carbonate, lithium hydroxide and cathode markets.

About Galaxy Resources

Galaxy Resources Ltd ("Galaxy") is a lithium-focused resources company, with assets spanning Australia, China, Canada and Argentina. The Company is listed on the Australian Securities Exchange (Code: GXY)

Galaxy is currently advancing plans to develop the Sal de Vida Lithium and Potash Brine Project ("Sal de Vida") in Argentina, which is situated in the Lithium Triangle, a region where Chile, Argentina and Bolivia meet and presently accounts for 60% of global lithium production. Sal de Vida is a proven high quality resource and has excellent prospects as a future low cost production facility.

The Company also owns the Mt Cattlin Spodumene Mine near Ravensthorpe in Western Australia, production commenced in April 2016 with its operating partner General Mining Corporation Limited ("GMM"). Galaxy also owns the James Bay Lithium Pegmatite Project in Quebec, Canada.

Once processed, lithium compounds are used in the manufacture of ceramics, glass, and electronics and an essential ingredient in producing battery materials such as cathode and electrolyte. It is also used in the manufacture of long life lithium-ion batteries used for consumer electronics, power tools, electric bikes as well as hybrid and electric vehicles. Anticipating the growing demand, Galaxy is positioning itself to become a major supplier of high quality lithium.

www.galaxylithium.com

On 11th March 2016 Galaxy received notice that it would be included into the S&P/ASX All Ordinaries Index at the March 2016 quarterly rebalance.

Projects

Sal de Vida



Definitive Feasibility Study

During the quarter, a formal process commenced to revise and update key parameters of the Sal de Vida DFS that was originally completed in April 2013. The first 100 days under the leadership of newly elected President Macri has seen Argentina undergo a broad range of impactful adjustments to economic and policy frameworks, which has resulted in significant changes in the country – including a devaluation of the Argentina Peso, removal of certain tariffs and taxes, including a 5% withholding tax on the export of industrial products (which include lithium-based products), all of which will likely yield favorable adjustments to the financial model for the DFS. Other key changes that will be significant to the economics of the Project, include revisions to key assumptions, such as the selling price of lithium carbonate, which in the previous model had only been assumed at the historical price of US\$5,500/t – the updates to the DFS will take into account potential adjustments in the long term selling price assumptions, considering the material changes in market conditions and pricing in the 3 years since the DFS was last completed.

Owners Team & Pilot Program

In preparation for the future advancement and development of the Sal de Vida Project, Galaxy has begun the process of assembling an Owners Team, which will be comprised of industry veterans with decades of developing, building and operating brine projects in South America. The Owners Team will have strong core competencies across multiple technical disciplines, including hydrology and geology, evaporation ponds, mechanical and electrical engineering, process and operations – combining the expertise of local and international industry professionals. Galaxy Sal de Vida is also in the process of assessing options for the reactivation of its pilot program, which will include demo-scale operations to test and validate the assumptions and industrial processes to be used in the future production of lithium carbonate, and is evaluating alternate scenarios on the scale of such a program ranging from 600t to 1,200t per annum of production.

Infrastructure Developments

Rail – having overcome certain hurdles with the local unions in Q1, the Chilean railway company Ferrenor is expected to commence its first operations in Q2.

Electricity – discussions are underway between the federal government and Salta Province, for a possible expansion of grid infrastructure all the way to Hombre Muerto, branching from Guemes to Mina La, which is being considered as part of the overall expanded electrification plan for the Puna Region.

Environmental Permitting & Land Management

The Environmental Impact Declaration for Catamarca Province is due to be renewed in Q2 of 2016 and relevant documentation and filings have already been prepared for the EIA for the renewal of the permits. In the meantime, all tenements in Salta and Catamarca have been maintained in good standing. The last four mine surveys (“Mensuras”) to be submitted were prepared during this past quarter. The Catamarca mining judge accepted the legal survey, advancing Galaxy one step further towards the survey’s completion within the expected time frames.

Mt Cattlin

During the quarter, Galaxy reported that it had received from GMM a capital expenditure schedule amounting to A\$7 million, which included purchase orders for plant equipment, fabrication, engineering and installation services, committed as at 31 December 2015. Galaxy also announced it had received a Production Notice from GMM in accordance with the obligations set out in the Acquisition and Development Agreement (the "Agreement", as announced on 9 June 2015) for Mt Cattlin. Mining and processing operations formally commenced on 31 March 2016. In light of achieving the above milestones throughout the quarter, GMM have now earned an initial 14% equity in Mt Cattlin and will maintain a 50% share of operating cash flows.

Pursuant to the terms in the Agreement, GMM is entitled to earn up to a 50% equity interest in the Mt Cattlin Project subject to a A\$25 million total commitment over time. Following the restart of production, Galaxy will receive A\$6 million per annum for the first three years of production, as part of GMM’s earn-in milestones, as well as being entitled to a 50% share of the operating cash flows from the project.

All long lead items required for the restart were ordered in Q4 of 2015 with the 2016 target production timeline as follows:

- **March 2016** - Fines circuit commissioning
- **June 2016** - Coarse circuit commissioning
- **July 2016** - First shipment of concentrate
- **December 2016** - Full optimisation

Flow Sheet Redesign

The final redesigned flow sheet is nearing completion with only non-time critical elements remaining outstanding.

The revised flow sheet has focused on:

- Base case throughput of 800ktpa
- Increasing yield from a historic 50-55% to 70-75% across both spodumene and tantalum, implying a run rate production of 120ktpa+ spodumene concentrate and 175klbpa+ of contained tantalum pentoxide
- Final lithium oxide content in concentrate of minimum 5.5%
- Reduction of mica in concentrate from 15-20% to below 5%

GMM has indicated that all of the base case parameters listed above have been successfully achieved during the test work program.

Production Overview

Production recommenced in April 2016, with both mining and processing operations having started up. An initial 5-week program sequentially recovered and stockpiled spodumene and tantalum concentrates from the fines circuit ahead of crusher and HMS circuit (coarse circuit) commissioning in the June quarter.

Given the quantities of ore already mined and available for processing, the immediate focus until May 2016 is on the processing circuit. This work shall include progressive commissioning of the primary and secondary feed preparation circuits, thickener, fine and course circuit screens, mica removal screens, the tantalum spirals and tables, as well as the fines reflux classifiers and filter belt.

Mining of blasted ore in the Dowling Pit has also commenced and this ore will be stockpiled for processing in the June quarter. Recovery of fines material from the TSF for processing in the fines circuit is scheduled to begin during the quarter. Initial plant feed will be sourced from the existing crushed fine ore stockpile adjacent to the plant.

The Mt Cattlin processing facility will work through its 3-month ramp up to a base case throughput rate of 800ktpa by the end of June 2016. A second optimization phase will continue through the second half of the year to improve yields to a targeted 70-75%, based off the ongoing 800ktpa throughput rate. Funding for the capital expenditure required for this optimization phase and all working capital requirements from the commencement of production onwards, is expected to be covered by offtake prepayments.

First delivery of concentrate is targeted for July/August 2016.



Galaxy Resources Mt Cattlin Plant

Exploration

During the quarter GMM also announced that it had commenced diamond drilling of the Mt Cattlin lithium-tantalum deposit. The current drill program is designed to follow up on intersections of spodumene-bearing pegmatite encountered in very sparse drilling (undertaken by Galaxy in 2008) underneath the known pegmatite occurrence. A detailed note on the planned exploration can be found on GMM's ASX announcement below:

<http://www.asx.com.au/asxpdf/20160225/pdf/435bbftxnvrxd7.pdf>



Diamond drilling in the Dowling Pit, February 2016

James Bay

A strategic option was granted to GMM for a right to earn up to a 50% interest in the James Bay Project, subject to a minimum requirement of US\$5 million commitment in capital by GMM over a three-year period, including a guaranteed expenditure of US\$2.5 million within the first two years. A DFS team was assembled in Q1 2016 to review all existing data and a planned visit to site has been organized for mid-2016, to begin further development work on the project.

Lithium Market Outlook

The market demand globally for lithium products continues to be very strong and supply of raw materials as feedstock, particularly in markets such as China, remains tight with very limited availability. Much of the increase on the demand side has been driven by continued fundamental growth on the end user application side, with consumption from the transportation sector becoming increasingly evident. Following on from 2015 where it reported sales of 379,000 new energy vehicles, China recently set a target of 5,000,000 such vehicles to be on the road by 2020, and sales projections for 2016 are expected to be well in excess of 600,000 vehicles - a number that will likely see China surpass the US market in terms of electric and hybrid vehicle sold.

As part of the country's effort to combat pollution and boost the development of green technology, Premier Li Keqiang has been leading key initiatives sponsored by the State Council. These include continued support at the policy level for new energy vehicles with tax exemptions and subsidies; encouragement for government offices, public institutions and city departments to procure such vehicles for up to 50% of their annual fleet purchases (up from the 30% requirement set in July 2015); and a major push on investment in charging infrastructure, with a targeted 12,000 new centralized battery swapping stations and 4.8 million charging stations to be installed across the country by 2020.

Aside from the growing adoption rates in the transportation sector globally (not just electric and hybrid cars, but also electric bikes and buses), the growth in more traditional lithium battery application segments, such as consumer electronics remains very robust - smartphone shipments alone are expected to grow from 1.4 billion units in 2015 to a forecasted 1.8 billion units by 2020, with other wearable devices also now coming into the marketplace, all powered by the lithium ion battery. Importantly, distributed storage systems at both the commercial and consumer level are now starting to be rolled out and deployed, in order to buffer clean energy generated from solar panels and wind farms.

-ENDS-

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Caution Regarding Forward Looking Information

This document contains forward looking statements concerning Galaxy.

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 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.

Not For Release in US

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Tenement Schedule as at 31 March 2016

| Project | Tenement | Notes (100% interest unless stated) |
|----------------------------|----------|-------------------------------------|
| <u>Argentina</u> | | |
| <u>Sal De Vida</u> | Various | |
| <u>Australia</u> | | |
| <u>Boxwood Hill</u> | E70/2493 | |
| <u>Ponton</u> | E28/1317 | |
| | E28/1830 | |
| <u>Ravensthorpe</u> | | |
| Bakers Hill | E74/299 | |
| | E74/415 | |
| Floater | E74/400 | |
| Mt Cattlin | L74/46 | |
| | L74/48 | |
| | M74/244 | |
| Sirdar | E74/401 | 80% Interest with Traka Resources. |
| West Kundip | L74/47 | |
| | M74/133 | |
| | M74/238 | |
| <u>Canada</u> | | |
| <u>James Bay</u> | Various | |

Appendix 5B

Mining exploration entity and oil and gas exploration entity quarterly report

Introduced 01/07/96 Origin Appendix 8 Amended 01/07/97, 01/07/98, 30/09/01, 01/06/10, 17/12/10, 01/05/2013

Name of entity

Galaxy Resources Limited

ABN

11 071 976 442

Quarter ended ("current quarter")

31 March 2016

Consolidated statement of cash flows

| Cash flows related to operating activities | Current quarter \$A'000 | Year to date (3 months) \$A'000 |
|---|----------------------------|---------------------------------------|
| 1.1 Receipts from product sales and related debtors | - | - |
| 1.2 Payments for | | |
| (a) exploration & evaluation | (81) | (81) |
| (b) development | - | - |
| (c) production | (39) | (39) |
| (d) administration | (1,328) | (1,328) |
| 1.3 Dividends received | - | - |
| 1.4 Interest and other items of a similar nature received | 6 | 6 |
| 1.5 Interest and other costs of finance paid | (830) | (830) |
| 1.6 Income taxes paid | - | - |
| 1.7 R&D Refund | - | - |
| Net Operating Cash Flows | (2,272) | (2,272) |
| Cash flows related to investing activities | | |
| 1.8 Payment for purchases of: | | |
| (a) prospects | - | - |
| (b) equity investments | - | - |
| (c) other fixed assets | (24) | (24) |
| 1.9 Proceeds from sale of: | | |
| (a) prospects | - | - |
| (b) equity investments | 27 | 27 |
| (c) other fixed assets | - | - |
| 1.10 Loans to other entities | - | - |
| 1.11 Loans repaid by other entities | - | - |
| 1.12 Deposits | - | - |
| Net investing cash flows | 3 | 3 |
| 1.13 Total operating and investing cash flows (carried forward) | (2,269) | (2,269) |

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity and oil and gas exploration entity quarterly report

| | | | |
|------|--|----------------|----------------|
| 1.13 | Total operating and investing cash flows (brought forward) | (2,269) | (2,269) |
| | Cash flows related to financing activities | | |
| 1.14 | Proceeds from issues of shares, options, etc. | - | - |
| 1.15 | Proceeds from sale of forfeited shares | - | - |
| 1.16 | Proceeds from borrowings | - | - |
| 1.17 | Repayment of borrowings | - | - |
| 1.18 | Dividends paid | - | - |
| | Net financing cash flows | - | - |
| | Net increase/(decrease) in cash held | (2,269) | (2,269) |
| 1.20 | Cash and cash equivalents at beginning of quarter/year to date | 10,489 | 10,489 |
| 1.21 | Exchange rate adjustments to item 1.20 | (130) | (130) |
| 1.22 | Cash and cash equivalents at end of quarter | 8,090 | 8,090 |

Payments to directors of the entity, associates of the directors, 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 | (244) |
| 1.24 | Aggregate amount of loans to the parties included in item 1.10 | - |
| 1.25 | Explanation necessary for an understanding of the transactions | |
| <p>Includes directors' fees, salary and superannuation and also fees paid to directors or director related entities for professional and technical services.</p> | | |

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 | NA |
| 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 | NA |

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 | 31,000 |
| 3.2 | Credit standby arrangements | - |

+ See chapter 19 for defined terms.

Estimated cash outflows for next quarter

| | | \$A'000 |
|--------------|----------------------------|--------------|
| 4.1 | Exploration and evaluation | 400 |
| 4.2 | Development | - |
| 4.3 | Production | - |
| 4.4 | Administration | 900 |
| Total | | 1,300 |

Reconciliation of cash and cash equivalents

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

| | Current quarter \$A'000 | Previous quarter \$A'000 |
|---|----------------------------|-----------------------------|
| 5.1 Cash on hand and at bank | 2,710 | 4,289 |
| 5.2 Deposits at call | 5,380 | 6,200 |
| 5.3 Bank overdraft | - | - |
| 5.4 Bank Bills | - | - |
| Total: cash and cash equivalents at end of quarter (item 1.22) | 8,090 | 10,489 |

Changes in interests in mining tenements and petroleum tenements

| | Tenement reference and location | Nature of interest (note (2)) | Interest at beginning of quarter | Interest at end of quarter |
|---|---------------------------------------|----------------------------------|--|----------------------------------|
| 6.1 Interests in mining tenements and petroleum tenements relinquished, reduced or lapsed | P74/307 | 100% | 100% | Nil |
| | P74/308 | 100% | 100% | Nil |
| | P74/309 | 80% | 80% | Nil |
| | P74/310 | 80% | 80% | Nil |
| 6.2 Interests in mining tenements and petroleum tenements acquired or increased | | | | |

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity and oil and gas 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) (cents) | Amount paid up per security (see note 3) (cents) |
|--|----------------------------|---------------|---|--|
| 7.1 *Preference securities <i>(description)</i> | - | - | - | - |
| 7.2 Changes during quarter | | | | |
| (a) Increases through issues | - | - | - | - |
| (b) Decreases through returns of capital, buy-backs, redemptions | - | - | - | - |
| 7.3 *Ordinary securities | 1,264,433,185 ¹ | 1,264,433,185 | - | - |
| 7.4 Changes during quarter | | | | |
| (a) Increases through issues | - | - | - | - |
| (b) Decreases through returns of capital, buy-backs | - | - | - | - |
| 7.5 *Convertible debt securities <i>(description)</i> | - | - | - | - |
| 7.6 Changes during quarter | | | | |
| (a) Increases through issues | - | - | - | - |
| (b) Decreases through securities matured, converted | - | - | - | - |
| 7.7 Options <i>(description and conversion factor)</i> | | | <i>Exercise price</i> | <i>Expiry date</i> |
| | 12,000,000 | - | \$0.08 | 19/09/16 |
| | 3,600,000 | - | \$1.11 | 22/07/16 |
| | 350,000 | - | \$1.11 | <i>Vesting not satisfied</i> |
| | 2,900,000 | - | \$1.16 | <i>Vesting not satisfied</i> |
| | 25,000,000 | - | \$0.03 | 01/04/18 |
| <i>Share Appreciation Rights</i> | 34,100,000 | - | <i>Base Price of \$0.03</i> | <i>Terms and conditions approved for directors set out in notice for the AGM held on 29 May 2015</i> |
| 7.8 Issued during quarter | - | - | - | - |
| 7.9 Exercised during quarter | - | - | - | - |
| 7.10 Expired during quarter | - | - | - | - |
| 7.11 Debentures (totals only) | - | - | | |
| 7.12 Unsecured notes (totals only) | - | - | | |

¹ For voting purposes, the total number of shares presently carrying voting rights in Galaxy Resources Limited is 1,264,433,185. This is made up of 1,253,542,553 Fully Paid Ordinary Shares and 9,622,284 Special Voting Shares (which, effectively, may be voted by the holders of the remaining un-exchanged 10,890,632 Exchangeable Shares in Galaxy Lithium One Inc). These amounts are aggregated on the basis that ASX has confirmed that the voting rights attached to each Special Voting Share along with each Exchangeable Share (and its associated exchange rights and obligations) together upon and from their issue are to be treated as one Fully Paid Ordinary Share in Galaxy for the purposes of the ASX Listing Rules. During the current quarter 1,268,348 Exchangeable Shares were exchanged for Fully Paid Ordinary Shares.

+ See chapter 19 for defined terms.

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 5).

- 2 This statement does ~~does not~~ *(delete one)* give a true and fair view of the matters disclosed.



Sign here: Date: 27 April 2016
(~~Director~~/Company secretary)

Print name: Simon Robertson

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 and petroleum 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 or petroleum 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 6: Exploration for and Evaluation of Mineral Resources* and *AASB 107: Statement of Cash Flows* apply to this report.

- 5 **Accounting Standards** ASX will accept, for example, the use of International Financial Reporting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.

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+ See chapter 19 for defined terms.