



# **Galaxy Resources Limited**

ABN 11 071 976 442

## **Condensed Consolidated Interim Financial Report**

### **Half Year Ended 30 June 2010**

**This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the Annual Report for the period ended 31 December 2009 and any public announcements made by Galaxy Resources Limited during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.**

## Table of Contents

<b>Review of Operations</b>	<b>3</b>
<b>Directors' Report</b>	<b>6</b>
<b>Auditor's Independence Declaration</b>	<b>8</b>
<b>Condensed Consolidated Statement of Comprehensive Income</b>	<b>9</b>
<b>Condensed Consolidated Balance Sheet</b>	<b>10</b>
<b>Condensed Consolidated Statement of Changes in Equity</b>	<b>11</b>
<b>Condensed Consolidated Statement of Cash Flows</b>	<b>12</b>
<b>Notes to the Condensed Consolidated Financial Statements</b>	<b>13</b>
<b>Directors' Declaration</b>	<b>20</b>
<b>Independent Review Report to the Members</b>	<b>21</b>
<b>Corporate Directory</b>	<b>23</b>

## Review of Operations

### Highlights

- Creat Share Placement completed.
- Pre-strip mining commenced at Mt Cattlin on 5 March 2010.
- Mt Cattlin resource estimation increased by 32% and mine life to 16 years.
- Commencement of ore mining at Mt Cattlin on 17 June 2010.
- Mt Cattlin construction completed on schedule and on budget.
- Subsequent commissioning of Mt Cattlin commenced 2 September 2010
- Excellent drill intercepts reported at Mt Cattlin, adding to resource potential.
- Iron ore and manganese mineralisation identified at Shoemaker JV project.
- Mt Cattlin first mine site with solar tracking PV technology to supplement power generation.
- Foundation Day Ceremony held at Jiangsu site on 22 February 2010.
- Construction Permit received for Jiangsu Lithium Carbonate Plant on 4 June 2010.
- Construction of Jiangsu progressing well with site infrastructure, utilities, roads and foundations established.
- Hatch, to receive outstanding tenders ahead of finalising Jiangsu construction budget and completion schedule.
- Jiangsu critical path equipment supply and contracts have already been implemented.
- The Company expects to announce final construction budget and plan in early October 2010.
- Executed Off-take Agreements for 100% of Galaxy's 17,000 tonnes of lithium carbonate production and major Offtake Agreement signed with Mitsubishi Corporation.
- Appointment of Dr Yuewen Zheng as a Non Executive on Director on 7 January 2010 and Mr Ivo Polovineo on 20 July 2010.
- Admission to the S&P/ASX 300 Index and All Ordinaries Index.
- Project Approval, Business Licence and Environmental and Safety Approvals received for Jiangsu Lithium Carbonate Plant.
- Finalisation of long term shipping contract for Spodumene Concentrate from Esperance to Zhangjiagang Port.

### Corporate

#### Creat Equity Raising Finalised

The Company finalised the issue of 31,000,000 shares to Creat Resources Holdings Limited (CRHL) in April 2010 raising A\$27.28 million. CRHL currently owns 19.99% of the Company.

#### Project Finance from RZB and CDB

In December 2009, Galaxy announced that it had executed a project loan facility for US\$105 million from Austrian Bank, RZB and the China Development Bank (CDB). The Company received the first drawdown commitment of US\$20 million from RZB. This has been repaid from equity raising proceeds.

During this process, various conditions precedent imposed by the lenders and slower than anticipated PRC project approvals resulted in a delay to Galaxy accessing the second debt facility drawdown. One of the conditions precedent was to obtain a construction permit for the Jiangsu Lithium Carbonate Project from the local Zhangjiagang (ZJG) authorities.

As there were several permitting approvals required before the final construction permit could be awarded, this particular condition precedent was not satisfied until June 2010. The construction permit for the Jiangsu Lithium Carbonate Plant was finally received from the ZJG authorities on 4 June 2010. This allowed the loan facility documentation to move towards completion and the loan facility was finally executed on 10 September 2010.

Galaxy raised a total of A\$93 million (net of fees) comprising a A\$60 million equity placement to institutional investors in October 2009 and the A\$33 million Creat Resources Holdings Limited (CRHL) placement last year. These funds were used to progress the construction of both the Mt Cattlin and Jianguo projects.

### **Mt Cattlin Construction Update**

Pre-strip mining commenced at Mt Cattlin on 5 March 2010. The mining contractor, Orionstone Pty Ltd, has progressed well with the Dowling Pit pre-strip achieving the target level mining rate. Most of the waste material excavated to date has been used in the construction of the tailings dam wall which was completed at the end of the period by local earthmoving contractor, PM&J Contracting Pty Ltd. The drill and blast contractor, TDS Pty Ltd, mobilised during the half-year and now has three blasthole rigs working in the fresh rock which overlies the pegmatite ore bodies. First ore has been delivered to the ROM pad on 17 June 2010. Further quantities will be exposed and delivered ready for commissioning of the process plant in the third quarter of 2010.

Local contractor R&L Constructions Pty Ltd completed the construction of the administration office and the workshop office complex early in the half-year and these have now been occupied by Galaxy staff, employees and contractors. Recruitment of the permanent workforce was completed by the end of the half-year and these employees are now undergoing an extensive training program so as to be operationally ready when commissioning of the process plant commences.

Construction of the 5MW diesel fired power station was completed by Contract Power Group and is expected to begin providing site power early in the third quarter. The site laboratory which is to be operated under contract by SGS Laboratories was also completed and has been commissioned ready for the start up of the process plant. The two SMP contractors working on site have made good progress with the construction of the crushing circuit and the wet processing plant, with remaining work comprising mostly piping. Work has also commenced on the installation of the borefield pumps and piping.

The site electrical and instrumentation construction package was awarded to Southern Cross Electrical Engineers who commenced work during May and have now completed installation of the switchboards in the two motor control centres. Significant progress has also been made with installation of buried services, cable ladders and lighting. The Mt Cattlin project is currently on schedule and on budget. Subsequent to the period, commissioning of Mt Cattlin commenced 2 September 2010. First shipment of spodumene concentrate to China is expected in November 2010.

### **Jianguo Construction Update**

During the half-year, significant work was completed in redeveloping the project schedule and capital cost estimate to include a new purification process route. The previous process design enabled the Company to comfortably produce commercial quantities of 'Battery Grade'. However, the Company has taken the opportunity to modify the process plant by incorporating an additional bicarbonate purification step to enable production of higher purity lithium carbonate. The bicarbonate purification process is conventional and is already adopted by smaller batch refiners in the industry. The process involves the re-dissolution of lithium carbonate with carbon dioxide to form soluble lithium bicarbonate. The re-crystallisation of high purity lithium carbonate is affected through heating. By adopting this process the quality of the lithium carbonate can be dramatically improved.

On 7 September 2010, the Company launched two new high grade lithium carbonate products tailored specifically for lithium batteries to be used in the production of electric vehicles (EVs). These new categories will be branded 'EV Grade' (99.9% lithium carbonate) and 'EV Plus Grade' (99.99% lithium carbonate), representing a key niche product offering for the electric vehicle market.

The Company modified its Jianguo Lithium Carbonate Plant process design to allow for the full production capacity of 17,000 tonnes per annum of 'EV Grade' lithium carbonate. In addition, the plant will also have capacity to produce a limited amount of the higher purity 'EV Plus Grade'.

Building foundation and structure designs were completed during the half-year and are ready for submission for statutory review.

During the half-year, orders were placed for kilns, rotary coolers, product dryers, ball mill, centrifuges, crystalliser, microniser, tanks and bins, air compressors, cooling towers and wet process installation. By 30 August 2010, approximately 51% of the project capital has been committed.

Construction works during the half-year have focused on completion of road and hardstand sub-bases, construction of concrete surfaces to roads and hardstands, along with stormwater drainage systems. These works are now well progressed. Building foundation preparation also commenced during the half-year.

The process change is effectively a 'bolt on' addition to the back of the plant and involves adding some supplementary vessels, equipment and pipework, none of which is expected to result in significant changes to capital or operating costs. Galaxy's EPCM contractor at Jiangsu, Hatch, is still to receive some outstanding tenders ahead of finalising the construction budget and completion schedule. All of the critical path equipment supply and contracts have already been implemented and the Company expects to announce the final construction budget and plan in early October 2010.

## Directors' Report

Your Directors submit their report incorporating the entities that it controlled during the financial half-year ("Consolidated Entity") for the six months ended 30 June 2010 for Galaxy Resources Limited ("Company" or "Galaxy").

### Directors

The names of the Company's Directors in office during the financial period and until the date of this report are set out below. Directors were in office for the entire period unless otherwise stated.

Craig Leslie Readhead  
Ignatius Kim Seng Tan  
Robert James Wanless  
Yuewen Zheng (Appointed 7 January 2010)  
Xiaojian Ren (Alternate – Yuewen Zheng) (Appointed 7 January 2010)  
Ivo John Polovineo (Appointed 20 July 2010)

### Principal Activities

The principal activity of the entities within the Consolidated Entity is development of the Mt Cattlin Spodumene Mine, development of the Jiangsu Lithium Carbonate Plant, and exploration for minerals.

### Operating and Financial Review

The Consolidated Entity's loss after tax was \$9,615,352 for the six months to 30 June 2010.

### Review of Operations

The Review of Operations is included separately in this Interim Financial Report.

### Events Subsequent to Reporting Date

- On 20 July 2010, Mr Ivo Polovineo was appointed as a Non-Executive Director of the Company.
- The Company secured a US\$14m short term bridging loan (unsecured) through its cornerstone investment partner, Creat Group Co Limited (Creat Group), on 13 August 2010, to be repaid upon drawdown of the RZB/CDB loan facility.
- On 10 September 2010 the Group executed the US\$105million facility with CDB and RZB. The facility is secured by charges over all of the assets and undertakings of the Group together with associated guarantees. The Group expects to satisfy all conditions precedent to draw down and access the funds during September 2010. A condition to the facility is that the Group reserve, in cash, US\$50million for the future repayment of principle or interest. The facility bears interest at SIBOR plus 4.5% and is repayable in six monthly instalments commencing June 2012.

Other than the matters discussed above, there has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the Directors of the Company, to affect significantly the operations of the Group, the results of those operations, or the state of affairs of the Group, in future financial years.

### Change of Financial Year

The Company applied to the ASIC to change the financial year ended from 30 June to 31 December. In accordance with section 340(1) of the Corporations Act 2001, the Company was granted approval from the ASIC on 23 December 2009.

### **Lead Auditor's Independence Declaration**

In accordance with section 307C of the Corporations Act 2001, the directors received the attached independence declaration set out on page 8 and forms part of the directors' report for the six months ended 30 June 2010.

### **Rounding off**

The Company is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and in accordance with that Class Order, amounts in the financial report and directors' report have been rounded off to the nearest thousand dollars, unless otherwise stated.

Signed in accordance with a resolution of the Directors

Dated at Perth this 13<sup>th</sup> day of September 2010.

On behalf of the Directors

A handwritten signature in black ink, appearing to read 'I KS Tan', written in a cursive style.

I KS Tan  
Managing Director



***Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001***

To: the directors of Galaxy Resources Limited

I declare that, to the best of my knowledge and belief, in relation to the review for the half-year ended 30 June 2010 there have been:

- (i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the review; and
- (ii) no contraventions of any applicable code of professional conduct in relation to the review.

*KPMG*

KPMG

A handwritten signature in blue ink, appearing to read 'T. Hart', written over the printed name.

Trevor Hart  
*Partner*

Perth

13 September 2010



**Condensed Consolidated Statement Of Comprehensive Income**  
**For the 6 months ended to 30 June 2010**

	<b>Note</b>	<b>Consolidated</b> <b>6 months to</b>	<b>6 months to</b>
		<b>30 June 2010</b>	<b>30 June 2009</b>
		<b>\$'000</b>	<b>\$'000</b>
<b>Continuing operations</b>			
Other income		-	1
Administrative expenses		(6,493)	(1,281)
Exploration expenses		(42)	(15)
Share based payments		(2,641)	(853)
Other expenses		(933)	(70)
<b>Results from operating activities</b>		<b>(10,109)</b>	<b>(2,218)</b>
Finance income		1,023	23
Finance costs		(529)	-
<b>Net finance costs</b>		<b>494</b>	<b>23</b>
<b>Loss before income tax</b>		<b>(9,615)</b>	<b>(2,195)</b>
Income tax benefit		-	312
<b>Loss for the period</b>		<b>(9,615)</b>	<b>(1,883)</b>
<b>Other comprehensive income for the period, net of income tax</b>		<b>-</b>	<b>-</b>
<b>Total comprehensive income for the period attributed to shareholders</b>		<b>(9,615)</b>	<b>(1,883)</b>
Basic and diluted earnings per share (cents per share)	9	(5.83)c	(2.92)c
		(5.83)c	(2.92)c
<b>(Loss) per share for loss from continuing operations attributable to the ordinary equity holders of the company</b>			

The above statement of comprehensive income should be read in conjunction with the accompanying notes.

**Condensed Consolidated Balance Sheet**

As at 30 June 2010

		<b>Consolidated</b>	
	<b>Note</b>	<b>As at</b>	<b>As at</b>
		<b>30 June 2010</b>	<b>31 December 2009</b>
		<b>\$'000</b>	<b>\$'000</b>
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash and cash equivalents		18,347	83,441
Other receivables		5,082	1,633
<b>TOTAL CURRENT ASSETS</b>		<b>23,429</b>	<b>85,074</b>
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	2	96,475	20,815
Available for sale investments		450	1,025
Other receivables		902	868
Exploration and evaluation expenditure	3	1,652	1,267
<b>TOTAL NON-CURRENT ASSETS</b>		<b>99,479</b>	<b>23,975</b>
<b>TOTAL ASSETS</b>		<b>122,908</b>	<b>109,049</b>
<b>LIABILITIES</b>			
<b>CURRENT LIABILITIES</b>			
Trade and other payables		15,341	6,198
Provisions		164	69
Interest bearing liabilities	4	-	22,361
<b>TOTAL CURRENT LIABILITIES</b>		<b>15,505</b>	<b>28,628</b>
<b>NON-CURRENT LIABILITIES</b>			
Provisions		868	-
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>868</b>	<b>-</b>
<b>TOTAL LIABILITIES</b>		<b>16,373</b>	<b>28,628</b>
<b>NET ASSETS</b>		<b>106,535</b>	<b>80,421</b>
<b>EQUITY</b>			
Contributed equity	5	127,300	88,834
Reserves	6	6,693	9,430
Accumulated losses	6	(27,458)	(17,843)
<b>TOTAL EQUITY</b>		<b>106,535</b>	<b>80,421</b>

The above balance sheet should be read in conjunction with the accompanying notes.

**Condensed Consolidated Statement Of Changes In Equity**  
**Attributable to members of Galaxy Resources Limited**

	Notes	Contributed		Accumulated	Total
		equity	Reserves	Losses	equity
		\$'000	\$'000	\$'000	\$'000
Balance at 1 January 2009		10,109	456	(3,638)	6,927
Profit/(Loss) for the financial period				(1,883)	(1,883)
Contributions of equity, net of transaction costs		5,509			5,509
Exercise of options		20			20
Share based payments			853		853
<b>Balance at 30 June 2009</b>		<b>15,638</b>	<b>1,309</b>	<b>(5,521)</b>	<b>11,426</b>
Balance at 1 January 2010		88,834	9,430	(17,843)	80,421
Profit/(Loss) for the financial period	6b			(9,615)	(9,615)
Contributions of equity, net of transaction costs	5	25,594			25,594
Exercise of options		6,226			6,226
Transfer of reserve upon exercise of options		6,646	(6,646)		-
Share based payments	6a		2,641		2,641
Foreign currency translation	6a		1,268		1,268
<b>Balance at 30 June 2010</b>		<b>127,300</b>	<b>6,693</b>	<b>(27,458)</b>	<b>106,535</b>

The above statement of changes in equity should be read in conjunction with the accompanying notes.

**Condensed Consolidated Statement Of Cash Flows**

For the 6 months ended to 30 June 2010

Note	Consolidated	
	6 months to 30 June 2010 \$'000	6 months to 30 June 2009 \$'000
<b>Cash flows from operating activities</b>		
Payments to suppliers and contractors (inclusive of goods and services tax)	<u>(6,161)</u>	<u>(1,360)</u>
<b>Net cash outflow from operating activities</b>	<u>(6,161)</u>	<u>(1,360)</u>
<b>Cash flows from investing activities</b>		
Interest received	1,257	37
Purchase of property, plant and equipment	(67,937)	(59)
Payments for exploration expenditure	(1,386)	(2,419)
Outflow for security deposits	<u>(74)</u>	<u>(20)</u>
<b>Net cash inflow from investing activities</b>	<u>(68,140)</u>	<u>(2,461)</u>
<b>Cash flows from financing activities</b>		
Proceeds from issue of shares	31,819	5,927
Interest paid	(634)	-
Repayments of borrowings	<u>(22,361)</u>	<u>-</u>
<b>Net cash inflow from financing activities</b>	<u>8,824</u>	<u>5,927</u>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(65,477)</b>	<b>2,106</b>
<b>Cash and cash equivalents at the beginning of the financial period</b>	<b>83,441</b>	<b>1,336</b>
<b>Effect of exchange rate fluctuations on cash held</b>	<u>383</u>	<u>-</u>
<b>Cash and cash equivalents at the end of the financial period</b>	<u><b>18,347</b></u>	<u><b>3,442</b></u>

The above cash flow statement should be read in conjunction with the accompanying notes.

## Notes to the Condensed Consolidated Financial Statements

For the 6 months ended to 30 June 2010

### 1. Statement of Significant Accounting Policies

Galaxy Resources Limited (the “Company”) is a company domiciled in Australia. The consolidated financial report of the Company for the financial period comprises the Company and its subsidiaries (together referred to as the “Group”). The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied unless otherwise stated.

#### a. Statement of Compliance

These condensed consolidated interim financial statements have been prepared in accordance with AASB 134 *Interim Financial Reporting*. They do not include all of the information required for full financial statements and should be read in conjunction with the consolidated financial statements of the Group as at and for the year ended 31 December 2009.

These condensed consolidated interim financial statements were approved by the Board of Directors on 13 September 2010.

#### Going Concern

During the period the Group progressed construction of its Mt Cattlin and Jiangsu operations (Project) and plans to continue the completion of construction, commissioning and ramp up of the Project over the coming 12 months. See current commitments on note 11. The interim financial report has been prepared on the going concern basis, which contemplates continuity of normal business activities and the realisation of assets and settlement of liabilities in the ordinary course of business.

To the date of this report Project activities have been funded through equity contributions together with a bridging finance facility from Creat Group of US\$14million (refer note 7).

On 10 September 2010 the Group executed a project loan facility agreement with the CDB and RZB (“Facility”) for a total of US\$105million for the purpose of completing construction and ramp up of the Project to achieve positive cashflows. The Group expects to draw the Facility proceeds during September 2010. A requirement of the Facility is the establishment of a cash reserve account in the amount of US\$50million for the purpose of servicing future interest and principal repayments. As a result of this condition the Group requires further funding forecast to be approximately A\$55million to complete the ramp up of the Project. Plans are in place to obtain further funding to satisfy forecast funding requirements.

The Directors are confident that the Group will successfully raise sufficient cash through its fundraising plan or, if required, alternative means and that the going concern basis of preparation of this financial report remains appropriate.

#### b. Functional and Presentation Currency

These consolidated financial statements are presented in Australian dollars, which is the Company’s functional currency.

#### c. Use of estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

## Notes to the Condensed Consolidated Financial Statements

For the 6 months ended to 30 June 2010

### c. Use of estimates and judgements

#### *Site Restoration Liability*

Determining the cost of rehabilitation, decommissioning and restoration of the area disturbed during mining activities in accordance with the group's accounting policy requires the use of significant estimates and assumptions, including: the appropriate rate at which to discount the liability, the timing of the cash flows and expected life of the relevant area of interest, the application of relevant environmental legislation, and the future expected costs of rehabilitation, decommissioning and restoration.

Changes in the estimates and assumptions used to determine the costs of rehabilitation, decommissioning and restoration could have a material impact on the carrying value of the site restoration provision and related asset. The provision recognised for each site is reviewed at each reporting date and updated based on the facts and circumstances available at the time.

### d. Accounting policies for new transactions

#### *Foreign Currency*

The assets and liabilities of foreign operations are translated to Australian dollars at exchange rates at the reporting date. The income and expenses of foreign operations are translated to Australian dollars at exchange rates at the dates of the transactions.

Foreign currency differences are recognised in other comprehensive income. Such differences are recognised in the foreign currency translation reserve (FCTR). When a foreign operation is disposed of, in part or in full, the relevant amount in the FCTR is transferred to profit or loss as part of the profit or loss on disposal.

When the settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely in the foreseeable future, foreign exchange gains and losses arising from such a monetary item are considered to form part of a net investment in a foreign operation and are recognised in other comprehensive income, and are presented within equity in the FCTR.

### e. Principles of consolidation

#### *Subsidiaries*

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group.

Investments in subsidiaries are carried at their cost of acquisition in the Company's financial statements.

#### *Transactions eliminated on consolidation*

Intragroup balances and any unrealised gains and losses or income and expenses arising from intragroup transactions, are eliminated in preparing the consolidated financial statements.

**Notes to the Condensed Consolidated Financial Statements**  
For the 6 months ended to 30 June 2010

	<b>Consolidated</b>	
	<b>30 June</b>	31 December
	<b>2010</b>	2009
	<b>\$'000</b>	\$'000
<b>2. PROPERTY, PLANT &amp; EQUIPMENT</b>		
<b>(Non-Current)</b>		
Land - at cost	<u>1,172</u>	932
	<u>1,172</u>	932
Plant & equipment - at cost	558	207
Less: Accumulated depreciation	<u>(88)</u>	<u>(39)</u>
	<u>470</u>	168
Assets under construction - at cost	<u>78,782</u>	7,305
	<u>78,782</u>	7,305
Mine development - at cost	<u>16,051</u>	12,410
	<u>16,051</u>	12,410
<b>Closing balance at period end</b>	<u>96,475</u>	20,815
Reconciliation of carrying amount		
<u>Land</u>		
Balance at beginning of period	932	175
Additions	<u>240</u>	<u>757</u>
Balance at end of period	<u>1,172</u>	932
<u>Plant and equipment</u>		
Balance at beginning of period	168	90
Additions	351	100
Depreciation	<u>(49)</u>	<u>(21)</u>
Balance at end of period	<u>470</u>	168
<u>Assets under construction</u>		
Balance at beginning of period	7,305	-
Additions	<u>69,455</u>	<u>7,305</u>
Balance at end of period	<u>76,760</u>	7,305
<u>Mine development</u>		
Balance at beginning of period	12,410	-
Transfers from exploration and evaluation expenditure	1,059	8,809
Additions	<u>2,582</u>	<u>3,601</u>
Balance at end of period	<u>16,051</u>	12,410

## Notes To The Condensed Consolidated Financial Statements

For the 6 months ended to 30 June 2010

	<b>Consolidated</b>	
	<b>30 June 2010</b>	31 December 2009
	<b>\$'000</b>	<b>\$'000</b>
<b>3. EXPLORATION AND EVALUATION EXPENDITURE</b>		
<b>(Non-Current)</b>		
Exploration & Evaluation expenditure costs brought forward in respect of areas of interest		
Balance 1 January	1,268	8,619
<b>Expenditure during period comprising:</b>		
Acquisitions	-	330
Exploration	1,443	1,247
Less: Cost of tenements sold	-	(119)
Less: Transfer exploration to mine development	(1,059)	(8,809)
Balance 30 June	<b>1,652</b>	<b>1,267</b>

Exploration and evaluation expenditure is recorded at historical cost on an area of interest basis. Recovery of these costs is dependent upon the commercial success of future exploration and development or realisation by disposal of the interests therein.

### 4. INTEREST BEARING LIABILITIES

#### (Current)

Bank Loan	-	22,361
	-	22,361

US\$20m was drawn down from RZB pursuant to a bridging facility which was repaid in June 2010.

Subsequent to the end of the period, the Company also secured and received a US\$14 million short term bridging loan through its cornerstone investment partner, Creat Group, in August 2010. This will be repaid to Creat Group when loan facility funds become available.



## Notes To The Condensed Consolidated Financial Statements

For the 6 months ended to 30 June 2010

	30 June 2010		31 December 2009	
	Number	\$'000	Number	\$'000
<b>5. CONTRIBUTED EQUITY</b>				
<b>a) Share Capital</b>				
Ordinary shares - Fully paid	<b>190,553,358</b>	127,300	149,934,608	88,834
<b>Movement in ordinary share capital</b>				
At 1 January	<b>149,934,608</b>	88,834	76,125,816	15,638
Issued for cash	<b>31,000,000</b>	27,280	67,418,182	74,640
Exercise of options	<b>9,618,750</b>	6,226	6,390,610	2,425
Transfer from share based payments reserve on exercise of options	-	6,646	-	813
Cost of issue	-	(1,686)	-	(4,681)
At period end	<b>190,553,358</b>	127,300	149,934,608	88,834

Terms and conditions of ordinary shares:

Holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholders' meetings. In the event of winding up of the Company, ordinary shareholders rank after all other shareholders and creditors and are fully entitled to any proceeds of liquidation.

## 6. RESERVES AND ACCUMULATED LOSSES

	Consolidated	
	30 June 2010 \$'000	31 December 2009 \$'000
<b>(a) RESERVES</b>		
Equity-settled payments reserve	<b>5,425</b>	9,430
Movement:		
Balance 1 January	<b>9,430</b>	1,309
Equity-settled payments	<b>2,641</b>	8,934
Transfer upon exercise of options	<b>(6,646)</b>	(813)
Balance at period end	<b>5,425</b>	9,430
Foreign currency translation reserve	<b>1,268</b>	-
Total reserves	<b>6,693</b>	<b>9,430</b>
The equity settled share based payments reserve comprises the value of options granted in the period calculated at grant date using a Black-Scholes model. For options with a future vesting period the option value is brought to account progressively over the term of the vesting period.		
<b>(b) ACCUMULATED LOSSES</b>		
Balance 1 January	<b>(17,843)</b>	(5,521)
Loss for the year after related income tax expense	<b>(9,615)</b>	(12,322)
Balance at period end	<b>(27,458)</b>	(17,843)

## Notes To The Condensed Consolidated Financial Statements

For the 6 months ended to 30 June 2010

### 7. EVENTS SUBSEQUENT TO REPORTING DATE

- On 20 July 2010, Mr Ivo Polovineo was appointed as a Non-Executive Director of the Company.
- The Company secured a US\$14m short term bridging loan (unsecured) through its cornerstone investment partner, Creat Group Co Limited (Creat Group), on 13 August 2010, to be repaid upon drawdown of the RZB/CDB loan facility. (see below)
- On 10 September 2010 the Group executed the US\$105million facility with CDB and RZB. The facility is secured by charges over all of the assets and undertakings of the Group together with associated guarantees. The Group expects to satisfy all conditions precedent to draw down and access the funds during September 2010. A condition to the facility is that the Group reserve, in cash, US\$50million for the future repayment of principle or interest. The facility bears interest at SIBOR plus 4.5% and is repayable in six monthly instalments commencing June 2012.

Other than the matters discussed above, there has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the Directors of the Company, to affect significantly the operations of the Group, the results of those operations, or the state of affairs of the Group, in future financial years.

### 8. SEGMENT INFORMATION

Reportable Segments	Australia		China		Total	
	30 June 2010	30 June 2009	30 June 2010	30 June 2009	30 June 2010	30 June 2009
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Loss before tax	(8,842)	(1,883)	(773)	-	(9,615)	(1,883)
Assets	94,359	12,699	28,549	-	122,908	12,699

The Group's two reportable segments are solely maintained in separate companies. As such there are no reconciling items between reportable segments profit or loss and consolidated entity's profit or loss.

## Notes To The Condensed Consolidated Financial Statements

For the 6 months ended to 30 June 2010

### 9. EARNINGS / LOSS PER SHARE

	<b>Consolidated</b>	
	<b>30 June 2010</b>	30 June 2009
	<b>\$'000</b>	\$'000
	<b>Cents</b>	Cents
<b>(a) Basic earnings per share</b>		
Basic and diluted earnings per share (cents per share)	(5.83)c	(2.92)c
<b>(b) Weighted average number of shares used as the denominator</b>		
Weighted average number of ordinary shares outstanding during the year used in calculation of basic earnings per share	<u>164,930,887</u>	<u>64,506,606</u>

### 10. CONTINGENT ASSETS AND LIABILITIES

No contingent liabilities or assets have arisen during the financial period.

### 11. COMMITMENTS

#### Mining Tenement Leases

In order to maintain current rights of tenure to mining tenements, the Company will be required to perform minimum exploration work to meet the minimum expenditure requirements specified by the WA State Government and pay tenement lease rents. The estimated exploration expenditure commitment for the ensuing year, but not recognised as a liability in the financial statements:

	<b>Consolidated</b>	
	<b>30 June 2010</b>	31 December 2009
	<b>\$'000</b>	\$'000
Within one year	<u>576</u>	<u>524</u>
	<u>576</u>	<u>524</u>

This expenditure will only be incurred should the Company retain its existing level of interest in its various exploration areas and provided access to mining tenements is not restricted. These obligations will be fulfilled in the normal course of operations, which may include farm-out, joint venture and direct exploration expenditure. The Company has not determined what the commitment will be beyond 12 months.

#### Construction Contract Commitments

	<b>Consolidated</b>	
	<b>30 June 2010</b>	31 December 2009
	<b>\$'000</b>	\$'000
Within one year	25,997	29,540
Later than one year but less than five years	-	-
	<u>25,997</u>	<u>29,540</u>

## Directors' Declaration

In the opinion of the Directors of Galaxy Resources Limited:

1. the financial statements and notes set out on pages 9 to 19 are in accordance with the Corporations Act 2001, including:
  - a. complying with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and
  - b. giving a true and fair view of the consolidated entity's financial position as at 30 June 2010 and of its performance for the half year ended on that date; and
2. there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

The directors have been given the declarations by the chief executive officer and chief financial officer required by section 295A of the Corporations Act 2001.

Signed in accordance with a resolution of the Directors

Dated at Perth this 13<sup>th</sup> day of September 2010.

On behalf of the Directors



I KS Tan  
Managing Director



## **Independent auditor's review report to the members of Galaxy Resources Limited**

### **Report on the financial report**

We have reviewed the accompanying interim financial report of Galaxy Resources Limited, which comprises the condensed consolidated balance sheet as at 30 June 2010, condensed consolidated statement of comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the interim period ended on that date, a summary of significant accounting policies and other explanatory information and the directors' declaration of the Group comprising the Company and the entities it controlled at the interim's end or from time to time during the interim period.

#### *Directors' responsibility for the interim financial report*

The directors of the Company are responsible for the preparation of the interim financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such control as the directors determine is necessary to enable the preparation of the interim financial report that is free from material misstatement, whether due to fraud or error.

#### *Auditor's responsibility*

Our responsibility is to express a conclusion on the interim financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the interim financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's financial position as at 30 June 2010 and its performance for the interim period ended on that date; and complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of Galaxy Resources Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

#### *Independence*

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, provided to the directors of Galaxy Resources Limited on 30 June 2010, would be in the same terms if given to the directors as at the time of this auditor's report.



*Conclusion*

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the interim financial report of Galaxy Resources Limited is not in accordance with the *Corporations Act 2001*, including:

(a) giving a true and fair view of the Group's financial position as at 30 June 2010 and of its performance for the interim period ended on that date; and

(b) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

KPMG

Trevor Hart  
*Partner*

Perth

13 September 2010

## Corporate Directory

### Directors

Craig Readhead (Chairman)  
Ignatius (Iggy) Tan (Managing Director)  
Robert (Bob) Wanless  
Yuewen Zheng  
Xiaojian Ren (Alternate Director for Yuewen Zheng)  
Ivo Polovineo

### Company Secretary

Andrew Meloncelli

### Executive Management

Terry Stark (General Manager – Australia)  
Mark Sun (Managing Director – China)  
Anand Sheth (General Manager – Marketing and Business Development)  
Philip Tornatora (Exploration and Geology Manager)  
John Sobolewski (Chief Financial Officer)

### Registered Office and Principal Place of Business

Level 2, 16 Ord Street      PO Box 1136  
West Perth WA 6005      West Perth WA 6872  
Australia                      Australia  
P: + 61 8 9215 1700  
F: + 61 8 9215 1799  
Email: [reception@galaxyresources.com.au](mailto:reception@galaxyresources.com.au)  
Website: [www.galaxyresources.com.au](http://www.galaxyresources.com.au)

### Share Registry

Computershare Investor Services Pty Ltd  
Level 2, 45 St Georges Terrace  
Perth WA 6000  
P: 1300 557 010 (within Australia)  
P: + 61 3 9415 5000 (outside Australia)  
F: + 61 8 9323 2033  
Website: [www.computershare.com](http://www.computershare.com)

### Auditors

KPMG Chartered Accountants  
235 St Georges Terrace  
Perth WA 6000  
P: + 61 8 9263 7171  
F: + 61 8 9263 7129

### Solicitors

Allion Legal  
Level 2, 50 Kings Park Road  
West Perth WA 60005  
P: + 61 8 9216 7100  
F: + 61 8 9324 1075

### Australian Business Number

11 071 976 442

### ASX Code

GXY