



# **Galaxy Resources Limited**

ABN 11 071 976 442

## **Condensed Consolidated Interim Financial Report**

### **Half Year Ended 30 June 2011**

**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 2010 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.**

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## Review of Operations

### Highlights

- **Zero Lost Time Injury safety performance achieved**
- **\$120 million capital raising completed to fund Mt Cattlin and Jiangsu ramp-up, acquisitions, and retirement of debt**
- **CDB/RZB senior loan facility re-paid**
- **New loan asset facility (target US\$60m) in the process of being established with China Construction Bank**
- **Proposed Hong Kong IPO postponed**
- **Spodumene concentrate shipped from Mt Cattlin to Jiangsu Lithium Carbonate Plant**
- **First tantalum concentrate shipped from Mt Cattlin**
- **Appointment of new directors and HK company secretary**
- **Acquisition of 20% of James Bay Spodumene Project, Quebec**
- **Mt Cattlin H1 spodumene production 24,592 tonnes**
- **Mt Cattlin resource upgraded by 14%, mine life extended**
- **Successful completion of RC drilling program at Shoemaker Project**
- **Environmental, geological reports submitted for Ponton Rare Earths Project**
- **Jiangsu construction progressed, revised timetable issued**
- **Construction and fabrication labour shortages as well as scope changes had contributed to schedule delay and revised budget**
- **Jiangsu completion and commissioning would now be staged over H2 2011**
- **Technical license partnership with US Lithium Battery Producer**
- **Galaxy welcomed 20% global lithium price increase**
- **Galaxy awarded sustainable energy prize for solar technology at Mt Cattlin**

### Corporate

#### **A\$120 Million Placement Finalised**

The Company finalised an A\$120 million capital raising via an equity placement. The raising was completed with sophisticated and institutional investor clients of Azure Capital, Morgan Stanley and Helmsec Global Capital (Joint Lead Managers).

The Company has the following substantial shareholders (as per filings with ASIC/ASX) as at the date of this report:

<b>Name</b>	<b>Percentage Held</b>
Creat Resources Holdings Limited	11.78%
M&G Group (part of Prudential Group plc)	8.10%
Fengli Group (Hong Kong) Co Limited	6.68%

#### **RZB/CDB Senior Loan Facility Repaid**

The Company has fully repaid the CDB/RZB senior loan facility.

#### **New Loan Facility – China Construction Bank**

A new loan facility is in the process of being established with China Construction Bank. The Company is targeting a minimum of US\$60m. The loan facility is at various stages of approval with US\$37m currently approved by CCB. The Company has limited debt and the loan drawings from this facility will fund the completion of the Jiangsu Lithium Carbonate Project.

#### **Hong Kong IPO Postponed**

The Company postponed its proposed initial public offering (IPO) in Hong Kong until further notice, due to unfavourable financial market conditions relating to the North African unrest and Japanese earthquake. Galaxy had planned a dual listing on the Stock Exchange of Hong Kong (SEHK) in the first half of 2011.

**Spodumene concentrate shipments**

The Company successfully exported two shipments of Mt Cattlin spodumene from the Bunbury Port in Western Australia to the Zhangjiagang Port in the Peoples Republic of China. The spodumene will be used at the Company's Lithium Carbonate plant.

**First tantalum concentrate shipped from Mt Cattlin**

The Company delivered the first shipment of tantalum concentrate from its Mt Cattlin mine in Western Australia, under its five-year sales agreement with Global Advanced Metals Pty Ltd (GAM). The shipment of 28 tonnes had an average grade of 2.3% tantalum pentoxide. Tantalum ore is mined alongside spodumene and subsequently processed into a tantalum concentrate by-product.

**Appointment of new directors and HK company secretary**

The Company appointed Mr Michael Spratt as an Independent Non-Executive Director and Mr Shaoqing Wu as Non-Executive Director to the Galaxy Board. It also appointed Ms Ella Wong as Company Secretary (Hong Kong).

**Resources Division****Acquisition of 20% of James Bay Project**

Galaxy acquired 20% of the James Bay Pegmatite Project in Quebec after the conditions precedent of the farm-in and joint venture agreement with Lithium One Inc. (TSX-V: LI) of Canada were satisfied. Under the terms of the Agreement, Galaxy acquired the 20% equity interest after the C\$3 million initial payment was made. Galaxy has the potential to increase its equity interest to 70% through the completion of a definitive feasibility study.

**Mt Cattlin**

Mining operations continued to meet expectations, with total material movement of 1,047,345 BCMs of waste and ore mined of 248,832 tonnes at 1.20% Li<sub>2</sub>O recorded for the period. The ramp-up of production in the wet plant and concentrator continued with spodumene concentrate production to 24,592 dry tonnes. Significant improvement has been achieved with the removal of mica at the front end of the plant and testwork relating to mica removal elsewhere in the plant is in progress.

Drilling, modelling, evaluation in the period boosted resources and reserves at Mt Cattlin. Total resource tonnes increased by 14.6%, or 2.31 million tonnes from the previous estimate, while the measured and indicated mineral resource was up 12%, or 1.50 million tonnes, to 13.8 million tonnes. The resource increase at Mt Cattlin extended the potential mine life of the spodumene project to 18 years, including inferred resources.

2011	June 2011	Year to date
Ore Mined (Tonnes)	137,790	248,832
Grade (%)	1.17	1.20
Waste Mined (BCM)	522,020	1,047,345
Ore Treated (Tonnes)	151,791	266,532
Grade (%)	1.25	1.25
Spodumene Produced (Dry Tonnes )	17,792	24,592
Grade (%)	5.25	5.30

**Safety**

Galaxy registered a new safety performance record at Mt Cattlin during the period. No Lost Time Injuries (LTIs) were recorded and there were further reductions in the number of incidents, Medical Treatment Injuries (MTIs) and first aid treatments.

**Shoemaker (Galaxy 50% Interest)**

The first stage RC drilling program was completed in the quarter. 30 holes totalling about 2,750 line metres were drilled as planned. The drill samples have been sent to independent laboratories in Perth for assaying. Shoemaker is an iron ore and manganese exploration project approximately 830 kilometres northeast of Perth, Western Australia.

**Ponton Rare Earths Project**

The Company submitted the Environmental and Geological Reports to the Western Australian Government's Department of Mines and Petroleum (DMP) as part of the application process for the grant of the Ponton Rare Earth Project (Ponton Project) tenement. Galaxy wholly-owns the Ponton Project, which is located 200km east of Kalgoorlie in the eastern Goldfields region of Western Australia and comprises a single Exploration Licence Application (E28/1317) covering 206 km<sup>2</sup>. The Environmental Report was compiled by consultants Keith Lindbeck and Associates addressing environmental management practices in sensitive areas due to the Ponton Project ELA being situated on a Class A nature reserve.

**Chemicals Division****Jiangsu Construction Update**

Subsequent to the period, the Company advised that construction and fabrication labour shortages in China's Jiangsu region had contributed to a revised commissioning schedule of the Jiangsu Lithium Carbonate Project. Completion and commissioning would now be staged over H2 2011.

The Project's EPCM contractor, Hatch Engineering provided Galaxy with a revised schedule and budget plan for the Jiangsu Project, which indicated the Project was 76% complete.

The Jiangsu Project schedule was pressured by scope growth and a significant tightening of the skilled labour market in China's Jiangsu region, which resulted in delays to construction and equipment delivery. Labour shortages had adversely impacted equipment and plant suppliers and their ability to deliver to the Jiangsu Project on time.

Galaxy registered a new safety performance record at Jiangsu during the period. No Lost Time Injuries (LTIs) and one Medical Treatment Injury (MTIs) were recorded at Jiangsu.

**Capital Forecast**

The revised capital budget was adjusted to A\$99.8 million from A\$72.5 million previously, which represented a 36% increase in Australian dollar terms. Most of the increase related to a rise in material requirements (such as concrete, steel and process equipment) which emerged as design details were finalised. The balance related to the higher cost of materials and labour, as well as inflationary pressures and scope changes to the Jiangsu Project.

The previous estimation of material quantities and design changes were the result of the Company's strategic decision to build the Jiangsu plant on an accelerated basis, paralleling both the design and construction process. In addition, the market demand for higher purity lithium (>99.5%) persuaded the company to add a secondary purification circuit to the original design.

No further capital raising would be required to complete the construction and start up of the Jiangsu Project as a contingency was incorporated in the previous A\$120 million capital raising.

**Battery Division****Project Update**

Galaxy continued to advance the implementation of a lithium ion E-Bike battery manufacturing project in the Jiangsu Zhangjiagang High Technology Park. This project is subject to final board approval. EPCM

contractor M+W Group Shanghai appointed a dedicated team to lead the project. Significant in the process was the appointment of Mr Jack Huang, a mechanical engineer with several years of experience in engineering and project management with particular reference to clean building required for battery plants.

An Environmental Impact Assessment (EIA) Report was finalised, and submitted to the Environmental Protection Board, Jiangsu Province. In addition the Definitive Feasibility Study for the Battery Project was completed in August 2011.

#### **Partnership Deal With US Lithium Battery Producer**

The Company signed a technology license agreement with established US-based lithium ion battery producer K2 Energy Solutions Inc. Under the Agreement, K2 Energy will provide Galaxy with battery technology expertise, licensing and commercial support for the construction and operation of Galaxy's proposed Jiangsu battery manufacturing plant in China. The license agreement reflects important preparatory work for Galaxy's proposed Battery Project and was an important milestone set by the Galaxy ahead of final approval of the Project.

#### **Galaxy welcomed 20% global lithium price increase**

Galaxy welcomed announcements by major lithium producers FMC Lithium and Chemetall of 20% price increases for their lithium products, effective July 2011. The companies said prices for lithium carbonate, lithium hydroxide, lithium chloride, and lithium metal battery grade were lifted.

#### **Galaxy awarded sustainable energy prize for solar technology at Mt Cattlin**

The Company together with Swan Energy Pty Ltd was awarded the Energy Generation and Distribution Award by the Sustainability Energy Association of Australia. The Company received the award for the installation of state-of-the-art solar tracking technology at its Mt Cattlin project. It is the first mine site in Australia to have real-time solar tracking panels as part of its power generating requirements. The Company currently has 14 giant solar trackers and 2 wind turbines in operation at Mt Cattlin, which together generate 226 MWh per year of renewable energy.

## 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 2011 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  
Xiaojian Ren  
Ivo John Polovineo (Resigned 2 September 2011)  
Anthony Peter Tse  
Charles Bernard Francis Whitfield  
Shaoqing Wu (Appointed 24 February 2011)  
Kai Cheong Kwan  
David Michael Spratt (Appointed 11 February 2011)

### Principal Activities

The principal activity of the entities within the Consolidated Entity is production at 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 \$91,590,034 for the six months to June 30, 2011.

### Review of Operations

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

### Events Subsequent to Reporting Date

- On July 15, 2011 the Company announced that construction and fabrication labour shortages in China's Jiangsu region have contributed to a revised commissioning schedule of the Jiangsu Lithium Carbonate Project (the Project or Jiangsu), to be staged over the next five months, with full commissioning to commence during Q4 2011. The revised capital cost was 689m RMB.
- On September 2, 2011 Mr Ivo Polovineo resigned as a Director of the Company.

### **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 9 and forms part of the directors' report for the six months ended 30 June 2011.

### **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 condensed consolidated interim 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 12<sup>th</sup> day of September 2011.

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 2011 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 be 'T. Hart', written over the printed name.

Trevor Hart  
*Partner*

Perth

12 September 2011

**FINANCIAL REPORT**  
**Condensed Consolidated Statements of Comprehensive Income**

	Note	Six months to 30 June 2011 \$'000	Six months to 30 June 2010 \$'000
<b>Continuing operations</b>			
Mine operating expenses		(5,624)	-
Impairment loss on plant and equipment	2	(42,034)	-
Administrative expenses		(15,150)	(7,377)
Exploration expenses		(23)	(42)
Share based payments		(8,939)	(2,641)
Depreciation and amortisation		(899)	(49)
		<hr/>	<hr/>
<b>Results from operating activities</b>		<b>(72,669)</b>	<b>(10,109)</b>
Finance income		5,057	1,023
Finance costs		(23,978)	(529)
		<hr/>	<hr/>
<b>Net finance costs</b>		<b>(18,921)</b>	494
		<hr/>	<hr/>
<b>Loss before income tax</b>		<b>(91,590)</b>	<b>(9,615)</b>
Income tax benefit		-	-
		<hr/>	<hr/>
<b>Loss for the period</b>		<b>(91,590)</b>	<b>(9,615)</b>
		<hr/>	<hr/>
<b>Other comprehensive income for the period</b>			
Foreign currency translation differences – foreign operations		(1,209)	1,268
Net changes in available-for-sale financial assets		150	-
		<hr/>	<hr/>
<b>Total comprehensive income for the period attributed to shareholders</b>		<b>(92,649)</b>	<b>(8,347)</b>
		<hr/> <hr/>	<hr/> <hr/>
Basic and diluted earnings per share (cents per share)		<b>(38.82)c</b>	(5.83)c
		<hr/>	<hr/>
<b>(Loss) per share for loss from continuing operations attributable to the ordinary equity holders of the company</b>		<b>(38.82)c</b>	(5.83)c
		<hr/>	<hr/>

The accompanying notes form part of these consolidated financial statements.

**Condensed Consolidated Interim Balance Sheet**

	Note	Six months to 30 June 2011 \$'000	Year Ended 31 December 2010 \$'000
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	2	141,402	145,398
Lease prepayment	3	2,809	2,836
Exploration and evaluation assets	4	6,094	2,243
Available-for-sale financial assets		750	600
Other receivables		1,290	952
Restricted cash deposit		-	42,835
<b>TOTAL NON-CURRENT ASSETS</b>		<b>152,345</b>	<b>194,864</b>
<b>CURRENT ASSETS</b>			
Other receivables		5,288	5,936
Inventories		4,976	2,002
Restricted cash deposit		-	5,220
Cash and cash equivalents		66,500	27,510
<b>TOTAL CURRENT ASSETS</b>		<b>76,764</b>	<b>40,468</b>
<b>TOTAL ASSETS</b>		<b>229,109</b>	<b>235,532</b>
<b>CURRENT LIABILITIES</b>			
Trade and other payables		8,537	12,123
Provisions		479	346
Interest bearing liabilities	5	-	7,637
<b>TOTAL CURRENT LIABILITIES</b>		<b>9,016</b>	<b>20,106</b>
<b>NON-CURRENT LIABILITIES</b>			
Provisions		1,232	913
Interest bearing liabilities	5	68,117	123,079
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>69,349</b>	<b>123,992</b>
<b>TOTAL LIABILITIES</b>		<b>78,365</b>	<b>144,098</b>
<b>NET ASSETS / (LIABILITIES)</b>		<b>150,744</b>	<b>91,434</b>
<b>EQUITY</b>			
Contributed equity	6	271,458	128,419
Reserves		18,302	10,441
Accumulated losses		(139,016)	(47,426)
<b>TOTAL EQUITY</b>		<b>150,744</b>	<b>91,434</b>

The accompanying notes form part of these consolidated financial statements.

**Condensed Consolidated Statements Of Changes In Equity**

	Share capital \$'000	Equity- settled payments reserve \$'000	Foreign currency translation reserve \$'000	Fair value reserve \$'000	Accumulated losses \$'000	Total equity \$'000
<b>Balance at January 1, 2010</b>	<b>88,834</b>	<b>9,430</b>	-	-	<b>(17,843)</b>	<b>80,421</b>
Total comprehensive income for the period	-	-	1,268	-	(9,615)	(8,347)
Issue of shares, net of transaction costs	25,594	-	-	-	-	25,594
Exercise of share options	6,226	-	-	-	-	6,226
Transfer of reserve upon exercise of share options	6,646	(6,646)	-	-	-	-
Share-based payment transactions	-	2,641	-	-	-	2,641
<b>Balance at June 30, 2010</b>	<b>127,300</b>	<b>5,425</b>	<b>1,268</b>	-	<b>(27,458)</b>	<b>106,535</b>
Total comprehensive income for the period	-	-	(1,209)	150	(91,590)	(92,649)
Issue of shares, net of transaction costs	142,870	-	-	-	-	142,870
Exercise of share options	150	-	-	-	-	150
Transfer of reserve upon exercise of share options	19	(19)	-	-	-	-
Share-based payment transactions	-	8,939	-	-	-	8,939
<b>Balance at June 30, 2011</b>	<b>271,458</b>	<b>22,814</b>	<b>(4,812)</b>	<b>300</b>	<b>(139,016)</b>	<b>150,744</b>

The accompanying notes form part of these consolidated financial statements.

**Condensed Consolidated Interim Cash Flow Statements**

	<b>Six months to 30 June 2011</b>	Six months to 30 June 2010
	\$	\$
	\$'000	\$'000
<b>Operating activities</b>		
Payments to suppliers and contractors (inclusive of goods and services tax)	<u>(24,098)</u>	(6,161)
<b>Net cash used in operating activities</b>	<u>(24,098)</u>	<u>(6,161)</u>
<b>Investing activities</b>		
Interest received	966	1,257
Acquisition of property, plant and equipment	(43,190)	(67,937)
Payments for exploration and evaluation assets	(4,346)	(1,386)
Outflow for security deposits / performance bonds	<u>(367)</u>	(74)
<b>Net cash used in investing activities</b>	<u>(46,937)</u>	<u>(68,140)</u>
<b>Financing activities</b>		
Net proceeds from issue of shares	143,019	31,819
Interest paid	(5,084)	(634)
Proceeds from borrowings	34,538	-
Repayments of borrowings	(106,590)	(22,361)
Interest and principal from restricted cash	<u>45,826</u>	-
<b>Net cash generated from financing activities</b>	<u>111,709</u>	<u>8,824</u>
		-
<b>Net increase / (decrease) in cash and cash equivalents</b>	<b>40,674</b>	(65,477)
<b>Cash and cash equivalents at the beginning of the year / period</b>	<b>27,510</b>	83,441
<b>Effect of foreign exchange rate changes</b>	<u>(1,684)</u>	383
<b>Cash and cash equivalents at the end of the year / period</b>	<u><u>66,500</u></u>	<u><u>18,347</u></u>

The accompanying notes form part of these consolidated financial statements.

## Notes to the Condensed Consolidated Interim Financial Statements

For the six months ended to 30 June 2011

### 1. Statement of Significant Accounting Policies

Galaxy Resources Limited (the "Company") is a company domiciled in Australia. The condensed consolidated interim financial report of the Company as at and for the six months ended 30 June 2011 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 2010.

These condensed consolidated interim financial statements were approved by the Board of Directors on 12 September 2011.

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

#### b. Accounting policies

The accounting policies applied by the Group in the condensed consolidated interim financial report are the same as those applied by the Group in its consolidated financial report as at and for the year ended 31 December 2010.

#### c. Functional and Presentation Currency

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

#### d. 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.

Except as described below in preparing this consolidated interim financial report, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended 31 December 2010.

**Notes to the Condensed Consolidated Interim Financial Statements**

For the six months ended to 30 June 2011

**d. Use of estimates and judgements (continued)***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.

**e. Impairment of non-financial assets**

During the period the Company recognised an impairment charge relating to capitalised pre-commencement costs and development expenditure at the Company's Mt Cattlin Lithium Project. The assessment involved the use of significant estimates and judgements as set out in Note 2.

## Notes to the Condensed Consolidated Interim Financial Statements

For the six months ended to 30 June 2011

### 2. PROPERTY, PLANT AND EQUIPMENT

	<b>June 30, 2011 \$'000</b>	<b>December 31, 2010 \$'000</b>
<b>Cost</b>		
<i>Land</i>		
Balance at beginning of the year / period	1,172	932
Additions	-	240
Balance at end of the year / period	1,172	1,172
<i>Plant and equipment</i>		
Balance at beginning of the year / period	840	207
Additions	37	633
Transfer from assets under construction (i)	119,632	-
Balance at end of the year / period	120,509	840
<i>Assets under construction</i>		
Balance at beginning of the year / period	126,177	7,305
Additions	38,542	118,872
Transfer to plant and equipment (i)	(119,632)	-
Balance at end of the year / period	45,087	126,177
<i>Development expenditure</i>		
Balance at beginning of the year / period	17,378	12,410
Additions	330	3,631
Transfer from exploration and evaluation assets	-	1,337
Balance at end of the year / period	17,708	17,378
<b>Total</b>		
Balance at beginning of the year / period	145,567	20,854
Additions	38,909	123,376
Transfer from exploration and evaluation assets	-	1,337
Balance at end of the year / period	184,476	145,567
<b>Accumulated depreciation and impairment losses</b>		
<i>Land</i>		
Balance at beginning and end of the year/period	-	-
<i>Plant and equipment</i>		
Balance at beginning of the year / period	169	39
Depreciation	793	130
Impairment loss	33,657	-
Balance at end of the year / period	34,619	169
<i>Assets under construction</i>		
Balance at beginning and end of the year/period	-	-
<i>Development expenditure</i>		
Amortisation	78	-
Impairment loss	8,377	-
Balance at end of the year / period	8,455	-
<b>Total</b>		
Balance at beginning of the year / period	169	39
Depreciation	871	130
Impairment loss	42,034	-
Balance at end of the year / period	43,074	169



## Notes to the Condensed Consolidated Interim Financial Statements

For the six months ended to 30 June 2011

### 2. PROPERTY, PLANT AND EQUIPMENT (continued)

#### Carrying amounts

Land	1,172	1,172
Plant and equipment	85,890	671
Assets under construction	45,087	126,177
Development expenditure	9,253	17,378
<b>Total property, plant and equipment</b>	<b>141,402</b>	<b>145,398</b>

- (i) Assets were transferred from assets under construction to plant and equipment upon commercial production at Mt Cattlin.

#### Impairment loss

The Company considers the Mt Cattlin mine and concentrator, together with the Jiangsu lithium carbonate plant (Mt Cattlin Lithium Project or “the project”) as a single cash generating unit (“CGU”) for the purpose of assessing impairment.

Due to increased ramp up and commissioning timeframes at Mt Cattlin together with increased capital costs of property, plant and equipment for the project and unfavourable foreign exchange rate movements during the period the Group tested the CGU for impairment. The Group have determined the recoverable amount of the CGU using a value in use methodology. The Group’s value in use calculation is based on discounted cash flows for the projected life of the project of 17 years. A real post tax discount rate has been derived as a weighted cost of equity and debt. Cost of equity is calculated using ten year bond rates plus an appropriate market risk premium. The cost of debt is based on the yield on a 10 year BBB rated corporate bond. The real post tax discount rate for determining the CGU’s recoverable amount was 13.6 percent. The pre-tax discount rate applied for impairment testing was 16.1%, which represents a pre-tax equivalent to the post-tax discount rate. For the term of the cash flows the Group has assumed 2 percent per annum real growth in lithium carbonate price, USD/AUD exchange rates varying from 0.96 to 1.05 and AUD/CNY exchange rates varying from 5.1 to 5.9 over the term of the cash flows.

The CGU recoverable amount is particularly sensitive to the USD/AUD exchange rate whereby, with all other assumptions remaining equal, a 10% strengthening of the long term USD/AUD rate would lead to an impairment reduction of \$41 million.

The resulting impairment charge of \$42,034,000 has been recognised in profit or loss and allocated to the following asset classes within property, plant and equipment of the Australian operating segment:

- Development expenditure \$8,376,538\*
- Plant and equipment \$33,657,462\*\*

\* Relates to historical exploration and development costs at the Mt Cattlin Project.

\*\* Relates to pre-commencement operating costs at Mt Cattlin.

## Notes to the Condensed Consolidated Interim Financial Statements

For the six months ended to 30 June 2011

### 3. LEASE PREPAYMENT

	<b>June 30, 2011</b>	<b>December 31, 2010</b>
	\$'000	\$'000
<b>Cost</b>		
Balance at beginning of the year / period	2,873	-
Additions	-	2,873
Balance at end of the year / period	2,873	2,873
<b>Accumulated amortisation</b>		
Balance at beginning of the year / period	37	-
Amortisation	27	37
Balance at end of the year / period	64	37
<b>Carrying amounts</b>	2,809	2,836

Lease prepayment represented a lump sum prepayment made in April 2010 for a land use right in the People's Republic of China with the lease term of 50 years. Lease prepayment is amortised on a straight-line basis over the period of the lease term.

	<b>June 30, 2011</b>	<b>December 31, 2010</b>
	\$'000	\$'000
<b>4. EXPLORATION AND EVALUATION EXPENDITURE</b>		
<b>(Non-Current)</b>		
Exploration & Evaluation expenditure costs brought forward in respect of areas of interest		
Opening balance	2,243	1,268
<b>Expenditure during period comprising:</b>		
Acquisitions (i)	2,900	-
Exploration	951	2,313
Less: Transfer exploration to mine development	-	(1,338)
Closing balance	<b>6,094</b>	<b>2,243</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.

- (i) Within the period, the Group purchased 20% of the James Bay Project for 3 million Canadian dollars.

## Notes to the Condensed Consolidated Interim Financial Statements

For the six months ended to 30 June 2011

5. INTEREST BEARING LIABILITIES	June 30, 2011	December 31, 2010
Group	\$'000	\$'000
<b>Current</b>		
Bank loan – Letter of Credit	-	7,637
Secured bank loan	-	-
Balance at end of the year / period	-	7,637
<b>Non Current</b>		
Secured bank loan (i)	-	91,079
Unsecured bank loan (ii)	5,038	-
Convertible Bonds (iii)	63,079	32,000
Balance at end of the year / period	68,117	123,079

- (i) The Syndicated Facility Agreement (SFA) with China Development Bank and RB International (Hong Kong) Limited was repaid in full during this period. As such the restricted deposit of US\$50m has been released.
- (ii) Facility with China Construction Bank (CCB) is an unsecured fixed asset facility with a term of 3 years. The current interest rate is 6.4%. The facility is 136m RMB.
- (iii) Includes a fair value movement of \$1,578,807 through the profit or loss.

## 6. CONTRIBUTED EQUITY

	30 June 2011		31 December 2010	
	Number	\$'000	Number	\$'000
<b>a) Share Capital</b>				
Ordinary shares - Fully paid	<b>323,327,000</b>	271,458	192,403,358	128,419
<b>Movement in ordinary share capital</b>				
Balance at the beginning of the year / period	<b>192,403,358</b>	128,419	149,934,608	88,834
Issued for cash (i)	<b>130,673,642</b>	150,000	31,000,000	27,280
Share options exercised - equity settled share-based transactions	<b>250,000</b>	150	11,468,750	7,235
Transfer from equity-settled payment reserve upon exercise/cancellation of share options	-	19	-	6,756
Transaction costs	-	(7,130)	-	(1,686)
Balance at the end of the year / period	<b>323,327,000</b>	271,458	192,403,358	128,419

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.

- (i) 21,582,733 shares issued on 15 February 2011, at \$1.39 per share.  
 30,999,962 shares issued on 27 April 2011, at \$1.10 per share.  
 78,090,947 shares issued on 23 May 2011, at \$1.10 per share.

## Notes To The Condensed Consolidated Interim Financial Statements

For the six months ended to 30 June 2011

### 7. EVENTS SUBSEQUENT TO REPORTING DATE

- On July 15, 2011 the Company announced that construction and fabrication labour shortages in China's Jiangsu region have contributed to a revised commissioning schedule of the Jiangsu Lithium Carbonate Project (the Project or Jiangsu), to be staged over the next five months, with full commissioning to commence during Q4 2011. The revised capital cost was 689m RMB.
- On September 2, 2011 Mr Ivo Polovineo resigned as a Director of the Company.

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 2011	30 June 2010	30 June 2011	30 June 2010	30 June 2011	30 June 2010
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Loss before tax	(89,993)	(8,842)	(1,597)	(773)	(91,590)	(9,615)
Assets	172,702	94,359	56,407	28,549	229,109	122,908

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.

### 9. LOSS PER SHARE

	Consolidated	
	30 June 2011	30 June 2010
	Cents	Cents
(a) Basic loss per share		
Basic and diluted loss per share (cents per share)	(38.82)	(5.83)
(b) Weighted average number of shares used as the denominator		
Weighted average number of ordinary shares outstanding during the period used in calculation of basic earnings per share	235,940,871	164,930,887

### 10. CONTINGENT ASSETS AND LIABILITIES

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

## Notes To The Condensed Consolidated Interim Financial Statements

For the 6 months ended to 30 June 2011

### 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 2011</b>	31 December 2010
	<b>\$'000</b>	\$'000
Within one year	<b>631</b>	606
	<b>631</b>	606

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 2011</b>	31 December 2010
	<b>\$'000</b>	\$'000
Within one year	<b>24,639</b>	27,893
Later than one year but less than five years	-	-
	<b>24,639</b>	27,893

## Directors' Declaration

In the opinion of the Directors of Galaxy Resources Limited:

1. the financial statements and notes set out on pages 10 to 21 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 2011 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 12<sup>th</sup> day of September 2011.

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 interim balance sheet as at 30 June 2011, condensed consolidated statement of comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the half-year 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 half-year's end or from time to time during the half-year 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 2011 and its performance for the half-year 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 an 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*.



*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 2011 and of its performance for the half-year ended on that date; and
- (b) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

KPMG

KPMG

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

Trevor Hart  
*Partner*

Perth

12 September 2011



## Corporate Directory

### Directors

Craig Leslie Readhead  
Ignatius (Iggy) Kim Seng Tan  
Robert (Bob) James Wanless  
Yuewen Zheng  
Xiaojian Ren  
Anthony Peter Tse  
Charles Bernard Francis Whitfield  
Shaoqing Wu  
Kai Cheong Kwan  
David (Mike) Michael Spratt

### Company Secretaries

Andrew Leslie Meloncelli  
Ella Wong

### Executive Management

Terry Stark (Managing Director, Resources Division – Australia)  
Mark Sun (Managing Director, Chemical Division – China)  
Anand Sheth (Director – Sales and Marketing)  
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@galaxylithium.com](mailto:reception@galaxylithium.com)  
Website: [www.galaxylithium.com](http://www.galaxylithium.com)

### 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 Pty Ltd  
Level 2, 50 Kings Park Road  
West Perth WA 6005  
P: + 61 8 9216 7100  
F: + 61 8 9324 1075

### Australian Business Number

11 071 976 442

### ASX Code

GXY