



Quarterly Report

For the three months ending 31 December 2010

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Significant Events

meeting a lithium future...

- Corporate strategy updated to reflect Galaxy becoming a vertically integrated lithium resource, chemical and battery company
- Agreement signed to acquire up to 70% of the James Bay Lithium Spodumene Project in Canada
- Progress towards listing on the Hong Kong Stock Exchange (SEHK) towards the end of Q1 2011
- Shareholders overwhelming approved SEHK listing
- Finalised capital raising of A\$91.5 million
- To date, a total of A\$42.5 million has been received
- Tantalum concentrate sales agreement signed
- Ceremony held to mark the opening of Mt Cattlin
- Spodumene concentrate production commenced at Mt Cattlin
- Mt Cattlin production ramp up progressing
- Good spodumene grades produced at Mt Cattlin
- Development potential for mica produced at Mt Cattlin, tests commence with potential offtake company
- Review of Ponton Rare Earths Project completed
- Jiangsu construction progressing on schedule and budget
- Lithium Ion Battery Project feasibility study completed
- Letter of Intent signed for potential Battery Project site
- Appointment of M+W Group as Battery EPCM Contractor

Galaxy Resources is an international S&P / ASX 300 Index company which plans to become one of the world's leading producers of lithium compounds – the essential component for powering the world's fast expanding fleet of hybrid and electric cars.

Galaxy wholly-owns and operates the Mt Cattlin mine, which is currently producing spodumene concentrate. Galaxy's Jiangsu lithium carbonate plant, once completed, will have a design capacity of 17,000 tpa of lithium carbonate, which Galaxy expects would make it one of the largest plants in China converting hard rock lithium mineral concentrates into lithium compounds and chemicals.

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

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

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Jiangsu product packaging building

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Corporate

New Corporate Strategy

Galaxy is achieving regular milestones in its journey to becoming a vertically integrated lithium company, involved in raw product lithium production, through to chemical processing and lithium-ion battery manufacturing. Moving toward a downstream business model offers the potential for higher margins and attractive returns for the Company.

The efficient development of Galaxy's Mt Cattlin mine was testament to the Company's commitment to enter the lithium market as quickly as possible to meet increasing global demand for lithium and capture full value from its projects.

The December 2010 quarter was marked by a lithium project investment in Canada, continued development of the Jiangsu Lithium Carbonate Plant and a signed letter of intent for a block of land on which to potentially build a lithium-ion battery manufacturing plant.

Galaxy's strategy will be given a significant strategic and capital boost when the Company completes a \$US260 million listing on the Hong Kong Stock Exchange in Q1 2011. With a robust project pipeline and significant funds to support the ramp up of its projects, Galaxy is ideally placed to meet the growing demand for lithium being driven from Asia by the push to produce clean energy vehicles and consumer electronics.

Hong Kong Listing

The Company has applied for a dual listing of its shares on the Stock Exchange of Hong Kong (SEHK). The Company has submitted its Form A1 listing application, and subject to SEHK approval, is targeting listing by the end of Q1 2011. The Company has appointed Morgan Stanley and BNP Paribas as joint sponsors and joint book-runners for the proposed listing on the SEHK. Azure Capital Pty Ltd has been engaged as the Company's financial adviser.

The US\$260 million Hong Kong listing will provide the platform for Galaxy to establish a vertically integrated, lithium resource, chemical and battery manufacturing company and for the strong appetite for lithium investment from Chinese and international investors, along with China being Galaxy's central market for lithium carbonate.

The Company believes that with an increasing level of policy in Asia, round increasing renewable energy utilisation and encouraging mass production of new, clean energy vehicles, there is a greater demand growth prospects for lithium products amongst Chinese and Hong Kong based investors.

Opening of Mt Cattlin Mine Operations

A number of Chinese offtake companies and Mitsubishi Corporation of Japan attended the opening of Galaxy's Mt Cattlin Mine operations in Western Australia on 9 November, 2010. Western Australia's Minister for Water Dr Graham Jacobs, who is also the Member for Eyre, officially opened the Mt Cattlin Mine. A group of major Chinese lithium carbonate processors also attended the ceremony and expressed an interest in Galaxy's spodumene supply. Galaxy's current strategy, however, is to support its own lithium carbonate plant in Jiangsu.

Galaxy Chairman, Mr Craig Readhead stated: "It is only 12 months ago that we held the ground breaking ceremony here at Mt Cattlin when the Premier, Mr Colin Barnett, marked the commencement of construction of the mine by unveiling the plaque commemorating the event. "What a difference a year makes – what was once a farming paddock is now an operating mine producing lithium concentrate for shipment to Galaxy's Lithium Carbonate Plant being constructed at Zhangjiagang in China."



Mitsubishi MiEV is a full electric car powered by lithium ion batteries

Types of EVs

A electric vehicle (EV) is a vehicle using an electric motor instead of an internal combustion engine.

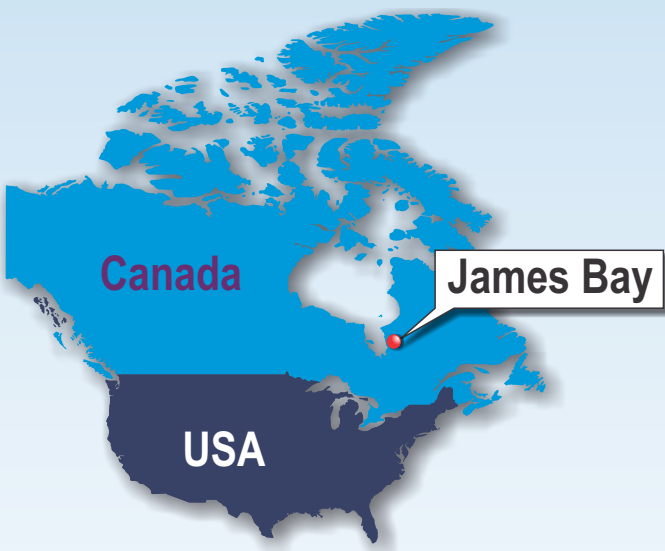
A hybrid electric vehicle (HEV) is a type of hybrid vehicle and electric vehicle which combines a conventional internal combustion engine (ICE) propulsion system with an electric propulsion system.

Modern HEVs make use of efficiency-improving technologies such as regenerative braking, which converts the vehicle's kinetic energy into battery-replenishing electric energy, rather than wasting it as heat energy as conventional brakes do.

A plug-in hybrid electric vehicle (PHEV or PHV), also known as a plug-in hybrid, is a hybrid vehicle with rechargeable batteries that can be restored to full charge by connecting a plug to an external electric power source.



Galaxy Directors at Mt Cattlin's opening



Acquisition of up to 70% of James Bay Lithium Spodumene Project

The Company signed a Memorandum of Understanding ("MOU") with Lithium One Inc. (TSX-V LI) of Canada to acquire up to 70% of the James Bay Lithium Spodumene Project (James Bay Project) as part of a farm-in arrangement.

The MOU is subject to a formal, binding agreement which is expected to be reached by February 2011.

Under the terms of the agreement Galaxy will acquire an initial 20% equity interest in the James Bay Project in Quebec for C\$3 million and has the potential to increase its stake to 70% through the completion of a definitive feasibility study within a 24 month period.

The James Bay Project is an extensive high-grade spodumene pegmatite deposit that occurs at surface. Situated adjacent to key infrastructure including high-tension power, roads and readily accessible water, the project is well located to potentially provide a stable supply of lithium to the emerging lithium battery sector in the northeast United States and eastern Canada.

Lithium One has been drilling the resource and recently published a NI 43-101 compliant resource. The resource estimate is as follows:

The key parameters of the proposed acquisition are:

- Acquisition of initial 20% equity interest in the James Bay Project for C\$3 million;
- Upon Galaxy fulfilling its binding obligation to spend C\$3 million within a 12 month period towards the Definitive Feasibility Study (DFS), Galaxy will earn a further 31% taking the total ownership to a controlling interest of 51% of the James Bay Project;
- If Galaxy completes and solely funds the DFS, within that 12 month period (which is extendable by an additional 12 months), Galaxy will earn a further 19%, taking the total ownership to 70% of the James Bay Lithium Project;
- The DFS will include metallurgical test work, engineering design, capital and operating cost estimation of a mine and concentrating plant at the James Bay Project location;
- In addition, the DFS will include conversion test work, design and costing of a 17,000 tpa battery grade lithium carbonate plant in either Quebec, Canada, or next to the Jiangsu lithium carbonate plant in China which is currently under development;
- Galaxy will use a similar approach to both the concentrator and lithium carbonate plant designs and costings, so the DFS is expected to be completed easily and at effectively;
- On completion of the DFS, both parties will fund their respective project capital costs; and
- If Galaxy earns at least 51% interest, Galaxy will have 100% exclusive marketing rights to the promotion, marketing and sale of all by-products, spodumene or lithium carbonate products.

Resource	Tonnes	Li2O%
Indicated	11,750,000	1.30%
Inferred	10,470,000	1.20%
Total	22,220,000	1.28%

The Company intends to grow its lithium resource footprint and James Bay's location, geology and the low cost of entry, are the key attractive aspects of the proposed transaction. James Bay is a bulk tonnage outcropping deposit and is located close to excellent infrastructure in Quebec, one of the most mining-friendly jurisdictions in the world.

Galaxy expects to be able to fast track the development of this project by using similar capacity and design as the plants constructed at Mt Cattlin and Jiangsu. Preliminary testwork shows that the James Bay spodumene ore coarseness is similar to Mt Cattlin. This lends itself to similar processing and upgrading methods adopted at Mt Cattlin where simple crushing and heavy media separation is used to produce a 6% lithium oxide spodumene product.

Representatives of Galaxy and Lithium One on the James Bay pegmatite outcrop





What is Mica?

Mica: Potential for New Product Development

The company has received serious interest for the mica produced at Mt Cattlin from major global producer and suppliers. Mica is a by-product of spodumene production and is a lithium alumina silicate used in cosmetics, drilling muds and plasterboard manufacture for the building industry. Mica is an inert non-toxic mineral. Galaxy believes it has the potential to be a significant supplier of mica to the Asia Pacific region and is currently working on a process to separate the mica from the spodumene

Trial and testing of the product has commenced in conjunction with a potential offtake company.

Final spodumene product stockpile at Mt Cattlin

General Meeting

The General Meeting of shareholders held on 22 December, 2010 overwhelmingly approved all resolutions for the Company's plans to list on the SEHK in Q1 2011.

In addition, shareholders approved the issue of up to 21,582,733 fully paid, ordinary shares in the Company to strategic investor Fengli Group (Hong Kong) Co., Ltd, at a price of A\$1.39 per share (equivalent to the 5 day VWAP of Galaxy shares prior to the pricing date of 21 October 2010).

Resolutions passed at the General Meeting:

1. Ratification of tranche one of the convertible bonds;
2. Approval of tranche two of the convertible bonds;
3. Approval of share issue - Fengli;
4. Approval of share issue - Hong Kong listing;
5. Increase in remuneration for non-executive directors;
6. Approval of issue of performance options to all Galaxy Directors; and
7. Adoption of the new constitution.

A\$91.5 million Capital Raising

The Company finalised a capital raising of A\$91.5 million to several investors, including the private investment company of the founder and major shareholder of Geely Automobile Holdings Co. Limited (Geely) and Fengli Group (Hong Kong) Co. Limited (Fengli). The capital raising consists of up to A\$61.5 million in unlisted convertible bonds (increased from A\$30 million) and an A\$30 million equity placement. Both the convertible bond and equity documentation has been finalised and executed by all parties.

Galaxy has elected to increase the amount issued to investors from its initial A\$30 million target following strong interest and to meet its funding requirements for the ramp up of production at Mt Cattlin, the continuing construction of Jiangsu and to provide additional working capital.

The capital raising will be completed in two tranches, and will be allocated as follows:

Investor	Investment Type	Total Investment
Strong Target Int Ltd	Convertible Bond	A\$25m
Fengli	Convertible Bond	A\$30m
Other Investors	Convertible Bond	A\$6.5m
Fengli	Equity Placement	A\$30m
Total		A\$91.5m

The first tranche for convertible bonds to the value of A\$32m was settled on 19 November, 2010. The second tranche will be for convertible bonds to the value of A\$29.5m and shares to the value of A\$30m

Subsequent to the quarter, Galaxy received A\$10.5m being part of the second tranche for convertible bonds. Balance of second tranche for convertible bonds and equity placement will be settled by 15 February 2011, due to the sad passing of Fengli's Chairman, Mr Wu Yue Ming.

Details of Strategic Investors

Strong Target International Ltd is a private company of Mr Li Shu Fu, who is the founder, Chairman and controlling shareholder (50.47%) of Geely. Geely is a Hong Kong listed company principally engaged in the manufacture and sales of automobiles in China. Geely has a market capitalisation of US\$3.5 billion and reported turnover of approximately US\$2 billion in 2009.

Fengli is a large, privately-owned company based in Zhangjiagang city, Jiangsu Province, China. Fengli employs a total of 3,000 staff with turnover of RMB30 billion (US\$4.4 billion). Fengli's main businesses are in mineral resource development, the manufacture and trade of steel, transportation and logistics, and foreign investment.

Fengli is the largest used metal processor and distributor in China, and is one of the top 500 enterprises in China. Formerly a top ten shareholder of Fortescue Metals Group Limited in Australia and one of the major shareholders in Jiangsu Bank.

Tantalum Concentrate Sales Agreement Signed

The Company signed a sales agreement with Global Advanced Metals Pty Ltd ("GAM"), for tantalum concentrate produced at its Mt Cattlin operation.

GAM, which owns the world's largest-known tantalum resource, agreed to purchase up to 200,000 lbs of contained tantalum pentoxide over the next five years. The long term sales agreement is based on a CPI-adjusted price of raw tantalum concentrate product (around 3% tantalum pentoxide) from Mt Cattlin. GAM intends to further upgrade this material into a saleable form at its tantalum Greenbushes operations in Western Australia.

The Company is pleased to form a partnership with an established tantalum producer like Global Advanced Metals. By selling tantalum as a primary concentrate, Galaxy is able to establish a market for its tantalum, but without the costly process of upgrading the material.

Key Terms of the Convertible Bonds

Item	Details
Quantum	A\$61.5 million
Status	Unsecured and subordinated
Term	5 years
Conversion Price	A\$1.56, representing a 33.8% premium over the Reference Share Price The Conversion Price is subject to the Conversion Price Reset and adjustment for certain future dilutive events
Reference Share Price	A\$1.166 (being the 20 day VWAP of the Shares ending on 28 September 2010)
Coupon	8.00% per annum
Investor Put Option	End of year 3
Redemption/Put Price	100.00% of the principal amount
Issuer Call	After year 3, Galaxy can call the bonds if the price of its shares exceeds Conversion Price by 30% for a specific period
Conversion Price Reset	The Conversion Price may be reset downwards to the market price 12 months after the settlement date, subject to a floor price equal to 80% of the Conversion Price (currently A\$1.25)

Key Terms of the Equity Placement

Item	Details
Amount	A\$30 million
Issue price	A\$1.39 (being the 5 day VWAP prior to 21 October 2010, when pricing terms were agreed)
Board representation	Fengli will be entitled to nominate one director to the Galaxy Board

Tantalum concentrate produced at Mt Cattlin





Galaxy development laboratory in Zhangjiagang



Galaxy exhibition booth at a recent China battery conference



University of Western Australia 2010 REV Project

Marketing Update

Galaxy Targets 99.9% “EV Grade” Lithium Carbonate

During the quarter, the company continued to aggressively promote the new higher purity grades of lithium carbonate (LC): EV GRADE and EV PLUS GRADE. The existing offtake customers approved Galaxy's strategy and ability to supply purer grades of LC and have requested samples as soon as they become available. Japanese lithium battery electrolyte manufacturers have indicated a strong interest in the high purity 99.99% LC product (EV Plus Grade) because it has the potential to underpin supplies for future expansion plans. Currently, there are no large suppliers of this grade with production capabilities in a highly automated processing plant.

Market Interest; E-bikes

Various Chinese e-bike manufacturers have expressed interest in Galaxy's lithium carbonate production and indicated strong interest in signing long term offtake agreements with Galaxy for output from its proposed battery manufacturing plant in China. The estimated production capacity of e-bikes in China is 25 million per annum powered mainly by lead acid batteries (LAB). Only 3% use Lithium ion (Li) batteries currently, however, the conversion rate from LAB to Li ion is approximately 30% pa. The Chinese Government's proposed policy on weight restriction of e-bikes may spur further demand for lithium batteries. Galaxy believes it is well poised to exploit this market by 2013, which is its proposed commissioning timeframe for the battery plant.

Galaxy Participates in Global Exhibitions

During the quarter, Galaxy participated in some major world wide exhibitions to promote the Company and its products:

- Batteries 2010, Cannes, France
- LEV 2010, Koln, Germany
- International Battery Exhibition, Shenzhen, China

The company attended several other conferences on lithium materials and batteries in the quarter. Major cathode and battery making companies are now familiar with Galaxy and continue to track its progress.

The UWA REV Project

The Company was invited to speak at University of Western Australia Renewable Energy (UWA REV) project and launch the new model of fully electric Lotus car and F1 electric racer. The Renewable Energy Vehicle project (REV) is an initiative formed by the University of Western Australia to design and develop environmentally sustainable technologies for future transportation. In 2008, REV established itself by building a commercially viable, cheap and efficient electric commuter vehicle, capable of driving 100km on a single charge. The vehicle can achieve speeds of up to 125km/h and costs as little as \$1.40/100km to operate (the petrol version of this car costs over \$10.00/100km to run). The car incorporates cutting edge technology developed within UWA, including outside volunteer developers.

The project is funded primarily by the University of Western Australia and the WA Department for Planning and Infrastructure. In addition, the project is supported by donations from industry and government organisations. Galaxy is pleased to be one of the Lead Sponsors of this project. Further information is available on www.therevproject.com

EVs – New China Government Policy

According to the State Auto and New Energy Auto Industry Development Planning published in September 2010 (State Planning), the Chinese Government will focus on R&D and development of electric vehicles (EV) and (plug-in hybrids) PHEVs in addition to the technological development of fuel cell batteries for use in the automobile sector.

China aims to be the world's largest market for new energy vehicles (EV and PHEV) and targets consumer ownership of 5 million new energy vehicles by 2020.

The report says China expects sales volumes of energy saving vehicles will be the largest in the world, ie; 1.5 million or above per year by 2020.

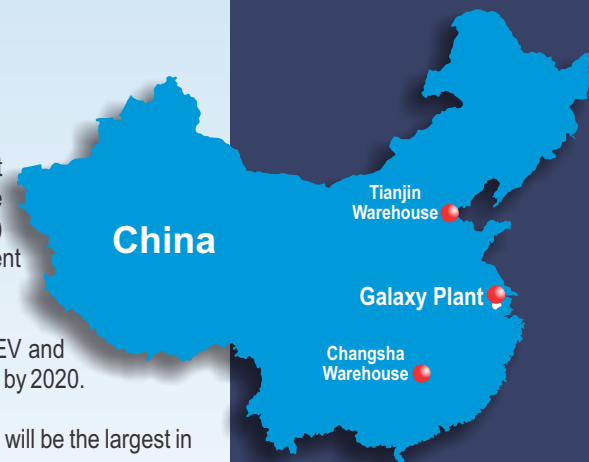
The policy states China aims to reach this mission in two steps:

Step A

- By 2015, average energy consumption for vehicles will be reduced by 35% to approx 5.9 L/100 kilometres.
- All mid/heavy HEVs to have micro-hybrid system with automatic start and stop function as a standard feature. Forecast sales to reach 1 million per annum.
- To establish charging and other supporting infrastructure for expected sales of 0.5 million to 1 million EV and PHEV per annum.
- To formulate policy that supports indigenous mass production of key parts.
- R&D efforts to reach power density of lithium batteries to 120Wh/kg and cost less than RMB 2/Wh, and 2000 cycles or ten years.
- To establish key parts manufacturing conglomerates. To facilitate the establishment of 3-5 power battery and motor manufacturing conglomerates respectively covering over 60% of the requirements.

Step B.

- By 2020, average energy consumption for vehicles will be around 4.5 L/100 kilometre, which is close to western world's advanced target.
- To increase production of mid/heavy HEV to 3 million per annum.
- Complete commercialisation of EV and PHEV and sales of 5 million to 10 million, establishment of a national battery charging network to support inter-city and inter-region trips in the EVs. Power density for batteries to reach 200Wh/kg and cost less than RMB 1.5/Wh.
- Facilitate indigenous establishment of 3-5 new energy car makers and 2-3 accessory part makers like manufacturers of batteries, electric motors to meet 80% of the demand.
- According to the State Planning, Central Government will invest approx RMB 95 billion (US\$14b) into R&D and market promotion of these new energy vehicles.



Resources Division

Mt Cattlin Mine Operations, Western Australia

There were no lost time injuries recorded at Mt Cattlin during the quarter. The operating licence for the processing plant was granted by DEC and commissioning and ramp up of the processing plant continued throughout the period.

The Esperance Port Authority submitted applications to the DEC for a Works Approval Licence and an amendment to its Operating Licence to allow the export of spodumene through the port. The Works Approval had been granted at the end of the quarter and the Operating Licence approval is expected in Q1 2011.

Mining achieving expected grades

All ore mined to date has been sourced from Pit 1A which is the most easterly of the pits within the overall Dowling pit outline to the west of Floater Road. The grade of ore mined continues to meet expectations for mine head grade of 1%.

Crushing plant working well

The crushing circuit which was commissioned in September 2010 has continued to perform above design capacity with throughput at times achieving 30% above design. A number of changes have been made to sizes of the dry and wet screens to smooth the throughput and improve overall efficiency of the circuit.

Fine tuning of DMS plant continues

The ramp up of the heavy media circuit is continuing with effort being directed to the removal of mica from the product, increasing the throughput and availability of the plant in conjunction with the Company's design consultants and equipment suppliers. The mica being removed from the process stream is being evaluated for sale as a valuable by-product. The ramp up of the concentrator is slower-than-expected but site personnel are beginning to establish more consistent plant stability and reliability. The ramp up progress is consistent with similar style hard rock concentrators.

Achieving 6.0 % Li₂O grade

The heavy media circuit has clearly demonstrated that it can achieve the design product grade of 6% Li₂O. Efforts are now focussing on achieving the design spodumene recovery. The tantalum circuit is working at design and at the end of the quarter preparations were being made to ship first tantalum concentrate to Global Advanced Metals for processing and sale.

Mt Cattlin Production Statistics

	December 2010 Quarter	Year to Date
Ore Mined (Tonnes)	74,310	97,806
Grade (%)	1.02	0.99
Waste Mined (BCM)	370,284	1,229,134
Ore Treated (Tonnes)	61,926	61,926
Grade (%)	0.96	0.96
Spodumene Produced (dry Tonnes)	1,645	1,645
Grade (%)	6.18	6.18

First shipment Q1 2011

The first shipment of spodumene from Mt Cattlin to an external lithium carbonate producer in China is now scheduled for late in the Q1 2011. The revised schedule is due to delays in receiving the necessary approvals for Esperance Port as well as the ramp up at Mt Cattlin plant being slower-than-expected.



Mt Cattlin Exploration

A small drill program was completed to test a pegmatite zone to the south of the current resource, aimed at defining extensions to the orebody. Mineralised intersections were patchy however, and no resource extensions were defined in the area.

A geophysics survey aimed at defining deeper zones of pegmatite was completed in late 2010. Results from this survey are being compiled and processed, with results expected in Q1 2011.

Geological mapping and sampling continued in the Mt Cattlin area, with an additional spodumene-bearing pegmatite outcrop discovered around 1km northeast of the mine.

Bakers Hill and Aerodrome

Activities at Bakers Hill focussed on completing the required Aboriginal heritage and environmental surveys required to access target areas for drill testing. These surveys have now been completed and Galaxy is awaiting approval from relevant government departments for drill programs to progress.

Further surface mapping and sampling was completed, which outlined additional occurrences of outcropping pegmatite. Encouragingly, spodumene was noted within some of the outcropping pegmatite zones. The best of these prospects returned significant lithium assays from spodumene- and lepidolite-bearing pegmatite at surface, over a strike length of over 300m (see Figures 1 and 2). Results include one rock chip sample of 5.94% Li₂O from a spodumene-bearing pegmatite outcrop (see Figure 2).

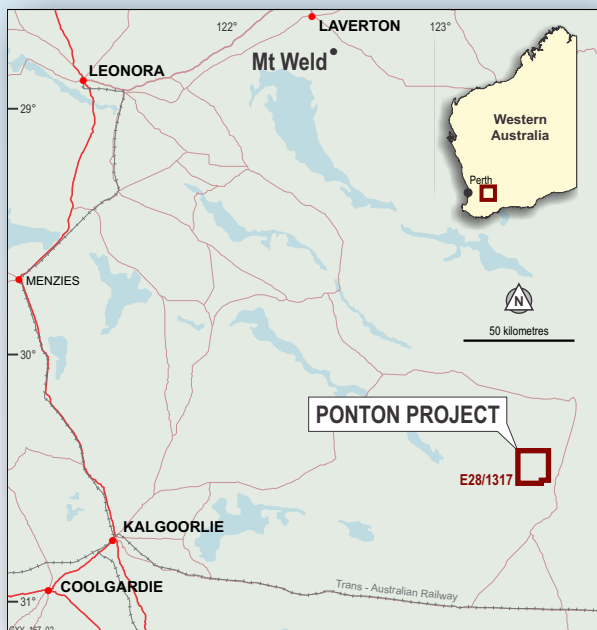
A drill program has been prepared for this area and approval applications are underway.

Boxwood Hill

A ground magnetic survey has been completed to follow up on a strong airborne magnetic anomaly at Galaxy's 100% owned Boxwood Hill project, around 110km NE of Albany in Western Australia. Results have highlighted several potential gold and base metals targets and a follow up RC program is planned to commence in Q1 2011.



Final Spodumene product ready for shipping at Mt Cattlin



Ponton Rare Earths Project

Subsequent to the quarter, the Company announced positive results from a review of the Company's 100% owned Ponton Rare Earths Project ("Ponton Project"), which has been held by Galaxy since 2003. The Ponton Project is located 200km east of Kalgoorlie in the eastern Goldfields region of Western Australia, 70km north of the Trans-Australian railway line. It comprises a single Exploration Licence Application (E28/1317) covering 206 km².

During the review, Galaxy analysed historical rare earth element (REE) exploration and drill data completed by Herald Resources Limited in 1994. Detailed aerial and ground magnetic and radiometric surveys were completed, which outlined a strong radiometric anomaly in the east of the tenement, in addition to several magnetic anomalies. Previous surface sampling over the radiometric anomaly also produced strongly anomalous REE results. A further historical aircore drilling program, completed to blade refusal, returned significant intersections of REE mineralisation.

The best historical drill results show intersections including 16m @ 14.48% rare earth oxides (REO), 28m @ 10.50% REO (including 6m @ 20.57% REO) and 26m @ 6.99% REO from surface (including 8m @ 13.12% REO). As a comparison, Lynas Corporation Mt Weld's Central Lanthanide deposit has an average resource grade of 10.7% REO + Y.

Galaxy's review of the Ponton Project shows the grades and distribution of the various rare earth elements are comparable to those of the high grade Mt Weld deposit (Western Australia) being developed by Lynas Corporation and the Nolans Bore deposit (Northern Territory) being developed by Arafura Resources Limited. However, Ponton has a higher percentage of the element neodymium, which is projected to be in tight supply.

The development of Galaxy's lithium assets has been a priority, market demand for rare earths presents opportunities in developing the Company's long held Ponton Rare Earth Project. In light of interest in future global rare earths supply, Galaxy has decided to review and evaluate the potential viability of the Ponton Rare Earths Project.

Based on analysis of historical drill results, this project potentially has rare earth oxide grades comparable with some of Australia's more developed rare earths projects. The Ponton Project ELA lies on a Class A nature reserve and the Company is currently in discussions with the Western Australian Government to progress the grant of the tenement application. Galaxy is strongly focused on lithium, it is worth undertaking further exploration work at Ponton in order to realise the project's value. There is no guarantee, however, that the tenement application will be granted by the WA Government.

Rare Earth Elements

Rare earth elements (REE)s include the fifteen lanthanides, in addition to scandium and yttrium (which have similar chemical properties and tend to occur in the same geological environment). While relatively common in the earth's crust, rare earth elements are difficult to find and process in economic quantities. REEs have a wide range of uses in advanced technologies, including superconductors, magnets and catalysts. Their application in environmentally-friendly technologies including low-emission electric and hybrid vehicles has seen a rapid growth in demand. China, which supplies over 90% of the world's REE market, has in recent years reduced REE export quotas. In late 2010, the Chinese Ministry of Commerce announced a 35% reduction in the export quota for the first half of 2011, compared to the corresponding period in 2010.



Chemicals Division

Jiangsu Lithium Carbonate Project, China

Construction Progress

- No lost time injuries recorded at Jiangsu site since commencement of the project.
- All roads on site completed.
- Foundation piling for most areas of the plant and pipe-racks completed.
- General contracted works focusing on building steel structures for both the maintenance and office buildings in progress.
- Wall cladding is complete for the packaging building and purlin installation completed for the products warehouse.
- First two kiln shells for Area 20 delivered.
- Fabrication of major equipment complete, including sulphating mixer and ball mill.
- Award of contracts for the calcination, sulphation and drying Installation, thickeners, belts filters and ion exchange columns.
- Raw water connection to municipal pipeline (which is under construction) along Dongxin Road was completed and a permanent power supply application was accepted by the Power Bureau.
- The wet process installation contractor Yixing started pre-mobilisation to site on November 22, 2010.

Galaxy's Lithium Carbonate Project is progressing in line with statements made in its last quarterly report. At this stage, construction is progressing well and the project is tracking as planned. There are some scheduling issues to manage around Chinese New Year and the Hatch/Galaxy team are working very hard to ensure all suppliers meet their agreed timeframes. The lithium carbonate plant is on track for commissioning and start-up in Q2 2011.

Business Readiness System

Development of operational systems continued on schedule during the quarter with a focus on development of the safety management systems, plant maintenance systems and operator training systems and in preparation for the recruitment of plant operators and maintenance personnel in first half of 2011. Development of the laboratory processes continued during the quarter with successful establishment of in-house analytical procedures for the on-site laboratory facility. QAQC systems development progressed as scheduled which will enable all primary documentation to be in place in Q1 2011 ready for implementation.



Fully automatic robotic product stacker employed at Jiangsu



Shanghai No 1 contractor on site



Recruitment Build Up

Recruitment of all management and technical positions was completed during the quarter. Plant and maintenance supervisory positions have also been filled in anticipation of commencement of training in Q1 and Q2 2011. Preparation for the recruitment of plant operators and maintenance positions commenced during the quarter in preparation for the staged recruitment program.

Major equipment like this ball mill has now arrived on site

Battery Division

Feasibility Study Completed

Galaxy has recently completed a feasibility study evaluating the potential to develop a Lithium Ion Battery Project in the Jiangsu Zhangjiagang High Technology Park. Based on feasibility study results, the Company believes the Lithium Ion Battery Project offers a compelling opportunity for Galaxy's downstream expansion and investment in the lithium ion battery manufacturing industry.

The feasibility study models production of high quality, lithium ion battery packs for E-bikes at a rate of 350,000 per annum in the first phase. The proposed plant will be highly automated, utilising Korean technology, and designed with the potential to eventually double and triple production capacity across three phases of operation to meet the growing demand for E-bike lithium ion batteries. Demand growth for battery-powered bicycles or E-Bikes is very positive in developing countries, with China producing 30 million E-Bikes in 2009, with growth recorded at 5-7% per annum over the period.

Galaxy has entered into a non-binding Memorandum of Understanding with a Korean consortium, KUBT, to supply the turn-key equipment for the Lithium Ion Battery Project. KUBT is a group of equipment suppliers covering different aspects of the battery manufacturing process that have formed a consortium to provide plant design and equipment supply services. KUBT has previously supplied equipment to several large and reputable lithium ion battery producers including LG Chem, Samsung and SK Energy.

The Company has also established an experienced team of lithium battery operation and technology experts to investigate the project opportunity headed by Mr Walter Yi, Managing Director, Battery Division. Mr Yi was formerly General Manager of A123 Systems' China lithium battery plant. A123 Systems is a Nasdaq-listed global battery company. The project

manger is Dr Yatendra Sharma, a battery technologist experienced in lithium ion batteries.

The development of the Lithium Ion Battery Project remains at a preliminary stage and a final investment decision is yet to be made by the Company.



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

Competent Persons

The information in this report that relates to Exploration Results is based on information compiled by Mr Philip Tornatora who is a full time employee of the Company and who is a Member of the Australasian Institute of Mining and Metallurgy and the Australian Institute of Geoscientists. Mr. Tornatora has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity he is undertaking to qualify as a Competent Person as defined in the 2004 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Mr Tornatora consents to the inclusion in this report of the matters based on his information in the form and context in which it appears.

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

Caution Regarding Forward Looking Statements

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



Letter of Intent signed for Potential Battery Site

Galaxy signed a non-binding Letter of Intent (LOI) for the site of the Company's proposed Lithium Ion Battery Project in China.

The LOI has been signed with the Jiangsu Province Zhangjiagang Free Trade Zone Administrative Committee (JPZFTZ) for a 10 hectare site, located in the Jiangsu Eco-Friendly New Materials Industrial Park - 7.5 kilometres from the Lithium Carbonate Plant.

The proposed site is near to Galaxy's lithium carbonate plant

In addition to the LOI, there are a number of conditions that must be satisfied prior to entering into a binding agreement which Galaxy is currently working on.

Appointment of EPCM Contractor

The Company appointed M+W Group on 1 December 2010 to become the EPCM contractor for the Lithium Ion Battery Project in the Jiangsu Zhangjiagang High Technology Park.

M+W Group is a recognised global project partner for technology-based clients in the segments of electronics, photovoltaics, life sciences, chemicals, science and research, energy, automotive, IT and telecoms, aerospace and defence. The integrated business activities are focused on three sectors:

- Facility Solutions
- Process Solutions
- Product Solutions



Uwe Augenstein (MD M+W Group) and Iggy Tan (MD Galaxy) signing the MOU

Appendix 5B

Mining exploration entity quarterly report

Introduced 1/7/96. Origin: Appendix 8. Amended 1/7/97, 1/7/98, 30/9/2001, 01/06/10.

Name of entity

Galaxy Resources Limited

ABN

11 071 976 442

Quarter ended ("current quarter")

31 December 2010

Consolidated statement of cash flows

Cash flows related to operating activities		Current quarter \$A'ooo	Year to date (12 months) \$A'ooo
1.1	Receipts from product sales and related debtors	-	-
1.2	Payments for (a) exploration & evaluation	(285)	(2,841)
	(b) development	-	-
	(c) production	2,475 **	-
	(d) administration	(9,588)	(18,915)
1.3	Dividends received	-	-
1.4	Interest and other items of a similar nature received	130	1,418
1.5	Interest and other costs of finance paid	(1,403)	(2,199)
1.6	Income taxes paid	-	-
1.7	Other (provide details if material)	-	22
	Net Operating Cash Flows	(8,671)	(22,515)
Cash flows related to investing activities			
1.8	Payment for purchases of: (a) prospects	-	-
	(b) equity investments	-	-
	(c) other fixed assets	(33,710) **	(125,874)
1.9	Proceeds from sale of: (a) prospects	-	-
	(b) equity investments	-	-
	(c) other fixed assets	-	-
1.10	Loans to other entities	-	-
1.11	Loans repaid by other entities	-	-
1.12	Other (provide details if material)	(99)	(166)
	Net investing cash flows	(33,809)	(126,040)
1.13	Total operating and investing cash flows (carried forward)	(42,480)	(148,555)

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

1.13	Total operating and investing cash flows (brought forward)	(42,480)	(148,555)
	Cash flows related to financing activities		
1.14	Proceeds from issues of shares, options, etc.	1,010	32,830
1.15	Proceeds from sale of forfeited shares	-	-
1.16	Proceeds from borrowings	31,192	160,601
1.17	Repayment of borrowings	(6,608)	(44,081)
1.18	Dividends paid	-	-
1.19	Other (provide details if material)	-	-
	Net financing cash flows	25,594	149,350
	Net increase (decrease) in cash held	(16,886)	795
1.20	Cash at beginning of quarter/year to date	96,883	83,441
1.21	Exchange rate adjustments to item 1.20	(4,433)	(8,672)
1.22	Cash at end of quarter	75,564 *	75,564 *

*Includes US\$48.8m reserved for future repayment of principal or interest.

** September 2010 production costs have been reclassified as property, plant and equipment.

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

	Current quarter \$A'000
1.23 Aggregate amount of payments to the parties included in item 1.2	509
1.24 Aggregate amount of loans to the parties included in item 1.10	-

1.25 Explanation necessary for an understanding of the transactions

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

Non-cash financing and investing activities

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

N/A

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

N/A

+ See chapter 19 for defined terms.

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	98,716	98,716
3.2 Credit standby arrangements	-	-

Estimated cash outflows for next quarter

	\$A'000
4.1 Exploration and evaluation	500
4.2 Development	1,000
4.3 Production	10,000
4.4 Administration	5,000
Total	16,500

Reconciliation of cash

Reconciliation of cash 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	17,922	45,283
5.2 Deposits at call	57,642	51,600
5.3 Bank overdraft	-	-
5.4 Other (provide details)	-	-
Total: cash at end of quarter (item 1.22)	75,564	96,883

Changes in interests in mining tenements – refer attached tenement schedule

	Tenement reference	Nature of interest (note (2))	Interest at beginning of quarter	Interest at end of quarter
6.1 Interests in mining tenements relinquished, reduced or lapsed				

+ See chapter 19 for defined terms.

Appendix 5B

Mining exploration entity quarterly report

6.2 Interests in mining tenements acquired or increased

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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 (description)				
7.2	Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions				
7.3	+Ordinary securities	192,403,358	192,403,358	-	-
7.4	Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs	1,350,000 500,000	1,350,000 500,000	\$0.60 \$0.40	\$0.60 \$0.40
7.5	+Convertible debt securities (description)	320 (face value of \$100,000 per bond). Unsecured, subordinated 8% per annum.	-		
7.6	Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted	320 (face value of \$100,000 per bond). Unsecured, subordinated 8% per annum.	-	-	-

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

7.7	Options (description and conversion factor)			<i>Exercise price</i>	<i>Expiry date</i>
		750,000	-	\$0.45	17/11/14
		3,600,000	-	\$0.60	26/11/14
		5,350,000	-	\$0.60	Vesting not satisfied
		1,800,000	-	\$0.90	26/11/14
		3,000,000	-	\$0.96	Vesting not satisfied
		1,000,000	-	\$1.00	30/06/12
		6,650,000	-	\$1.11	Vesting not satisfied
		29,800,000	-	\$1.16	Vesting not satisfied
7.8	Issued during quarter	29,800,000	-	\$1.00	30/06/12
7.9	Exercised during quarter	1,350,000	-	\$0.60	26/11/14
		500,000	-	\$0.40	06/02/11
7.10	Expired during quarter				
7.11	Debentures (totals only)				
7.12	Unsecured notes (totals only)				

Compliance statement

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



Sign here: Date: 31 January 2011
(~~Director~~/Company secretary)

Print name: A L Meloncelli

Notes

- 1 The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.
- 2 The "Nature of interest" (items 6.1 and 6.2) includes options in respect of interests in mining tenements acquired, exercised or lapsed during the reporting period. If

+ See chapter 19 for defined terms.

the entity is involved in a joint venture agreement and there are conditions precedent which will change its percentage interest in a mining tenement, it should disclose the change of percentage interest and conditions precedent in the list required for items 6.1 and 6.2.

- 3 **Issued and quoted securities** The issue price and amount paid up is not required in items 7.1 and 7.3 for fully paid securities.
- 4 The definitions in, and provisions of, *AASB 1022: Accounting for Extractive Industries* and *AASB 1026: Statement of Cash Flows* apply to this report.
- 5 **Accounting Standards** ASX will accept, for example, the use of International Accounting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.

+ See chapter 19 for defined terms.

Tenement Schedule as at 31 December 2010

Project	Tenement	Notes
<u>Boxwood Hill</u>	E70/2493	
	E70/2513-E70/2514	
	E70/2547	
<u>Connolly</u>	E69/1878	
<u>Ponton</u>	E28/1317	
	E28/1830	
<u>Shoemaker</u>	E69/1869-1871	50% Interest with GMC.
<u>Ravensthorpe</u>		
Aerodrome	E74/334	
	E74/398	
Bakers Hill	E74/287	
	E74/295	
	E74/299	
	E74/415	
	P74/278	
	P74/336	
McMahon	M74/165	
	M74/184	
	P74/334	
Mt Cattlin	L74/46	
	M74/244	
West Kundip	M74/133	
	M74/238	
Floater	E74/400	
	P74/307-P74/308	
Sirdar	E74/401	80% Interest with Traka.
	P74/309-P74/310	80% Interest with Traka.

+ See chapter 19 for defined terms.