

28 February 2011

GALAXY ISSUES WPIP FOR PROPOSED HONG KONG LISTING

Highlights

- Galaxy issues Web Proof Information Pack (WPIP)
- Galaxy continues to progress its proposed dual listing in Hong Kong
- Further updates will be provided as the process continues

Further to recent announcements of **Galaxy Resources Limited (ASX: GXY, "Galaxy")** in relation to its application for a dual listing of its shares on the Hong Kong Stock Exchange, Galaxy is pleased to attach a document known in Hong Kong as the Web Proof Information Pack ("WPIP").

The WPIP was published in Hong Kong as required by The Stock Exchange of Hong Kong Limited and Hong Kong's Securities and Futures Commission solely for the purpose of providing information to investors in Hong Kong. Galaxy is also releasing the WPIP in Australia for the purpose of facilitating equal dissemination of information in the Hong Kong and Australian markets and, to the extent necessary, to meet Galaxy's continuous disclosure obligations. The WPIP does not constitute an offer of shares in Australia and therefore it is not a disclosure document under Chapter 6D of the Corporations Act.

The information contained in the WPIP is incomplete and is subject to changes, which could be material. If the WPIP is updated, Galaxy will release that updated WPIP on ASX.

Galaxy continues to progress its proposed dual listing in Hong Kong and will provide further updates as the process continues over the coming month. Further documentation will be published as it becomes available, including, if an offer of Galaxy shares is made to the public in Hong Kong, a prospectus that would be registered with the Registrar of Companies in Hong Kong.

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About Galaxy (ASX: GXY)

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 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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Web Proof Information Pack of



GALAXY RESOURCES LIMITED

ABN 11 071 976 442

銀河資源有限公司*

(a company registered in Western Australia, Australia with limited liability)

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* for identification purpose only

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SUMMARY

OVERVIEW

The Company is a public company registered in Western Australia. We have been listed on the ASX since 2007 and are a member of the S&P / ASX 300 Index. Our head office is located in Perth, Western Australia and we also have offices in Zhangjiagang, the PRC and Hong Kong.

The Company has historically been engaged in mining exploration activities and has a short operating history, and consequently we have not generated net profits and have not recorded positive operating cash flows to date. However, we believe there are significant growth opportunities in the market for lithium-ion batteries, driven by their current and potential use in applications such as Electric Powered Vehicles, E-bikes, alternative energy storage and portable electronics, and we are aiming to position the Company to capitalize on this growth by becoming a leading, vertically integrated producer of high quality lithium-related products in the growing lithium-ion battery market.

The Mt Cattlin Project

We currently own and operate a hard rock lithium mineral mine and processing plant at the Mt Cattlin Project, near Ravensthorpe in Western Australia, where we produce spodumene concentrate. Spodumene concentrate is one of the most common lithium-bearing raw materials used in the PRC for conversion into lithium compounds, including lithium carbonate. We are constructing a lithium carbonate plant in Jiangsu Province, PRC, where we will process spodumene concentrate produced at the Mt Cattlin Project into lithium carbonate. Lithium carbonate is an important lithium compound that is applied in a variety of end-uses including the manufacture of cathode for lithium-ion batteries. We are also actively considering further downstream opportunities, including entering into lithium-ion battery production.

We commenced production of spodumene concentrate from the Mt Cattlin Project in October 2010. The Mt Cattlin Project is currently in ramp-up, and at full capacity, which is expected to be achieved by the fourth quarter of 2011, we expect the Mt Cattlin Project to produce approximately 137,000 tpa of spodumene concentrate containing 6% lithium oxide. Key information on Mt Cattlin Project is shown in the tables below.

	Tonnes	Lithium Oxide %	Tantalum Pentoxide ppm
Mineral Resources	15,875,000	1.08	161
Ore Reserves	11,367,000	1.05	147

	Year ended June 30, 2008	Year ended June 30, 2009	Six months ended December 31, 2009	Nine months ended September 30, 2010	October 1, 2010 to Latest Practicable Date
Ore mined (tonnes)	—	—	—	23,497	[●]
Production of spodumene concentrate (tonnes)	—	—	—	—	[●]
Sales of spodumene concentrate (tonnes)	—	—	—	—	[●]

SUMMARY

The Mt Cattlin Project has an expected mine life of 14 years, which may be extended by further exploration. A number of aspects of the operations at the Mt Cattlin Project are undertaken by contractors under the supervision of the Company's employees, including mining and earthmoving, power station operation and transport and handling of spodumene concentrate. The remaining operations at the Mt Cattlin Project (including mine and geology planning, marketing and sales, financing, administration and technical support) are undertaken by the Company and its employees.

The Jiangsu Plant

The Jiangsu Plant, which is under construction, is designed to produce 17,000 tpa of high quality lithium carbonate, making it one of the largest such facilities in the PRC according to Roskill. The Jiangsu Plant is being constructed by the Company, which has engaged Hatch Project Consulting (Shanghai) Co. Ltd to provide project management, engineering, procurement and construction management services pursuant to and in accordance with an agreement dated December 8, 2009. The Jiangsu Plant will be operated by the Company and its employees. It is expected to commence commissioning and start-up of lithium carbonate in the second quarter of 2011, following which it will undergo a ramp-up period of approximately 10 months where plant throughput, lithium carbonate recovery and product purity is expected to increase steadily before reaching the design production rate in early 2012. The construction budget for the Jiangsu Plant is RMB 477 million, 34% of which had been spent by December 31, 2010.

Once the Jiangsu Plant is operational, we expect that all of the spodumene concentrate produced by the Company at the Mt Cattlin Project will be shipped from the port of Esperance to the PRC by the Company's shipping contractor, Pacific Basin, and consumed by the Jiangsu Plant. Until then, spodumene concentrate from the Mt Cattlin Project is expected to be shipped from Esperance to the PRC by Pacific Basin and sold to another lithium carbonate producer.

The Company's marketing strategy is to become a leader in the supply of high quality lithium carbonate to the growing lithium-ion battery market. The Jiangsu Plant has been designed to produce lithium carbonate with a purity level of 99.9%, although based on laboratory results reviewed by Snowden, we believe it will be capable of producing product with purity levels above 99.9%. We believe lithium carbonate with these high purity levels is better suited to lithium-ion battery manufacture than lower purity product, and consequently we expect it to attract higher prices.

We believe that being vertically integrated and having a stable supply of spodumene concentrate, with quality levels that we can control, will help mitigate the risk of future price, volume and quality variations in raw material supply in a market we expect to grow, as well as assisting us to produce lithium carbonate with our targeted purity level of 99.9% or above.

Offtake Framework Agreements

We have entered into offtake framework agreements covering all of our expected production of lithium carbonate with Mitsubishi Corporation and 13 major lithium cathode producers in the PRC. These offtake framework agreements are legally binding between the parties to each of the agreements where the obligations to buy and sell are subject to the parties further agreeing the price of the product to be sold each quarter. None of these agreements include any take or pay obligations. We believe that this quarterly price setting mechanism is appropriate in an industry where there is currently no recognized benchmark price and expect that this will also enable us to capture any increases in pricing for a lithium compound which we anticipate will enjoy increasing demand as the lithium-ion battery market grows.

SUMMARY

Under the terms of the offtake framework agreements with the 13 PRC customers, each customer is granted priority customer status and the Company guarantees to supply minimum agreed annual quantities to these priority customers for five years. However, if these customers do not purchase the minimum agreed annual quantities for any contract year, the Company can terminate that customer’s status as a priority customer.

Under the terms of the offtake framework agreement with Mitsubishi Corporation, Mitsubishi Corporation will make reasonable efforts to purchase 5,000 tpa of our lithium carbonate production over a five year term where the obligation to purchase is subject to a price being further agreed between the parties each quarter. In addition, the offtake framework agreement appoints Mitsubishi Corporation as exclusive distributor of our product that it purchases under the offtake framework agreement in Japan for a period of five years from the date of first shipment. During this five year period, we will not be permitted to sell our product in Japan to parties other than Mitsubishi Corporation without Mitsubishi Corporation’s consent.

The offtake framework agreements also require us to produce lithium carbonate with a minimum purity level of 99.5% and impurities below certain specifications.

Please see the section headed “Risk Factors — Risks relating to our business and the industry in which we operate — Our offtake framework agreements may not deliver the revenues we expect.”

Vertical Integration Strategy

One of our strategies is to undertake further vertical integration and we are considering entry into the lithium-ion battery production market. In September 2010, we completed a feasibility study on the construction of a lithium-ion battery plant near our Jiangsu Plant and are further investigating its potential. Based on this feasibility study, we have concluded that the Lithium Battery Project has the potential to be an attractive investment for our Company and we intend to continue to evaluate its feasibility. We have recruited an experienced management team for this initiative and have commenced the process of investigating and obtaining the required approvals and agreements with potential customers and suppliers. However, we may ultimately decide not to proceed with the Lithium Battery Project for a variety of reasons (please see the section headed “Risk Factors — Risks relating to our business and the industry in which we operate — Development and evaluation of our potential Lithium Battery Project is at an early stage and there is no guarantee we will proceed with it as planned or at all” for further information).

SUMMARY

The current status, key dates and forecast capital expenditure for our projects are summarized in the table below:

Project	Current Status	Key Dates	Forecast Capital Expenditure
Mt Cattlin Project	Ramp-up and commissioning	Full production by end of 2011	Nil
Jiangsu Plant	Construction	- Commissioning by second quarter of 2011 - Full production by early 2012	RMB477 million, of which 34% has been spent⁽¹⁾
Lithium Battery Project	Evaluation	- Phase I (350,000 packs p.a.) investment decision by end of the third quarter of 2011 - Phase I construction commences by end of 2011 - Phase I production commences by end of 2012 - Phase II (further 350,000 packs p.a.) investment decision during 2015 - Phase III (further 350,000 packs p.a.) investment decision during 2017	- Phase I: US\$133m - Phase II: US\$103m - Phase III: US\$103m

Note:

(1) As at December 31, 2010

Our Board and Management Team

Our Board and management team are experienced in all aspects of our business, from the exploration for, mining and processing of, hard rock lithium minerals and other hard rock minerals, through to the manufacture and technical marketing of lithium carbonate and other industrial minerals. Various members of our management team are also experienced in the manufacture of lithium-ion batteries, in accordance with our strategy of vertical integration via the potential entry into the lithium-ion battery production market.

The Managing Director of the Company is Ignatius Tan. Mr Tan is an experienced operations executive with over [25] years’ experience in the mining and chemical industry, including a proven background in marketing and business development.

Our resource division is based in Australia and is headed by Terry Stark (Managing Director — Resource Division). Mr Stark is a mining engineer and he has 37 years’ relevant experience in the Australian mining industry. In addition, six other members of the senior management team, including the Managing Director, have at least five years’ experience relevant to our exploring and mining activities, either as mining engineers, geologists, or as directors and executives for companies in the mineral resources industry. This includes three who have previously worked at other spodumene mining operations in Western Australia.

Our chemical division is based in the PRC and is headed by Guojiang Sun (Managing Director — Chemical Division). Mr Sun is an engineer and he has six years’ experience managing chemical and processing facilities in the PRC. We have also recruited management professionals for the chemical division who have extensive experience in the PRC lithium and minerals processing industries, including the operations manager and the technical manager of the Jiangsu Plant.

SUMMARY

Our battery division is also based in the PRC and includes personnel who are experienced in the manufacture of lithium-ion batteries. The battery division is headed by Ruqing Yi (Managing Director — Battery Division), who has over five years’ direct experience in the development of lithium-ion battery technology and manufacture of lithium-ion batteries.

Our marketing team, which falls under the corporate division, is headed by Anand Sheth. Mr Sheth has over ten years’ experience in technical marketing and sales in the global lithium and tantalite mineral industries.

For further information on the experience of our Board and management, please refer to the section headed “Directors and Senior Management”.

COMPETITIVE ADVANTAGES

We believe that we possess the following competitive advantages:

- we own a significant lithium ore reserve at the Mt Cattlin Project;
- the Jiangsu Plant is expected to be one of the largest plants of its type in the PRC, and incorporates proprietary production technology for lithium carbonate with purity levels of 99.9% or above that is suitable for the manufacture of cathode material in lithium-ion batteries;
- the Jiangsu Plant is strategically located near the east coast of the PRC;
- our Jiangsu Plant will benefit from internal supply of a key lithium-bearing raw material; and
- we have an experienced Board and senior management with strong skills in exploration, mining, processing and marketing in lithium-related sectors.

BUSINESS STRATEGIES

Our strategic vision is to become a leading, vertically integrated producer of high quality lithium-related products in the growing global lithium-ion battery market. We intend to capitalize on our competitive advantages set out above by pursuing the following core strategies:

- optimize and integrate operations at the Mt Cattlin Project and the Jiangsu Plant to maximize production of high quality lithium carbonate at minimum cost;
- become a market leader in the supply of high quality lithium carbonate to the growing lithium-ion battery industry;
- selectively undertake initiatives to generate additional ore reserves and mineral resources;
- continue to evaluate and advance the Lithium Battery Project;
- improve our capital structure by reducing debt; and
- operate safely and in an environmentally and a culturally responsible manner.

SUMMARY

SUMMARY OF HISTORICAL FINANCIAL INFORMATION

Consolidated Statements of Comprehensive Income

	12 months ended June 30,		Six months ended December 31,		Nine months ended September 30	
	2008	2009	2008	2009	2009	2010
	A\$	A\$	A\$	A\$	A\$	A\$
			(Unaudited)		(Unaudited)	
Turnover	—	—	—	—	—	—
Other income	—	—	—	1,081,356	—	—
Staff costs	(306,502)	(2,105,616)	(475,830)	(10,041,306)	(1,966,193)	(7,333,729)
Exploration and evaluation assets written-off	(49,557)	(1,520,875)	(1,520,875)	—	—	—
Depreciation and amortization	(1,013)	(15,724)	(3,088)	(21,162)	(12,636)	(126,131)
Other operating expenses . . .	(81,075)	(785,224)	(227,788)	(3,569,707)	(1,242,620)	(6,542,974)
Loss from operations	(438,147)	(4,427,439)	(2,227,581)	(12,550,819)	(3,221,449)	(14,002,834)
Finance income	48,973	78,278	55,108	483,894	33,840	4,276,163
Finance costs	(3,946)	(1,732)	(913)	(255,067)	(1,670)	(2,988,099)
Net finance income	45,027	76,546	54,195	228,827	32,170	1,288,064
Loss before taxation	(393,120)	(4,350,893)	(2,173,386)	(12,321,992)	(3,189,279)	(12,714,770)
Income tax	—	592,343	280,120	—	312,223	—
Loss for the year / period	(393,120)	(3,758,550)	(1,893,266)	(12,321,992)	(2,877,056)	(12,714,770)
Other comprehensive income for the year / period						
Foreign currency translation differences — foreign operations	—	—	—	—	—	(2,458,746)
Available-for-sale financial assets						
— Changes in fair value recognized during the period	—	—	—	—	—	(225,000)
— Reclassification adjustments for amounts transferred to profit or loss upon impairment . . .	—	—	—	—	—	575,000
Net movement in the fair value reserve during the period in other comprehensive income . . .	—	—	—	—	—	350,000
Total comprehensive income / (loss) for the year / period	(393,120)	(3,758,550)	(1,893,266)	(12,321,992)	(2,877,056)	(14,823,516)

SUMMARY

Consolidated Balance Sheets

	June 30, 2008	June 30, 2009	December 31, 2009	September 30, 2010
	A\$	A\$	A\$	A\$
NON-CURRENT ASSETS				
Property, plant and equipment	81,274	264,824	20,815,172	120,677,634
Lease prepayment	—	—	—	2,845,289
Exploration and evaluation assets	5,260,250	8,618,533	1,267,375	1,941,565
Available-for-sale financial assets	—	—	1,025,000	800,000
Other receivables	—	—	868,000	894,033
Restricted cash deposit	—	—	—	47,691,956
TOTAL NON-CURRENT ASSETS	5,341,524	8,883,357	23,975,547	174,850,477
CURRENT ASSETS				
Other receivables	141,680	373,791	1,632,946	3,373,084
Restricted cash deposit	—	—	—	4,388,118
Cash and cash equivalents	1,929,722	3,441,613	83,441,378	38,100,626
TOTAL CURRENT ASSETS	2,071,402	3,815,404	85,074,324	45,861,828
TOTAL ASSETS	7,412,926	12,698,761	109,049,871	220,712,305
CURRENT LIABILITIES				
Other payables	606,776	1,250,907	6,197,751	23,056,944
Provisions	—	22,107	69,024	270,180
Interest bearing liabilities	—	—	22,361,360	—
TOTAL CURRENT LIABILITIES	606,776	1,273,014	28,628,135	23,327,124
NON-CURRENT LIABILITIES				
Provisions	—	—	—	868,000
Interest bearing liabilities	—	—	—	95,249,790
TOTAL LIABILITIES	606,776	1,273,014	28,628,135	119,444,914
NET ASSETS	6,806,150	11,425,747	80,421,736	101,267,391
CAPITAL AND RESERVES				
Share capital	8,218,905	15,637,914	88,834,372	127,299,511
Reserves	(1,412,755)	(4,212,167)	(8,412,636)	(26,032,120)
TOTAL EQUITY	6,806,150	11,425,747	80,421,736	101,267,391
NET CURRENT ASSETS	1,464,626	2,542,390	56,446,189	22,534,704
TOTAL ASSETS LESS CURRENT LIABILITIES	6,806,150	11,425,747	80,421,736	197,385,181

SUMMARY

The Directors have confirmed that they have ensured that sufficient due diligence has been carried out and that, save as disclosed in this document, up to the Latest Practicable Date there has been no material adverse change in the Group’s financial and trading positions or prospects since September 30, 2010, being the date to which the latest audited consolidated financial statements of the Group were made up, including the period between September 30, 2010 and December 31, 2010, and there has been no event since September 30, 2010, including the period between September 30, 2010 and December 31, 2010, which would materially affect the information shown in the financial statements of the Group for the nine months ended September 30, 2010 set out in Appendix I to this document.

The Company will publish its annual audited accounts on or before March 31, 2011.

The Company will produce its future financial reports in accordance with the Australian Accounting Standards which is converged with the requirements of IFRSs.

DIVIDEND POLICY

Our Company has not generated any profits and as such, our Directors did not declare or pay any dividend during the Relevant Financial Period. For future financial years, our Directors currently wish to take advantage of the rapidly emerging opportunities in the global lithium industry and will be seeking to maximize the growth and development of the Group by reinvesting profits generated back into the business. Our Directors will review the dividend policy on an annual basis. The Company may only pay dividends if it meets the requirements of the Corporations Act, including that the Company’s assets exceed its liabilities immediately before the dividend is declared and the excess is sufficient for the payment of the dividend. The Corporations Act requirements are noted in Appendix VII to this document. In addition, the Company is restricted from paying dividends as one of the negative undertakings under the Senior Loan Facility, for which further information can be found under the section headed “Financial Information — Indebtedness — Senior Loan Facility”.

Our Directors may determine that a dividend is payable and fix the amount, any franking percentage and franking class, the time for determining entitlements to the dividend, the time of the payment and the method of payment. Please refer to the section headed “Appendix VII — Summary of the Constitution of the Company and Australian Corporations Act — Australian dividend withholding tax”.

Our Directors, when paying or declaring a dividend, may direct payment of the dividend wholly or partly by distribution of cash, the issue of shares or debentures or the transfer of assets. The Company incurs a liability when the time fixed for payment of the dividend arrives.

Shareholders that are not resident in Australia may nonetheless be subject to Australian dividend withholding tax on any dividends paid in relation to their Shares.

SUMMARY

RISK FACTORS

We believe that there are certain risks involved in our operations. They can be broadly categorized into: (i) risks relating to our business and the industry in which we operate; (ii) risks relating to operating in the PRC; and (iii) risks relating to statements in this document. Set out below is a summary of the risks referred to above. For further details, please refer to the section headed “Risk Factors”.

Risks relating to our business and the industry in which we operate

- We may be unable to complete the construction of the Jiangsu Plant on time or on budget;
- the commercial feasibility of the Jiangsu Plant has not been fully established and it is yet to demonstrate whether it is capable of operating at the targeted level of economic production;
- we will depend on the Mt Cattlin Project and the Jiangsu Plant for substantially all of our revenues and cash flows from operating activities in the near term;
- our offtake framework agreements may not deliver the revenues we expect;
- we face significant competition which may hinder our development plans and adversely affect our sales of lithium carbonate if we are not able to compete effectively;
- our business and results of operations are vulnerable to fluctuations in prices for lithium carbonate;
- the availability and cost of our production inputs, such as utilities, equipment, materials and labor, could materially and adversely affect our business and results of operations;
- our mining and processing activities at the Mt Cattlin Project are subject to operational risk;
- our lithium carbonate processing activities at the Jiangsu Plant will be subject to operational risk;
- the market for lithium-ion batteries may not provide the level of demand and growth to support our operations;
- we have reported losses after income tax on a consolidated basis since our listing on the ASX and may incur additional losses in the future;
- we have a limited history in operating and developing spodumene concentrate and lithium carbonate projects;
- development and evaluation of our potential Lithium Battery Project is at an early stage and there is no guarantee we will proceed with it as planned or at all;

SUMMARY

- we may fail or be unable to obtain, retain or renew required government approvals, permits and licences for our mining and chemical processing activities;
- we could encounter difficulty meeting future capital expenditure requirements;
- our indebtedness and the conditions imposed on us by our financing agreements could materially and adversely affect us;
- our business could suffer as a result of a change of the Australian mining royalty or tax regime;
- foreign currency fluctuations could affect revenue, expenses and future earnings;
- our prospects depend on our ability to attract, retain and train key personnel;
- we may be subject to labor disputes or disruptions;
- we are dependent on the provision of uninterrupted transportation services for the transportation of our spodumene concentrate and lithium carbonate, and the prices for such services could increase;
- we rely substantially on third party contractors to conduct our operations at the Mt Cattlin Project and to construct the Jiangsu Plant;
- we have limited business relationships with our future key suppliers and these suppliers may not perform to the level we require or these relationships may break down;
- our operations are subject to extensive government environmental regulation, which we must comply with;
- our operations are exposed to risks in relation to the mishandling of dangerous articles;
- our operations are exposed to safety risks and the occurrence of industrial accidents;
- our operations are exposed to the risk of severe weather conditions;
- if we fail to maintain an effective system of internal controls to match our expected growth, we may be unable to fully achieve the Company’s goals and objectives or accurately report our results of operation and financial condition;
- our insurance coverage could prove inadequate to satisfy potential claims;
- any defects in the titles to our mining properties or processing properties could prevent or severely curtail our use of the affected properties;
- we may face competing claims over our properties such as native title, Aboriginal heritage claims and private land owner claims which may require approval to be obtained and compensation to be paid;

SUMMARY

- we own lithium carbonate production process intellectual property, and if such intellectual property is found to be invalid or infringed, could materially and adversely affect our business and results of operations;
- we may be involved in intellectual property disputes in the future, which could divert management’s attention, cause us to incur significant costs and prevent us from selling or using the challenged technology;
- our mining operations have a finite life and eventual closure of these operations will entail costs and risks regarding ongoing monitoring, rehabilitation and compliance with environmental standards;
- our ore reserves and mineral resources are estimates based on a number of assumptions, any adverse changes in which could require us to lower our ore reserves and mineral resources;
- our ability to obtain lithium mineral resources in the future could be materially and adversely affected by competition from other companies;
- exploration of mineral properties is highly speculative in nature, requires substantial expenditures and is often unsuccessful. Mineral resources may not be extracted at a profit;
- acquisitions of interests in the James Bay Project are subject to certain conditions and there is no guarantee that we will proceed with it as planned or at all;
- the James Bay Project is at an early stage and there is no guarantee it will proceed as planned or at all;
- we may undertake strategic acquisitions or investments, which may prove to be difficult to integrate and manage or may not be successful; and
- our joint venture and strategic alliance arrangements may not be successful.

Risks relating to operating in the PRC

- Our operations are subject, to a significant extent, to economic, political and legal developments in the PRC;
- there are uncertainties regarding the interpretation and enforcement of PRC laws and regulations;
- we are exposed to the risk of changes in PRC’s foreign exchange regulations;

SUMMARY

- the outbreak, or threatened outbreak, of any severe communicable disease in the PRC, could materially and adversely affect our business and operations results;
- our subsidiary in the PRC is subject to restrictions on dividend payments, on making other payments to us or any other affiliated company, and on borrowing or allocating tax losses among our subsidiaries; and
- PRC regulations relating to employee stock options granted by overseas-listed companies may increase our administrative burden, restrict our overseas and cross-border investment activity or otherwise adversely affect the implementation of our acquisition strategy. If our PRC employees who are granted or exercise stock options, fail to make any required registrations or filings under such regulations, we may become subject to liability under PRC laws.

Risks relating to the statements in this document

- Certain facts and statistics included in this document are from third parties and should not be unduly relied upon.

DEFINITIONS

In this document, unless the context otherwise requires, the following terms shall have the meanings set out below. Certain other terms are explained in the section headed “Glossary of Technical Terms”

“A\$”	Australian dollars, the lawful currency of the Commonwealth of Australia
“ABN”	Australian Business Number
“ACN”	Australian Company Number
“AIM”	Alternative Investment Market of the London Stock Exchange
“ASIC”	Australian Securities and Investments Commission
“associate(s)”	has the meaning ascribed thereto under the relevant rules
“ASX”	ASX Limited (ABN 98 008 624 691) or the Australian Securities Exchange (as appropriate)
“ASX Listing Rules”	the Listing Rules of the ASX, as amended from time to time
“ASTC Settlement Rules”	the Settlement Rules of ASX Settlement Pty Ltd (ABN 49 504 532)
“Audit Committee”	a sub-committee of the Board formed to review and monitor the financial and legal affairs of the Company
“Bondholders”	Strong Target International, Fengli Group, Venture Link Assets Limited, CAI Global Master Fund, LP and Swiss Asia Capital (Singapore) Pte Ltd, the holders of the Convertible Bonds
“Board”	the board of Directors of the Company
“BOC”	Bank of China Ltd and its subsidiaries, the security trustee for the Senior Loan Facility and lender of the Letter of Credit
“Business Day”	a day (other than a Saturday, Sunday or a public holiday) on which licensed banks in Hong Kong are generally open for business
“C\$”	Canadian dollars, the lawful currency of Canada
“CDB”	China Development Bank Corporation or any of its subsidiaries or associated companies, an Independent Third Party who is a lender of the Senior Loan Facility

DEFINITIONS

“CGU”	cash generating unit
“Chairman”	the chairman of the Company
“CHESS”	Clearing House Electronic Subregister System for security transfers on the ASX
“China” or “PRC”	the People’s Republic of China and “China” shall be construed accordingly; except where the context requires, references in this document to the PRC or China do not apply to the Hong Kong Special Administrative Region, the Macau Special Administrative Region and Taiwan
“China Gas”	Zhangjiagang Hongkong and China Gas Company Limited, an Independent Third Party. China Gas will design and install the natural gas supply system for the Jiangsu Plant
“Companies Ordinance”	Companies Ordinance (Chapter 32 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Constitution”	the constitution of the Company dated December 22, 2010 as amended from time to time
“Contract Power”	Contract Power Australia Pty Ltd (ABN 48 081 538 258) and Contract Power Holdings Pty Ltd (ACN 118 733 681), private companies and Independent Third Parties who were awarded the power station contract for the Mt Cattlin Project
“Convertible Bonds”	A\$61.5 million in convertible bonds issued by the Company to the Bondholders in November 2010, January 2011 and February 2011
“Company”, “GXY”, “we”, “us”, or “our”	Galaxy Resources Ltd (ABN 11 071 976 442) a company registered in Western Australia, Australia with a primary listing on the ASX
“Corporations Act”	Corporations Act 2001 (Cth)
“Creat Group”	Creat Group Co. Ltd, a private investment company based in the PRC and who is the major shareholder of CRHL, who is a [17.78%] shareholder in the Company as at the Latest Practicable Date
“Crown”	the Sovereign of Australia, as represented by its Ministers and Government Departments, acting in right of the State of Western Australia

DEFINITIONS

“CRHL”	Creat Resources Holdings Ltd (ACN 089 093 943), a resources investment company listed on AIM and who is a [17.78%] Shareholder in the Company as at the Latest Practicable Date
“Director(s)”	director(s) of the Company
“DMB Joint Venture”	a joint venture between privately-owned Independent Third Parties DRA Pacific Pty Ltd (ABN 52 078 037 019), Holtfreters Pty Ltd (ABN 64 064 105 488) and BEC Engineering Pty Ltd (ABN 66 074 006 063), who was awarded the process plant engineering, procurement and construction contract for the Mt Cattlin Project
“Esperance Freight Lines”	Mattben Pty Ltd (ACN 104 515 568) as trustee for the Michael Harding Family Trust trading as Esperance Freight Lines (Registration No. 0073283A), a private company and Independent Third Party who was awarded a contract to transport spodumene concentrate from the Mt Cattlin Project to the Esperance Port
“ESOP”	Employee Share Option Plan No. 2, a share option scheme adopted by the Company pursuant to a resolution passed by Shareholders on April 2, 2009, a summary of the principal terms of which is set out in “Statutory and General Information — Share Option Scheme” in Appendix VIII to this document
“EUR”	the lawful currency of the member states of the European Union that adopted the single currency in accordance with the Treaty establishing the European Community (signed in Rome on March 25, 1957), as amended by the Treaty on European Union (signed in Maastricht on February 7, 1992)
“Farm-out agreement”	an agreement under which a person (the farm-in-ee) agrees to fund a specified percentage of the exploration and / or development costs in exchange for receiving a specified percentage interest in the relevant joint venture
“Fengli Group”	Fengli Group (Hong Kong) Co., Ltd, a large, privately owned enterprise based in the PRC and who is a Bondholder and a [10.09]% Shareholder of the Company as at the Latest Practicable Date
“Franking”	the concept of franking reflects that the underlying profits from which dividends have been sourced have been subject to Australian corporate income tax
“Frost & Sullivan”	Frost & Sullivan Singapore Pte Ltd, an independent industry expert
“Geely”	Geely Automobile Holdings Co. Ltd, a Stock Exchange-listed company principally engaged in the manufacture and sale of automobiles in China.

DEFINITIONS

	A Bondholder, Mr Shufu Li, is the founder, chairman and controlling shareholder of Geely
“GEM”	Growth Enterprise Market of the Stock Exchange
“General Mining”	General Mining Corporation Ltd (ABN 95 125 721 075), a mineral exploration company listed on the ASX, the Company’s partner in the Shoemaker Joint Venture and the Strategic Alliance. The Company holds 5,000,000 shares and 2,500,000 options in General Mining
“GLAL”	Galaxy Lithium Australia Ltd (ABN 79 130 182 099), a company registered in Western Australia, Australia
“GLCA”	Galaxy Lithium (Canada) Inc., a company incorporated in Quebec, Canada
“GLHBV”	Galaxy Lithium Holdings B.V., a company incorporated in Amsterdam, the Netherlands
“GLIL”	Galaxy Lithium International Ltd, a company incorporated in Hong Kong, Company Number 1354673
“GLJL”	Galaxy Lithium (Jiangsu) Co., Ltd, a company incorporated in the PRC
“GLUS”	Galaxy Lithium (US) Inc., a company incorporated in Delaware, the United States
“Global Advanced Metals”	Global Advanced Metals Pty Ltd (ACN 139 987 465) (formerly Talison Tantalum Pty Ltd), a private company who is a producer and supplier of tantalum and an Independent Third Party. Global Advanced Metals has entered into an agreement with the Company to purchase tantalum pentoxide in concentrate from the Mt Cattlin Project
“Group”	the Company and its subsidiaries or (as the case may be) their predecessors
“Hatch”	Hatch is an independent and privately owned global organization that supplies engineering, project and construction management services, process and business consulting and operational services to the mining, metallurgical, energy and infrastructure industries around the globe. Hatch’s affiliated organizations include but are not limited to Hatch Project Consulting (Shanghai) Co. Ltd and Hatch Associates Pty Limited. Hatch is an Independent Third Party who is the engineering, procurement and construction management contract or for the Jiangsu Plant
“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the PRC

DEFINITIONS

“Hong Kong dollars” or “HK\$” or “HK cents”	Hong Kong dollars and cents respectively, the lawful currency of Hong Kong
“Huachang”	Jiangsu Huachang Chemical Co., Ltd., a Shenzhen Stock Exchange-listed Independent Third Party who is a manufacturer of basic chemical, fine chemicals and biochemicals based in the PRC, or any of its subsidiaries or associated companies and who was awarded the soda ash supply contract for the Jiangsu Plant
“IFRSs”	International Financial Reporting Standards, which include standards and interpretations approved by the International Accounting Standards Board (IASB), and the International Accounting Standards (IAS) and interpretation issued by the International Accounting Standards Committee (IASC)
“Independent Non-executive Director(s)”	independent non-executive director(s) of the Company
“Independent Third Party”	a party that does not hold any shares in the Company and that neither the Company nor any of its subsidiaries holds any shares in such party nor does that party have any relationship, business or otherwise, that is other than on arm’s length terms, with any shareholder, director, member of the senior management of either the Company, its subsidiaries or their respective associates
“James Bay Project”	a spodumene pegmatite deposit located in Quebec, Canada that is currently wholly owned by Lithium One. The Company has entered into a non-binding memorandum of understanding and subsequently a binding, formal agreement with Lithium One to acquire up to 70% of the project
“Jiangsu International Chemical Industrial Park”	Jiangsu Yangtze River International Chemical Industrial Park, located in the Zhangjiagang Free Trade Zone, Jiangsu Province, PRC
“Jiangsu Plant”	land (and all improvements from time to time constructed on that land) located in the Zhangjiagang Free Trade Zone, Jiangsu Province, PRC, on which the Company proposes to construct a lithium carbonate plant
“JSE”	Johannesburg Stock Exchange
“KUBT”	Korean USA Battery Technology Consortium, an Independent Third Party comprised of 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. The Company is evaluating using KUBT as a turn-key supplier of the equipment for the Lithium Battery Project

DEFINITIONS

“Latest Practicable Date”	[●] 2011, being the latest practicable date for ascertaining certain information in this document prior to its publication
“Lenders”	CDB and RZB, the lenders of the Senior Loan Facility
“Letter of Credit”	US\$7.76 million letter of credit made available by BOC to the Company
“Lithium One”	Lithium One Inc., a mineral exploration company listed on the TSX Venture Exchange who is an Independent Third Party. The Company has entered into a binding, formal agreement with Lithium One to acquire up to 70% of the James Bay Project
“Lithium Battery Project”	project to produce lithium-ion batteries at a proposed site near the Jiangsu Plant
“M+W Shanghai”	M+W Shanghai Co., Ltd., an Independent Third Party and subsidiary of privately-owned M+W Group. The Company has entered into a memorandum of understanding with M+W Shanghai for the Lithium Battery Project
“Managing Director”	the managing director of the Company
“Mining Act”	Mining Act 1978 (Western Australia)
“MRRT”	the Mineral Resource Rent Tax as proposed by the Federal Government of Australia
“Mt Cattlin Project”	project to mine the Mt Cattlin Project Tenements and process ore to produce a spodumene concentrate for downstream processing to lithium carbonate
“Mt Cattlin Project Tenements”	mining lease M74/244 and L74/46; any other mining tenements or prospecting licences granted from time to time in Western Australia in respect of the Mt Cattlin Project
“NYSE”	New York Stock Exchange
“Non-executive Director” or “Non-executive Director(s)”	a non-executive director or non executive directors of the Company as the case may be
“Option”	an option to acquire a Share
“Orionstone”	Orionstone Pty Ltd (ABN 42 138 555 325), a private company and Independent Third Party who is an Australian-based provider of mining

DEFINITIONS

	services, rental machines, and repair and maintenance services and who was awarded the mining services contract for the Mt Cattlin Project
“Pacific Basin”	Pacific Basin Handysize (UK) Limited, an Independent Third Party who was awarded the contract to ship spodumene concentrate from the Esperance Port to Zhangjiagang. Pacific Basin is a subsidiary of Pacific Basin Shipping Ltd, who is a shipping services provider that is listed on the Stock Exchange and headquartered in Hong Kong
“PBOC”	People’s Bank of China (中國人民銀行)
“PRC”	the People’s Republic of China, excluding (for the purposes of this document only) Hong Kong, the Macao Special Administrative Region of the PRC and Taiwan
“Red 5”	Red 5 Limited (ABN 73 068 647 610) (formerly Greenstone Resources NL), an ASX-listed mineral exploration and development company who is an Independent Third Party. Red 5 is entitled to receive a royalty payment from the Company for any tantalum ore mined and processed from part of mining lease M74/244
“Relevant Financial Period”	means the 12 months ended June 30, 2008 and June 30, 2009, the six months ended December 31, 2009 and the nine months ended September 30, 2010
“Remuneration and Nomination Committee”	a sub-committee of the Board with responsibility for overseeing senior management remuneration and nomination of directors
“Risk Management Committee”	a sub-committee of the Board with responsibility for reviewing the Company’s risk management practices and internal controls
“RMB”	Renminbi, the lawful currency of the PRC
“Roskill”	Roskill Information Services Ltd, an independent industry expert
“RZB”	RZB Austria Finance (Hong Kong) Limited or any of its subsidiaries or associated companies, an Independent Third Party who is a lender of the Senior Loan Facility
“RZB Bridging Loan”	US\$20 million bridging loan made available by RZB to the Company, and now repaid
“SAFE”	the State Administration for Foreign Exchange

DEFINITIONS

“Senior Loan Facility”	US\$105 million senior, secured facility made available by the Lenders to the Company
“Shareholder(s)”	holder(s) of Shares
“Share(s)”	fully paid ordinary share(s) in the capital of the Company
“SIBOR”	the Singapore Interbank Offered Rate
“Sinotrans Jiangsu”	Sinotrans Jiangsu Co., Ltd., Zhangjiagang Branch, or any of its subsidiaries or associated companies, an Independent Third Party who is an integrated logistics company based in the PRC and who will provide logistics services for the Company’s lithium carbonate product. Sinotrans Jiangsu is a member of Sinotrans Eastern Company Ltd, the subsidiary of Stock Exchange-listed Sinotrans Limited
“Snowden”	Snowden Mining Industry Consultants Pty Ltd, the independent technical expert
“State” or “PRC Government”	the central government of the PRC including all political subdivisions (including provincial, municipal and other regional or local government entities) and instrumentalities thereof
“State Council”	State Council of the PRC
“Stock Exchange”	the Stock Exchange of Hong Kong Ltd.
“Strong Target International”	Strong Target International Ltd, a private company of Mr Shufu Li, who is the founder, chairman and controlling shareholder of Geely. Strong Target International is a Bondholder of the Company
“subsidiary(ies)”	has the same meaning as the term “subsidiary undertaking” as defined in the 23 rd Schedule to the Companies Ordinance
“Relevant Financial Period”	means the 12 months ended June 30, 2008 and June 30, 2009, the six months ended December 31, 2009 and the nine months ended September 30, 2010
“Treasurer”	Treasurer of the Commonwealth Government of Australia from time to time
“TSX”	Toronto Stock Exchange
“United States” or “U.S.”	the United States of America, its territories, its possession and all areas subject to its jurisdiction

DEFINITIONS

“US\$” or “U.S. dollar(s)” United States dollars, the lawful currency of the United States

“WA” Western Australia, Australia

“%” per cent

Unless otherwise specified, amounts not derived from the Accountants’ Report set out in Appendix I to this document and denominated in C\$, RMB, US\$ and A\$ have been translated for the purpose of illustration only into Hong Kong dollars in this document at the following rates:

HK\$1.00 : RMB[●]

HK\$[●]: A\$1.00

HK\$[●]: US\$1.00

HK\$[●]: C\$1.00

No representation is made that any amounts in C\$, RMB, A\$, US\$ or HK\$ can be or could have been converted at the relevant dates at the above rates or any other rates at all.

Certain monetary amounts set out in this document have been subject to rounding adjustments. Accordingly, figures shown as totals may not be an arithmetic aggregation of the figure that precedent.

GLOSSARY OF TECHNICAL TERMS

This glossary contains definitions of certain terms used in this document in connection with the Group and its business. Some of these may not correspond to standard industry definitions.

“assay”	qualitative or quantitative analysis of a substance to determine its components; the result of such an analysis
“deposit”	a body of mineralization containing a sufficient average grade of metal or metals to warrant further exploration and / or development expenditure
“cut-off grade”	a grade of mineralization which is considered to have an economic value that supports the direct and indirect costs of production, excluding capital expenditure, interest and debt
“E-bike”	a bicycle equipped with a battery-powered motor which provides on-demand motorized power and either operates concurrently with pedalling or independently
“Electric Powered Vehicle”	any or all of EVs, HEVs, PHEVs and E-bikes
“EV”	an Electric Powered Vehicle, or type of vehicle which uses one or more electric motors for propulsion rather than an internal combustion engine
“exploration”	activity to prove the location, volume and quality of an ore body
“feasibility study”	a comprehensive study of a mineral deposit in which all geological, engineering, legal, operating, economic, social, environmental and other relevant factors are considered in sufficient detail that it could reasonably serve as the basis for a final decision by a financial institution to finance the development of the deposit for mineral production
“geochemical”	a prospecting technique which measures the chemical content of certain metals in soils and rocks and defines anomalies for further testing
“grade”	the relative quantity or percentage of metal or ore mineral contained in mineralization
“HEV”	a hybrid Electric Powered Vehicle, or type of vehicle which combines a conventional internal combustion engine propulsion system with an electric propulsion system
“indicated resource”	that part of a mineral resource for which quantity, grade or quality, densities, shape and physical characteristics can be estimated with a level of confidence sufficient to allow the appropriate application of technical and economic parameters to support mine planning and evaluation of the economic viability of the deposit. The estimate is based on detailed and reliable exploration and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes that are spaced closely enough for geological grade and grade continuity to be reasonably assumed

GLOSSARY OF TECHNICAL TERMS

“inferred resource”	that part of a mineral resource for which the quantity and grade or quality can be estimated on the basis of geological evidence and limited sampling and reasonably assumed, but not verified, geological and grade continuity. The estimate is based on limited information and sampling gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes
“infill drilling”	drilling performed between existing drill holes to further delineate a mineral resource or ore reserve
“JORC Code” or “JORC”	Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves dated December 17, 2004 as published by the Joint Ore Reserves Committee of the Australian Institute of Geoscientists, the Australasian Institute of Mining and Metallurgy and the Minerals Council of Australia, and any revisions of it or replacements for it
“km(s)”	kilometer(s)
“kt”	kilo-tonnes equal to 1,000 tonnes
“lithium oxide”	chemical compound also known as lithia, with the molecular formula Li_2O
“LCE”	lithium carbonate equivalent. Measurement of all lithium-based materials expressed as lithium carbonate tonnage
“m” or “meter(s)”	meter(s)
“mm”	millimeter
“measured resource”	that part of a mineral resource for which quantity, grade or quality, densities, shape and physical characteristics are so well established that they can be estimated with confidence sufficient to allow the appropriate application of technical and economic parameters, to support production planning and evaluation of the economic viability of the deposit. The estimate is based on detailed and reliable exploration, sampling and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes that are spaced closely enough to confirm both geological and grade continuity
“mineral resource”	a concentration or occurrence of material of intrinsic economic interest in or on the Earth’s crust in such form, quality and quantity that there are reasonable prospects for eventual economic extraction The location, quantity, grade, geological characteristics and continuity of a mineral resource are known, estimated or interpreted from specific geological evidence and knowledge. Mineral resources are sub-divided, in order of increasing geological confidence, into inferred, indicated and measured categories
“mineralization”	the introduction of minerals into a rock or other medium, resulting in a mineral deposit

GLOSSARY OF TECHNICAL TERMS

“mt”	million tonnes
“mtpa”	million tonnes per annum
“open pit”	the main type of mine designed to extract minerals close to the surface; also known as “open cut”
“overburden”	barren rock material, either loose or consolidated, overlying a mineral deposit, which must be removed prior to mining
“ore” or “orebody”	natural mineral accumulations which can be extracted for use under existing economic conditions and using existing extraction techniques
“ore reserve”	the economically mineable part of a measured and / or indicated mineral resource. It includes diluting materials and allowances for losses, which may occur when the material is mined. Appropriate assessments and studies have been carried out and include consideration of and modification by realistically assumed mining, metallurgical, economic, marketing, legal, environmental, social and governmental factors. These assessments demonstrate at the time of reporting that extraction could reasonably be justified. Ore reserves are sub-divided in order of increasing confidence into probable ore reserves and proved ore reserves
“pegmatites”	coarse-grained granitic rocks that contain lithium bearing minerals
“PHEV”	a plug-in hybrid Electric Powered Vehicle, or any HEV with rechargeable batteries that can be restored to full charge by connecting a plug to an external electric power source
“p.a.”	per annum
“ppm”	parts per million
“probable reserve “	the economically mineable part of an indicated, and in some circumstances, a measured mineral resource. It includes diluting materials and allowances for losses which may occur when the material is mined. Appropriate assessments and studies have been carried out, and include consideration of and modification by realistically assumed mining, metallurgical, economic, marketing, legal, environmental, social and governmental factors. These assessments demonstrate at the time of reporting that extraction could reasonably be justified
“proven reserve”	the economically mineable part of a measured mineral resource. It includes diluting materials and allowances for losses which may occur when the material is mined. Appropriate assessments and studies have been carried out, and include consideration of and modification by realistically assumed mining, metallurgical, economic, marketing, legal, environmental, social and governmental factors. These assessments demonstrate at the time of reporting, that economic extraction could reasonably be justified

GLOSSARY OF TECHNICAL TERMS

“reverse circulation drilling”	also known as RC drilling, the drilling mechanism is a pneumatic reciprocating piston known as a hammer driving a tungsten-steel drill bit. Reverse circulation is achieved by blowing air down the rods; the differential pressure creating air lift of the water and cuttings up the inner tube which is inside each rod
“recovery rate”	the percentage of metal produced compared to the amount of metal contained in the feed ore in the context of a processing plant or the percentage of metal produced compared to the amount of metal contained in the feed concentrates in the context of a smelting plant
“sq.m.”	square meter(s)
“strip ratio”	the ratio of the amount of waste removed (in BCM) to the amount of lithium bearing ore (in BCM) extracted by open pit mining methods
“tantalum pentoxide”	chemical compound with the molecular formula Ta ₂ O ₅
“tailings”	the waste materials (residue) produced by the processing plant after extraction of valuable minerals
“tailings dam”	the waste left over after the process of separating the valuable metal or mineral from the ore
“tenement”	means a mining lease, exploration licence, prospecting licence or miscellaneous licence granted under the Mining Act 1978 (WA)
“tonne”	metric tonne equal to 1,000 kilograms
“tpa”	tonnes per annum

Mineral Resource and Ore Reserve — JORC Code

Unless otherwise indicated, all references in this document to “ore reserves”, “mineral resources”, “measured”, “indicated” or “inferred” resources or to “proven” or “probable” reserves are to these terms as defined in the JORC Code.

RISK FACTORS

We believe that there are certain risks involved in our operations, some of which are beyond our control. These risks can be broadly categorized into: (i) risks relating to our business and the industry in which we operate; (ii) risks relating to operating in the PRC; and (iii) risks relating to statements in this document. Additional risks and uncertainties not presently known to us, or not expressed or implied below, or that are presently deemed immaterial, could also harm our business, financial condition and operating results.

RISKS RELATING TO OUR BUSINESS AND THE INDUSTRY IN WHICH WE OPERATE

We may be unable to complete the construction of the Jiangsu Plant on time or on budget.

We may experience delays in the construction of the Jiangsu Plant and total construction costs may exceed our budget as a result of a variety of factors, including failure to receive critical components and equipment from third parties on schedule and according to design specifications, failure to receive quality and timely performance of third-party services, failure to secure and maintain required regulatory and environmental permits or approvals, inclement weather conditions, adverse environmental and geological conditions and force majeure or other events out of our control. If we fail to complete the Jiangsu Plant within the projected schedule and budget or at all, our business, results of operations, financial condition and prospects may be materially and adversely affected.

The commercial feasibility of the Jiangsu Plant has not been fully established and it is yet to demonstrate whether it is capable of operating at the targeted level of economic production.

The Jiangsu Plant has been designed with the intention of producing 17,000 tpa of lithium carbonate with purity levels of at least 99.5%, but is yet to demonstrate such capability. The production process to be utilized at the Jiangsu Plant has been tested in a laboratory and these tests show that the design is capable of producing lithium carbonate with up to a 99.9% purity level, but this process has not been tested beyond the laboratory stage and there is a risk that these results will not be replicated on the scale proposed for the actual Jiangsu Plant. As the Jiangsu Plant is presently under construction, there is a risk that achieving the plant’s designed production rate and / or purity level of lithium carbonate may not be realized, or realized only with significant further capital expenditure which could have a material and adverse effect on our business, results of operations, financial condition and prospects.

We currently expect it will take 10 months to reach the Jiangsu Plant’s designed lithium carbonate production rate and purity level from commencement of production. This will depend on our ability to optimize our production process and equipment at the Jiangsu Plant. This may take longer than we expect, which could have a material and adverse effect on our business, results of operations, financial condition and prospects.

We will depend on the Mt Cattlin Project and the Jiangsu Plant for substantially all of our revenues and cash flows from operating activities in the near term.

The Mt Cattlin Project and the Jiangsu Plant are likely to be the Group’s only producing projects in calendar year 2011. Post commencement of commercial production, we anticipate that the Jiangsu Plant will provide a substantial portion, if not all, of our operating revenues and cash flows for at least the next two years.

Consequently, any adverse development, delay or difficulty encountered in the development of Mt Cattlin Project or the Jiangsu Plant, including any failure of the Mt Cattlin Project to produce expected amounts or

RISK FACTORS

quality of spodumene concentrate, any failure of the Jiangsu Plant to produce expected amounts or quality of lithium carbonate, our inability to agree prices or sales volumes with our customers for lithium carbonate on commercially suitable terms, equipment failure or shortages, our inability to hire and retain suitable personnel and contractors, permitting or licensing delays, our inability to secure transportation for our products on commercially suitable terms and / or adverse weather could result in the need for us to raise additional debt or equity funding to fund our normal or planned activities and / or to scale back, delay or eliminate plans for the Lithium Battery Project and / or our exploration or other activities. Such events could materially and adversely affect our business, results of operations, financial condition and prospects.

Our offtake framework agreements may not deliver the revenues we expect.

We have entered into offtake framework agreements for all of our targeted production at our Jiangsu Plant with a number of lithium cathode and lithium-ion battery producers, which provide for a minimum sales quantity each quarter at a price to be negotiated and agreed upon on a quarterly basis. None of our offtake framework agreements include any take or pay obligations. Please refer to “Business — Products, sales and marketing — Offtake framework agreements” for further information.

If we cannot agree to an appropriate price for our products under these offtake framework agreements, we may not be able to conclude sales under these agreements and find alternative buyers for our products which would result in our revenues being materially and adversely affected. Further, if demand for our products is lower than we expect, then we may have no choice but to agree to a price that is lower than what we expect and which may be lower than our costs of production, which would materially and adversely affect our financial performance and results of operations. Our offtake framework agreements are governed by either PRC or Western Australian law and may not be enforceable under those laws. Also, our potential customers may become insolvent or fail to pay for or accept delivery of our product.

The offtake framework agreements require us to produce lithium carbonate with a minimum purity level of 99.5% and impurities below certain specifications. We expect that our customers will require our products to undergo testing to confirm that they comply with this grade and these specifications. Failure to comply with these product specifications may result in no or lesser than expected sales being concluded under these agreements. We have also appointed Mitsubishi Corporation as our exclusive distributor in Japan with respect to 5,000 tpa of our lithium carbonate product. If Mitsubishi Corporation does not purchase all of its allocated product quantity, we may not be entitled to sell this product to anyone else in Japan.

Each of these risks, if realized, could materially and adversely affect our business, results of operations, financial condition and prospects.

We face significant competition which may hinder our development plans and adversely affect our sales of lithium carbonate if we are not able to compete effectively.

We operate in a competitive environment. In the production of lithium carbonate, we mainly compete with other PRC and international producers of lithium carbonate and other lithium compounds and chemicals, including producers of lithium compounds and chemicals from brines for whom lithium products may not be the primary source of income. We intend to sell a majority of the lithium carbonate we produce into the PRC. Competition in the PRC lithium carbonate industry is based on many factors, including, among others, price, production capacity, grade, quality and brand name. Some of our competitors, particularly producers of lithium

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compounds and chemicals from brines located in North and South America, are larger than us, have greater financial resources and they may also benefit from greater economies of scale and operating efficiencies such that their operating costs are lower than ours. In addition, some of our competitors may have access to higher quality spodumene concentrate that requires less processing or incurs less processing costs to convert it into lithium carbonate suitable for lithium-ion battery manufacture. Our future success, results of operations, financial condition and prospects will depend on our ability to respond in an effective and timely manner to these competitive pressures.

Our business and results of operations are vulnerable to fluctuations in prices for lithium carbonate.

We expect to derive substantially all of our revenue and cash flow from the sale of lithium carbonate. Therefore, the market price of the Shares, our ability to raise additional financing and maintain ongoing operations, the results of our operations, our financial condition and future prospects will be directly impacted by the demand for, and prices of, lithium carbonate and related-products. Lithium carbonate prices have been and will continue to be subject to fluctuation as a result of a number of factors which are beyond our control, including demand for lithium carbonate (particularly as this is affected by demand for lithium-ion batteries), prices agreed by the world’s largest producers of lithium carbonate with their customers, production costs and capacities of other producers of lithium carbonate, utilization rates at existing lithium carbonate production facilities worldwide, the level of competition between lithium carbonate producers, technological advancements in the production of lithium carbonate and end-uses of lithium carbonate. Other macro-economic factors, such as inflation, interest rates, foreign exchange rates, as well as general global economic conditions and political trends, may also impact lithium carbonate prices. Please refer to “Industry Overview — Lithium carbonate pricing” for further information.

In addition, our focus on the PRC market may result in instability in our operations due to political and economic factors in the PRC which are beyond our control. The combined effects of any or all of these factors on lithium carbonate demand and prices are impossible for us to predict. If realized lithium carbonate prices fall below the full cost of our production and remain at such level for any sustained period, we could experience losses and may decide to discontinue operations, which could require us to incur closure costs and result in reduced revenues. This could materially and adversely affect our business, results of operations, financial condition and prospects.

The availability and cost of our production inputs, such as utilities, equipment, materials and labor, could materially and adversely affect our business and results of operations.

The strong commodity cycle over recent years and the large number of projects being developed in the resources industry has led to increased demand for, and worldwide shortages in, skilled personnel, contractors, materials, equipment, spare parts and supplies that are required as critical inputs to our existing projects and planned developments. Such shortages may increase the costs of our operations, as a result of equipment, spare parts or labor becoming more expensive due to increased demand. Such shortages may also cause delays to, and quality issues in respect of, our operations. Any resulting increase in costs or production delays could have a material adverse effect on our business, results of operations, financial condition and prospects.

Input costs include labor, power, consumables, acid, soda ash or other inputs and may be affected by changes in market conditions, government policies, exchange rates and inflation rates, which can be unpredictable and outside our control. The cost of diesel and reagents, and labor and contractor costs constitute the majority of the Mt Cattlin Project’s operating expenses, while acid, soda ash, power, hydrated lime, natural

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gas and labor costs constitute the majority of the Jiangsu Plant’s operating expenses. Any increase in the price of these production inputs could materially and adversely affect our business, results of operations, financial condition and prospects.

In addition, we require access to reliable power sources and water supplies to conduct our operations. The availability and cost of these utilities will affect capital and operating costs and our ability to maintain expected levels of production and sales. There can be no assurance that the Mt Cattlin Project and the Jiangsu Plant will continue to have access to adequate power and water supplies in the future or that the prices of such utilities will remain affordable. Any such issues arising in respect of these utilities could have a material adverse effect on our business, results of operations, financial condition and prospects.

Our mining and processing activities at the Mt Cattlin Project are subject to operational risk.

Our spodumene mining operations and processing operations are subject to a number of operational risks, some of which are beyond our control, which could delay the production and delivery of spodumene concentrate. These risks include unexpected maintenance or technical problems, unusual and unexpected geological formations, pit wall failures, flooding, periodic interruptions to our mining operations due to inclement or hazardous conditions and natural disasters, industrial accidents, power or fuel supply interruptions and critical equipment failure, including malfunction and breakdown of our shovels, upon which our mining operations are heavily reliant and which would require considerable time to replace. Ore crushing and processing operations are subject to additional hazards such as equipment failure, fire, or changes in ore characteristics such as rock hardness or mineralogy. This may impact production rates and recovery of spodumene, the ability to continue to produce spodumene concentrate with certain quality specifications and may result in the failure of retaining dams around tailings disposal areas which may result in environmental liability.

The occurrence of any of these events could result in temporary, and in severe cases, permanent disruption of our operations, reduced sales, increased costs, significant damage to property or the environment, or the need for the Group to incur larger than expected capital expenditure to remedy the situation, which in turn may also materially and adversely affect our business, results of operations, financial condition and prospects.

Our lithium carbonate processing activities at the Jiangsu Plant will be subject to operational risk.

Once operational, our lithium carbonate processing operations at our Jiangsu Plant will be subject to a number of operational risks, some of which are beyond our control, which could affect the quantity and quality of our production of lithium carbonate. Our business plan entails the production of high quality lithium carbonate of a minimum purity level of 99.5% to enable sales to be made to our proposed customers under our offtake framework agreements. Our ability to produce this quality of product at the quantities we expect is largely dependent on our ability to implement quality control procedures and to maintain our equipment at a high level of operation. Furthermore, unexpected maintenance, technical problems, industrial accidents, power interruptions and critical equipment failure, including malfunction and breakdown of our processing equipment could all occur at the Jiangsu Plant. Each of these foregoing events could result in temporary or, in severe cases, permanent disruption to our operations, reduced sales, increased costs, significant damage to property or the environment, or the need for the Group to incur larger than expected capital expenditure to remedy the situation, any of which may materially and adversely affect our business, results of operations, financial condition and prospects.

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The market for lithium-ion batteries may not provide the level of demand and growth to support our operations.

Our success is heavily geared towards growth in the market for lithium-ion batteries. We produce materials used in the production of lithium-ion batteries and are investigating moving into the direct production of lithium-ion battery packs in the future. According to Roskill, total global demand for lithium in lithium-ion batteries was approximately 24,000 tonnes LCE, in 2009. Roskill projects strong growth in this demand, driven by strong growth in demand for lithium-ion batteries in the portable electronic applications market and in the transport applications market, the latter influenced in part by expected changes in legislation and a general move towards more environmentally friendly transport options. However, there is a risk the projected rate of growth in demand for lithium-ion batteries may not be achieved, or an alternative energy source or new technology may emerge which reduces demand for lithium-ion batteries. This could materially and adversely affect demand for our products, and in turn our business, results of operations, financial condition and prospects.

We have reported losses after income tax on a consolidated basis since our inception and may incur additional losses in the future.

We reported losses after income tax for each of the 12 months ended June 30, 2008 and 2009, the six months ended December 31, 2009 and the nine months ended September 30, 2010. We may incur losses after income tax in the future. Our ability to operate profitably depends upon a number of factors, some of which are beyond our direct control. These factors include our ability to develop our mining projects and commercialize lithium ore reserves, construct and operate the Jiangsu Plant and control costs. Our profitability will also be affected by the demand, supply and price for lithium carbonate and general economic conditions. Our failure to generate profits may adversely affect the market price of the Shares, restrict our ability to pay dividends, impair our ability to raise capital, obtain financing, repay our debts and expand our business.

We have a limited history in operating and developing spodumene concentrate and lithium carbonate projects.

We have a limited operating history. Our Company was incorporated on January 15, 1996 and we have only recently begun to develop and operate the Mt Cattlin Project and develop the Jiangsu Plant. Our Company does not have extensive experience developing, commissioning, operating and managing spodumene mines and lithium carbonate processing plants. We are exposed to certain risks relating to our ability to successfully develop and operate these projects, notably because we do not have extensive experience managing challenges related to unforeseen expenses, difficulties, complications and delays frequently encountered in commissioning a spodumene mine or lithium carbonate processing plant. We have recently [commenced production] at the Mt Cattlin Project and intend to finalize development of, and commence production at, the Jiangsu Plant. These activities will continue to place substantial demands on our managerial, operational, technological and other resources. We cannot assure that we can manage such challenges in developing and operating our projects effectively. Any failure to manage such challenges or inability to allocate proper management resources and attention to our projects could delay our ability to meet our customers’ requirements and delay our ability to generate revenue from such projects, which could have a material adverse impact on our business, results of operations, financial condition and prospects.

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Development and evaluation of our potential Lithium Battery Project is at an early stage and there is no guarantee we will proceed with it as planned or at all.

We have completed a feasibility study on, and intend to continue evaluating, the Lithium Battery Project, which, if and when completed, will produce lithium-ion batteries.

Evaluation and development of the Lithium Battery Project remains at an early stage and we are not currently in a position to commence construction because we need to, among other things, conduct further technical, financial and marketing evaluation of the opportunity, obtain necessary approvals from the relevant authorities, enter into agreements with suppliers, contractors and customers, and procure finance for construction.

In addition, our Company does not have any track record or operating experience in developing or operating a battery plant. The development of the Lithium Battery Project includes various risks, including, among others, regulatory risks, construction risks, financing risks and the risk that the Lithium Battery Project may prove unprofitable. We cannot assure you that we will be able manage the challenges in developing and operating this plant effectively in the event that we do proceed with the Lithium Battery Project.

We may ultimately decide not to proceed with the Lithium Battery Project for a variety of reasons, including if further evaluation reveals an outcome materially different to the feasibility study, we are unable to obtain the necessary permits and approvals, we cannot reach agreement with suppliers, contractors and customers or raise the additional funding required to carry out construction, or market conditions materially change, such that the Lithium Battery Project would no longer be an attractive investment to pursue.

If we do proceed with the development of the Lithium Battery Project, we will need to undertake further feasibility studies, the results of which may differ from the current feasibility study. There is no assurance that the current feasibility study estimates will be reflective of the final design, scale, costs, risks or performance of the Lithium Battery Project.

We may fail or be unable to obtain, retain or renew required government approvals, permits and licences for our mining and chemical processing activities.

The construction and continuing operation of mining and processing enterprises such as ours are dependent on obtaining certain government permits, approvals and licences for each of our projects, including environmental and health and safety approvals. Our ability to carry on our business is therefore subject to our ability to obtain, and various governments’ willingness to renew and not revoke, such rights. If we are not able to obtain or renew such rights, or such rights are revoked, this may have a material and adverse impact on our business, results of operation, financial condition and prospects.

We could encounter difficulty meeting future capital expenditure requirements.

The exploration for, and mining of, lithium mineral resources and subsequent downstream chemical processing into lithium carbonate requires substantial capital investment. Our development and expansion plans may also result in increases in capital expenditure and commitments. We may require additional funding to develop the Mt Cattlin Project, the Jiangsu Plant and generally to expand our business. We may be required to seek funding from third parties if cash generated internally and available bank facilities are insufficient to finance

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these activities. In the event that we are unable to obtain adequate financing on acceptable terms, or at all, to satisfy operating, development and expansion plans, our business, results of operations, financial condition and prospects may be materially and adversely affected.

Our indebtedness and the conditions imposed on us by our financing agreements could materially and adversely affect us.

As at the Latest Practicable Date, we had the following interest bearing liabilities:

- a US\$105 million Senior Loan Facility; and
- A\$61.5 million in Convertible Bonds.

We may incur additional indebtedness in the future. Our indebtedness could have several important consequences, including but not limited to the following:

- a portion of our cash flow will be used towards repayment of our existing debt, which will reduce the availability of cash to fund working capital needs, capital expenditures, acquisitions and other general corporate requirements;
- our ability to obtain additional financing in the future at all or on reasonable terms may be restricted;
- fluctuations in market interest rates may affect the cost of our borrowings, as interest on our Senior Loan Facility is based on a variable interest rate. Please refer to “Financial Information — Quantitative and qualitative disclosure about market risks — Interest rate risk” for further information; and
- we may be more vulnerable to economic downturns, be limited in our ability to withstand competitive pressures and may have reduced flexibility in responding to changing business, regulatory and economic conditions.

Entities in the Group have provided securities to the Lenders in respect of the Senior Loan Facility. These include security over all of the Group’s interest in subsidiaries as well as security over the assets of the Group, a charge over the project accounts held by the Group and a mortgage over mining tenements held or to be acquired by the Company. Any failure to repay our debts on time may result in this security being enforced against our assets.

The Senior Loan Facility also includes various conditions and covenants that require us to obtain the Lenders’ consent prior to carrying out certain activities and entering into certain transactions. In some cases, entities in the Group must, among other requirements, seek, and may be unable to obtain, the Lenders’ consents to incur additional debt, create additional charges on or further encumber assets, provide additional guarantees or dispose of certain assets, except where such debt, charges, encumbrances, guarantees or disposals are of a type specifically permitted, whether or not there is any failure by us to comply with the other terms of such agreements. Failure to meet these conditions or obtain these consents could materially and adversely affect our

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business and operational results. Please refer to “Financial Information — Indebtedness — Senior Loan Facility” for further information.

The terms of the Convertible Bonds contain a negative pledge which limits the Group’s ability to issue secured bonds and a number of events of default, the occurrence of which could result in the Convertible Bonds becoming immediately due and payable at 100% of their principal amount. The Bondholder may also, in limited circumstances, require the Company to redeem the Convertible Bonds. The occurrence of any of these events could materially and adversely affect our business, results of operations, financial condition and prospects. Please refer to “Financial Information — Indebtedness — Convertible Bonds” for further information.

Compliance with the various terms of our indebtedness is subject to interpretation and there can be no assurance that we have requested or received all consents from our lenders that would be advisable under our financing documents. As a result, it is possible that a lender could assert that we have not complied with all the terms under our financing documents. Any failure to service our indebtedness, comply with a requirement to obtain a consent or perform any condition or covenant could lead to a termination of one or more of our credit facilities, acceleration of amounts due under such facilities and cross-defaults under certain of our other financing agreements, any of which could materially and adversely affect our business, results of operations, financial condition and prospects.

Our business could suffer as a result of a change of the Australian mining royalty or tax regime.

Our mining operations are subject to the payment of various Australian State and Federal royalties and taxes. There is a risk that the royalty and tax regime could change resulting in higher costs for our operations.

The Federal Government of Australia has recently proposed the introduction of a new tax on profits from mining operations in Australia, the Mineral Resource Rent Tax, or “MRRT”. As the announced MRRT proposal will only apply to iron ore and coal projects, our lithium mining and exploration activities will currently not be affected. However, the MRRT proposal may affect the value and economic viability of our interest in the Shoemaker project, which is prospective for iron ore. There is also a risk that the MRRT will be expanded to other commodities, which if it occurs, may have an adverse effect on our business, results of operations, financial condition and prospects.

Foreign currency fluctuations could affect revenue, expenses and future earnings.

We are exposed to foreign currency fluctuations with respect to US\$, RMB and A\$. Our historical financial results are reported in A\$ and in the future, our financial results will continue to be reported in A\$. For the financial year ended December 31, 2010, we expect that over 65% of our operating costs will be denominated in A\$, with the remainder in RMB. For the financial year ending December 31, 2011, we expect that approximately 60% of the Group’s revenue will be denominated in RMB and the remainder in US\$. We also expect that in the financial year ending December 31, 2011, approximately 60% of the Group’s operating cost will be denominated in RMB and the remainder in A\$. In addition, the majority of our bank borrowings are in US\$ such that interest and principal repayments will need to be made in US\$.

As a result of the above, if the RMB depreciates against the A\$, this will reduce the reported revenues that we receive from the sale of products denominated in RMB. This depreciation, however, will result in a decrease in our reported operating costs that are denominated in RMB. Further, if the US\$ depreciates against the A\$, this

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will decrease the reported revenues that we receive from sale of products denominated in US\$ but would, however, reduce our reported borrowing costs.

Therefore, if the RMB fluctuates relative to the A\$, or if the US\$ fluctuates relative to the A\$, our financial results could be materially and adversely affected. Please refer to the sections headed “Financial Information — Quantitative and qualitative disclosure about market risks — Currency risk” and “Business — Our Operations — Operating Costs” for further information and sensitivity analyses showing the effects of fluctuations in RMB against the US\$ and US\$ against the A\$ on our estimated operating costs.

Our prospects depend on our ability to attract, retain and train key personnel.

Our execution capability given our short operational history is substantially attributable to the role played by a group of our senior management and key employees. Our future success depends significantly on the full involvement of these key executives and employees and our ability to continue to retain and recruit high-level personnel. We do not carry key man insurance and the loss of any of our senior management or key employees could significantly impact our operations.

Our success depends on our ability to attract, retain and train key management personnel in Australia, Hong Kong and in the PRC, as well as other management and technical personnel (including those employed on a contractual basis). Competition for qualified personnel with relevant expertise is intense due to the scarcity of qualified individuals in the lithium industry. We may need to offer higher compensation and other benefits to attract and retain key personnel.

As our business activity grows, we will require additional key financial, administrative, mining, marketing, processing and public relations personnel as well as additional operations staff. If we are not successful in attracting and retaining such key personnel, our business, results of operations, financial condition and prospects could be materially and adversely affected.

We may be subject to labor disputes or disruptions.

As at the Latest Practicable Date, none of the individuals employed by the Group were known to be members of a trade union organization. However, individuals employed by our contractors may be members of trade union organizations. There is a risk that our mining, construction and processing operations at the Mt Cattlin Project and Jiangsu Plant could be stopped for indefinite periods due to strikes and other labor disputes. Any labor disruptions could have a material adverse effect on our business, results of operations, financial condition and prospects.

We are dependent on the provision of uninterrupted transportation services for the transportation of our spodumene concentrate and lithium carbonate, and the prices for such services could increase.

We use a contractor, Esperance Freight Lines, to transport spodumene concentrate by land from our Mt Cattlin Project to the port of Esperance. We will use another contractor, Pacific Basin, to transport spodumene concentrate by sea from the port of Esperance to the port of Zhangjiagang.

In addition, upon completion of our Jiangsu Plant, we anticipate that the majority of lithium carbonate we produce will be sold to lithium cathode producers throughout the PRC and internationally, and transported by

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sea, rail and road. We will use another contractor, Sinotrans Jiangsu, to provide shipping and warehousing services in the PRC.

Any failure in the ability of these contractors to transport spodumene concentrate or lithium carbonate, or any delays in deliveries, or any increase in costs of using of their services, or ports and other transport infrastructure, could have a material adverse effect on our business, results of operations, financial performance and prospects.

In addition, in the PRC, sea, rail and road infrastructure has in the past been affected by extreme weather conditions, earthquakes, delays caused by major accidents, the diversion of rolling stock in the case of national emergencies and seasonal congestion during public holidays. There can be no assurance that these problems will not recur or that new problems will not occur. In any of these circumstances, our customers may not be able to take delivery of our lithium carbonate, which may lead to delays in payment, or refusal to pay, and, as a result, our business, results of operations, financial performance and prospects could be materially and adversely affected.

We rely substantially on third party contractors to conduct our operations at the Mt Cattlin Project and to construct the Jiangsu Plant.

At Mt Cattlin, it is our commercial practice to sub-contract various mining, development and exploration services, including engineering, plant construction, earthmoving, grade control and drilling, electricity supply and bulk transport on the basis of a competitive tender process. We engaged Hatch as our EPCM (pursuant to the agreement dated December 8, 2009) for the construction of the Jiangsu Plant and we may sub-contract various services at this plant once it is operational. Although sub-contracted services are supervised by our employees, such arrangements with contractors carry with them risks associated with the possibility that the contractors may (i) have economic or other interests or goals that are inconsistent with the Group’s, (ii) take actions contrary to our instructions or requests, or (iii) be unable or unwilling to fulfill their obligations. There can be no assurance that we will not experience such problems with respect to our contractors in the future or that we will be able to find replacement contractors on similar terms in the event that our existing contractors do not perform as we expect and this may materially and adversely affect our business, results of operations, financial condition and prospects.

We have limited business relationships with our future key suppliers and these suppliers may not perform to the level we require or these relationships may break down.

The Group is currently transitioning from a mineral exploration company to a mining and mineral processing company and our future key suppliers will be different to our key suppliers during the Relevant Financial Period. We currently have limited business relationships with our future key suppliers. If any suppliers do not perform to the level we require or if any relationship with a supplier breaks down, we may not be able to find a suitable replacement in a timely manner and this could have a material adverse effect on our business, results of operation, financial position and prospects.

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Our operations are subject to extensive government environmental regulation, which we must comply with.

Our business is subject to extensive government environmental regulation, both in Australia and the PRC. These laws and regulations set standards regulating certain environmental matters, including storage, treatment and disposal of chemicals, biowaste and hydrocarbons, treatment and containment of emissions, protection of native flora and fauna and rehabilitation and remediation of land.

Adhering to these laws and regulations at our operations can require us to incur certain costs, some of which may be substantial. In addition, any failure on our part to comply with environmental laws and regulations at our operations could result in the imposition of significant liabilities for damages, clean-up costs, fines or penalties, or suspension of our right to operate where there is evidence of serious breach.

If a relevant government or regulatory body introduces new, more stringent laws or regulations, or changes existing laws and regulations or the interpretation thereof, we may face disruptions in operations, increases in operating costs and significant constraints on flexibility and the ability to expand our business operations or to maximize our profitability. In particular, we may be required to make significant expenditures in connection with the repair, upgrade or expansion of our facilities in order to meet future requirements and obligations under environmental laws.

Each of the above may lead to a material and adverse effect on our business, results of operations, financial condition and prospects.

Our operations are exposed to risks in relation to the mishandling of dangerous articles.

Our exploration, mining and processing operations involve the handling and storage of explosive, toxic and other dangerous articles, particularly in the unlikely event of the discovery of radioactive materials or hazardous fibrous minerals. Accidents arising from the mishandling of dangerous articles may occur in the future. If we breach any relevant laws, regulations or policies, we may be subject to monetary fines and / or administrative suspension of the Group’s business activity for a period until such violations are cured (for example, by obtaining the relevant licence). If any accident occurs as a result of the mishandling of dangerous articles, and damage is caused to third parties, we may be subject to civil and criminal liability. In addition, more stringent laws, regulations and policies may be implemented by the relevant Australian or PRC authorities, and we may not be able to comply with any future laws, regulations and policies in relation to the handling of dangerous articles in an economically viable manner, or at all. Any of these risks, if realized, could have a material adverse effect on our business, results of operations, financial condition and prospects.

During the Relevant Financial Period and up to the Latest Practicable Date, there have been no incidents relating to the mishandling of dangerous articles.

Our operations are exposed to safety risks and the occurrence of industrial accidents.

Certain of our operations are carried out under potentially hazardous conditions. Liabilities might arise in the future as a result of accidents, fatalities or other workforce-related misfortunes, some of which may be beyond our control. Any such events could lead to significant expenditure by the Group in respect of compensation claims or

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payments, fines or penalties for failure to comply with health and safety laws or regulations, and insurance may be unavailable or prohibitively expensive. The occurrence of accidents could delay production, increase production costs and result in liability and adverse publicity for the Group. These factors could have a material adverse effect on our business, results of operations, financial condition and prospects.

During the Relevant Financial Period and up to the Latest Practicable Date, we have recorded no lost time injuries.

Our operations are exposed to the risk of severe weather conditions.

Severe weather conditions, such as heavy rainfall, may require personnel to be evacuated or operations to be curtailed and may result in damage to project sites, equipment or facilities, which could result in the temporary suspension of operations or generally reduce productivity. During periods of curtailed activity due to adverse weather conditions, we may continue to incur operating expenses, thus materially and adversely affecting our business, results of operations, financial condition and prospects.

If we fail to maintain an effective system of internal controls to match our expected growth, we may be unable to fully achieve the Company’s goals and objectives or accurately report our results of operation and financial condition.

We are currently experiencing a period of substantial growth, moving from an exploration and development company to a mining and processing company. As a result of our progression to production at the Mt Cattlin Project and, at a later date, the Jiangsu Plant, we expect that we will have to employ additional staff and dedicate a significant amount of operational, financial and human resources to strengthen and maintain our internal controls in the future. This will increase our administrative and other operating expenses.

We are in the process of implementing measures to improve our policies and procedures to cover areas such as sales cycle, inventory management, costing control, production and operation guidelines and compliance in anticipation of production at the Jiangsu Plant. This process will take time and may require significant resources to be spent on training existing and new staff on these policies and procedures. We will continue to enhance and monitor our internal control policies and procedures on an ongoing basis as our scale and scope of business expands; however, we cannot assure you that we will be able to successfully implement and maintain such internal controls on an ongoing basis. Furthermore, we cannot assure you that such measures will be effective or that any future material deficiencies or weaknesses in our internal controls will be discovered and corrected in a timely manner.

Internal controls, no matter how well designed and operated, can provide only reasonable assurance of achieving an entity’s control objective. Limitations inherent in our internal controls system include dependence on human judgment in decision-making, which may be faulty, and exposure to simple human errors or mistakes. Any internal controls system, whether manual or automated, may also be circumvented by collusion or inappropriate management override. In addition, whilst internal controls measures can detect and deter employee malpractice and misconduct, there is no assurance that such measures will be effective. As such, should our internal controls systems fail to be consistently and effectively implemented and adhered to, our business, results of operation and financial condition may not be accurately reported and may be adversely impacted.

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Our insurance coverage could prove inadequate to satisfy potential claims.

We do not carry insurance to cover all of the risks associated with our business, either because insurance coverage is restricted or prohibitively expensive. We have taken out insurance within a range of coverage consistent with industry practice in the PRC and Australia to cover certain other risks associated with our business. While we believe this insurance coverage is commensurate with our business structure and risk profile, we cannot assure you that our current insurance policies will insure us fully against all risks and losses that may arise in the future. In addition, our insurance policies are subject to annual review by our insurers, and we cannot assure you that we will be able to renew these policies on similar or otherwise acceptable terms, if at all. If we were to incur a serious uninsured loss or a loss that significantly exceeded the limits of our insurance policies, it could have a material adverse effect on our business, results of operations, financial condition or prospects.

Any defects in the titles to our mining properties or processing properties could prevent or severely curtail our use of the affected properties.

Our ability to carry out successful mining and exploration activities will depend on a number of factors, of which the most critical are the ability of the Group’s companies to obtain:

- tenure over areas needed for exploration, mining and processing activities without being subject to conditions that are unacceptable to the relevant Group company, including by way of the grant of new tenure and the renewal of existing tenure; and
- all necessary rights and approvals to undertake mining operations thereon under relevant legislation, including the Mining Act and various environmental and native title legislation.

If we are unable to secure appropriate tenure and the necessary rights and approvals, we may be unable to operate our projects or to enforce our rights with respect to our projects and this is likely to have a material adverse effect on our business, results of operations, financial condition and prospects.

We may face competing claims over our properties such as native title, Aboriginal heritage claims and private land owner claims which may require approval to be obtained and compensation to be paid.

If tenement applications overlap with other pre-existing types of land tenure (for example, pastoral leases), the applicant may be required to commence negotiations with the relevant titleholders to gain access to the underlying land and such negotiations may not be successful.

The Native Title Act 1993 (Cth) recognises native title and establishes processes relating to the grant of certain interests in land (including mining tenements). Indigenous Australians have registered native title claims and native title determinations which overlap with mining tenements in which we have an interest. Registered native title claimants may be entitled to participate in the Native Title Act 1993 (Cth) procedures in respect of the grant of any pending tenement applications or any future mining tenements should they be required. This process may cause delays in the grant of the current tenement applications or any future tenements, or tenements may be granted subject to conditions that are unfavourable to us. Additionally, our ability to gain access to those tenements may be adversely affected. All of our existing tenements and tenements for which we have applied (please refer to “Business — Tenements” for more details) are affected by registered or determined native title claims. However, the portion of mining lease M74/244 which we are currently mining is located over areas of freehold title (which we own). Accordingly, Native Title over the area of our current mine (which is over the freehold title owned by us) has been extinguished, and we do not need to negotiate or enter into compensation arrangements with Native Title claimants in respect of the current mining area.

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If we wish to expand our mining operations into parcels of private land owned by third parties, we will need to negotiate with, and enter into, compensation arrangements with the land owners.

In addition, there are several registered Aboriginal heritage sites on the areas of land covered by the following tenements and tenement application in which we have an interest: granted tenements E70/2514, E74/287, E74/295, E74/334, E74/398, E74/415, M74/244 and P74/336; and tenement applications E70/2547, M74/136, M74/165 and M74/184. Further Aboriginal sites may be discovered in areas material to our development and operation. The presence of sites of indigenous heritage significance on tenements in which we have an interest may limit or preclude mining or construction activity within the sphere of influence of those sites, and delays and expenses may be experienced in obtaining clearances and approvals. Failure to resolve issues associated with sites of indigenous heritage significance could result in delays in the development of our projects and could have a material adverse effect on our business, results of operations, financial position and prospects.

We own lithium carbonate production process intellectual property, and if such intellectual property is found to be invalid or infringed, could materially and adversely affect our business and results of operations.

We have filed Australian Provisional Patent Application 2010900057 in relation to the lithium carbonate production process we developed at our Jiangsu Plant and Australian Provisional Patent Application 20100904019 for our further bicarbonate purification step.

We are intending to file the patent applications with the State Intellectual Property Office of the PRC and we are also in the process of registering our trademark of “Galaxy” and our company logo with the Trademark Office of the State Administration for Industry and Commerce of the PRC.

We cannot guarantee that our pending applications will be approved by the applicable government authorities in Australia and the PRC. Moreover, our future patents and trademarks may not be sufficiently broad to protect our proprietary rights or may be challenged by third parties, in particular, our competitors and may be held invalid or unenforceable. A failure to obtain patents or trademark registrations or a successful challenge to our registrations may limit our ability to protect the intellectual property rights that these applications and registrations intended to cover.

In the future, we may need to take legal actions to prevent third parties from infringing upon or misappropriating our intellectual property or from otherwise gaining access to our technology. Protecting and enforcing our intellectual property rights and determining their validity and scope could result in significant litigation costs and require significant time and attention from our technical and management personnel, which could significantly harm our business. In addition, we may not prevail in such proceedings. An adverse outcome of such proceedings may reduce our competitive advantage or otherwise harm our financial condition and our business.

Our future profitability is subject to the validity of this intellectual property and our ability to enforce any breaches of the patent. We are also subject to the risk that, despite having undertaken extensive patent searches, the use of this process infringes on existing patents or intellectual property of third parties.

RISK FACTORS

Each of these risks, if realized, could materially and adversely affect our business, results of operations, financial condition and prospects.

We may be involved in intellectual property disputes in the future, which could divert management’s attention, cause us to incur significant costs and prevent us from selling or using the challenged technology.

Participants in the markets in which we sell our products have experienced certain litigation regarding patent and other intellectual property rights. Numerous patents in these industries are held by others, including our competitors, and there is no assurance third parties will not assert infringement claims against us. Regardless of their merit, responding to such claims can be time consuming, divert management’s attention and resources and may cause us to incur significant expenses. While we believe that our products do not infringe in any material respect upon intellectual property rights of other parties and / or meritorious defense would exist with respect to any assertions to the contrary, we cannot be certain that our products would not be found infringing the intellectual property rights of others. Intellectual property claims against us could invalidate our proprietary rights and force us to do one or more of the following:

- obtain from the third party claiming infringement, a license to sell or use the relevant technology, which may not be available on reasonable terms, or at all;
- stop manufacturing, selling, incorporating or using our products that use the challenged intellectual property;
- pay substantial monetary damages; and
- expend significant resources to redesign the products that use the technology and to develop non-infringing technology.

Any of these actions could result in a substantial reduction in our revenue and could materially and adversely affect our business, results of operations, financial condition and prospects.

During the Relevant Financial Period and up to the Latest Practicable Date, we are not aware of any intellectual property disputes or infringements involving the Group.

Our mining operations have a finite life and eventual closure of these operations will entail costs and risks regarding ongoing monitoring, rehabilitation and compliance with environmental standards.

Our mining operations have a finite life and will require closure when our ore reserves are depleted or it becomes uneconomic to continue to operate the mine. The key tasks for mine closure are (i) long-term management of permanent engineered structures (dam walls, spillways, wetlands, roads, waste dumps) and acid rock drainage; (ii) achievement of environmental closure standards; (iii) orderly retrenchment of employees and contractors; and (iv) relinquishment of the site with associated permanent structures and community development infrastructure and programs to new owners. The successful completion of these tasks is dependent on, among other things, the ability to successfully manage the required site works and implement negotiated agreements with the relevant government, community, employees and contractors. Failure to successfully implement the above could lead to, among other things, increased closure costs, handover delays, ongoing environmental impact or corporate reputation damage which could materially and adversely affect our business, results of operations, financial condition and prospects.

RISK FACTORS

Our ore reserves and mineral resources are estimates based on a number of assumptions, any adverse changes in which could require us to lower our ore reserves and mineral resources.

Our mining operations may yield less lithium under actual production conditions than indicated by the ore reserve and mineral resource figures, which are estimates based on a number of assumptions. Ore reserves and mineral resources are estimates prepared in accordance with the JORC Code and are based on assumptions, knowledge, experience and industry practice in conjunction with information available at the time the estimate is prepared. No assurance can be given that any particular level of recovery of lithium from ore reserves or mineral resources will in fact be realized or that an identified mineral resource will ever qualify as a commercially mineable (or viable) orebody which can be legally and economically exploited. Estimates which were valid when made may change significantly when new information becomes available.

Mineral resource and ore reserve estimates are imprecise and depend to some extent on interpretations, which may ultimately prove to be inaccurate. Should we encounter mineralization different from that predicted by past drilling, sampling and similar examination, mineral resource and / or ore reserve estimates may have to be adjusted downward. This downward adjustment could materially affect our development and mining plans.

The grade of ore ultimately mined may differ from that indicated by drilling results. Short term factors relating to ore reserves, such as the need for orderly development of ore bodies or the processing of new or different grades, may also materially and adversely affect our business and operations results. There can be no assurance that lithium recovery rates in laboratory tests will be duplicated under on-site conditions or in production-scale operations. Material changes in ore reserves resulting from unexpected changes to the lithium price, grades, production costs, stripping ratios and recovery rates may affect their economic viability. Ore reserves are reported as general indicators of mine life and should not be interpreted as assurances of mine life or of the profitability of current or future operations.

The economic viability of ore reserves and mineral resources may also be affected by such factors as permit regulations and requirements, environmental factors, unforeseen technical difficulties, unusual or unexpected geological formations and work interruptions.

If any of the risks materialize, they may have a material and adverse impact on our business, results of operations, financial condition and prospects.

Our ability to obtain lithium mineral resources in the future could be materially and adversely affected by competition from other companies.

Our future business depends on our ability to discover or acquire new ore reserves or mineral resources. We face competition from other mining enterprises, both domestic and foreign, in discovering, acquiring and producing ore reserves or mineral resources. There can be no assurance that we can effectively compete with existing or future competition to acquire new mineral resources, and this could materially and adversely affect our business, results of operations, financial condition and prospects.

Exploration of mineral properties is highly speculative in nature, requires substantial expenditures and is often unsuccessful. Mineral resources may not be extracted at a profit.

Discovery of new mineral resources is crucial to our ability to continue to operate beyond the life of our existing ore reserves. There is no assurance that exploration activities will result in the discovery of valuable

RISK FACTORS

mineral resources or profitable mining operations. If a viable deposit is discovered, it can take several years and substantial expenditures from the initial phases of exploration until production commences, during which time the capital cost and economic feasibility may change. Furthermore, actual results upon production may differ significantly from those anticipated at the time of discovery and mineral resources may not ultimately be extracted at a profit.

In order to maintain spodumene concentrate production beyond the life of the existing ore reserves at the Mt Cattlin Project, further lithium ore reserves must be identified either to extend the life of the Mt Cattlin Project or justify the development of new projects. Our exploration programs may not result in the replacement of such lithium ore reserves or result in new commercial mining operations.

The Company has a portfolio of [10] exploration projects, in addition to its Mt Cattlin Project, covering a range of minerals including, lithium, rare earths, uranium, iron ore, base metals, precious metals, manganese and dolomite. During the Relevant Financial Period, the Company has only been successful in identifying one project out of its portfolio, being the Mt Cattlin Project, with economic potential. Going forward, there is a risk that none of the other [10] projects will be identified as having economic potential.

Each of these risks, should they materialize, could materially and adversely affect our business, results of operations, financial condition and prospects.

Acquisitions of interests in the James Bay Project are subject to certain conditions and there is no guarantee that we will proceed with it as planned or at all.

We have entered into a formal, binding agreement with Lithium One to acquire up to 70% of the James Bay Project. The formal agreement is subject to conditions, which are for the sole benefit of the Company and may be waived by the Company. We expect to acquire the initial interest of 20% (“Initial Interest”) for C\$3 million (approximately HK\$[23.83] million) cash in [March] 2011.

Further, the acquisition of the additional 50% interest (from the Initial Interest) in the James Bay Project is subject to certain conditions including the funding and completion of a definitive feasibility study, and there is no assurance that these conditions can be satisfied within the specified time limit.

After the definitive feasibility study is completed, the parties will enter into a separate joint venture agreement, on the basis of a terms sheet of terms and conditions which is scheduled to the formal agreement. Operations of the James Bay Project will be subject to the terms of the joint venture agreement and the parties will have voting rights in the management committee of the joint venture proportionate to their respective interests. Lithium One’s interests may not be consistent with the Company’s interests, and there is no assurance that the strategic direction of the James Bay Project will be consistent with the Group’s objectives. Any change in the management or strategic direction of the James Bay Project could affect the Group’s business and results of operations. Additionally, if a dispute arises between the Group and Lithium One which is not able to be amicably resolved, the Group may be involved in lengthy proceedings to resolve the dispute, which could materially and adversely affect the Group’s business and results of operations.

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The James Bay Project is located in Canada, and the formal agreement is governed by Canadian laws and regulations. Accordingly, the Group’s business, results of operations, financial position and prospects will be subject to developments in the economic and political environment in Canada and the Canadian legal system.

Please refer to “Business — Summary of joint venture agreements - James Bay Project” for further information.

The James Bay Project is at an early stage and there is no guarantee it will proceed as planned or at all.

The James Bay Project is at an early stage and will be subject to the successful completion of a definitive feasibility study assessing the technical, commercial and economic feasibility of development of a commercial mining operation for lithium bearing spodumene in the area of the relevant tenements and for the processing of lithium carbonate. There can be no assurance that we will proceed with the James Bay Project as planned or if at all.

We may undertake strategic acquisitions or investments, which may prove to be difficult to integrate and manage or may not be successful.

In the future, we may consider making strategic acquisitions or investments as a means of increasing our ore reserves and / or mineral resources, and pursuing our corporate strategy. It is possible that we may not identify suitable acquisition or investment opportunities, or if we do identify suitable opportunities, that we may not complete those transactions on commercially acceptable terms, or at all. The inability to identify suitable acquisition targets or investments or the inability to complete such transactions could materially and adversely affect our competitiveness and growth prospects. In the event we successfully complete an acquisition or investment, we could face difficulties managing the investment or integrating the acquisition with our operations. There can be no assurance that we will be able to achieve the strategic purpose of such an acquisition or investment. These difficulties could disrupt our ongoing business, distract management and employees and increase expenses, each of which could have a material and adverse impact on our business, results of operations, financial condition or prospects.

Our joint venture and strategic alliance arrangements may not be successful.

The Group has a joint venture for the Shoemaker project in Western Australia and a strategic alliance for lithium exploration activities in Mongolia and Kazakhstan, both with General Mining. The joint venture and strategic alliance are not a current focus of the Group.

Joint ventures and strategic alliances necessarily involve special risks. Such risks include the possibility that General Mining may (i) have economic or business interests or goals that are inconsistent with or opposed to those of the Group, (ii) exercise veto rights so as to block actions that we believe to be in our best interests, or (iii) as a result of financial or other difficulties, be unable or unwilling to fulfill their obligations under the joint venture or strategic alliance. In addition, the joint venture or strategic alliance may require capital contributions beyond that expected.

RISKS RELATING TO OPERATING IN THE PRC

Our operations are subject, to a significant extent, to economic, political and legal developments in the PRC.

The Jiangsu Plant will be located in the PRC. Accordingly, the Group’s business, results of operations, financial position and prospects are subject to, to a significant degree, economic, political and legal developments in the PRC. The economy of the PRC has shifted gradually from a planned economy to a socialist market-oriented economy. We believe that we have benefited from the economic reforms implemented by the PRC Government and the economic policies and measures. We plan to operate in the Zhangjiagang Free Trade Zone in the Jiangsu International Chemical Industrial Park, alongside many international chemical companies. However, there may be changes in PRC government regulations with respect to restrictions on production, price controls, export controls, income taxes, expropriation of property, environmental legislation or plant safety.

RISK FACTORS

Our business, results of operations, financial position and prospects could also be materially and adversely affected by: (i) changes in the rate or method of taxation; (ii) imposition of additional restrictions on currency conversion and remittances abroad; (iii) reduction in tariff or quota protection and other import restrictions; (iv) changes in the usage and costs of PRC-controlled transportation services; (v) PRC policies affecting the lithium industry; or (vi) industrial disruptions.

There are uncertainties regarding the interpretation and enforcement of PRC laws and regulations.

The PRC legal system is based on a statutory law system. Unlike the common law system, prior legal decisions and judgments are relevant for guidance only but do not have precedent effect. Since 1979, the PRC Government has been developing a commercial law system, and progress has been made in promulgating laws and regulations relating to economic affairs and matters such as corporate organization and governance, foreign investment, commerce, taxation and trade. However, these regulations are relatively new and the availability of public cases as well as the judicial interpretation of them are limited in number; moreover, as prior court decisions are not binding, both the implementation and interpretation of these laws, regulations and legal requirements are uncertain in many areas. Accordingly, there is a risk that some of our existing and future contractual rights may not be fully enforceable under the PRC legal system.

We are exposed to the risk of changes in PRC’s foreign exchange regulations.

We will receive a majority of our operating revenues in RMB and US\$. A portion of these revenues will be converted into other currencies to meet foreign currency obligations (such as head office charges, debt servicing and equipment purchases). Foreign exchange transactions under our capital account, including principal payments in respect of foreign currency-denominated obligations and payments of dividends and interest, continue to be subject to significant foreign exchange controls and require the approval of the SAFE. These limitations could materially and adversely affect our ability to obtain foreign exchange through debt or equity financing, or to obtain foreign exchange for capital expenditures.

Since 1994, the conversion of RMB into foreign currencies, including A\$ and US\$, has been based on rates set by the PBOC, which are set daily based on the previous day’s PRC interbank foreign exchange market rate and current exchange rates on the world financial markets. Since 1994, the official exchange rate for the conversion of RMB to US\$ has generally been stable. In 2005, the PRC revalued the exchange rate of the RMB to the US\$ and abolished the RMB to US\$ peg applied in the past. There can be no assurance that in the future, the PRC will not revalue the RMB or permit its substantial appreciation. Any appreciation of the RMB could materially and adversely affect our business and operations results, through higher foreign currency denominated operating costs and lower financial returns in A\$ terms.

We are currently able to repatriate all RMB funds and make payments of dividends and distributions of profits from RMB funds, although such repatriations and payments are subject to a mixture of controls and regulations. While the PRC Government is generally relaxing restrictions on foreign trade and investment, there is no certainty that future RMB can be repatriated or distributed. Any significant restrictions on our ability to repatriate or distribute RMB funds could materially and adversely affect our business, results of operations, financial condition and prospects.

RISK FACTORS

The outbreak, or threatened outbreak, of any severe communicable disease in the PRC, could materially and adversely affect our business and operations results.

The outbreak, or threatened outbreak, of any severe communicable disease (such as severe acute respiratory syndrome, avian influenza or H1N1, commonly known as swine influenza) in the PRC, could materially and adversely affect the overall business sentiments and environment in the PRC, particularly if such outbreak is inadequately controlled. This in turn could materially and adversely affect domestic consumption, labor supply and, possibly, the overall GDP growth of the PRC. As the Group’s revenue is currently derived from its PRC operations, any labor shortages on contraction or slowdown in the growth of domestic consumption in the PRC could materially and adversely affect our business and operations results. In addition, if any of our employees are affected by any severe communicable disease, this could adversely affect or disrupt the production at the Jiangsu Plant and require closing of facilities to prevent the spread of the disease. The spread of any severe communicable disease in the PRC may also affect the operations of our customers and suppliers.

Our subsidiary in the PRC is subject to restrictions on dividend payments, on making other payments to us or any other affiliated company, and on borrowing or allocating tax losses among our subsidiaries.

Current PRC regulations permit our subsidiary in the PRC, GLJL, to pay dividends only out of its accumulated profits, if any, determined in accordance with PRC accounting standards and regulations. In addition, GLJL is required to set aside at least 10% of its respective accumulated profits each year, if any, to fund its statutory common reserves until such reserves have reached at least 50% of its registered capital. As at the Latest Practicable Date, the common reserves of GLJL had not reached this threshold and, accordingly, GLJL is required to continue funding such reserves with accumulated net profits. The statutory common reserves are not distributable as cash dividends except in the event of liquidation. These restrictions may affect our ability to pay dividends or make other payments.

PRC regulations relating to employee stock options granted by overseas-listed companies may increase our administrative burden, restrict our overseas and cross-border investment activity or otherwise adversely affect the implementation of our acquisition strategy. If our PRC employees who are granted or exercise stock options, fail to make any required registrations or filings under such regulations, we may become subject to liability under PRC laws.

On March 28, 2007, SAFE promulgated the Application Procedure of Foreign Exchange Administration for Domestic Individuals Participating in Employee Stock Holding Plan or Stock Option Plan of Overseas-Listed Company, or the Stock Option Rule. Under the Stock Option Rule, PRC residents who are granted stock options by an overseas publicly-listed company are required, through a PRC agent or PRC subsidiary of such overseas publicly-listed company, to register with SAFE and complete certain other procedures. We and our PRC employees who have been granted stock options are subject to the Stock Option Rule. We and our PRC employees will apply for registration with SAFE. If we or our optionees in the PRC fail to comply with the Stock Option Rule or are unable to successfully register the stock options, we or our optionees in the PRC may be subject to fines and legal sanctions. We may also be subject to more stringent review and approval processes with respect to our foreign exchange activities.

RISK FACTORS

RISKS RELATING TO STATEMENTS IN THIS DOCUMENT

Certain facts and statistics included in this document are from third parties and should not be unduly relied upon.

Certain facts and statistics cited in this document are based on various official government and non-official publications, including the Roskill and Frost & Sullivan reports and the public filings of other companies listed on various stock exchanges around the world. We believe that these are appropriate sources for such facts and statistics and have no reason to believe that such information is false or misleading or that any fact has been omitted that would render such information false or misleading. However, we cannot guarantee the quality or reliability of such facts and statistics. While reasonable care has been exercised in the reproduction of such information, it has not been independently verified by us and may be inconsistent, inaccurate, incomplete or out of date. Also, the lithium industry is a young market and data on the industry is not readily available and there are only a relatively small number of reliable sources of such data. Whilst we have endeavored to include current data on the industry where available, the data included in this document may not be as current as possible. None of our Company, and their respective directors makes any representation as to the accuracy or completeness of such facts and statistics. Such facts and statistics may not be consistent with other information compiled elsewhere and accordingly, such facts and statistics should not be unduly relied upon.

FORWARD-LOOKING STATEMENTS

This document contains forward-looking statements that state the Company’s beliefs, expectations, intentions or predications for the future. The forward-looking statements reflect the current view of the Board with respect to future events and are, by their nature, subject to risks, uncertainties and assumptions, including the risk factors as disclosed in this document.

In some cases, words such as “believe”, “will”, “may”, “should”, “expect”, “intend”, “anticipate”, “estimate”, “project”, “plan”, “potential” and similar expressions are used to identify forward-looking statements. The Board can give no assurances that those expectations and intentions will prove to have been correct, and you are cautioned not to place undue reliance on such statements. All forward-looking events or circumstances contained in this document might not occur in the manner the Board expects. Accordingly, you should not place undue reliance on such forward-looking statements. All forward-looking statements contained in this document are qualified by reference to these cautionary statements.

DIRECTORS AND PARTIES

DIRECTORS AND OFFICERS

Name	Residential Address	Nationality
<i>Executive Directors</i>		
Ignatius (Iggy) Kim Seng TAN (Managing Director)	241B Salvado Road, Floreat Western Australia Australia 6014	Australian
Anthony Peter TSE	5A Block 28, Greenwood Terrace, Sui Wo Road Sha Tin, New Territories Hong Kong	British
Charles Bernard Francis WHITFIELD	House 46, Strawberry Hill 8 Plunketts Road The Peak Hong Kong	British
<i>Non-executive Directors</i>		
Craig Leslie READHEAD (Chairman)	3 Rosser Street, Cottesloe Western Australia Australia 6011	Australian
Yuewen ZHENG	G7, Fu Cheng Villas No 89 Bei Si, Huan Dong Road Chaoyang District Beijing 100101 PRC	Chinese
Xiaojian REN	2902, Yuan Lan Shan Zhuang Yuan Hou Sha Yu, Shun Yi District Beijing 101318 PRC	Chinese
Robert (Bob) James WANLESS . . .	Location 646, Hopetoun Road, Ravensthorpe Western Australia Australia 6346	Australian
Shaoqing WU	Room 502 of Building 10 Rich Neighbourhood Jingang Town Zhangjiagang City PRC	Chinese

DIRECTORS AND PARTIES

Name	Residential Address	Nationality
<i>Independent Non-executive Directors</i>		
Ivo John POLOVINEO	1 Oxford Close Belrose New South Wales Australia 2085	Australian
Kai Cheong KWAN	18A, Block 2 Canvendish Heights 33 Perkins Road Jardines Lookout Hong Kong	Australian
David Michael SPRATT	9 Tribute Street West Shelley, West Australia Australia 6148	Australian

DIRECTORS AND PARTIES

PARTIES

Auditors	KPMG 235 St Georges Terrace Perth Western Australia 6000 Australia
Joint Reporting Accountants	KPMG 8/F Prince’s Building 10 Chater Rd Central Hong Kong KPMG 235 St Georges Terrace Perth Western Australia 6000 Australia
Legal advisors to the Company	<i>as to Hong Kong law and United States law</i> Dorsey & Whitney Suite 3008, One Pacific Place 88 Queensway Hong Kong <i>as to Australian law</i> Mallesons Stephen Jaques Level 10, Central Park 152 St. Georges Terrace Perth Western Australia 6000 Australia <i>as to PRC law</i> Zhong Lun Law Firm 36-37/F, SK Tower 6A Jianguomenwai Avenue, Beijing 100022 PRC
Independent technical expert	Snowden Mining Industry Consultants Pty Ltd 87 Colin Street West Perth Western Australia 6005 Australia
Property valuer	American Appraisal China Ltd 1506 Dah Sing Financial Centre 108 Gloucester Road Wanchai Hong Kong

CORPORATE INFORMATION

Registered Office	<i>Australia:</i> Galaxy Resources Ltd Level 2, 16 Ord Street West Perth Western Australia 6005 Australia <i>Hong Kong:</i> Suite 901, Hong Kong Club Building 3A Chater Road Central Hong Kong
Principal place of business and headquarters	Galaxy Resources Ltd Level 2, 16 Ord Street West Perth Western Australia 6005 Australia
Website	www.galaxyresources.com.au
Company secretary	<i>Australia:</i> Andrew Leslie MELONCELLI <i>Hong Kong:</i> Ella Wai Yee WONG
Authorized Representatives	Anthony Peter TSE Charles Bernard Francis WHITFIELD
Audit Committee	Ivo John POLOVINEO (Chairman) Craig Leslie READHEAD David Michael SPRATT Yuewen ZHENG Kai Cheong KWAN
Remuneration and Nomination Committee	Craig Leslie READHEAD (Chairman) Ivo John POLOVINEO David Michael SPRATT Yuewen ZHENG Kai Cheong KWAN
Risk Management Committee	Yuewen ZHENG (Chairman) Ivo John POLOVINEO Craig Leslie READHEAD David Michael SPRATT Kai Cheong KWAN

CORPORATE INFORMATION

Principal bankers	<i>Australia</i>
	HSBC Bank Australia Ltd 190 St George’s Terrace Perth Western Australia 6000 Australia
	<i>Hong Kong</i>
	The Hongkong and Shanghai Banking Corporation Ltd 1/F, Tower 2, HSBC Centre 1 Sham Mong Road Kowloon Hong Kong

INDUSTRY OVERVIEW

Certain information and statistics contained in this section are related to the lithium industry that we operate in. Unless otherwise specified, all of the information presented in this section under the heading “Lithium Industry Overview” has been provided by Roskill and all of the information presented under the heading “Lithium-Ion Battery Industry Overview” has been provided by both Roskill and Frost & Sullivan. We have taken reasonable care in the extraction, compilation and reproduction of information and data presented in this section and elsewhere in this document. We do not have independently verified the information presented in this section from their sources. Such information may not be consistent with other information from other sources and no representation is given as to its accuracy. In addition, we cannot ensure that more updated information or statistics have not been prepared or released by the relevant organizations or companies. You should not place undue reliance on any of such information and statistics contained in this section.

SOURCE OF INFORMATION

We have obtained industry reports from Roskill named “The Economics of Lithium” and “The Lithium Market: 2009 Review and Outlook” and from Frost & Sullivan named “World Hybrid Electric and Electric Vehicle Lithium-ion Battery Market” for use throughout this document. Roskill is a leading, independent researcher of international metals and minerals and provides a range of comprehensive industry reports. Frost & Sullivan is a business research and consulting firm, offering market analysis, market research and reports. We paid Roskill a total of US\$4,320 for its reports and paid Frost & Sullivan a total of US\$18,500 for its report and the rights to disclose the reports’ information.

About Roskill

Roskill is one of the world’s leading providers of information on international metals and minerals markets. Roskill has engaged in the business of international metals and minerals research since 1930. Roskill is an independent, privately-owned company. Roskill’s international reports give a comprehensive analysis of an individual metal or mineral market. They cover world production and consumption, the operations of the major producers, end-use market applications, price trends, international trade patterns and forecasts for supply and demand. Roskill also publishes newsletters for the mining community. Roskill’s consultancy division offers a wide range of consulting services to the metals and minerals business, including market assessments, feasibility studies, acquisition studies, company and product profiles, and industry analysis.

Roskill provided an assessment of the lithium market. However, market prices and competitive conditions depend on a number of factors of an inherently unpredictable nature, including, but are not limited to, macroeconomic conditions affecting lithium demand, substitution of alternative materials for lithium in certain end-uses, the climatic conditions affecting brine evaporation, price of ores and other raw materials, changes in lithium production technology, speculative and financial conditions affecting the price of lithium. Additionally, other actions, including environmental legislation and government regulation may also affect the production, trade, consumption and prices of lithium. Therefore the accuracy of any forecasts or other forward-looking statements contained in this market report cannot be guaranteed.

INDUSTRY OVERVIEW

About Frost & Sullivan

Frost & Sullivan is a global consulting firm which was founded in 1961 to engage in publication of market consulting information and intelligence on emerging high-technology and industrial markets. It has over 1,700 consultants and industry analysts across 32 global locations offering industry research and market strategies and provides growth consulting and corporate training.

Frost & Sullivan adopts a “T.E.A.M.” methodology in their research that comprises Technical, Econometric, Application, and Market information to provide a comprehensive view of industries, markets and technology including:

- (1) Technical real-time intelligence on technology, including emerging technologies, new research and development breakthroughs, technology forecasting, impact analysis, groundbreaking research, and licensing opportunities.
- (2) Econometric in-depth qualitative and quantitative research focused on timely and critical global, regional, and country specific trends, including the political, demographic, and socioeconomic landscapes.
- (3) Application insightful strategies, networking opportunities, and best practices that can be applied for enhanced market growth; interactions between the Company, peers, and Frost & Sullivan representatives that result in added value and effectiveness.
- (4) Market global and regional market analysis, including drivers and restraints, market trends, regulatory changes, competitive insights, growth forecasts, industry challenges, strategic recommendations, and end-user perspectives.

Frost & Sullivan employs a rigorous and comprehensive methodology in conducting its market research. The process involves desk research including secondary data, company annual reports as well as Frost & Sullivan’s own in-house data; which is then followed by detailed primary research with the key industry participants and other stakeholders. Using the Expert Opinion Consensus methodology, the market size is estimated based on a bottom-up methodology. Subsequently using the industry drivers and restraints as well as Frost & Sullivan’s proprietary forecasting model, the forecasts are estimated. These market size as well as forecasts are then cross-verified with the industry participants for reasonableness and accuracy.

The reliability of Frost & Sullivan’s research is based on their use of the bottom up approach, expert opinion methodology and the entire cross verification process with the industry participants and other stakeholders like industry experts and associations. As most of the data is generated through primary research, the use of the above triangulation approach provides a reasonable view of the industry and trends therein.

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LITHIUM INDUSTRY OVERVIEW

Introduction to the lithium industry

Lithium (chemical symbol Li) is the third element in the periodic table and is the lightest of the alkali metals. It is a soft silver-grey metal, yet when combined with metals such as magnesium, it forms a very strong alloy. Due to its high reactivity, lithium never occurs as a pure element but rather in the form of stable minerals or salts.



Lithium production is predominantly derived from two primary sources: (1) lithium-bearing minerals, which are mainly extracted at hard rock mines in Australia, Canada, the PRC, Portugal, Spain and Zimbabwe; and (2) lithium-bearing salt lakes in South America, the PRC and North America. The map below shows the location of the major sources of lithium production globally.

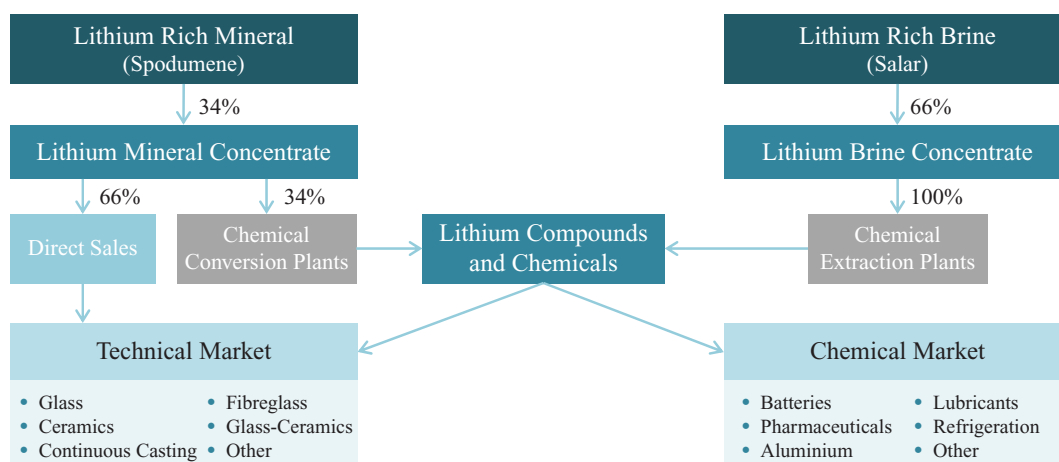
Lithium-bearing minerals, which occur mainly in coarse-grained granitic rocks called pegmatites, include spodumene, petalite and lepidolite. Spodumene, which has the chemical formula $\text{Li}_2\text{O} \cdot \text{Al}_2\text{O}_3 \cdot 4\text{SiO}_2$, is the most important of these minerals in terms of production because spodumene deposits are often large, the lithium content is relatively high and spodumene-bearing ores are comparatively easy to process. However, petalite and lepidolite are also recovered in economic quantities at smaller mines.

Once extracted, the lithium ore is concentrated through a combination of physical separation processes into lithium mineral concentrate. This concentrate is either consumed directly in end-uses such as the manufacture of glass, ceramic or continuous casting, or converted into various lithium compounds and chemicals for input into other end-uses. Roskill estimates that in 2008, approximately 34% of total global lithium production came from hard rock lithium minerals. Of this, approximately 66% was sold directly to end-users in the form of lithium mineral concentrates. Roskill estimates that the remaining 34% was converted into lithium compounds and chemicals, over 90% of which occurred at plants located in the PRC.

High concentrations of lithium are also found in numerous dry playa lakes, or scalars, in South America, the PRC and North America, where mineral-rich brines are located just under a layer of crusted salt deposits. Most deposits are located at high altitudes in major mountain chains. The process of extracting lithium from brines typically involves pumping the brines into a series of evaporation ponds to crystallize other salts, leaving a lithium-rich liquor. This liquor is further processed to remove impurities before it is used to produce various lithium compounds and chemicals. Roskill estimates that in 2008, approximately 66% of total global lithium production came from brines, of which 94% was from the top three producers and 89% was produced in South America. Unlike hard rock lithium production, all lithium production from brines is converted into lithium compounds and chemicals before sale.

INDUSTRY OVERVIEW

Sources and end-uses of lithium



Note: Percentages show Roskill's estimates of total lithium supply in 2008

Source: Roskill

According to Roskill, of the various lithium compounds and chemicals that are produced from the two sources described above, lithium carbonate is the most common, accounting for approximately 40% of total lithium consumption in 2008. Lithium carbonate is a fine white powder, which is generally stable when exposed to the atmosphere, more soluble in cold than hot water and contains approximately 19% (by weight) lithium. Lithium carbonate can be produced directly from both lithium mineral concentrates and lithium brines by processes employing soda ash, and it is also frequently used as intermediate product in the manufacture of other more complex lithium compounds and chemicals. Other common lithium compounds include lithium hydroxide (which may be recovered from lithium mineral concentrates or lithium carbonate by processes employing lime), lithium chloride and lithium bromide.

Overview of lithium demand

Lithium and the various lithium compounds and chemicals produced from the two sources described above exhibit a broad range of beneficial properties, including:

- the highest electrochemical potential of all metals;
- a low co-efficient of thermal expansion;
- fluxing and catalytic characteristics; and
- acting as a viscosity modifier in melts.

As a result, lithium has a wide variety of end-use applications, including the manufacture of lithium-ion batteries, ceramics and glass, continuous casting, greases, rubbers, thermoplastics, pharmaceuticals, as well as in air conditioning, air treatment and aluminum smelting.

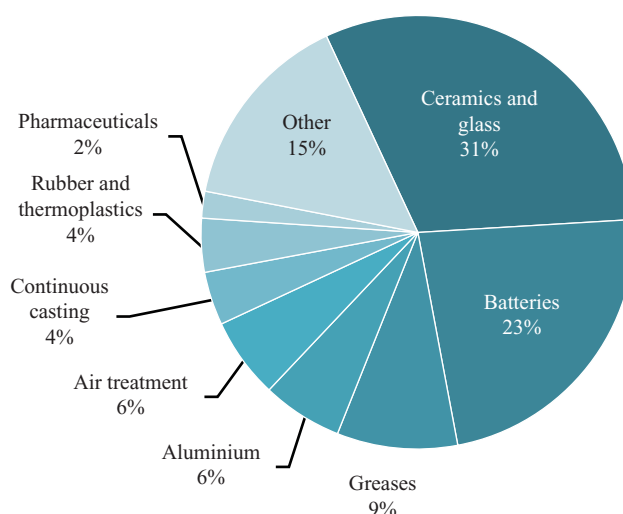
Roskill estimates that total demand of lithium in 2008 was approximately 21,280 tonnes of lithium (or 113,200 tonnes LCE), representing growth in demand of approximately 6.0% p.a. since 2000. According to

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Roskill, in 2009 demand for lithium fell by 9.5% to approximately 19,300 tonnes of lithium (or 102,500 tonnes LCE) due to the effects of the global financial crisis.

Roskill estimates that the largest uses of lithium are in the manufacture of ceramics and glass, which accounted for 31% of total demand in 2009, and the manufacture of lithium-ion batteries, which accounted for 23%. Other significant end-uses include the manufacture of greases, and in aluminum smelting, air treatment and continuous casting.

Estimated consumption of lithium by end-use, 2009



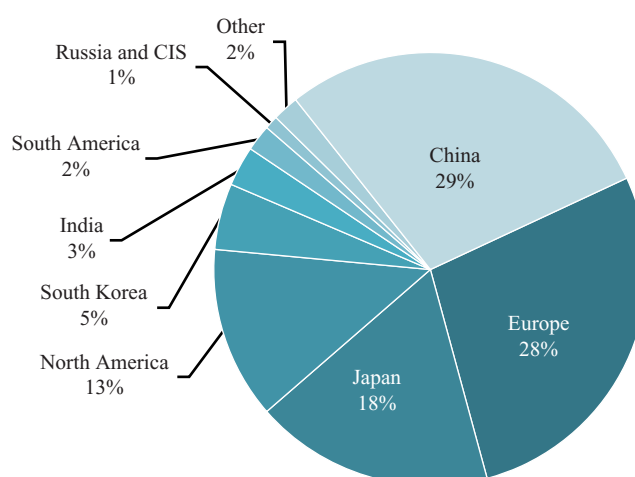
Source: Roskill

According to Roskill, between 2000 and 2008, demand for lithium in the manufacture of lithium-ion batteries experienced the highest rate of growth of all end uses at approximately 22.1% p.a., and it was the only sector where consumption of lithium grew in 2009. Nearly all cellular phones and laptop computers now incorporate rechargeable lithium-ion batteries because of their lack of memory effect, higher energy density and lighter weight than commonly-used alternatives such as nickel-cadmium or nickel-metal hydride batteries. Rechargeable lithium-ion batteries have also been gaining market share in recent years in other markets including power tools and Electric Powered Vehicles as new battery chemistries allow these batteries to be used in higher power, higher drain applications.

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According to Roskill, global demand for lithium is relatively fragmented geographically with the PRC (29%), Europe (28%), Japan (18%), North America (13%) and South Korea (5%) being the major markets in 2008.

Estimated consumption of lithium by country / region, 2008



Source: Roskill

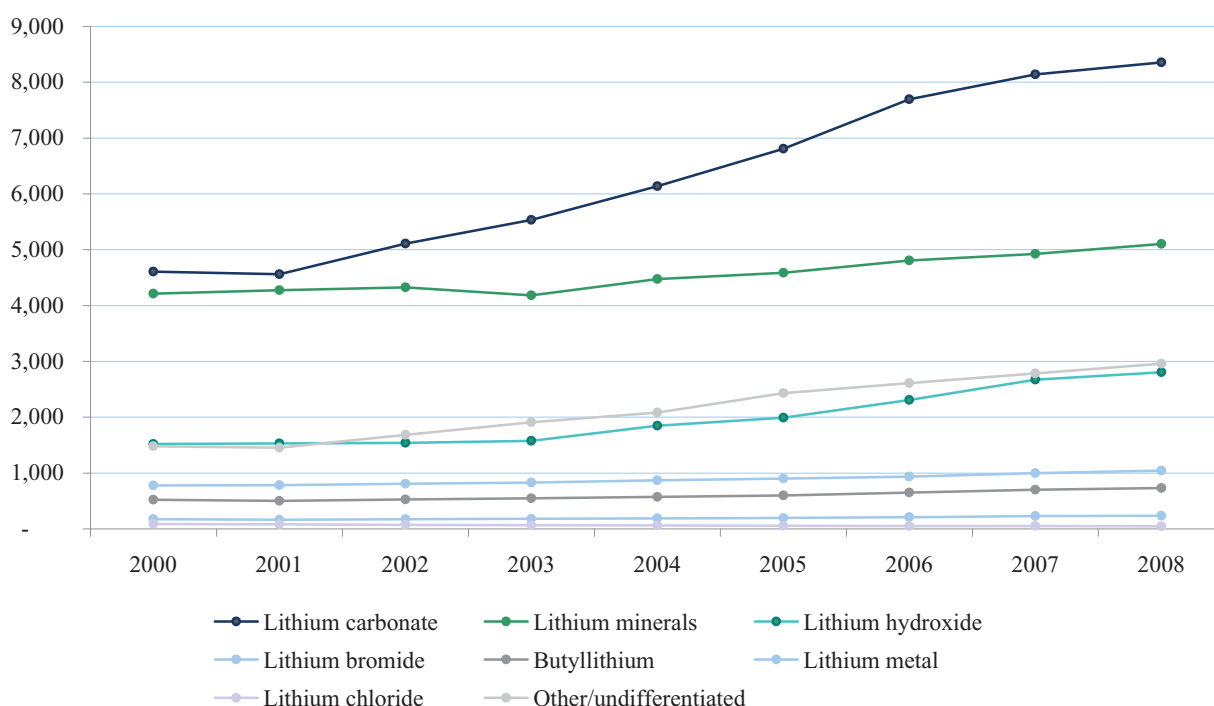
Demand by form of lithium

Roskill estimates that the most common lithium compound or chemical is lithium carbonate, which accounted for 40% of total lithium demand in 2008 (equating to approximately 45,000 tonnes of lithium carbonate). The compound annual growth rate of demand for lithium carbonate was 7.7% p.a. between 2000 and 2008, which is higher than all other forms of lithium except lithium hydroxide.

Of the other forms of lithium, demand for lithium mineral concentrates comprised 24% of total demand, lithium hydroxide 13% and lithium bromide 5%, with the remaining 18% comprising of butyllithium, lithium metal, lithium chloride and specialty lithium chemicals.

INDUSTRY OVERVIEW

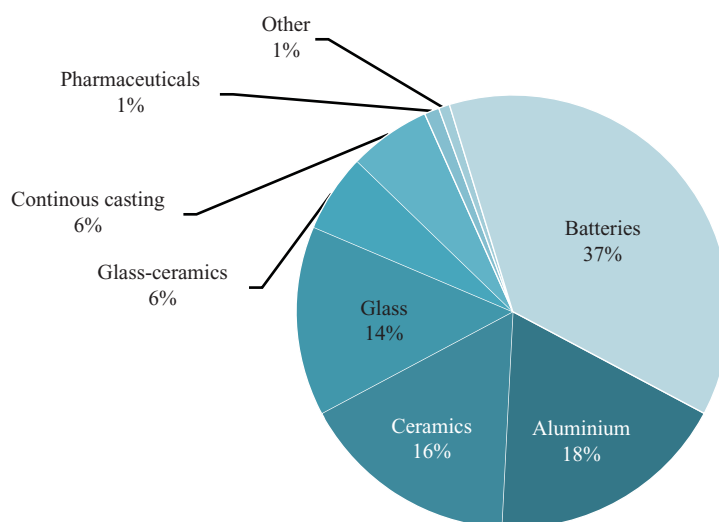
Estimated consumption of lithium by form, 2000 – 2008 (t Li)



Source: Roskill

According to Roskill, in 2008 the largest source of demand for lithium carbonate was from the production of lithium-ion batteries at 37%. Production of ceramics and glass and aluminum smelting were also important end-uses of lithium carbonate. In addition, lithium carbonate is also a key intermediate product for the production of other lithium compounds and chemicals.

Estimated consumption of lithium carbonate by end-use, 2008



Source: Roskill

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Lithium carbonate is produced at different levels of purity. Lithium carbonate that has a purity level of 99.0% or less is often described as “industrial grade” or “technical grade” and is used in lower value end-uses, including ceramics and glass. Producers who sell lithium carbonate for the manufacture of lithium-ion batteries often specify purity levels greater than 99.0% for that purpose, with higher levels of purity preferred. According to Roskill, lithium carbonate used in the manufacture of lithium-ion batteries attracts a premium of at least US\$500 to US\$1,000 / tonne over “technical grade” material.

Demand outlook

As at 2008, Roskill estimates that demand for lithium would increase by a compound annual growth rate of 5.8% per annum to 28,240 tonnes (150,200 tonnes LCE) by 2013. Roskill also presents a high case estimate of compound annual growth in lithium demand over the same period of 8.6% p.a. (to 24,745 tonnes of lithium, or 131,700 tonnes LCE), and a low case of 3.0% p.a. (to 32,210 tonnes of lithium, or 171,500 tonnes LCE).

Despite the global economic slowdown experienced in 2009, Roskill’s view is that the medium-term outlook for lithium demand remains optimistic and its most recent demand forecast for 2013 (made in late 2009) was approximately 147,000 tonnes LCE, representing a compound annual growth rate of 9.5% from estimated 2009 consumption levels.

According to Roskill, growth in demand for lithium will be driven by the lithium-ion battery sector, with demand for lithium in lithium-ion batteries forecast to increase in the base case from approximately 21,000 tonnes LCE in 2008 to approximately 41,100 tonnes LCE by 2013, representing a compound annual growth rate of 14.4%. Roskill expects this growth to be split between:

- demand for lithium in for rechargeable batteries for portable and stationary applications (e.g. laptops and mobile phones), which is expected to increase by a compound annual growth rate of 6.9% between 2008 and 2013 to approximately 27,200 tonnes LCE; and
- demand for lithium in rechargeable batteries for transport applications such as Electric Powered Vehicles, which is expected to increase by a compound annual growth rate of 55.7% between 2008 and 2013 to 13,900 tonnes LCE.

The latter forecast is motivated by the recent commencement by major automotive manufacturers of the mass production of EVs, HEVs and PHEVs using lithium-ion batteries, and assumes the production of over 600,000 such vehicles globally per annum by 2013. This compares with production of approximately 350,000 of these vehicles in 2007, the majority of which have historically been fitted with nickel-metal hydride batteries. Roskill also notes that other transport markets for rechargeable lithium-ion batteries, including E-bikes, are showing strong growth in demand due to the replacement of nickel-metal hydride and nickel-cadmium batteries in these applications, especially in the PRC.

Roskill also presents high and low case estimates of compound annual growth in demand for lithium in lithium-ion batteries between 2008 and 2013 of 20.0% p.a. and 9.5% p.a. respectively. In the high case, a swift economic recovery from 2009 onwards is assumed, as well as 50% higher growth in demand for lithium-ion batteries in Electric Powered Vehicles than the base case (i.e. approximately 1.0 million vehicles globally per annum by 2013). In the high case, demand for lithium in lithium-ion batteries would be approximately 52,100 tonnes LCE.

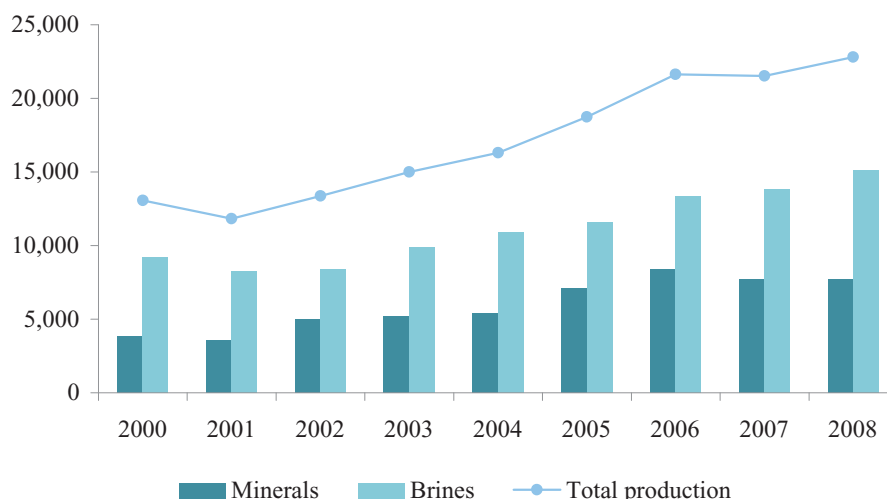
The low case assumes a prolonged economic downturn post 2009 and delays in the introduction of mass-produced, lithium-ion battery powered Electric Powered Vehicles (i.e. less than 400,000 vehicles globally per annum by 2013), resulting in 50% lower growth in this sector than forecast in the base case. In the low case, demand for lithium in lithium-ion batteries would be approximately 32,900 tonnes LCE.

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Overview of lithium supply

Roskill estimates that total world production of lithium was approximately 22,800 tonnes (or 121,300 tonnes LCE) in 2008, having grown at approximately 7.0% p.a. between 2000 and 2008. Of this production, 34% (or 7,700 tonnes of lithium) is estimated to have come from lithium minerals mined from hard rock sources, whilst 66% (or 15,100 tonnes of lithium) came from brine production.

Estimated production of lithium contained in minerals and brines, 2000 – 2008 (t Li)



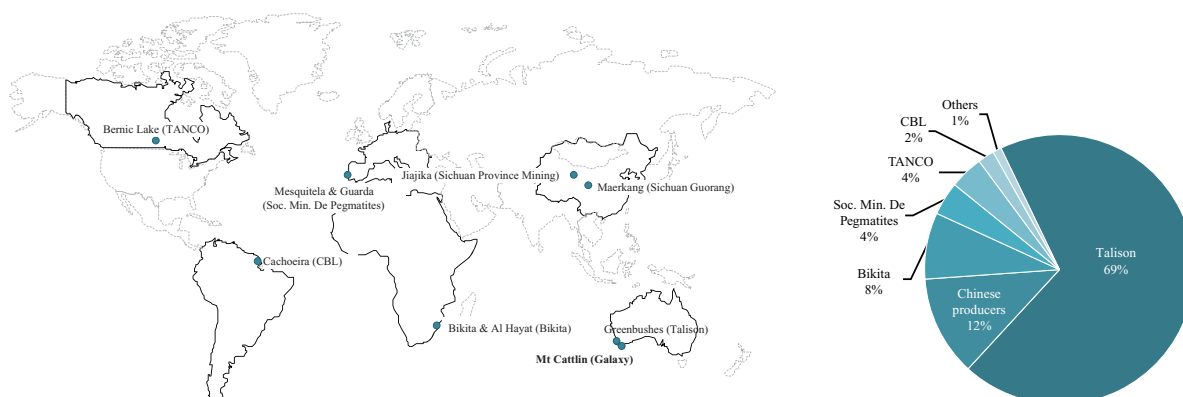
Source: Roskill

Roskill estimates that lithium production fell to approximately 18,900 tonnes of lithium (100,300 tonnes LCE) in 2009 due to the effects of the global financial crisis.

Lithium mineral concentrate production

Of the supply of lithium from hard rock lithium minerals in 2008, 69% was in the form of spodumene concentrate produced at one mine, Greenbushes in Western Australia which is owned by Talison Minerals. Greenbushes has an ore reserve of 9.6 million tonnes at 3.9% lithium oxide, making it the largest hard rock lithium ore reserve globally, based on contained lithium oxide material. Mines in the PRC accounted for a further 12% of production, with small amounts also produced at mines in Portugal, Canada and Zimbabwe.

Location and estimated production of lithium minerals from hard rock sources by company, 2008



Source: Roskill

INDUSTRY OVERVIEW

Conversion of lithium minerals to lithium compounds

Roskill estimates that in 2008, approximately 34% of the global production of lithium from hard rock lithium minerals was converted into lithium compounds and chemicals, with the remaining 66% sold directly to end users in the glass and ceramics market as lithium mineral concentrate. According to Roskill, more than 90% of the lithium compounds and chemicals converted from hard rock lithium minerals occurred at seven producers variously located in Xinjiang, Sichuan, Jiangxi and Jiangsu provinces in the PRC. The figure below shows the location of these producers.

Location of producers of lithium compounds and chemicals from hard rock lithium minerals in the PRC



Source: Roskill

Total production from these seven producers was estimated by Roskill to be 12,800 tonnes LCE in 2008 increasing to 21,500 tonnes LCE in 2010.

<u>Company</u>	<u>Estimated 2008 Production (t LCE)</u>	<u>Estimated 2010 Production (t LCE)</u>
Sichuan Tianqi	5,000	9,000
Sichuan Ni&Co Guorun	3,500	2,000
Xinjiang Non-ferrous (Xinjiang Haoxing)	1,000	4,000
Pan Asia (Nantong) (General Lithium)	1,000	2,000
Jiangxi Ningdu Taiyu (Jiangxi Western)	1,000	500
Aba Guangsheng (Sichuan Aba)	800	3,000
Jixiang Lithium	500	—
Minfeng Lithium	—	1,000
Total	12,800	21,500

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Brine production

Production of lithium from brines was estimated by Roskill at 15,100 tonnes lithium (or 80,300 tonnes LCE) in 2008. According to Roskill, the brine industry is highly concentrated, with the top three producers accounting for approximately 94% of total brine-based lithium supply in 2008. These producers are:

- Sociedad Química y Minera de Chile S.A., based at the Salar de Atacama in Chile, who is estimated by Roskill to have produced approximately 32,600 tonnes of lithium compounds in 2008. According to Roskill, as at 2008, Sociedad Química y Minera de Chile S.A. produced three “technical grade” lithium carbonate products and a “battery grade” lithium carbonate product, with its biggest export customers being Japan, the United States and Europe;
- Chemetall GmbH, through its subsidiaries Sociedad Chilena de Litio Ltda., based at the Salar de Atacama in Chile, and Chemetall Foote Corp., based at Silver Peake in the United States. Chemetall GmbH’s production of lithium compounds from these operations is estimated by Roskill to have been approximately 26,200 tonnes LCE in 2008. According to Roskill, it is the largest fully integrated producer of lithium derivatives globally and in addition to its brine-based lithium compound production capacity, owns a number of downstream processing plants around the globe that produce butyllithium, lithium bromide and lithium metal; and
- FMC Corporation, through its subsidiary Minera del Altiplano S.A., based at the Salar de Hombre Muerto in Argentina. FMC Corporation’s production of lithium compounds in 2008 is estimated by Roskill to have been approximately 16,500 tonnes LCE. According to Roskill, in 2008, FMC Corporation’s production of lithium compounds is mostly exported to its own downstream lithium processing plants in the United States, UK, Taiwan and the PRC.

The remaining brine-based lithium supply was from three producers located at salt lakes in remote parts of the Tibet and Qinghai provinces in the PRC. Lithium compound production from brines is relatively new in the PRC. According to Roskill, production from these producers was estimated at 5,000 tonnes LCE in 2008 and 4,500 tonnes LCE in 2009, which is significantly lower than their estimated capacity of 13,000 tpa LCE. Roskill notes that the production of lithium from brines in the PRC faces challenges, due to:

- the high altitude of the Tibet plateau which limits production during cold periods;
- the long distances between these deposits in the west of the PRC and their customers, who are predominantly located in the east of the PRC;
- the high chlorine content of brines in Qinghai, which makes them unsuitable for production of lithium compounds and chemicals for use in battery production; and
- specific issues faced by individual producers, resulting in product quality issues and higher costs.

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Location and estimated production of lithium chemicals and compounds from brine sources by company, 2008



Source: Roskill

Supply outlook

According to Roskill, increasing demand for lithium chemicals and compounds is expected to be met by a combination of existing capacity at hard rock lithium mineral converters in the PRC, new hard rock lithium mineral conversion projects in Australia, Canada and Europe, expansion projects at existing brine producers and new brine projects in the PRC and South America.

Existing mineral converters in the PRC

According to Roskill, as at 2008, existing producers of lithium compounds from lithium mineral concentrate in the PRC are estimated to have an annual capacity of approximately 40,250 tonnes LCE. More recent estimates provided by Roskill indicates that capacity has fallen to 37,500 tonnes LCE.

Company	Estimated 2008 Capacity (t LCE)	Estimated 2010 Capacity (t LCE)
Sichuan Tianqi	10,000	9,500
Sichuan Ni&Co Guorun	9,000	7,000
Xinjiang Non-ferrous (Xinjiang Haoxing)	8,000	6,000
Pan-Asia (Nantong) (General Lithium)	1,750	5,000
Jiangxi Ningdu Taiyu (Jiangxi Western)	2,500	2,000
Aba Guangsheng (Sichuan Aba)	8,000	5,000
Jixiang Lithium	1,000	—
Minfeng Lithium	—	3,000
Total	40,250	37,500

According to its prospectus for listing on the Shenzhen Stock Exchange dated August 18, 2010, the largest producer Sichuan Tianqi Lithium Industries, Inc., which is located in Sichuan Province, has a current production capacity of 8,500 tpa lithium compounds and is intending to expand this to 15,000 tpa lithium compounds in the near future.

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New hard rock lithium mineral conversion projects

In addition to our Mt Cattlin Project, there are several companies evaluating hard rock lithium mineral projects with the potential for downstream lithium compound production. Based on Roskill and public stock exchange filings for individual companies, these projects include:

- the Quebec Lithium project in Canada is being developed by Canada Lithium Corporation, Inc., which is listed on the TSX. According to Canada Lithium Corp, Inc., this project was previously mined to produce spodumene concentrate and downstream lithium compounds between 1955 and 1965, and is currently undergoing a feasibility study to mine spodumene ore and produce up to 19,300 tpa of lithium carbonate from 2012. The Quebec Lithium project has an ore reserve of 15.5 million tonnes at 1.05% lithium oxide, making it the second largest hard rock lithium ore reserve globally, based on contained lithium oxide material;
- the Kings Mountain project in the United States is being developed by Western Lithium Corp, Inc., which is listed on TSX. According to Western Lithium Corp, Inc., it has recently completed an initial scoping study targeting production of greater than 25,000 tpa LCE from lithium clays (i.e. hectorite) mined at the project from 2014. Western Lithium Corp, Inc. has not yet delineated an ore reserve for the Kings Mountain project;
- the Mt Marion project in Australia is being developed in a joint venture between Reed Resources Ltd and Mineral Resources Ltd, which are both listed on the ASX. According to Reed Resources Ltd, a spodumene mine with capacity to produce approximately 200,000 tpa of spodumene concentrate is currently under construction at Mt Marion, with first production expected in early 2011. Reed Resources Ltd has also announced that it is undertaking a pre-feasibility study on a lithium carbonate plant located in Asia and Australia. Reed Resources Ltd has not yet delineated an ore reserve for the Mt Marion project;
- the Separation Rapids lithium project in Canada is being developed by Avalon Rare Metals, Inc., which is listed on TSX. According to Avalon Rare Metals, Inc., the project is a lithium mineral deposit in which the lithium is primarily found in the mineral petalite (rather than spodumene). The deposit has ore reserves of 7.72 million tonnes at 1.40% lithium oxide, making it the fourth largest hard rock lithium ore reserve globally, based on contained lithium material. Timing of the project’s development is unknown; and
- the Lantta project in Finland is being developed by Keliber, a private company 68% owned by Nordic Mining ASA. According to Roskill, Keliber is understood to be progressing with a feasibility study for a project producing up to 3,300 tpa lithium carbonate from spodumene concentrate. Timing of this project is unknown. Nordic Mining ASA has not yet delineated an ore reserve for the Lantta project.

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Largest hard rock lithium mines/projects

The largest hard rock lithium mines / projects based on ore reserves (measured by tonnes of contained lithium metal) are summarized in the table below:

<u>Mine/Project</u>	<u>Country</u>	<u>Reserve (tonnes)</u>	<u>Grade (% Li2O)</u>	<u>Contained Material (tonnes)</u>
1. Greenbushes Lithium Mine	Australia	9,600,000	3.90	374,400
2. Quebec Lithium Project	Canada	15,500,000	1.05	162,750
3. Mt. Cattlin Project	Australia	11,367,000	1.05	119,354
4. Separation Rapids Lithium/Tantalum Project	Canada	7,720,000	1.40	108,080
5. Godslith Lithium/Rare Earth Project	Canada	4,600,000	1.14	52,440
6. La Motte Lithium Project	Canada	4,550,000	1.05	47,775

Source: Intierra

Existing brine producers

According to Sociedad Química y Minera de Chile S.A., it completed constructing new evaporation ponds in the Salar de Atacama in the third quarter of 2008, increasing its capacity to 40,000 tpa of LCE. According to Roskill at the time of its report in 2009, Chemetall GmbH was also increasing capacity in Chile by 6,000 tpa of lithium carbonate by 2010 (to 33,000 tpa LCE total capacity) and, if justified by demand, a further 7,000 tpa by 2015.

According to Roskill, the Chinese brine producers have installed capacity of approximately 13,000 tpa LCE, but were operating below this installed capacity in 2008 and 2009 due to the issues identified by Roskill described above in “— Overview of lithium supply — Brine production”. According to Roskill, these producers were planning further capacity expansions by 2011.

New brine producers

There are several new lithium brine projects currently under evaluation.

According to the Sentient Group (a mining private equity investor), its subsidiary Rincon Lithium Ltd, is currently constructing a lithium production facility at the Salar del Rincón in Argentina with first shipments of lithium carbonate expected in 2011.

According to Orocobre Ltd, which is listed on the ASX and the TSX, it is currently conducting a feasibility study on the Salar de Olaroz brine deposit, which is also located in Argentina.

In the PRC, according to Roskill, as at 2008, Qinghai Salt Lake Lanke Lithium Industry Co., Ltd. was constructing a lithium carbonate plant at the Chaerhan salt lake in Qinghai province with capacity of 10,000 tpa lithium carbonate, which was expected to commence production in 2009, and Sterling Group Ventures was progressing development of the Dangxiongcuo salt lake in Tibet, although Roskill notes that commercial production at this project is thought to be some years away.

In addition, various parties are exploring prospective lithium brine deposits in Bolivia and the United States.

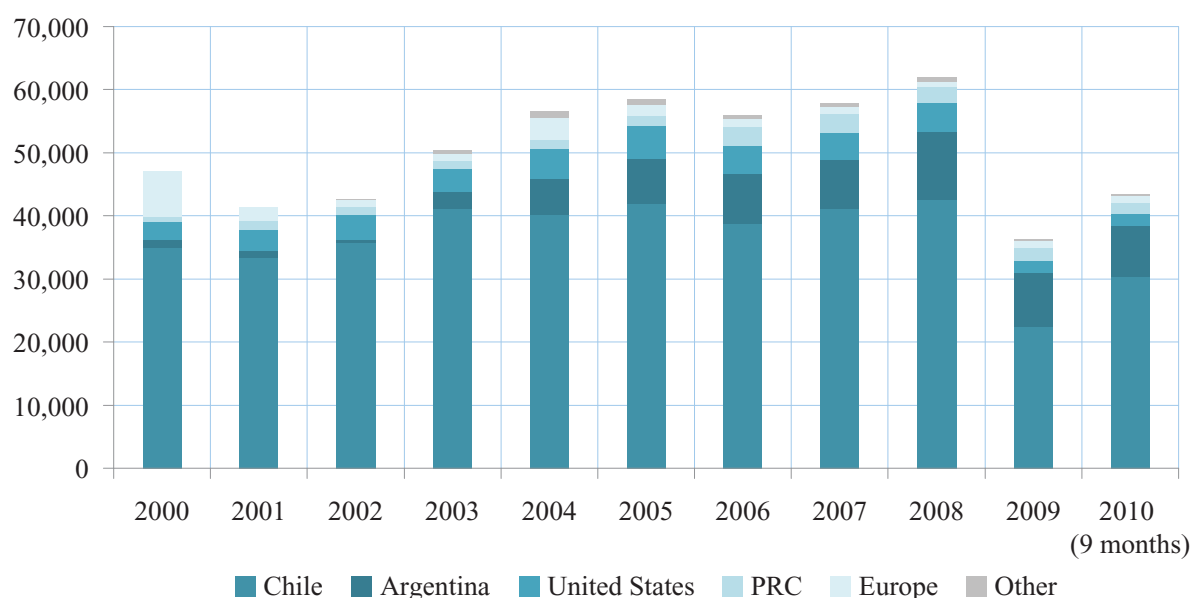
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International trade patterns

According to Roskill, lithium is mainly traded in the form of hard rock lithium mineral concentrates, lithium carbonate, lithium chloride and lithium hydroxide. Lithium carbonate trade is by far the most significant in terms of quantities.

According to information from Global Trade Information Services, Inc, approximately 43,000 tonnes of lithium carbonate were exported in the nine months ended September 30, 2010. On an annualized basis, this represents a 59% increase over the 2009 figure of approximately 36,000 tonnes. The largest exporter in 2010 was Chile, accounting for 70% of the total, followed by Argentina (19%), the United States (4%) and the PRC (4%).

Export volumes of lithium carbonate by country, 2000 – 2010 (tonnes)

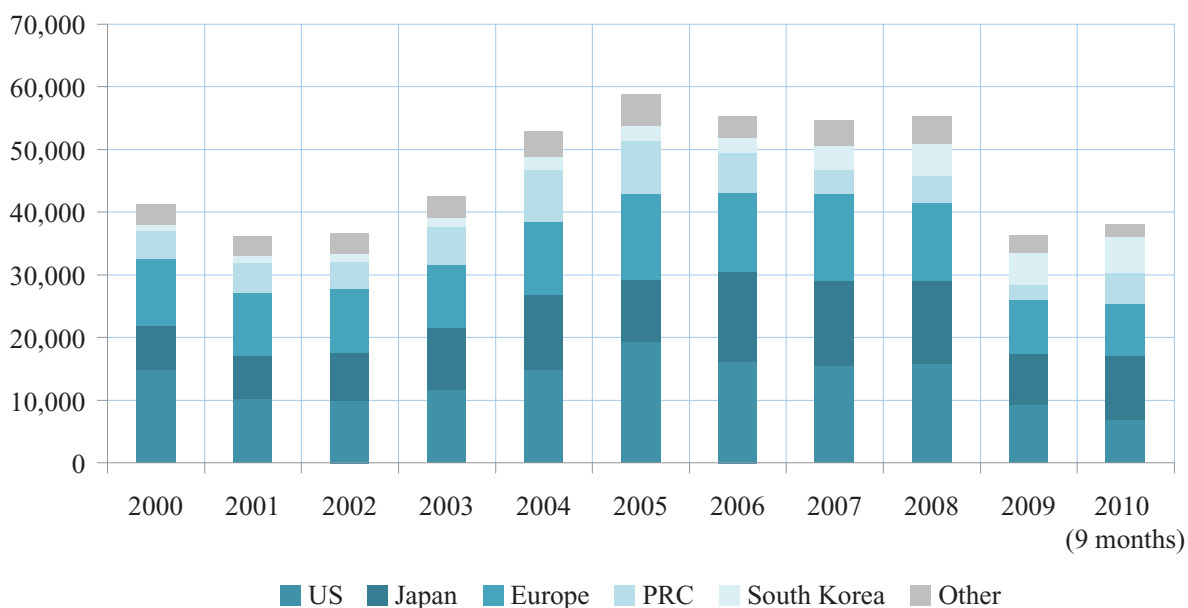


Source: Global Trade Information Services, Inc.

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Imports are more evenly spread. According to information from Global Trade Information Services, Inc, approximately 38,000 tonnes of lithium carbonate were imported in the nine months ended September 30, 2010. On an annualized basis, this represents a 39% increase over the 2009 figure of approximately 36,000 tonnes. The largest importer in 2010 was Japan, accounting for 27% of the total, followed by Europe (22%), the USA (18%), South Korea (15%) and the PRC (15%).

Import volumes of lithium carbonate by country, 2000 – 2010 (tonnes)



Source: Global Trade Information Services, Inc.

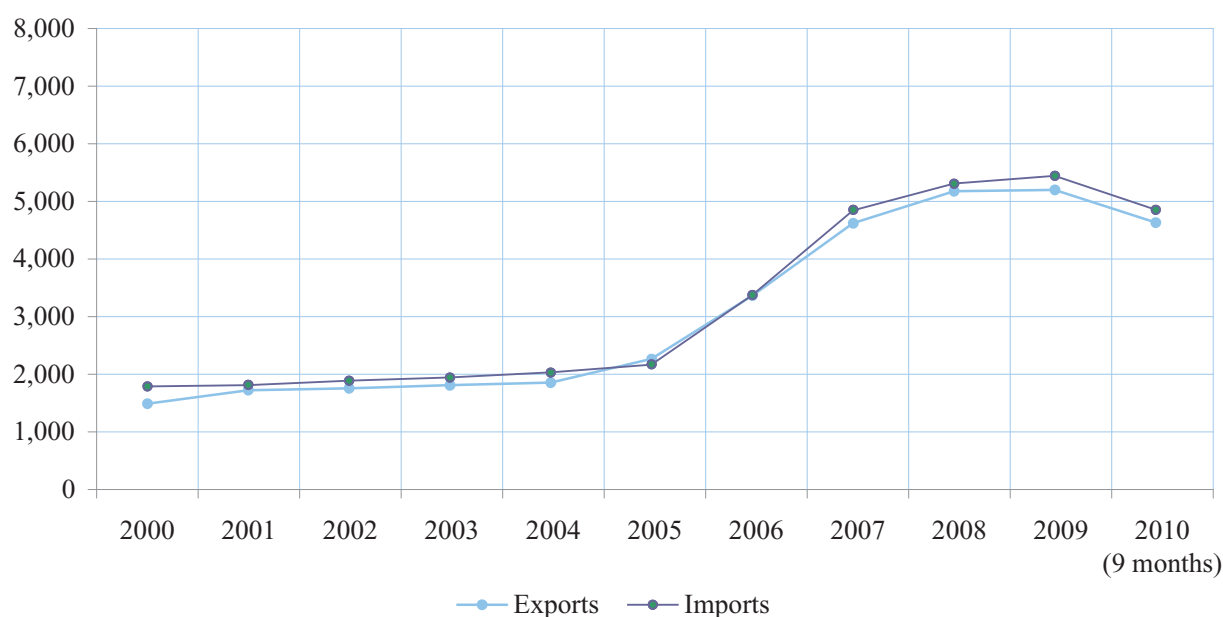
INDUSTRY OVERVIEW

Lithium carbonate pricing

Historical pricing

There is no exchange traded market for hard rock lithium mineral concentrates, or lithium chemicals or compounds. However, according to Roskill, confidential prices of lithium carbonate can be estimated by considering the global average values of exports and imports.

Global average values of exports and imports of lithium carbonate, 2000 – 2010 (US\$/t)



Source: Global Trade Information Services, Inc.

Following the introduction of brine-based lithium carbonate production into the industry in late 1990s and the aggressive pricing policy by producers, lithium carbonate prices were relatively steady and near historical lows. Prices started to recover in 2003 and 2004 as a result of increased demand for lithium carbonate and higher production costs.

In 2005, strong growth in the lithium-ion battery market resulted in a supply gap, as the South American brine-based lithium producers failed to increase production rapidly enough to meet the increased demand for lithium carbonate. The shortfall was met by an increase in the conversion of hard rock lithium mineral concentrates to lithium carbonate in the PRC. Roskill believes that due to the higher costs of converting hard rock lithium mineral concentrates to lithium carbonate compared to most brine-based production, the global average value of exports of lithium carbonate increased by 22% in 2005 to almost US\$2,300 / tonne.

The trend of increasing lithium carbonate prices continued in 2006 and 2007 as converters of hard rock lithium minerals in the PRC continued to bridge the gap in supply, and due to higher costs for raw materials, energy and labor.

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Growth in consumption slowed in 2008, as did growth in the global average values of exports and imports. Global average values of exports and imports plateaued in 2009 as consumption of lithium fell by approximately 16.7% between these two years. Global average values of exports and imports each fell by approximately 11% respectively, in the first 9 months of 2010, primarily as a result of a 20% reduction in prices of lithium carbonate and lithium hydroxide announced by Sociedad Química y Minera de Chile S.A. in September 2009.

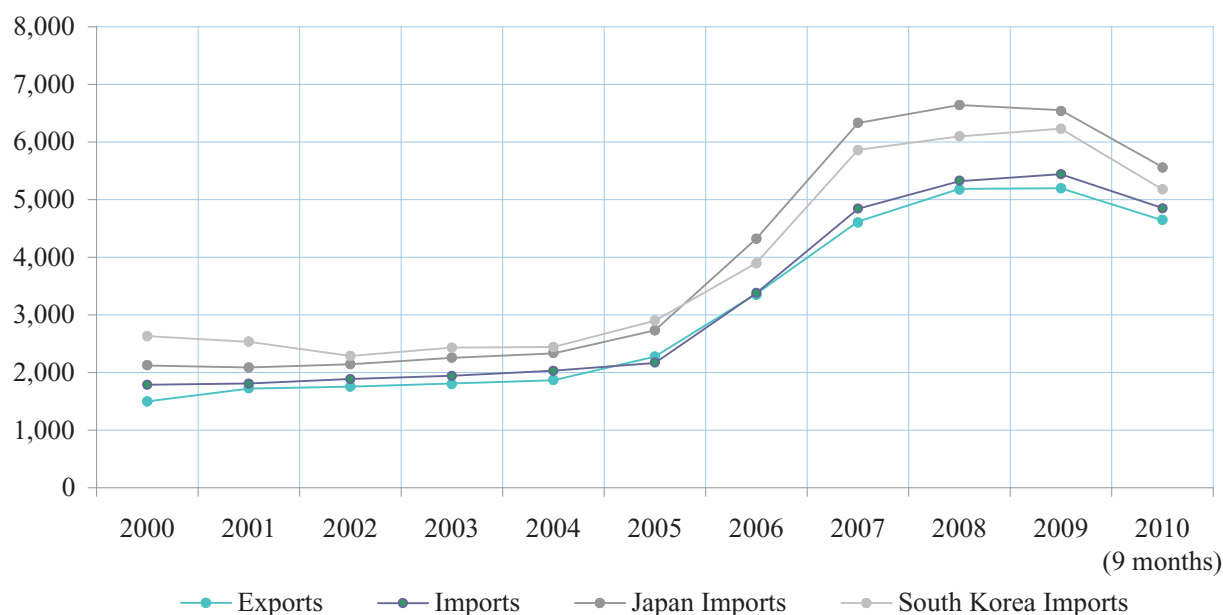
Historical prices of lithium carbonate used in lithium-ion batteries

According to Roskill, in 2008, only 37% of total lithium carbonate demand was from the production of lithium-ion batteries. Consequently, the global average values of lithium carbonate exports and imports shown above are likely to include large quantities of “industrial grade” or “technical grade” lithium carbonate.

According to Roskill, it is possible to estimate the pricing of lithium carbonate used in the manufacture lithium-ion batteries by considering the average value of lithium carbonate imports into Japan and South Korea, as both countries import lithium carbonate primarily for lithium-ion battery manufacture.

As shown below, the average values of lithium carbonate imports into Japan and South Korea were approximately US\$5,600 / tonne and US\$5,200 / tonne in the nine months ending September 30, 2010, which is 14.7% and 6.6% higher respectively than the global average value of lithium carbonate imports.

Global average values of exports and imports, plus average values of lithium carbonate imports into Japan and South Korea, 2000 – 2010 (US\$/t)



Source: Global Trade Information Services, Inc.

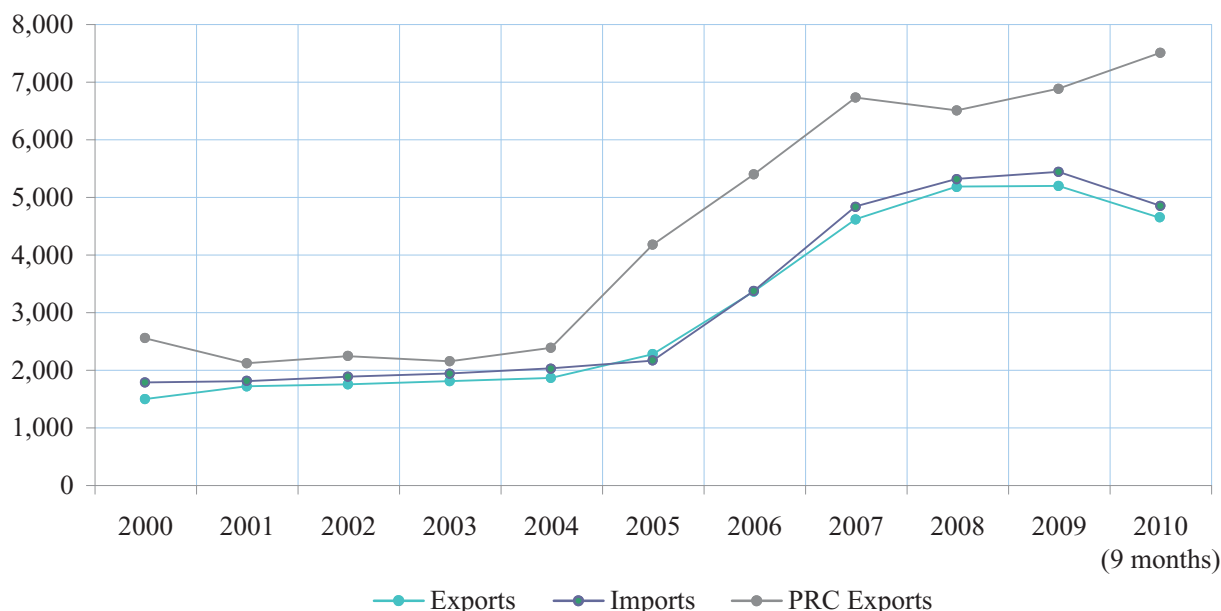
A further measure relevant to the Company is the average value of exports of lithium carbonate from the PRC. As shown below, the average value of exports of lithium carbonate are approximately US\$7,500 / tonne in

INDUSTRY OVERVIEW

the nine months ending September 30, 2010 (which relates to approximately 1,900 tonnes of exports). The Company believes that the higher average value of exports from the PRC compared to global average values of exports and imports in recent years is primarily due to two factors:

- exports of lithium carbonate from the PRC consist primarily of material with higher purity levels (e.g. 99.9% and above), which the Company believes attracts higher prices than lithium carbonate with lower purity levels. The main destination for these exports is Japan; and
- a 17% VAT applied to exports of lithium carbonate from the PRC. Prior to 2002, the PRC Government offered a full refund on any VAT payable on lithium carbonate exports. Beginning in 2002, the PRC Government gradually reduced the refund to nil on July 1, 2007, after which the full VAT rate of 17% was payable on lithium carbonate exports.

Global average values of exports and imports, plus average value of lithium carbonate exports from the PRC 2000 – 2010 (US\$/t)



Source: Global Trade Information Services, Inc.

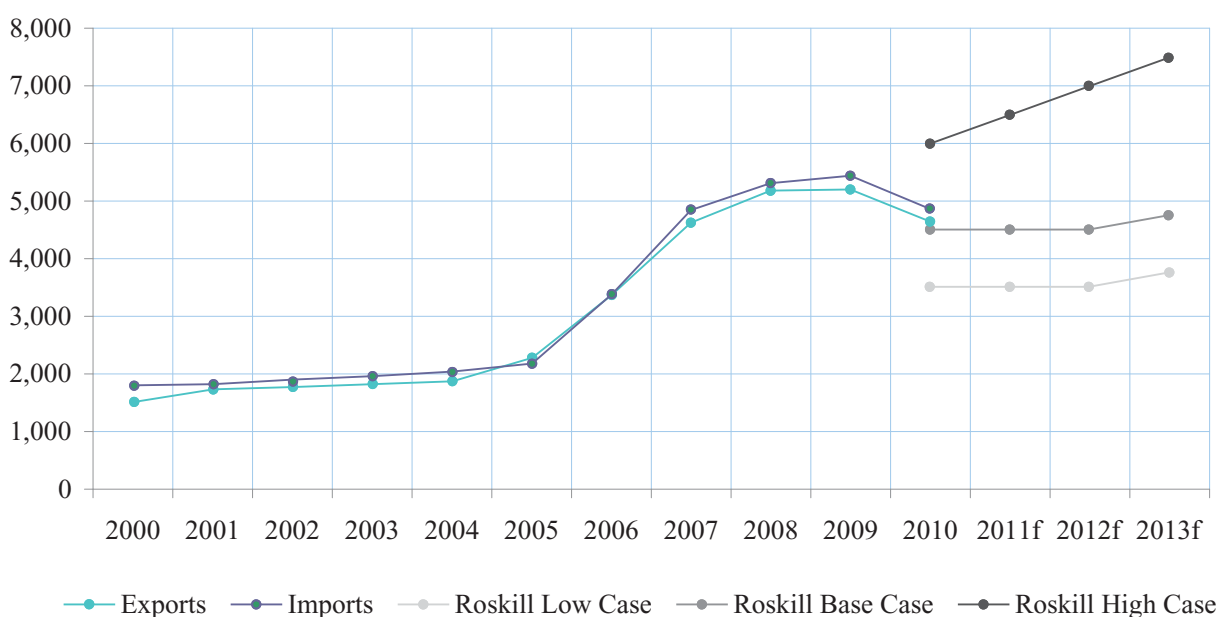
INDUSTRY OVERVIEW

Price Projections

According to Roskill, the price of lithium carbonate in the future will be driven by demand and what occurs with production of lithium carbonate from both Chinese brine producers and Chinese mineral conversion plants.

Roskill’s 2008 forecasts for global average lithium carbonate prices for 2010 to 2013 are shown below, along with historical global average values of exports and imports.

Global average annual prices for lithium carbonate, 2000 – 2013 (US\$/t)



Source: Roskill and Global Trade Information Services, Inc.

In arriving at its price forecasts, Roskill has utilized its base, high and low case forecasts of lithium demand, which are described in the section “— Demand outlook” above. The assumed levels of demand in each case are shown in the table below.

Demand (t LCE)	2010	2011	2012	2013
Base-case	119,800	127,800	136,500	150,200
High-case	133,100	143,700	154,400	171,500
Low-case	111,800	117,100	123,800	131,700

According to Roskill, in each of these cases, supply will be available to meet demand. Consequently, according to Roskill, lithium carbonate prices will primarily be a function of the cost of production of the highest cost supplier, which Roskill believes are the brine and mineral conversion lithium producers located in the PRC.

If demand grows above 6.0% per annum, Roskill believes that the market will remain reliant on the PRC-based producers and global average prices may rise as high as US\$7,500 to US\$8,000 per tonne by 2013.

Conversely, if demand grows below 6.0% per annum, the market will be less reliant on these producers and according to Roskill, global average prices may stay near to current levels.

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If both demand grows at less than 6.0% per annum and Chinese brine producers are able to solve the technical issues described in “— Overview of lithium supply — Brine production” and quickly increase production levels and reduce costs, according to Roskill, global average prices may actually fall below current levels.

In all cases, according to Roskill, battery grade lithium carbonate with higher levels of purity will continue to achieve a price premium of between US\$500 to US\$1,000 per tonne relative to global average prices.

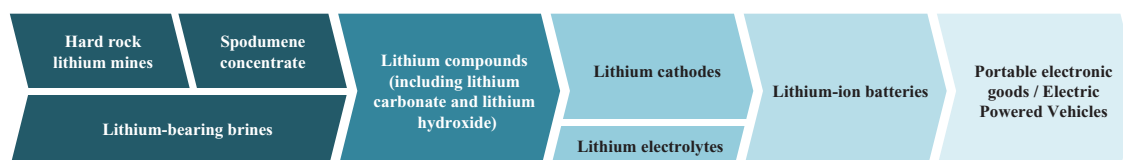
LITHIUM-ION BATTERY INDUSTRY OVERVIEW

An introduction to lithium-ion batteries

A battery is an electrical device that converts chemical energy directly into electrical energy through an electrochemical oxidation-reduction reaction. Batteries can either be single-use or rechargeable.

The majority of the lithium used in these lithium-ion batteries is sourced from lithium compounds, primarily high purity lithium carbonate and lithium hydroxide, which is then manufactured into different types of lithium cathode including lithium cobaltate (LiCoO_2), lithium manganate (LiMn_2O_4), lithium-nickel cobalt aluminate (LiNiCoAlO_2), lithium-nickel cobalt manganate (LiNiCoMnO_2) and lithium-iron phosphate (Li-FePO_4). This cathode material is then combined with an anode (typically a carbon-based material) and a liquid or polymer electrolyte (comprising a lithium-based salt) to make a lithium-ion battery. The value chain for lithium in lithium-ion batteries is shown in the diagram below.

Value chain for lithium in lithium-ion batteries



Each different type of lithium-ion battery chemistry has its own characteristics with respect to energy, power, safety, lifetime and cost, and therefore different preferred uses. However, all lithium-ion batteries have common characteristics of low self discharge rates, and higher energy density and specific energy at a lighter weight than nickel-cadmium, nickel-metal hydride and lead-acid batteries. These characteristics favor their use in both low power applications such as portable electronic products, and high power applications such as automobiles and stand-by power. The table below compares the characteristics of lithium-ion batteries with other common forms of batteries.

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Comparison of lithium-ion batteries with other forms of batteries

	Lead-acid	Nickel-cadmium	Nickel-metal hydride	Lithium metal polymer	Lithium-sulphur	Lithium-ion / polymer
Nominal voltage (V)	2.0	1.2	1.2	3.0	2.1	3.7
Energy density						
Watt hours / litre	100	100	200	110-143	400	370
Watt hours / kg	30	30	80	110-121	300	170
Temperature range (celcius)	-20 to 60	-20 to 60	-20 to 60	-20 to 60	-40 to 60	-20 to 60
Advantages	• Heavy duty use • Superior long term reliability • Economical • Easy to recycle	• Heavy duty use • High mechanical strength • High efficiency charge • Charge cycle of 500 • Easy to recycle	• Heavy duty use • No heavy metals • High capacity • Charge cycle of 500	• Heavy duty use • High voltage • No memory effect • Low self-discharge	• High specific energy • High energy density • No memory effect • Low self-discharge	• Heavy duty use • High voltage • No memory effect • Low self-discharge

Source: Roskill

According to Roskill, as a result of these favorable characteristics, lithium-ion batteries have saturated the portable electronic consumer goods markets (mobile phones, digital cameras, digital music players, laptops, handheld game and PDA devices, etc.) and have also penetrated the markets for power tool and various other battery-operated household appliances.

Lithium-ion batteries are also expected to become the battery of choice for the next-generation of electrically propelled motor vehicles, replacing the currently preferred nickel-metal hydride and lead-acid batteries. There is currently significant interest and development focused on the market for lithium-ion batteries in EVs, HEVs, PHEVs and E-bikes. Further detail on the different types of Electric Powered Vehicles is provided below:

EV

EVs are fully electrified vehicles that use electric motors powered by rechargeable batteries, rather than an internal combustion engine for propulsion. EVs can be charged overnight or at recharging points, which are beginning to be installed in several cities.

HEV

HEVs combine an internal combustion engine and a rechargeable energy storage system in order to obtain better fuel economy than conventional vehicles. There are several types of HEVs, with varying reliance on electric power: (1) micro HEVs use electric power for small start / stop functions and cannot be driven in pure electric mode; (2) mild HEVs use electric power to supplement the internal combustion engine either during acceleration, when the vehicle is at rest, or low speed driving; and (3) full HEVs can be driven in either pure electric mode, pure mechanical mode or a combination of both, with batteries recharged by regenerative braking.

PHEV

PHEVs are HEVs that can be plugged in to the electrical grid to recharge the batteries. PHEVs represent the most likely next step towards full electrification and it is in this area where lithium-ion batteries have already reached the mass-production stage. PHEVs can be charged overnight in the same way as an EV. However, they also utilize a small internal combustion engine which charges the battery during use, thus enabling the range of the vehicle to be extended.

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E-Bikes

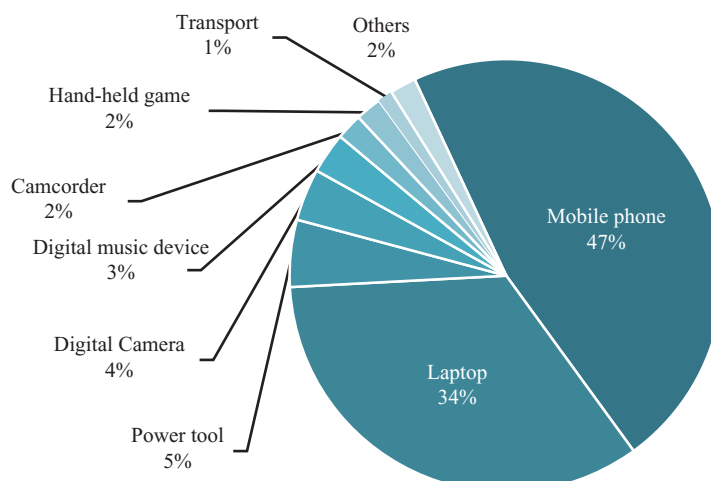
E-Bikes are bicycles equipped with a battery-powered motor which provides on-demand motorized power and either operates concurrently with pedalling or independently. Variations on this basic structure and level of sophistication and performance can be found in the market.

Overview of lithium-ion battery demand

According to Roskill, demand for lithium-ion batteries in 2007 was dominated by mobile phones and laptops, which accounted for 47% and 34% respectively. Transport applications, primarily E-bikes, accounted for 1% of sales.

In recent history, growth in demand for lithium-ion batteries has been driven by the rapid expansion of the portable consumer electronics markets. Production of mobile phones and laptops is estimated to have grown at compound annual growth rates of 15% p.a. and 20% p.a. respectively since 2000. The use of lithium-ion batteries has also extended to high drain applications, such as power tools.

Sales of lithium-ion batteries by end-use, 2007



Source: Roskill

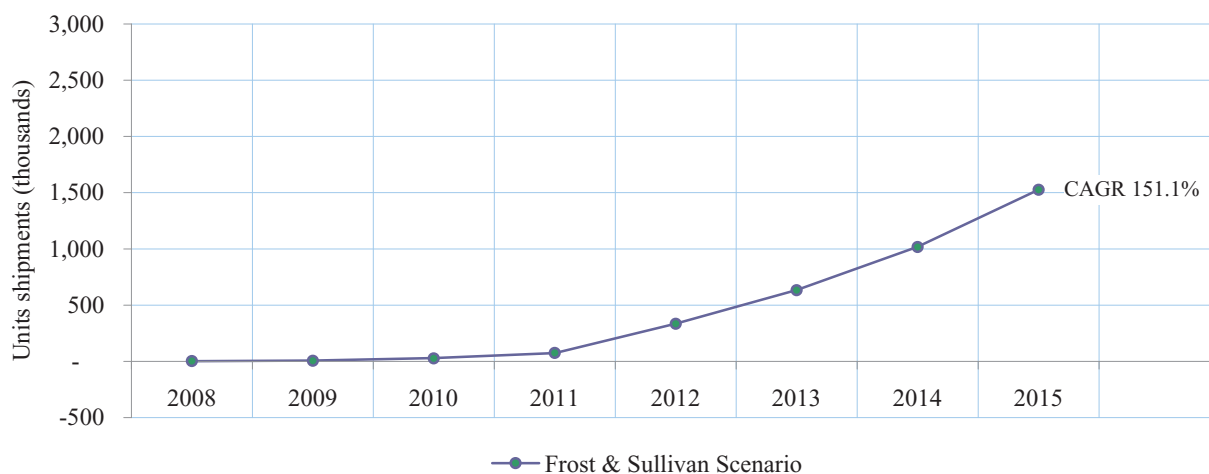
Roskill expects demand for lithium-ion batteries to continue to grow, led by demand from the portable electronic products market, but with demand from transport applications becoming increasingly important.

Demand for lithium-ion batteries in Electric Powered Vehicles

According to Roskill, transport applications accounted for 1% of total lithium-ion battery demand in 2007, comprising primarily E-bikes. However, according to Frost & Sullivan, the global market for Electric Powered Vehicle batteries is currently in a transitional phase. Whilst the market is currently saturated with lead-acid and nickel-metal hydride batteries for EVs and HEVs (with the exception of a few high end models of EV), lithium-ion batteries are becoming increasingly popular due to their high energy density and high power density and the launch of many Electric Powered Vehicles utilizing lithium-ion batteries is planned for 2012. After this occurs, Frost & Sullivan forecasts the market to experience rapid growth in demand and estimate that demand for lithium-ion batteries in EVs, HEVs and PHEVs will grow from 2,400 units in 2008 to a base case of 1.53 million units by 2015, representing a compound annual growth rate of 151% p.a.. Frost & Sullivan’s optimistic scenario would result in a compound annual growth rate of 168% p.a., while its conservative scenario would see a compound annual growth rate of 138% p.a..

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Demand for Lithium-ion Batteries in EVs, HEVs and PHEVs



Source: Frost & Sullivan

According to Frost & Sullivan, there are a number of key global drivers that support expected strong growth in demand for lithium-ion batteries in the Electric Powered Vehicles market, including:

- strategic partnerships and joint ventures being formed between lithium-ion battery manufacturers, battery module integrators and vehicle manufacturers will drive the acceptance and commercialization of lithium-ion batteries in this market;
- government incentives driving research and development will encourage manufacturers to develop suitable lithium-ion batteries for use in Electric Powered Vehicles. For example, the American Recovery and Reinvestment Act of 2009 provides US\$2 billion for grants for the manufacturing of advanced batteries and components to manufacturers of advanced battery systems and vehicle batteries that are produced in the United States, including advanced lithium ion batteries, hybrid electrical systems, component manufacturers and software designers. Similar grants and subsidies are also currently being considered and implemented in the PRC;
- similar grants and financial subsidies are also currently being considered and implemented in the PRC, such as the Notice on the Pilot of Financial Subsidies for Individual Purchase of New Energy Vehicles issued jointly by the following government agencies on May 31, 2010:
 - Ministry of Finance;
 - Ministry of Science and Technology;
 - Ministry of Industry and Information Technology; and
 - National Development and Reform Commission.

Under this pilot subsidy plan, which runs from 2010 to 2012, financial subsidies are available to enterprises in five pilot cities producing new energy vehicles in accordance with the vehicles' battery

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capacity, i.e. RMB 3,000 per KWH. The maximum amount of subsidy for each plug-in hybrid vehicle is RMB 50,000, and the maximum amount of subsidy for each pure battery-driven vehicle is RMB 60,000; and

- increasing demand for Electric Powered Vehicles generally, which is driven by factors including government incentives to owners of Electric Powered Vehicles (including exemptions on congestion charging, free parking, vehicle purchase taxes and other road and tax rebates), the ability to lease batteries and the implementation of adequate charging station infrastructure (a number of countries including the United Kingdom, Ireland and the United States have commenced initiatives to establish this).

LAWS AND REGULATIONS RELATING TO THE INDUSTRY

PRC LAWS AND REGULATIONS RELATING TO THE INDUSTRY

PRC laws relating to production operations

The revised Product Quality Law of the PRC (《中華人民共和國產品質量法》) became effective on September 1, 2000. This law requires products that may endanger human health, the human body or the safety of assets to be of sufficient quality to comply with the relevant national and industrial standards. Where no such standards have been formulated, the product must protect human health, human body and safety of assets. Industrial products that fail to meet the required standards cannot be manufactured or sold. The State Council’s product quality supervision authority is responsible for the nationwide supervision of product quality, while the local product quality supervision authority at or above county level is responsible for supervising the product quality within their respective administrative regions. The State encourages enterprises to ensure the quality of their products achieves and surpasses industrial, national and international standards.

Laws and regulations relating to environmental protection

The PRC laws and regulations on environmental protection include the Environmental Protection Law of the PRC (《中華人民共和國環境保護法》), promulgated and effective from December 26, 1989; the Air Pollution Prevention of the PRC (《中華人民共和國大氣污染防治法》), revised on April 29, 2000 and effective from September 1, 2000; the Law of the PRC on the Prevention and Control of Water (《中華人民共和國水污染防治法》), revised on February 28, 2008 and effective from June 1, 2008, and the related implementing regulations (《中華人民共和國水污染防治法實施細則》), promulgated and effective from March 20, 2000; the Rules on the Administration concerning Environmental Protection of Construction Projects (《建設項目環境保護管理條例》), promulgated and effective from November 29, 1998 and the Administrative Measures on the Environmental Protection Acceptance Check on Construction Projects (《建設項目竣工環境保護驗收管理辦法》), promulgated on December 27, 2001 and effective from February 1, 2002.

These laws and regulations require an enterprise that discharges and dispenses toxic and hazardous materials, including waste water, solid waste and waste gases, to comply with the applicable national and local standards, and to report to and register with the applicable environmental protection authority. Before commencing a construction project, an enterprise must submit an environmental impact assessment report to the relevant environmental protection authority for approval. The enterprise must pass an inspection by the same authority before the completed construction project can commence operations.

Penalties for breach of the environmental protection laws vary from warnings, fines or suspension of operation to other administrative sanctions, depending on the severity of the breach. The responsible person for an entity may be subject to criminal liabilities for breaches resulting in significant damage to private or public property, personal injury or death.

PRC laws relating to foreign investment in the lithium chemicals industry

On December 2, 2005, to facilitate industry restructuring, the State Council promulgated the Interim Provisions for Promoting the Adjustment of the Industrial Structure (《促進產業結構調整暫行規定》) and the National Development and Reform Commission promulgated the Adjustment of Industrial Structure Guidance Catalog (《產業結構調整指導目錄》). The catalog states that PRC enterprises fall into three industry categories: encouraged, restricted and prohibited. The amended Catalog of the Guidance for Foreign Investment Industries

LAWS AND REGULATIONS RELATING TO THE INDUSTRY

(《外商投資產業指導目錄》), effective on December 1, 2007, states that foreign investment in the production and distribution of lithium carbonate is categorized as an encouraged foreign investment industry. An encouraged foreign investment is entitled to receive certain benefits and incentives from the PRC Government.

PRC laws relating to land

The PRC Land Administration Law (《中華人民共和國土地管理法》), promulgated on June 25, 1986 and last amended on August 28, 2004, states that land in the PRC can only be owned by the State or by rural collectives. The right to use land can be owned privately (namely by enterprises or individuals). Land use rights are divided into two categories: allocated land use rights and granted land use rights.

Notwithstanding the restrictions on ownership, allocated land use rights are usually only allocated to State-owned enterprises or for public purposes. The land user has the right to use the land for an indefinite period of time and is only required to pay a nominal land use fee. Granted land use rights allow the land user to use State-owned land for a fixed term upon payment of a grant premium to the State in consideration for the grant of such rights.

The Interim Regulations of the PRC on Grant and Transfer of the Right to Use State-owned Land in Urban Areas (《中華人民共和國城鎮國有土地使用權出讓和轉讓暫行條例》), promulgated and effective on May 19, 1990 by the State Council, state that the land administration authority must enter into a granting contract with the land user with respect to granted land use rights. Granted land use rights are evidenced by land use rights certificates granted by the relevant land administration authority. The land use rights certificate will not be issued to a land user until the grant premium is paid in full. Any land granted to a land user can be further transferred, leased and secured as agreed in the granting contract, subject to necessary permission and registration procedures. During the grant period, the land, including all underground natural resources and hidden properties, remains the property of the State. The maximum term of a granted land use right over industrial land is 50 years and is renewable unless otherwise restricted in the granting contract or if it conflicts with city planning.

PRC laws relating to foreign exchange

The Regulations on Foreign Exchange Control of the PRC (《中華人民共和國外匯管理條例》), promulgated on January 29, 1996, effective on April 1, 1996 and amended on August 5, 2008, state that payments made in foreign currencies for international transactions under the current account¹ are not subject to PRC governmental control or restrictions. Certain organizations in the PRC, including foreign-invested enterprises, may purchase, sell and / or remit foreign currencies at certain banks authorized to conduct foreign exchange business upon providing valid commercial documents. However, approvals from the SAFE are required for transactions under the capital account², including a cross border capital transfer, a direct foreign investment in the PRC or an overseas investment by a domestic company.

On July 21, 2005, the PBOC issued a Public Announcement of the PBOC on Improving the Reform of the RMB Exchange Rate Regime (《中國人民銀行關於完善人民幣匯率形成機制改革的公告》), which announced that the PRC would reform the exchange rate regime by using a managed floating exchange rate, which is pegged to a basket of currencies instead of to the US Dollar.

1 “Current account” refers to transactions taking place frequently, including trade incomes and expenditures, labor incomes and expenditures, and unilateral transfers, etc.

2 “Capital account” refers to the increase and decrease of the assets and liabilities arising from the inflow and outflow of capital in international payments, including direct investment, various loans and securities investment, etc.

LAWS AND REGULATIONS RELATING TO THE INDUSTRY

PRC laws relating to labor

The PRC Labor Law (《中華人民共和國勞動法》), promulgated on July 5, 1994 and effective on January 1, 1995, and the Labor Contract Law of the PRC (《中華人民共和國勞動合同法》), promulgated on June 29, 2007 and effective on January 1, 2008, require that an employer and its employees must enter into labor contracts setting out the terms of employment. The relevant laws stipulate the maximum number of working hours per day and per week, and also set forth minimum wages. With respect to occupational safety and sanitation, an employer must establish and develop systems, implement rules and standards, educate employees, prevent accidents at work and reduce occupational hazards.

The Regulations on Occupational Injury Insurance (《工傷保險條例》), promulgated on April 27, 2003 and effective on January 1, 2004, and the Interim Measures concerning the Maternity Insurance for Enterprise Employees (《企業職工生育保險試行辦法》), promulgated on December 14, 1994 and effective on January 1, 1995, require PRC companies to pay occupational injury insurance premiums and maternity insurance premiums for their employees.

The Interim Regulations on the Collection and Payment of Social Insurance (《社會保險費征繳暫行條例》), promulgated and effective on January 22, 1999, and the Interim Measures concerning the Administration of the Registration of Social Insurance (《社會保險登記管理暫行辦法》), promulgated and effective on March 19, 1999, state that PRC companies and their employees are required to contribute to the social insurance plan. Social insurance refers to basic pension insurance, medical insurance and unemployment insurance.

According to the Regulations on the Administration of Housing Fund (《住房公積金管理條例》), promulgated and effective on April 3, 1999, as amended on March 24, 2002, PRC companies must register with the applicable housing fund management center and establish a special housing fund account in an entrusted bank. PRC companies and their employees are required to contribute to the housing fund. Their respective deposits must be no less than 5% of an individual employee’s monthly average salary during the preceding year.

PRC laws relating to taxation

The Enterprise Income Tax Law of the PRC (《中華人民共和國企業所得稅法》, the “New Tax Law”), effective on January 1, 2008, replaced the Income Tax Law of the PRC on Enterprises with Foreign Investment and Foreign Enterprises (《中華人民共和國外商投資企業和外國企業所得稅法》) and Provisional Regulations of the PRC on Enterprise (《中華人民共和國企業所得稅暫行條例》). Under the New Tax Law, the PRC Government repealed various tax incentives which were available only for foreign-invested enterprise engaged in activities preferred by the State or established operations in approved areas of investment. Instead, the government has granted preferential tax treatment to industries and projects that are encouraged by the State. The New Tax Law imposes a standard enterprise income tax rate of 25% for both domestic and foreign-invested enterprises and contemplates various transitional periods and procedures. In addition, in the absence of any applicable tax treaties under which preferential tax treatment may be available, a 10% withholding tax is payable on dividends paid to investors that are “non-resident enterprises” to the extent such dividends are derived from sources within the PRC.

According to the Specification of Arrangements (The Mainland of China) (Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income) Order (《內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排》), dividend income is subject to the 10% withholding tax. The withholding may be reduced to 5% if the recipient is a “non-resident enterprise” directly holding at least 25% of the equity interest in the PRC resident company paying the dividends.

LAWS AND REGULATIONS RELATING TO THE INDUSTRY

PRC laws relating to dividend declaration

The Wholly Foreign Owned Enterprises Law of the PRC (《中華人民共和國外資企業法》), amended and promulgated on October 31, 2000, and the Implementation Rules on the Wholly Foreign Owned Enterprises Law of the PRC (《中華人民共和國外資企業法實施細則》), amended on April 12, 2001, require wholly foreign owned enterprises to pay certain taxes and allocate portions of their after-tax profits to reserve funds, bonuses, welfare funds and expansion funds prior to any declaration of dividends. The allocations made to the reserve fund of an enterprise must be no less than 10% of the enterprise’s after-tax profits until such reserves have reached at least 50% of its registered capital. The shareholder(s) or the board of directors of the wholly foreign owned enterprise decide the proportion of after tax profits allocated to the reserve fund.

AUSTRALIAN LAWS AND REGULATIONS RELATING TO THE INDUSTRY

Legal system

Australia is a federation comprising six states and two self-governing territories, each of which has a legislature, an executive and judicial arm of government. The Australian Federal Government has limited legislative, executive and judicial authority in relation to certain matters as prescribed in Australia’s Constitution.

Australia has a common law system, which is based on the British system. The states and territories have their own judicial systems and courts. Federal Courts deal with federal matters and the High Court of Australia hears appeals in relation to federal, state and territory matters.

Overview of the mining law regime in Western Australia

General

The Mining Act regulates the assessment, development and utilization of mineral resources in Western Australia. In Western Australia, the Crown owns all minerals on or below the surface of the land, except in certain limited circumstances (relating to limited categories of land and minerals). As the owner of the minerals, the Crown is entitled to grant mining tenements that confer rights on lessees or licensees to explore for and mine minerals.

Conditions are imposed on the grant of most tenements pursuant to the Mining Act. These can include conditions relating to the environment, payment of annual rent, required minimum expenditure and a standard schedule of general exclusions and conditions established pursuant to the Mining Act. In addition, more particular conditions are imposed on specific tenements. If the tenement conditions are not complied with, the tenement may be liable to forfeiture.

The main types of tenements granted under the Mining Act are:

- mining leases;
- exploration licences;

LAWS AND REGULATIONS RELATING TO THE INDUSTRY

- prospecting licences;
- miscellaneous licences; and
- general purpose leases.

Further details on each of these types of tenements are set out below.

A transfer or mortgage of a legal interest in a mining tenement does not pass any legal estate or interest in a mining tenement or in any way charge or encumber a mining tenement until it is registered under the Mining Act. In respect of mining leases, general purpose leases and miscellaneous licences, it is a condition of each of these types of tenements that the tenement holder obtains the prior written consent of the Minister (or a delegate) before transferring or mortgaging a legal interest in any such land or licence.

Mining leases

Subject to the provisions of the Mining Act, the holder of a mining lease is entitled to work and mine the land, take and remove any minerals (except iron ore, unless expressly authorized by the Minister), take and divert water subject to the Rights in Water and Irrigation Act 1914 (WA) and do all things necessary to effectually carry out mining operations in, on or under the land. However, the grant of a mining lease does not in itself confer authority to produce minerals. Further approvals are generally required before production may commence, including approvals in respect of environmental impact and Aboriginal heritage.

The holder of a mining lease owns all minerals lawfully mined from the land in accordance with the mining lease. However, a royalty is payable to the Crown in respect of all minerals recovered from a mining lease at the rate prescribed for the relevant commodity in the Mining Act and the Mining Regulations 1981 (WA) (the “Mining Regulations”).

A mining lease is granted for an initial term of 21 years and may be renewed for a further term of 21 years as a right and further successive periods not exceeding 21 years each upon application to the Minister.

A mining lease applied for or granted before February 10, 2006 may have an area not exceeding 10 square kilometers. In respect of mining leases applied for and granted after February 10, 2006, the Minister has discretion to grant the mining lease over an area considered appropriate (including sufficient land to encompass the mineral resource and required infrastructure).

Mining leases are identified by an “M” at the beginning of the tenement identification number.

Exploration licences

The holder of an exploration licence is authorized to carry out exploratory operations of a kind set out in the Mining Act with respect to its area (except in respect of iron ore unless expressly authorized by the Minister). An exploration licence granted or applied for before February 10, 2006 will remain in force for five years from the date of grant and may be renewed by the Minister, in certain circumstances, for up to a total further period of four years, after which one or more extensions of one year are available in exceptional circumstances. An exploration licence applied for on or after February 10, 2006 will remain in force for five years from the date of grant and may be renewed by the Minister for five years (plus further renewals of two years each) if prescribed grounds exist.

LAWS AND REGULATIONS RELATING TO THE INDUSTRY

The land area of Western Australia is divided into “blocks” which are defined by reference to graticular sections. Generally, an exploration licence may be granted for areas of land not exceeding 70 “blocks”. In respect of exploration licences granted or applied for before February 10, 2006, the area covered by the exploration licence is required to be reduced by not less than 50% after the first three years of its term and again after the fourth year of its term. In respect of exploration licences applied for after February 10, 2006, the holder is required to surrender 40% of the area covered by the licence at the end of the initial term. A holder may apply to have these surrender requirements deferred or exempted on certain prescribed grounds.

The Mining Act provides that during the first year of its term, an exploration licence granted under the Mining Act, or an interest in such an exploration licence, may not be transferred or otherwise dealt with, whether directly or indirectly, without the prior written consent of the Minister. Any such transaction entered into without that consent (or that is not conditional upon consent being given) will not be effective to transfer an interest in or affecting the exploration licence. Similarly, no assignment or transfer of an exploration licence (during the first year of its term) for the purpose of enforcing a charge may be made without the consent in writing of the Minister.

The holder of an exploration licence generally has a right to convert the licence to a mining lease, provided it has complied with the Mining Act and tenement conditions and obtained the necessary approvals, by making an application during the term of the exploration licence. An applicant for a mining lease will need to show that exploration results in respect of a deposit of minerals located in the area to which the mining lease application relates indicate that there is a reasonable prospect of minerals being obtained by mining operations.

Exploration licences are identified by an “E” at the beginning of the tenement identification number.

Prospecting licences

Prospecting licences entitle the holder to prospect for minerals (except iron ore unless expressly authorized by the Minister) within the area of the prospecting licence and to undertake various ancillary activities for that purpose. Prospecting licences may be granted in respect of areas of land not exceeding 200 hectares.

Prospecting licences granted or applied for before February 10, 2006 remain in force for a period of four years from the date of grant and cannot be renewed. Prospecting licences applied for and granted on or after February 10, 2006 remain in force for a period of four years from the date of grant and may be renewed for four years (and further four year periods if the licence has “retention status”, which is obtainable where an identified mineral resource exists that is impracticable to mine at the time for certain prescribed reasons).

The holder of a prospecting licence generally has a right to convert the licence to a mining lease, provided it has complied with the Mining Act and tenement conditions and obtained the necessary approvals, by making an application during the term of the prospecting licence. An applicant for a mining lease will need to show that exploration results in respect of a deposit of minerals located in the area to which the mining lease application relates indicate that there is a reasonable prospect of minerals being obtained by mining operations.

The Mining Act does not prescribe any requirements to obtain the consent of the Minister or the West Australian Department of Mines and Petroleum in relation to transferring an interest in a prospecting licence.

Prospecting licences are identified by a “P” at the beginning of the tenement identification number.

LAWS AND REGULATIONS RELATING TO THE INDUSTRY

Miscellaneous licences

A miscellaneous licence may be granted pursuant to the Mining Act over any land where the use of that land is directly connected with mining operations and is for a prescribed purpose under the Mining Regulations (for example, a road or pipeline). A miscellaneous licence may be applied for over land that is the subject of an existing tenement, irrespective of whether that existing tenement is held by the applicant for the miscellaneous licence. The holder of a miscellaneous licence does not therefore (by virtue of that licence) have exclusive title to the land over which the miscellaneous licence is granted.

A miscellaneous licence that was applied for and granted after July 6, 1998 will remain in force for a term of 21 years, and may be renewed for a further 21 years as of right. The Minister may further renew the term of a miscellaneous licence applied for and granted after July 6, 1998 for successive periods not exceeding 21 years each.

Miscellaneous licences are identified by an “L” at the beginning of the tenement identification number.

General purpose leases

The holder of a general purpose lease is entitled to exclusive occupancy of the land the subject of the lease for the purposes specified in the lease, which may include erecting and operating machinery in connection with mining operations, depositing or treating tailings and / or use for any other specified purpose directly connected with mining operations. A general purpose lease is primarily a surface lease as it is generally limited to a depth of 15 m below the surface.

A general purpose lease may be granted for areas of land not exceeding 10 hectares, unless the Minister is satisfied that a larger area of land is required for the purposes of the lease. A general purpose lease will remain in force for either the term of the mining lease in respect of which it was granted, or 21 years from the date of grant, and may be renewed for a further 21 years as of right. The Minister may further renew the term of a general purpose lease for one or more successive periods not exceeding 21 years each.

General purpose leases are identified by a “G” at the beginning of the tenement identification number.

Applications for tenements

Whether a tenement application for a mining lease, exploration licence or general purpose lease is successful is dependent upon a recommendation made by the mining registrar or warden to the Minister and the Minister’s decision whether to grant or refuse the application. Whether a tenement application for a prospecting licence or a miscellaneous licence is successful is dependent upon the mining warden’s decision whether to grant or refuse the application. If a tenement is granted under the Mining Act then it will be issued on terms and conditions reasonable to the Minister or warden as applicable.

An application for a tenement cannot generally be transferred because, while it is still pending, the application does not amount to any property or title in the mining tenement applied for. However, in certain circumstances, an application for a mining lease will be deemed to be transferred if the underlying exploration licence or prospecting licence is transferred.

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Crown land and pastoral leases

Subject to certain exemptions and limitations, the Mining Act provides that Crown land which is not already subject to a mining tenement is considered open for mining, and a mining tenement may be issued in relation to such land, entitling the holder to the rights granted thereby.

The exercise of such rights is, however, limited by the operation of section 20(5) of the Mining Act, which provides that the holding of a mining tenement does not entitle the holder to prospect or fossick on, explore or mine on or otherwise interfere with any Crown land that is:

- for the time being under crop (or within 100 m of that crop);
- used as or situated within 100 m of a yard, stockyard, garden, cultivated field, orchard, vineyard, plantation, airstrip or airfield;
- situated within 100 m of any land that is in actual occupation and on which a house or other substantial building is erected;
- the site of or situated within 100 m of any cemetery or burial ground; or
- land the subject of a pastoral lease which is the site of, or is situated within 400 m of any water works, race, dam, well or bore not being an excavation previously made and used for mining purposes by a person other than the pastoral lessee,

without the written consent of the occupier, unless the warden by order otherwise directs or mining is only carried out at a depth below 30 m from the natural surface of the land. The “occupier” includes the pastoral lessee. The mining tenement holder may, subject to giving notice to the occupier and abiding by the restrictions on activities imposed by the Mining Act, pass over Crown land:

- within 100 m of land under crop; used as a yard, stockyard, garden, cultivated field, orchard, vineyard, plantation, airstrip or airfield; in actual occupation and on which a house or other substantial building is erected; or any cemetery or burial ground; or
- within 400 m of the site of any water works, race, dam, well or bore,

in order to gain access to other land for the purpose of prospecting or fossicking on, exploring mining on or under, or marking out that land.

Limitations may include a requirement to pay compensation for the same, which may be agreed between the parties or by the warden’s court.

In addition to statutory obligations of a mining tenement holder with respect to such matters as compensation, the prevention of fire, prevention of damage to property and stock, use of vehicles, safety issues and non-removal of fences or timber, mining tenement holders must comply with specific conditions which are imposed on the grant of mining tenements granted over areas the subject of pastoral leases.

LAWS AND REGULATIONS RELATING TO THE INDUSTRY

Section 123 of the Mining Act provides that the owners and occupiers of any land where mining takes place are entitled according to their respective interests to compensation for loss and damage suffered or likely to be suffered by them resulting or arising from the mining. Section 123(7) of the Mining Act also provides that a pastoral lessee is entitled to be compensated by the holder of a mining tenement for damages to improvements on that land caused by the holder and for any loss suffered by the lessee and resulting from that damage and for any substantial loss of earnings suffered by the lessee resulting or arising from “mining” (which is defined to include fossicking, prospecting and exploring for minerals, and mining operations) by the holder. Further, except to the extent agreed upon by the parties concerned or authorized by the warden’s court, compensation is not payable to a lessee: for deprivation of the possession of the surface or any part of the surface of the land; for damage to the surface of the land; where the lessee is deprived of the possession of the surface of any land; for severance of the land from any other land of the lessee; or for surface rights of way and easements. Where consent cannot be agreed, the warden may determine the amount for compensation (either with or without formal proceedings, based on the parties’ wishes).

Reserves and other land interests

Where mining tenements cover areas which are in “reserves”, the consent of the Minister responsible for administration of the Mining Act may be required before mining activities are permitted and conditions may be imposed on such activities. In respect of land the subject of certain “reserves”, a mining lease or general purpose lease may not be granted over such land without resolution consent by both Houses of Parliament and conditions may be imposed in respect of such resolution consent.

Private land

Generally and subject to certain exceptions and limitations, private land which is not already subject to a mining tenement is considered open for mining under the Mining Act, and a mining tenement may be issued in relation to such land, entitling the holder to the rights granted thereby. However, a tenement may not be granted in respect of private land which is:

- used as or situated within 100 m of a yard, stockyard, garden, orchard, vineyard, plant nursery or plantation or is land under cultivation;
- the site of a cemetery or burial ground or within 100 m of that site;
- the site of a dam, bore, well or spring or within 100 m of that site;
- on which there is erected a substantial improvement or within 100 m of that improvement; or
- a parcel of land with an area of 2,000 sq.m. or less,

unless the consent of the private landholder and any other occupier is obtained or the tenement is only granted in respect of the land below 30 m from the surface of the private land. If the tenement is only granted in respect of the land below 30 m from the surface of the private land, the tenement holder can apply to the Minister for the land between the surface and 30 m depth to be included in the tenement, which application may be granted provided that the private landowner has consented to such land being included in the tenement.

LAWS AND REGULATIONS RELATING TO THE INDUSTRY

The owners and occupiers of any land where mining takes place are entitled according to their respective interests to compensation for all loss and damage suffered or likely to be suffered by them resulting or arising from the mining. The tenement holder may not commence mining on the surface or within a depth of 30 m from the surface until compensation has been agreed with the private landowner or paid in accordance with the Mining Act. Compensation may be determined by agreement between the tenement holder and private landowner or occupier, or by the warden. The owner and any other occupier may be entitled to compensation for deprivation of the possession or use of the surface or any part of the land, damage to the surface or any part of the land, severance of the land from any other land of, or used by, the owner or occupier, loss or restriction of a right of way or other easement or right, loss of or damage to improvements, social disruption, in the case of private land that is land under cultivation, any substantial loss of earnings, delay, loss of time, reasonable legal or other costs of negotiation, disruption to agricultural activities, disturbance of the balance of the agricultural holding, the failure on the part of a person concerned in the mining to observe the same laws or requirements in relation to that land as regards the spread of weeds, pests, disease, fire or erosion, or as to soil conservation practices, as are observed by the owner or occupier of that land and reasonable expenses properly arising from the need to reduce or control the damage resulting or arising from mining.

State mineral royalties

Under the Mining Act, royalties are payable on all minerals in Western Australia. When a mineral is obtained from a mining tenement, or from land the subject of an application for a mining tenement, royalties must be paid by the holder of, or applicant for, the mining tenement. A mineral is defined as a naturally occurring substance obtained or obtainable from any land by mining operations, generally including evaporites, limestone, rock, gravel, sand and clay.

Generally, the lithium royalty payment is based on 5% of the gross invoice value (less any allowable deductions) of spodumene concentrate. The gross invoice value of the sale is the Australian dollar value obtained by multiplying the amount of the mineral sold by the price of the mineral as shown in the invoice. Generally, certain costs associated with the packaging and transport of minerals are allowable deductions from the gross invoice value of concentrate for the purposes of calculating the royalty payment.

Federal resource tax

The Federal Government of Australia has proposed the introduction of a new tax on profits from mining operations in Australia. It was initially announced that this would apply to all mineral projects, but on July 2, 2010 a revised proposal was announced that would only apply to iron ore and coal projects, and not to other minerals. This revised proposal is known as the MRRT.

Because the announced MRRT proposal will only apply to iron ore and coal projects, the Company’s lithium mining and exploration activities would not be affected. However, the MRRT proposal may affect the value and economic viability of the Company’s interest in the Shoemaker project, which is prospective for iron ore.

The MRRT has not yet been enacted into law. If the MRRT proposal is enacted into law as proposed, it will apply from July 1, 2012. It will impose a tax on entities carrying out iron ore and coal mining activities in Australia. That tax will be imposed on the profits of those mining activities to the extent that they exceed a benchmark rate of return on investment equal to the Commonwealth 10 year bond rate plus 7%. Tax at the rate of 30% will be imposed on those excess profits, although the granting of a 25% extraction allowance will reduce the

LAWS AND REGULATIONS RELATING TO THE INDUSTRY

effective tax rate to 22.5%. Any State Government royalties that are paid in relation to the mining activity can be credited against the MRRT. The MRRT will be in addition to company tax that all companies with permanent operations in Australia are required to pay.

A recent Federal election in Australia resulted in the election of a minority Labor Party Government supported by the Green Party and certain independent members of Parliament. The new Government is seeking to push ahead with the MRRT in the form proposed prior to the election, although there are indications that some of the members of Parliament on whom the Labor Party is relying to form Government may wish to have some aspects of the proposed MRRT altered. It will be necessary for legislation to introduce the MRRT, to be passed by both Houses of Federal Parliament, which given the fact that the Government is in a minority may be difficult. It is possible that amendments may be made to the currently announced MRRT proposal before and if it becomes law.

Overview of Native Title in Australia

Australian law recognizes a form of native title constituted by the rights, interests and entitlements of Australia’s indigenous inhabitants to their traditional lands in circumstances where such native title has not been extinguished (“Native Title”).

Native Title

Native Title rights and interests are recognized and protected in accordance with the Native Title Act 1993 (Commonwealth of Australia) (“NTA”). The NTA provides a procedural framework for Aboriginal and Torres Strait Islander people to claim Native Title in relation to land and waters where Native Title has not been extinguished.

Native Title may be validly extinguished at common law by any act inconsistent with the existence of Native Title, if done prior to the commencement of the Racial Discrimination Act 1975 (Cth) on October 31, 1975. Native Title may also be validly extinguished prior to January 1, 1994 (and for some acts prior to December 23, 1996) under the NTA. Acts which may extinguish Native Title include the grant of freehold estates, particular leases, some reserves and certain acts consisting of the construction or establishment of public works.

The NTA provides a legislative framework under which certain acts may be “validated” or “valid” to the extent such acts affect Native Title. Pursuant to the NTA, the State has enacted complementary legislation to confirm the validity of certain acts attributable to the State which affect Native Title (the Titles (Validation) and Native Title (Effect of Past Acts) Act 1995 (WA)).

In general terms:

- the grant of exploration or mining tenements prior to January 1, 1994 will have been validated as “past acts”; and
- the grant of certain exploration or mining tenements between January 1, 1994 and December 23, 1996 will have been validated as “intermediate acts”.

If Native Title has been extinguished, then the tenement holder may exercise its rights and interests under the tenement without being impaired by the existence of, or a claim for determination of, Native Title. However,

LAWS AND REGULATIONS RELATING TO THE INDUSTRY

the grant of an exploration or mining tenement will not have the effect of extinguishing Native Title. To the extent that any Native Title existed at the date of the grant (regardless of whether Native Title has been determined to exist), such Native Title rights and interests will be “suspended” to the extent of any inconsistency with the exploration or mining interest. Upon expiration or surrender of the exploration or mining interest, Native Title will revive. In certain circumstances, the use of the tenement can extinguish Native Title.

The NTA sets out the procedures which must be followed when a Native Title determination application (claim) is made to the Federal Court. The procedures require the Federal Court to provide a copy of any claim to the Native Title Registrar who must apply the registration test set out in the NTA. If the Native Title Registrar considers that a claim satisfies the registration test, the claim is entered on the Register of Native Title Claims. If a claim is registered, the registered Native Title claimants obtain certain procedural rights under the NTA including the right to negotiate (“RTN”) in respect of future grants of interests in land. It is important to note that whether or not a claim is registered, the claim will continue as a proceeding in the Federal Court.

If the Federal Court determines that Native Title exists, the Court must, in addition to determining the nature and extent of the Native Title, the holders of the Native Title and certain other matters, determine whether the Native Title is to be held by a prescribed body corporate in trust for the Native Title holders, or whether it is to be held by a prescribed body corporate as the agent or representative of the Native Title holders.

The NTA provides that the grant of future interests in land including certain exploration or mining interests will be invalid to the extent the interest affects Native Title if the grant does not comply with the RTN. Although the RTN generally applies to the grant of exploration and mining tenements, it does not need to be complied with in some circumstances, including where:

- Native Title has been extinguished over the area covered by the proposed tenement;
- the grant is created solely for the purpose of the construction of an infrastructure facility associated with mining (but note that other NTA procedures will apply);
- under an Indigenous Land Use Agreement entered into under the NTA, the registered Native Title claimants or prescribed body corporate, as the case may be, consent to the grant of the tenement without complying with the RTN (but note that other procedures may apply); and
- the “expedited procedure” applies (mainly in relation to exploration and prospecting tenements which will have a “low impact” on the land underlying the tenement).

Only registered Native Title claimants, determined native title holders and prescribed bodies corporate are entitled to the RTN.

The RTN procedure requires the State to give notice of its intention to grant a tenement including by giving a written notice to any registered Native Title claimants, determined native title holders and / or prescribed bodies corporate, and notifying the public by advertising certain prescribed notices. Unless the notice includes a statement that the State considers the grant attracts the “expedited procedure” (a procedure under the NTA which, if applicable, removes the requirement to comply with the RTN), the State, the applicant for the tenement and the Native Title party (together, the “Negotiation Parties”) must negotiate in good faith with a view to obtaining the agreement of the Native Title party to the grant of the tenement.

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If no agreement is reached, any Negotiation Party may, no less than six months after the notification day, apply to the National Native Title Tribunal (“NNTT”) for a determination as to whether the grant should be made, with or without conditions. A determination cannot be made where the State or the applicant has failed to negotiate in good faith. A determination that the grant may be done subject to conditions being complied with by the parties has effect, if the grant proceeds, as if the conditions were terms of a contract among the Negotiation Parties. The State Minister or the Commonwealth Attorney General has the power to overrule a determination by the NNTT, in the interests of the State.

A proposed act will be an act attracting the expedited procedure if:

- the act is not likely to interfere directly with the carrying on of the community or social activities of the Native Title holders;
- the act is not likely to interfere with areas or sites of particular significance to the Native Title holders; or
- the act is not likely to involve major disturbance to any land or waters concerned or create rights whose exercise is likely to involve major disturbance to any land or waters concerned.

In Western Australia, exploration and prospecting licences may be processed under the expedited procedure if the tenement applicant:

- signs a Regional Standard Heritage Agreement and sends it to the relevant Native Title representative body (“NTRB”) or Native Title party if not represented by the NTRB; or
- has an alternative heritage agreement in place with the NTRB / Native Title party.

If the Native Title party fails or refuses to execute a Regional Standard Heritage Agreement and / or makes an objection to the expedited procedure within four months of the notification day, the NNTT will determine whether the expedited procedure applies, based on the criteria set out above. If the NNTT determines that the expedited procedure applies, the State may grant the tenement; conversely, if the NNTT determines that the expedited procedure does not apply, the RTN procedure will apply. The RTN procedure will also apply if the tenement applicant fails or refuses to enter a Regional Standard Heritage Agreement or an alternative or mining heritage agreement.

Aboriginal heritage

The Aboriginal Heritage Act 1972 (WA) (the “Aboriginal Heritage Act”) seeks to protect Aboriginal sites and objects and is particularly relevant to exploration and mining activity. The Aboriginal Heritage Act provides a wide definition of Aboriginal “site” being:

- any place of importance and significance where persons of Aboriginal descent have, or appear to have, left any object, natural or artificial, used for, or made or adapted for use for, any purpose connected with the traditional cultural life of Aboriginal people, past or present;
- any sacred, ritual or ceremonial site, which is of importance and special significance to persons of Aboriginal descent;

LAWS AND REGULATIONS RELATING TO THE INDUSTRY

- any place which, in the opinion of the Aboriginal Cultural Material Committee, is or was associated with Aboriginal people and which is of historical, anthropological, archaeological or ethnographical interest and should be preserved because of its importance and significance to the cultural heritage of the State of Western Australia; and
- any place where objects to which the Aboriginal Heritage Act applies are traditionally stored, or to which, under the provisions of the Aboriginal Heritage Act, such objects have been taken or removed.

The Aboriginal Heritage Act also defines Aboriginal “objects” broadly as all objects, whether natural or artificial and irrespective of where found or situated in the State, which are or have been of sacred, ritual or ceremonial significance to persons of Aboriginal descent, or which are or were used for, or made or adapted for use for, any purpose connected with the traditional cultural life of Aboriginal people past or present.

It is an offense under the Aboriginal Heritage Act for a person to:

- excavate, destroy, damage, conceal or in any way alter any Aboriginal site; or
- in any way alter, damage, remove, destroy, conceal or deal with in a manner not sanctioned by relevant custom, or assume the possession, custody or control of, any object on or under an Aboriginal site,

without obtaining the consent of the relevant Minister under the Aboriginal Heritage Act. Consent for the use of land for a purpose that may contravene section 17 of the Aboriginal Heritage Act may be obtained by the owner of the land.

A Register of Aboriginal Sites is kept under the Aboriginal Heritage Act and administered by the Western Australian Department of Indigenous Affairs (the “DIA”). Aboriginal sites and objects are protected under the Aboriginal Heritage Act whether or not such sites or objects are recorded on the Register of Aboriginal Sites.

Where consent to disturb a significant Aboriginal site is not sought under the Aboriginal Heritage Act or Aboriginal people are otherwise concerned about a site, an Aboriginal person or group may make an application pursuant to the Aboriginal and Torres Strait Islander Heritage Protection Act 1984 (Cth) (the “ATSIHP Act”) for an emergency declaration and / or long-term declaration by the Commonwealth Minister for Environment, Heritage and the Arts to protect a significant Aboriginal area or object which may be under threat of injury or desecration.

The ATSIHP Act is only intended be a last resort where the Aboriginal Heritage Act has been exhausted or fails to provide protection (e.g. where the proponent does not apply for consent to disturb a site under section 18 of the Aboriginal Heritage Act and there is a threat that a significant Aboriginal site will be disturbed). Although there have been many applications since the ATSIHP Act came into force, there have been very few emergency declarations made and only two long-term declarations.

Heritage protected areas

If an area or place of indigenous or European heritage is listed on either the National or Commonwealth Heritage Database, then it is protected under the Environment Protection and Biodiversity Conservation Act 1999

LAWS AND REGULATIONS RELATING TO THE INDUSTRY

(Cth) (“EPBC Act”). This means that approval from the Commonwealth Minister for Sustainable Population, Communities, Environment and Water (“Environment Minister”) is required prior to taking an action that is likely to have a significant impact on the heritage values of the site (for example, activities associated with mining and exploration).

The Register of the National Estate is kept for information purposes only. However in rare circumstances, a place listed on the Register of the National Estate will be subject to the protections of the EPBC Act, if:

- the land within which the place is located, is owned or leased by the Commonwealth; and
- the place has been the subject of a written determination by the Environment Minister that the place is to be taken to be included in the Commonwealth Heritage List.

Environmental requirements governing mining in Western Australia

Set out below is a general discussion of environmental requirements governing mining in Western Australia.

State environmental impact assessment

A mining project (including construction and operations) that is likely to have a significant impact on the environment must be referred to the Environmental Protection Authority for assessment, and approved by the Western Australian Minister for Environment, under Part IV of the Environmental Protection Act 1986 (WA) (“EP Act”).

If a proposal is approved under Part IV of the EP Act, then it is generally subject to “Ministerial Conditions”, contained in a “Ministerial Statement”. These dictate how the proposal is to be implemented. The conditions in a Ministerial Statement often require the preparation, approval and implementation of various management plans. It is an offense to breach any of the conditions of a Ministerial Statement. The environmental impact caused by the breach of the conditions also may constitute one of the other offences under the EP Act such as causing pollution, or environmental harm. In the event of a breach of conditions, the Western Australian Minister for Environment may, amongst other things, issue a stop order requiring operations to cease and for action to be taken to rectify the breach. The Western Australian Minister for Environment may approve a proponent making a change to a proposal without the revised proposal being re-referred to the Environmental Protection Authority if the Minister does not consider that the change might have a significant detrimental effect on the environment in addition to or different from the original proposal.

Other state environmental approvals

In addition to State environmental impact assessment approvals, other environmental approvals may be required to develop a mining operation. These approvals may include:

- works approvals and operating licences under Part V of the EP Act for construction and operation of “prescribed premises” such as ore processing facilities, on-site effluent disposal systems and power generating facilities above a prescribed production or design capacity;

LAWS AND REGULATIONS RELATING TO THE INDUSTRY

- groundwater extraction licences under the Rights in Water and Irrigation Act 1914 (WA);
- native vegetation clearing permits under the EP Act;
- dangerous goods, handling, transport and storage licences under the Dangerous Goods Safety Act 2004 (WA); and
- a licence to take fauna (typically where translocation of species is required) under the Wildlife Conservation Act 1950 (WA).

Commonwealth environmental impact assessments

Under the EPBC Act, actions that are likely to have a significant impact on a “matter of national environmental significance” must be referred to the Department of Water, Environment, Heritage and the Arts for assessment, and approved by the Minister for Sustainable Population, Communities, Environment and Water.

An “action” includes a project, development, undertaking, activity or series of activities. An action that is likely to have a significant impact on a matter of national environmental significance is called a “controlled action”.

“Matters of national environmental significance” that may be relevant to mining projects include:

- world heritage properties;
- declared Ramsar wetlands;
- listed threatened species and ecological communities; and
- listed migratory species.

It is an offense to take a “controlled action” without the approval of the Commonwealth Minister for Sustainable Population, Communities, Environment and Water. The maximum penalty for commission of this offense is \$5.5 million, and seven years imprisonment. In addition to these penalties, Department of Water, Environment, Heritage and the Arts and third parties such as conservation groups, can seek Court injunctions to restrain potential breaches of the EPBC Act.

When a person proposes to take an action that is likely to have a significant impact on a matter of national environmental significance, they must refer the proposal to the Commonwealth Minister for the Sustainable Population, Communities, Environment and Water under the EPBC Act for a decision about whether it is a “controlled action” and needs to go through an assessment and approval process. The approval authorizes the proponent to take the action (e.g. the construction and operation of a mine) in accordance with the conditions. It is an offense to breach the conditions of approval. There is limited power to amend or vary the conditions of approval once they are imposed.

CORPORATE STRUCTURE

HISTORY AND DEVELOPMENT

The Company was incorporated in Western Australia on January 15, 1996 and registered in Western Australia under the name Galaxy Resources NL. The Company changed its name to Galaxy Resources Ltd on September 28, 2001.

On February 6, 2007, the Company began trading on the ASX under the symbol “GXY”. The Company has actively engaged in exploration and mining of lithium since its inception.

The Company’s key milestones are as follows:

- 1996 ● the Company was incorporated and registered in Western Australia as Galaxy Resources NL
- 2001 ● the Company changed its name from Galaxy Resources NL to Galaxy Resources Ltd
- 2006 ● Mt Cattlin Project tenement M74/12 acquired from Sons of Gwalia
- 2007 ● initial public offering of the Company was completed and the Company was listed on the ASX raising A\$3 million
- mineral resource definition drilling commenced at the Mt Cattlin Project
- mineral resource of 12.3 million tonnes at 1.00% lithium oxide and 135 ppm tantalum pentoxide estimated at the Mt Cattlin Project
- pre-feasibility study results for the Mt Cattlin Project announced
- 2008 ● A\$2.25 million raised via share placement
- Iggy Tan appointed as Managing Director
- 2009 ● positive definitive feasibility study results announced for the Mt Cattlin Project
- memorandum of understanding with Esperance Port Authority signed to examine export of spodumene concentrate supplied by the Mt Cattlin Project through the port of Esperance
- mineral resources increased to 14.4 million tonnes at 1.08% lithium oxide and 153 ppm tantalum pentoxide at the Mt Cattlin Project
- Galaxy Lithium International Ltd established in Hong Kong
- share subscription and debt facility agreement entered into with Creat Group, ultimately raising approximately A\$33.28 million in equity from CRHL together with bilateral debt agreement for A\$130 million. Subsequent to the Senior Loan Facility draw down, the Group entities released Creat Group from all obligations arising under the share subscription and debt facility agreement and the bilateral debt agreement
- maiden ore reserve of 9.3 million tonnes at 1.04% lithium oxide and 138 ppm tantalum pentoxide estimated at Mt Cattlin Project

CORPORATE STRUCTURE

- additional A\$65 million raised to further project development
 - results received for the Jiangsu Plant definitive feasibility study completed by Hatch which the Company deemed to be positive
 - strategic alliance with General Mining for the exploration of lithium in Mongolia and Kazakhstan entered into
 - mining approval for the Mt Cattlin Project received
- 2010
- mineral resources increased to 15.9 million tonnes at 1.08% lithium oxide and 161 ppm tantalum pentoxide at the Mt Cattlin Project
 - shipping contract with Pacific Basin to transport product from the port of Esperance to Zhangjiagang port for 5 years secured
 - Mt Cattlin Project ore reserves increased to 11.4 million tonnes at 1.05% lithium oxide and 147 ppm tantalum pentoxide
 - Galaxy Lithium (Jiangsu) Co., Ltd registered in the PRC
 - offtake framework agreements for 100% of production executed with potential customers including Mitsubishi Corporation and PRC lithium cathode producers
 - approvals from PRC authorities received to begin construction of the Jiangsu Plant
 - commissioning and production at the Mt Cattlin Project
 - first ore extracted from Mt Cattlin Project
 - Galaxy Resources Ltd registered in Hong Kong as a non-Hong Kong company under Part XI of the Companies Ordinance
 - Senior Loan Facility drawn down
 - agreements entered into for a capital raising of A\$91.5 million comprising A\$61.5 million in Convertible Bonds and A\$30 million in new Shares
 - tranche 1 Convertible Bonds issued to the Bondholders
- 2011
- tranche 2 Convertible Bonds issued to the Bondholders
 - tranche 3 Convertible Bonds issued to the Bondholders
 - Galaxy Lithium Holdings B.V. incorporated in Amsterdam, Netherlands
 - Galaxy Lithium (Canada) Inc. incorporated in Quebec, Canada
 - Galaxy Lithium (US) Inc. incorporated in Delaware, the United States

For further information, please refer to “Appendix VIII — Statutory and General Information — Further Information about the Company” of this document.

CHANGES IN SHAREHOLDING STRUCTURE

As at the Latest Practicable Date, the issued capital of the Company was [214,236,091] Shares. The Shares have no nominal or par value, as this concept does not exist under the Corporations Act. The Company does not have an authorized share capital, as such term is understood in Hong Kong, that sets the limit to the number of

CORPORATE STRUCTURE

shares a company can issue. There is generally no limit in the Corporations Act or the Company’s constitution on the power of the Directors to issue Shares.

From February 6, 2007 to present, there have been a number of changes in the shareholding structure of the Company.

On February 6, 2007, the Company was listed on the ASX after raising A\$3.00 million through its initial public offering of 15.00 million new Shares at an issue price of A\$0.20 each. On listing the Company had 43,837,279 Shares on issue.

In February 2008, the Company announced additional capital of approximately A\$1.80 million via the early staged exercise of unlisted Options.

In June 2008, the Company announced a placement of 5.00 million Shares at an issue price of A\$0.45 per Share, raising A\$2.25 million.

In December 2008, the Company announced raising approximately A\$1.18 million via a placement of 3.36 million Shares at an issue price of A\$0.35 per Share. In January and February 2009, the Company announced raising a further approximately A\$0.27 million via issuing a total of 0.76 million Shares at A\$0.35.

In March 2009, the Company announced an issue of 6.56 million Shares at an issue price of A\$0.30 per Share raising approximately A\$1.97 million in two tranches of approximately 5.08 million Shares and approximately 1.48 million Shares.

In May 2009, the Company announced a placement of 19.00 million Shares at an issue price of A\$0.35 per Share, raising A\$6.65 million. 9.40 million of these Shares were issued in May 2009 and 9.60 million were issued in September 2009.

In August 2009, the Company entered into a share subscription and debt facility agreement with Creat Group, pursuant to which we raised A\$6.00 million from the issue of approximately 6.82 million Shares at A\$0.88 per Share in December 2009, approximately A\$25.95 million from the issue of approximately 29.49 million Shares at A\$0.88 per Share in April 2010 and approximately A\$1.33 million from the issue of 1.51 million Shares at A\$0.88 per Share, from CRHL, a nominee of Creat Group.

In October 2009, the Company announced a placement of 51.00 million Shares at A\$1.28 per Share, raising A\$65.28 million.

In November 2010, the Company entered into Convertible Bonds with the Bondholders, raising A\$61.5 million. The Convertible Bonds were issued in three tranches in November 2010, January 2011 and February 2011. The Convertible Bonds are convertible into approximately 39.80 million Shares, reflecting a current conversion price of A\$1.545 per Share. Please see the sections headed “Financial Information — Indebtedness — Convertible Bonds” of this document for further information.

In November 2010, the Company announced a placement of 21.58 million Shares to Fengli Group at an issue price of A\$1.39 per Share. The Shares were issued in February 2011, raising A\$30.00 million.

CORPORATE STRUCTURE

For details in relation to the changes in shareholding structure of subsidiaries, please refer to “Appendix VIII — Statutory and General Information — Further Information about the Company” of this document.

CORPORATE STRUCTURE

The Company directly owns 100% of GLAL, which in turn owns the tenements, assets, plant (with the exception of the power station), and much of the equipment at the Mt Cattlin Project. GLAL owns 100% of GLIL, which in turn owns 100% of GLJL and owns 100% of GLHBV.

GLJL is a wholly owned foreign enterprise incorporated in the PRC.

GLJL owns the assets, plant and equipment on the site of the Jiangsu Plant and will operate the Jiangsu Plant. The registered capital of GLJL is US\$35 million. GLIL has made three installments of capital contributions totalling US\$35 million.

GLHBV is a holding company, which owns 100% of GLCA and GLUS. GLCA and GLUS are incorporated as future investment companies.

For further information about each of the subsidiaries please refer to “Appendix VIII — Statutory and General Information — Further Information about the Company” of this document.

BUSINESS

OVERVIEW

The Company is a public company registered in Western Australia. We have been listed on the ASX since 2007 and are a member of the S&P / ASX 300 Index. Our head office is located in Perth, Western Australia and we also have offices in Zhangjiagang, the PRC and Hong Kong.

The Company has historically been engaged in mining exploration activities and has a short operating history, and consequently we have not generated net profits and have not recorded positive operating cash flows to date. However, we believe there are significant growth opportunities in the market for lithium-ion batteries, driven by their current and potential use in applications such as Electric Powered Vehicles, E-bikes, alternative energy storage and portable electronics, and we are aiming to position the Company to capitalize on this growth by becoming a leading, vertically integrated producer of high quality lithium-related products in the growing lithium-ion battery market.

The Mt Cattlin Project

We currently own and operate a hard rock lithium mineral mine and processing plant at the Mt Cattlin Project, near Ravensthorpe in Western Australia, where we produce spodumene concentrate. Spodumene concentrate is one of the most common lithium-bearing raw materials used in the PRC for conversion into lithium compounds, including lithium carbonate. We are constructing a lithium carbonate plant in Jiangsu Province, PRC, where we will process spodumene concentrate produced at the Mt Cattlin Project into lithium carbonate. Lithium carbonate is an important lithium compound that is applied in a variety of end-uses including the manufacture of cathode for lithium-ion batteries. We are also actively considering further downstream opportunities, including entering into lithium-ion battery production.

We commenced production of spodumene concentrate from the Mt Cattlin Project in October 2010. The Mt Cattlin Project is currently in ramp-up, and at full capacity, which is expected to be achieved by the fourth quarter of 2011, we expect the Mt Cattlin Project to produce approximately 137,000 tpa of spodumene concentrate containing 6% lithium oxide. Key information on Mt Cattlin Project is shown in the tables below.

	Tonnes	Lithium Oxide %	Tantalum Pentoxide ppm
Mineral Resources	15,875,000	1.08	161
Ore Reserves	11,367,000	1.05	147

	Year ended June 30, 2008	Year ended June 30, 2009	Six months ended December 31, 2009	Nine months ended September 30, 2010	October 1, 2010 to Latest Practicable Date
Ore mined (tonnes)	—	—	—	23,497	[•]
Production of spodumene concentrate (tonnes)	—	—	—	—	[•]
Sales of spodumene concentrate (tonnes)	—	—	—	—	[•]

The Mt Cattlin Project has an expected mine life of 14 years, which may be extended by further exploration. A number of aspects of the operations at the Mt Cattlin Project are undertaken by contractors under the supervision of the Company’s employees, including mining and earthmoving, power station operation and

BUSINESS

transport and handling of spodumene concentrate. The remaining operations at the Mt Cattlin Project (including mine and geology planning, marketing and sales, financing, administration and technical support) are undertaken by the Company and its employees.

The Jiangsu Plant

The Jiangsu Plant, which is under construction, is designed to produce 17,000 tpa of high quality lithium carbonate, making it one of the largest such facilities in the PRC according to Roskill. The Jiangsu Plant is being constructed by Hatch under the supervision of the Company’s employees. The Company engaged Hatch Project Consulting (Shanghai) Co. Ltd to provide project management, engineering, procurement and construction management services in connection with the Jiangsu Plant, pursuant to and in accordance with an agreement dated December 8, 2009. The Jiangsu Plant will be operated by the Company and its employees. It is expected to commence commissioning and start-up of lithium carbonate in the second quarter of 2011, following which it will undergo a ramp-up period of approximately 10 months where plant throughput, lithium carbonate recovery and product purity is expected to increase steadily before reaching the design production rate in early 2012. The construction budget for the Jiangsu Plant is RMB 477 million, 34% of which had been spent by December 31, 2010.

Once the Jiangsu Plant is operational, we expect that all of the spodumene concentrate produced by the Company at the Mt Cattlin Project will be shipped from the port of Esperance to the PRC by the Company’s shipping contractor, Pacific Basin, and consumed by the Jiangsu Plant. Until then, spodumene concentrate from the Mt Cattlin Project is expected to be shipped from Esperance to the PRC by Pacific Basin and sold to another lithium carbonate producer.

The Company’s marketing strategy is to become a leader in the supply of high quality lithium carbonate to the growing lithium-ion battery market. The Jiangsu Plant has been designed to produce lithium carbonate with a purity level of 99.9%, although based on laboratory results reviewed by Snowden, we believe it will be capable of producing product with purity levels above 99.9%. We believe lithium carbonate with these high purity levels is better suited to lithium-ion battery manufacture than lower purity product, and consequently we expect it to attract higher prices.

We believe that being vertically integrated and having a stable supply of spodumene concentrate, with quality levels that we can control, will help mitigate the risk of future price, volume and quality variations in raw material supply in a market we expect to grow, as well as assisting us to produce lithium carbonate with our targeted purity level of 99.9% or above.

Offtake Framework Agreements

We have entered into offtake framework agreements covering all of our expected production of lithium carbonate with Mitsubishi Corporation and 13 major lithium cathode producers in the PRC. These offtake framework agreements are legally binding between the parties to each of the agreements offtake where the obligations to buy or sell are subject to the parties further agreeing the price of the product to be sold each quarter. None of these agreements include any take or pay obligations. We believe that this quarterly price setting mechanism is appropriate in an industry where there is currently no recognized benchmark price and expect that this will also enable us to capture any increases in pricing for a lithium compound which we anticipate will enjoy increasing demand as the lithium-ion battery market grows.

Under the terms of the offtake framework agreements with the 13 PRC customers, each customer is granted priority customer status and the Company guarantees to supply minimum agreed annual quantities to these priority customers for five years. However, if these customers do not purchase the minimum agreed annual quantities for any contract year, the Company can terminate that customer’s status as a priority customer.

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Under the terms of the offtake framework agreement with Mitsubishi Corporation, Mitsubishi Corporation will make reasonable efforts to purchase 5,000 tpa of our lithium carbonate production over a five year term where the obligation to purchase is subject to a price being further agreed between the parties each quarter. In addition, the offtake framework agreement appoints Mitsubishi Corporation as exclusive distributor of our product that it purchases under the offtake framework agreement in Japan for a period of five years from the date of first shipment. During this five year period, we will not be permitted to sell our product in Japan to parties other than Mitsubishi Corporation without Mitsubishi Corporation’s consent.

Please see the section headed “Risk Factors — Risks relating to our business and the industry in which we operate — Our offtake framework agreements may not deliver the revenues we expect.”

Vertical Integration Strategy

One of our strategies is to undertake further vertical integration and we are considering entry into the lithium-ion battery production market. In September 2010, we completed a feasibility study on the construction of a lithium-ion battery plant near our Jiangsu Plant and are further investigating its potential. Based on this feasibility study, we have concluded that the Lithium Battery Project has the potential to be an attractive investment for our Company and we intend to continue to evaluate its feasibility. We have recruited an experienced management team for this initiative and have commenced the process of investigating and obtaining the required approvals and agreements with potential customers and suppliers. However, we may ultimately decide not to proceed with the Lithium Battery Project for a variety of reasons (please see the section headed “Risk Factors — Risks relating to our business and the industry in which we operate — Development and evaluation of our potential Lithium Battery Project is at an early stage and there is no guarantee we will proceed with it as planned or at all” for further information).

The current status, key dates and forecast capital expenditure for our projects are summarized in the table below:

Project	Current Status	Key Dates	Forecast Capital Expenditure
Mt Cattlin Project	Ramp-up and commissioning	Full production by end of 2011	Nil
Jiangsu Plant	Construction	- Commissioning by second quarter of 2011 - Full production by early 2012	RMB477 million, of which 34% has been spent⁽¹⁾
Lithium Battery Project	Evaluation	- Phase I (350,000 packs p.a.) investment decision by end of the third quarter of 2011 - Phase I construction commences by end of 2011 - Phase I production commences by end of 2012 - Phase II (further 350,000 packs p.a.) investment decision during 2015 - Phase III (further 350,000 packs p.a.) investment decision during 2017	- Phase I: US\$133m - Phase II: US\$103m - Phase III: US\$103m

Note:

(1) As at December 31, 2010

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Our Board and Management Team

Our Board and management team are experienced in all aspects of our business, from the exploration for, mining and processing of, hard rock lithium minerals and other hard rock minerals, through to the manufacture and technical marketing of lithium carbonate and other industrial minerals. Various members of our management team are also experienced in the manufacture of lithium-ion batteries, in accordance with our strategy of vertical integration via the potential entry into the lithium-ion battery production market.

The Managing Director of the Company is Ignatius Tan. Mr Tan is an experienced operations executive with over [25] years’ experience in the mining and chemical industry, including a proven background in marketing and business development.

Our resource division is based in Australia and is headed by Terry Stark (Managing Director — Resource Division). Mr Stark is a mining engineer and he has 37 years’ relevant experience in the Australian mining industry. In addition, six other members of the senior management team, including the Managing Director, have at least five years’ experience relevant to our exploring and mining activities, either as mining engineers, geologists, or as directors and executives for companies in the mineral resources industry. This includes three who have previously worked at other spodumene mining operations in Western Australia.

Our chemical division is based in the PRC and is headed by Guojiang Sun (Managing Director — Chemical Division). Mr Sun is an engineer and he has six years’ experience managing chemical and processing facilities in the PRC. We have also recruited management professionals for the chemical division who have extensive experience in the PRC lithium and minerals processing industries, including the operations manager and the technical manager of the Jiangsu Plant.

Our battery division is also based on the PRC and includes personnel who are experienced in the manufacture of lithium-ion batteries. The battery division is headed by Ruqing Yi (Managing Director — Battery Division), who has over five years’ direct experience in the development of lithium-ion battery technology and manufacture of lithium-ion batteries.

Our marketing team, which falls under the corporate division, is headed by Anand Sheth. Mr Sheth has over ten years’ experience in technical marketing and sales in the global lithium and tantalite mineral industries.

For further information on the experience of our Board and management, please refer to the section headed “Directors and Senior Management”.

COMPETITIVE ADVANTAGES

We believe that we possess the following competitive advantages:

We own a significant lithium ore reserve at the Mt Cattlin Project

We wholly-own and operate the Mt Cattlin Project, which is currently producing spodumene concentrate, one of the most common hard rock lithium-bearing raw materials used in the PRC for conversion into lithium compounds and chemicals. The Mt Cattlin Project commenced production of spodumene concentrate in October 2010.

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The Mt Cattlin Project currently has ore reserves of 11.4 million tonnes at 1.05% lithium oxide and 147 ppm tantalum pentoxide, which, as at the Latest Practicable Date, makes it the third largest hard rock lithium ore reserve globally, and mineral resources of 15.9 million tonnes at 1.08% lithium oxide and 161 ppm tantalum pentoxide. It is currently expected to have a mine life of 14 years based on a mining rate of 1.0 million tpa, but this may be extended through exploration.

At full capacity, the Mt Cattlin Project is expected to produce approximately 137,000 tpa of spodumene concentrate containing 6% lithium oxide, which we expect will be sufficient to meet all of the needs of our Jiangsu Plant for 14 years from the date it is commissioned.

The Jiangsu Plant is expected to be one of the largest plants of its type in the PRC, and incorporates proprietary production technology for lithium carbonate with purity levels of 99.9% or above that is suitable for the manufacture of lithium-ion batteries

Our Jiangsu Plant is expected to produce 17,000 tpa of lithium carbonate, which we expect would make it one of the largest plants in the PRC converting hard rock lithium mineral concentrates into lithium compounds and chemicals.

We have designed the Jiangsu Plant to produce lithium carbonate with purity levels of 99.9% or above. We believe this product is better suited to lithium-ion battery manufacture than lower purity lithium carbonate, and we expect it will attract higher prices.

We have developed a proprietary process designed to produce high purity lithium carbonate from spodumene concentrate by adapting batch techniques into a continuous process incorporating standard Australian operational control processes. We filed Australian Provisional Patent Application 2010900057 in respect of our process for the production of lithium carbonate on January 7, 2010.

We have also developed a further purification step, which we expect will produce a lithium carbonate product with a purity level greater than 99.9%. This step comprises dissolving lithium carbonate in carbon dioxide to produce a bicarbonate intermediate to facilitate the removal of impurities then recrystallising a purer lithium carbonate product. We filed Australian Provisional Patent Application 20100904019 in respect of our further purification step on September 7, 2010.

The production process to be utilized at the Jiangsu Plant has been laboratory-tested, the results of which show that the process is capable of producing lithium carbonate at the targeted purity levels. However, this process has not been tested beyond the laboratory stage and there is a risk that these results will not be replicated on the scale proposed for the actual Jiangsu Plant. For further information, please see the section of this document headed “Risk Factors — Risks relating to our business and the industry in which we operate — The commercial feasibility of the Jiangsu Plant has not been fully established and is yet to demonstrate whether it is capable of operating at the targeted level of economic production”.

The Jiangsu Plant is strategically located near the east coast of the PRC

The Jiangsu Plant is located in the Jiangsu International Chemical Industrial Park within the Zhangjiagang Free Trade Zone, on the lower reaches of the Yangtze River. It is strategically located close to the Zhangjiagang port, our key suppliers and our potential customers.

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The Jiangsu Plant is located approximately 500 m from a wharf which receives ocean going vessels. Spodumene concentrate from our Mt Cattlin Project will be shipped to and unloaded at the wharf, and conveyed directly to an open stockpile at the Jiangsu Plant under an unloading agreement with Two Lions (Zhangjiagang) Logistics Co., Ltd.

In contrast, according to Roskill, all of the existing Chinese lithium carbonate production capacity from hard rock lithium mineral conversion plants similar to ours is in Xinjiang, Sichuan and Jiangxi provinces, which are in western China. Much of the supply of lithium mineral concentrate for the hard rock lithium mineral conversion plants is from imports, primarily from the Greenbushes mine in Western Australia. Once this concentrate is landed in the PRC, it must be transported over long distances to reach these plants via road or rail transport, which incurs additional cost. Consequently, we believe the Jiangsu Plant will have a cost advantage over its competitors.

The Jiangsu Plant is in close proximity to manufacturers of sulphuric acid and soda ash, the other significant physical inputs into the lithium carbonate production process we have adopted, and also has access to utilities including natural gas, water and electricity. Adjacent to the Jiangsu Plant is a sulphuric acid plant owned by Two Lions (Zhangjiagang) Fine Chemicals Co., Ltd, with whom we have executed a supply agreement to pipe sulphuric acid directly to the Jiangsu Plant. Soda ash will be sourced from Huachang, who is also located within the Jiangsu International Chemical Industrial Park and with whom we have executed a supply agreement. Utilities are expected to be supplied by local suppliers as well as the Zhangjiagang Free Trade Zone authorities and we are in the process of securing supply agreements for these.

Our location in the Zhangjiagang Free Trade Zone also means that we are strategically located close to those of our potential domestic Chinese customers who are located near the east coast of the PRC. In addition, our location near the Zhangjiagang port will also allow us to export lithium carbonate from the PRC by sea in a cost-effective manner.

Our Jiangsu Plant will benefit from internal supply of a key lithium-bearing raw material

Once the Jiangsu Plant is commissioned, we expect that the Mt Cattlin Project will provide a stable supply of spodumene concentrate to it. We believe that being vertically integrated in this way will mitigate the risk of volatility in future price, volume and quality of spodumene concentrate supply, as we will not be dependent on third party supplies of this key input into our lithium carbonate production process which as described in the section headed “Industry Overview — Overview of lithium supply — Lithium mineral concentrate production” are dominated by production from the Greenbushes mine. In addition, we expect our ability to control spodumene concentrate specifications will assist us to produce lithium carbonate of the purity levels we are targeting.

For further information, please see the section headed “Risk Factors — Risks relating to our business and the industry in which we operate — We may be unable to complete the construction of the Jiangsu Plant on time or on budget”.

We have an experienced Board and senior management with strong skills in exploration, mining, processing and marketing in lithium-related sectors

We have an extensive team of professionals highly experienced in all aspects of our business from mining and processing of spodumene, through to the manufacturing and technical marketing of lithium carbonate. The

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executive Directors and senior management of the Company taken together have sufficient experience in mining and/or exploration activities relevant to the exploration or extraction activities that the Company is pursuing.

Our mining team based in Australia has significant lithium-specific as well as general mining experience, with six members of our senior management team and Managing Director having at least five years experience relevant to our exploring and mining activities, either as mining engineers, geologists or as directors and managers for companies in the mineral resources industry, including some who have previously worked at spodumene mining operations in Western Australia. Our manufacturing team is based in the PRC and we have recruited management professionals who have extensive experience in China’s lithium industry. These professionals include the operations manager, the technical manager, process engineers, the laboratory manager and the logistics manager of the Jiangsu Plant. In addition, our marketing team has had extensive experience in similar roles in the downstream lithium business.

BUSINESS STRATEGIES

Our strategic vision is to become a leading, vertically integrated producer of high quality lithium-related products in the growing global lithium-ion battery market. We intend to capitalize on our competitive advantages set out above by pursuing the following core strategies:

Optimize and integrate operations at the Mt Cattlin Project and the Jiangsu Plant to maximize production of high quality lithium carbonate at minimum cost

The Mt Cattlin Project commenced production of spodumene concentrate in October 2010 and we are currently focused on optimizing the operation. As at the Latest Practicable Date, the Mt Cattlin Project had produced approximately [●] tonnes of spodumene concentrate. Initial production of spodumene concentrate is expected to be sold to another lithium carbonate producer in the PRC. [The first shipment of [●] tonnes was loaded in March 2011.]

Our immediate priority with regard to the Jiangsu Plant is to complete construction and successfully commission it. We have obtained all of the permits required to complete construction and, subject to receiving approvals required for commissioning, we expect to commence commissioning in the second quarter of 2011. Our key goal after commissioning is to optimize the Jiangsu Plant’s operation to ensure the production of lithium carbonate that meets our potential customers’ specifications, thereby allowing this product to go through the process of being qualified with these potential customers as soon as possible.

We ultimately intend that the two operations will be vertically integrated into a single production process to maximize production of high quality lithium carbonate at minimum cost. In particular, we will focus on ensuring a consistent supply of high quality spodumene concentrate from the Mt Cattlin Project to the Jiangsu Plant, optimizing the technical operation of the Jiangsu Plant to take into account the spodumene concentrate received from the Mt Cattlin Project and exercising rigorous cost control across both of our operations.

Become a market leader in the supply of high quality lithium carbonate to the growing lithium-ion battery industry

We intend to produce lithium carbonate with purity levels of 99.9% and above. We believe that this product is better suited to lithium-ion battery manufacture than lower purity lithium carbonate and we expect it

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will attract higher prices. We intend to position ourselves as one of the largest and most reliable suppliers of high quality lithium carbonate to this growing market by leveraging our vertically integrated business model and the extensive experience of our marketing team in the lithium market.

In particular, we believe that as demand for lithium-ion batteries in Electric Powered Vehicles grows, the automotive industry will demand higher quality cathode, which will require lithium carbonate with high purity levels. Consequently, we plan to target to this sector and intend to market our production of lithium carbonate with 99.9% purity level as “EV Grade” and our production of lithium carbonate with greater than 99.9% purity level as “EV Plus Grade”.

In furtherance of this strategy, we have signed an offtake framework agreement with Mitsubishi Corporation in respect of 5,000 tpa of our lithium carbonate production. Mitsubishi Corporation is one of Japan’s largest general trading companies and, through various related parties or joint ventures, is actively involved in manufacturing lithium-ion batteries and selling Electric Powered Vehicles. We have also signed offtake framework agreements with 13 PRC lithium cathode producers for an aggregate of 12,000 tpa of our lithium carbonate production. All of our offtake framework agreements specify a minimum of 99.5% purity level for our production and none of the offtake framework agreements include any take or pay obligations.

Selectively undertake initiatives to generate additional ore reserves and mineral resources

At the Mt Cattlin Project, there is potential to increase existing ore reserves through additional infill drilling to convert inferred resources into indicated resources and, if economically feasible, probable reserves. This has the potential to extend the mine life and / or increase production rates.

In addition, there is potential for increases to the mineral resource at the Mt Cattlin Project from regions where mineralization is still open (such as the North West Zone), outcropping pegmatites identified throughout the tenements and deeper pegmatite horizons intersected below the existing mineral resource.

We will also consider opportunities to acquire, or earn into, additional lithium mineral resources in various locations globally as and when such opportunities arise.

Continue to evaluate and advance the Lithium Battery Project

We have conducted a feasibility study on the Lithium Battery Project, recruited an experienced management team, and intend to continue to evaluate and advance this initiative. We will undertake further financial and technical evaluation, including the ongoing development of a detailed process design and battery testwork. We will also seek to advance discussions with key stakeholders regarding permits and approvals, and also potential customers, suppliers and contractors. Whether we ultimately proceed with the Lithium Battery Project depends on a number of factors, including the outcome of further evaluation, our ability to secure agreements with contractors, suppliers, customers and if required, financiers in addition to whether or not we can obtain the necessary approvals.

Improve our capital structure by reducing debt

We have entered into a US\$105 million Senior Loan Facility with a syndicate of Lenders comprising CDB and RZB. The Senior Loan Facility was fully drawn on September 22, 2010, with the net proceeds being used to

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fund construction of the Mt Cattlin Project and the Jiangsu Plant, and our ongoing working capital requirements. A condition of drawing down the Senior Loan Facility was the establishment of an equity proceeds account, funded by us to the amount of US\$50 million, which is reserved for and will be applied to principal and interest repayments.

In November 2010, January 2011 and February 2011, we issued Convertible Bonds to the Bondholders, raising A\$61.5 million.

Please see the section headed “Business — Financing Arrangements” for further details on these facilities.

Operate safely and in an environmentally and a culturally responsible manner

We are committed to applying high standards of safety for our employees, operating in an environmentally conscious manner and contributing to our local communities, both in Australia and the PRC. As a foreign company with a long term objective of investing in the PRC, we consider a sustained performance in these key areas to be critical to our long term success.

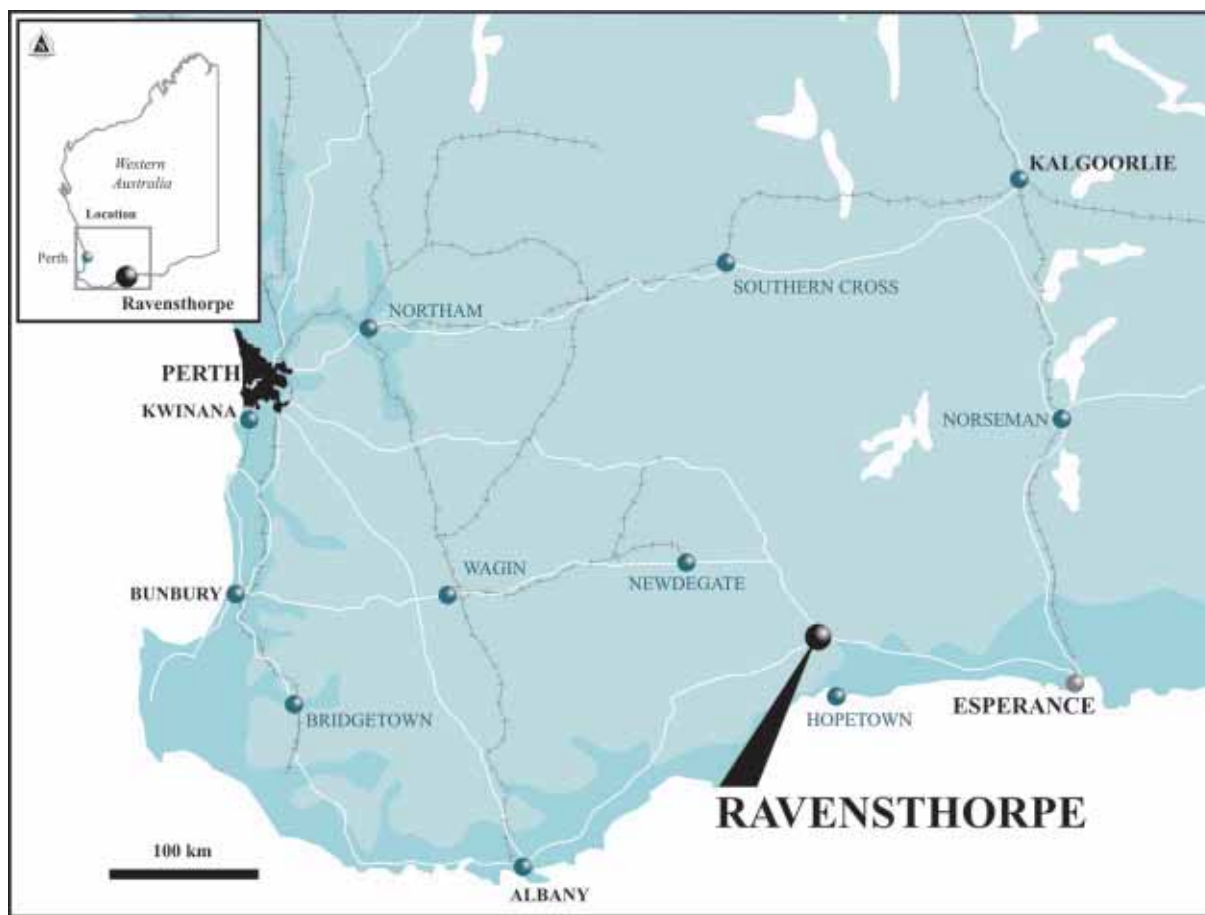
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OUR OPERATIONS

Mt Cattlin Project

Overview

The Mt Cattlin Project is an operating spodumene mine located approximately two kilometers north of the small town of Ravensthorpe in Western Australia. We have obtained the requisite rights to mine via mining lease M74/244 which was granted in December 2009 and expires in December 2030. We also have exploration licences and prospecting licences in the vicinity of mining lease M74/244. The mining lease is granted by the State of Western Australia. We also obtained an operating licence under the Environmental Protection Act 1986 (WA) enabling us to operate the mine at the Mt Cattlin Project, granted in October 2010.



Our Mt Cattlin Project operations involve open-pit mining and processing of pegmatite ore to produce spodumene concentrate. At full capacity, expected to be achieved by the fourth quarter of 2011, it is expected that ore will be processed at a rate of 1.0 million tpa, producing approximately 137,000 tpa of spodumene concentrate at an average grade of 6% lithium oxide and at design recovery of 75%.

Spodumene concentrate will be transported 187 kms by truck to the port of Esperance, where it will be shipped to China. Once our Jiangsu Plant has been commissioned, our intention is to ship all the spodumene

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concentrate supplied by the Mt Cattlin Project to the port of Zhangjiagang, where it will be further processed into lithium carbonate at our nearby Jiangsu Plant.

The Mt Cattlin Project commenced production of spodumene concentrate in October 2010. As at the Latest Practicable Date, [●] tonnes of spodumene concentrate have been produced. [There has been no recorded time lost due to injury experienced at the Mt Cattlin Project to date.] The majority of the workforce for the Mt Cattlin Project is domiciled in the nearby towns of Ravensthorpe and Hopetoun.

Mineral resource and ore reserve statement

Snowden confirms that the Mt Cattlin Project has estimated mineral resources of 15.9 million tonnes at 1.08% lithium oxide and 161 ppm tantalum pentoxide. The geological model was prepared by our Company and the mineral resource estimation was prepared by resource consultants Hellman and Schofield Pty Ltd in accordance with the JORC Code. The classification of the Mt Cattlin Project’s mineral resources is shown below.

Mineral Resources	Tonnes	Lithium Oxide %	Tantalum Pentoxide ppm
Measured	2,672,000	1.17	150
Indicated	9,629,000	1.09	171
Inferred	3,575,000	1.00	145
Total	15,875,000	1.08	161

Note: Lithium oxide cut-off grade $\geq$ 0.4% lithium oxide. Figures in the above table may not sum due to rounding.

Snowden confirms that the Mt Cattlin Project has estimated ore reserves of 11.4 million tonnes at 1.05% lithium oxide and 147 ppm tantalum pentoxide. The reserves were estimated within an optimal Whittle pit shell and incorporated data from mineral resource definition drilling, geological modelling and mineral resource estimation, detailed surface topography surveys, metallurgical test work, process plant design, capital and operating cost estimation, mine planning and geotechnical pit design parameters. The classification of the Mt Cattlin Project’s ore reserve is shown below.

Ore Reserves	Tonnes	Lithium Oxide %	Tantalum Pentoxide ppm
Proved	2,683,000	1.08	135
Probable	8,684,000	1.04	151
Total	11,367,000	1.05	147

Note: Lithium oxide cut-off grade $\geq$ 0.4% lithium oxide. Figures in the above table may not sum due to rounding.

There is the potential to further increase ore reserves by conducting additional infill drilling to convert inferred resources to indicated resources and thereafter, to probable reserves. In addition, there is potential for increases to the mineral resource estimate at the Mt Cattlin Project from regions where the mineralization is still open (such as the North West Zone), outcropping pegmatites identified throughout the tenements and deeper

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pegmatite horizons intersected below the existing mineral resource. Depending on the results of further drilling in these areas, it may be possible to add to the existing mineral resource inventory.

For more information about our mineral resources and ore reserves, please refer to “Appendix VI — Independent Technical Expert’s Report”.

Mining

Mt Cattlin is an open-pit mining operation using excavator and truck operations. We have entered into an agreement with Orionstone to conduct mine site development earthworks, production mining and crusher ore feed loading for a period of 40 months commencing from March 2, 2010. Pursuant to the agreement, Orionstone’s production mining responsibilities include grade control drilling, mining and earthmoving operations. Orionstone has subcontracted to Total Drilling Services Pty Ltd for the drill, blast and grade control work and for the supply and storage of explosives. We remain responsible for mine planning, scheduling and the overall supervision of the mining operation. We have an option to extend the Orionstone contract for a period of an additional two years.

Ore mined is transported by truck from the pit to the run-of-mine stockpile located adjacent to the processing plant. Waste will initially be placed in a stockpile constructed as a series of terraces to conform to the local topography. In later years of mining, we will endeavor to maximize the amount of waste material returned to the pit void.

The Mt Cattlin Project is currently expected to have a mine life of 14 years based on a mining rate of 1.0 million tpa, but this may be extended through exploration. The 14 year mining schedule has been generated by our consultant, Croeser Pty Ltd, and reviewed by Snowden. This mining schedule assumes the inclusion of all ore reserves and according to Snowden, appropriately diluted inferred resources.

Processing

The processing plant is located to the west of the proposed main pit, approximately two kilometers north-west of the Ravensthorpe town site. The plant consists of three key circuits:

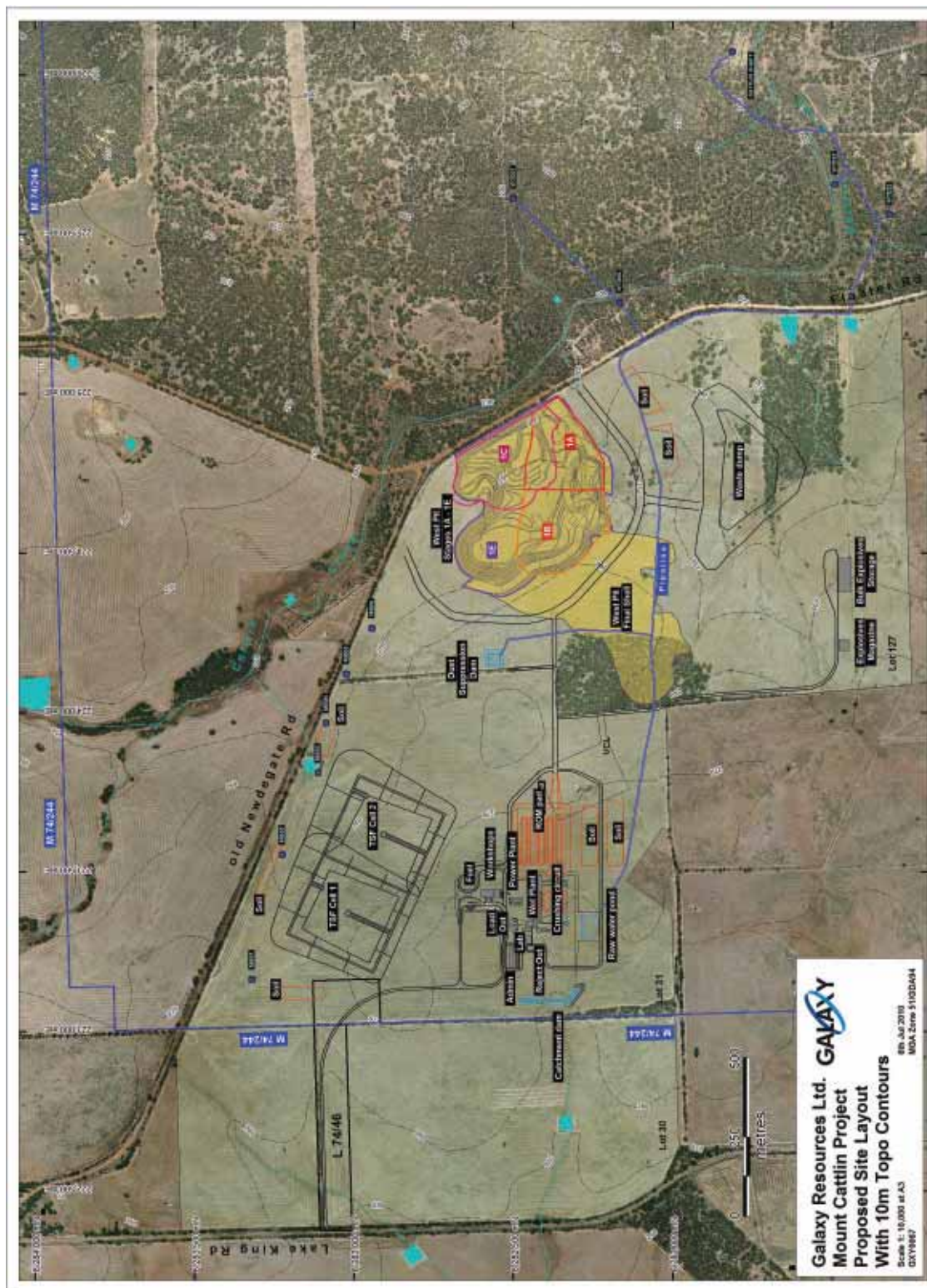
- (1) **Crushing:** A four-stage crushing circuit produces fines consisting of less than 6 mm material. Crushed ore is conveyed to the fine ore bin, which feeds the concentrator;
- (2) **Concentration:** The concentrator consists of reflux classifier, dual size stream and two stages of heavy media separation cyclones, with mechanical attritioning of the intermediate sink product. The concentrator produces spodumene concentrate, which is stacked on a pad adjacent to the plant area and drained, before being transported by road to the port of Esperance for shipment; and
- (3) **Tantalite circuit:** Undersize material from the heavy media separation pre-screen (-0.5 mm) is treated by gravity separation (i.e. spiral classifiers) to recover tantalite and residual spodumene. We have the ability to turn off this stage of the processing plant should the market price for tantalum not justify the incremental expenditure of operating it.

Tailings from the concentrator are stacked adjacent to the plant site and hauled by truck to mined-out areas as back-fill. Tailings from the tantalite recovery circuit and other plant spillage streams are directed to a thickener for process water recovery. Thickener underflow is pumped to a tailings dam located approximately 500 m from the plant site.

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The site layout for the Mt Cattlin Project is shown in the figure below.

Site Layout for Mt Cattlin Project



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Utilities

Power for the processing plant is provided by a dedicated 5 MW diesel-powered generator located on-site, which is owned and operated by Contract Power. We have a renewable five year minimum fixed-price power supply contract with Contract Power to supply power to our operations. We have a three year contract with BP Australia for the supply of diesel.

Process water is sourced from bores located on our tenements, which is pumped to the processing plant.

Operating Costs

Snowden has confirmed our operating cost budget for the Mt Cattlin Project for the six months to December 31, 2010 and the 12 months to December 31, 2011.

Expense (A\$'000)	Six months to December 31, 2010	12 months to December 31, 2011
Administration	735	1,464
Mining	10,494	20,719
Processing	3,931	11,959
Laboratory	635	1,270
Environmental	62	175
Safety	141	283
Maintenance	459	933
Utilities	195	389
Transport	1,290	4,228
Total	<u>17,942</u>	<u>41,420</u>

The breakdown of the operating costs has been presented in the above manner as, in Snowden’s view, this represents how costs are conventionally applied in the mining industry and this is more relevant than a breakdown by cost inputs.

Mt Cattlin operating costs for 2010 (July to December) and 2011 are estimated to be A\$61 / tonne treated (US\$57 / tonne treated), broken down as follows:

- Mining A\$32 / tonne treated (US\$30 / tonne treated)
- Processing A\$16 / tonne treated (US\$15 / tonne treated)
- Transport A\$6 / tonne treated (US\$6 / tonne treated)
- Site administration and other A\$7 / tonne treated (US\$7 / tonne treated)

Ramp-up operating costs in this section have been translated at average foreign exchange rates of A\$1.00 to US\$0.9358 over the ramp-up period at the Mt Cattlin Project, which are in turn based on current consensus foreign exchange forecasts for the same period.

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Snowden considers the operating costs reasonable for this style of plant, completing ramp up to planned throughput of 1.0 million tpa.

Once the ramp up to planned throughput is complete, Snowden would expect total operating costs at Mt Cattlin to be an average of A\$43-45 per tonne treated (US\$35-37 per tonne treated) over the life of mine, comprising:

- Mining A\$20-21 / tonne treated (US\$16-17 / tonne treated)
- Processing A\$14-15 / tonne treated (US\$11-12 / tonne treated)
- Transport A\$5-6 / tonne treated (US\$4-5 / tonne treated)
- Site administration and other A\$4 / tonne treated (US\$3 / tonne treated)

Operating costs in this section have been translated at average foreign exchange rates of A\$1.00 to US\$0.8056 over the life of the mine at the Mt Cattlin Project, which are in turn based on the current foreign exchange forward curve for the same period.

Operating costs are lower per tonne treated at full capacity than during ramp-up due to the fixed cost component being spread over a higher production base.

Transportation arrangements

Spodumene concentrate is transported by Esperance Freight Lines from Mt Cattlin to the Esperance Port and stored at a storage facility located within the port, owned by Esperance Ports Sea and Land. The storage facility has easy access to the wharf, where ships will be loaded via a mobile ship loader, [owned and operated by Mobile Conveying Services Pty Ltd].

We have signed a contract with Pacific Basin, which provides for a five year, fixed price arrangement subject to variation in fuel prices, to ship spodumene concentrate from the Esperance Port to the port at Zhangjiagang at a targeted rate of 25,000 tonnes per shipment. Pacific Basin operates a fleet of approximately 120 handysize and handymax dry bulk vessels ranging in size from 20,000 to 60,000 deadweight tonnes.

Sales of Mt Cattlin spodumene concentrate

As we expect to ship spodumene concentrate from the Mt Cattlin Project before the Jiangsu Plant is ready to receive it, we have entered into an agreement which we expect will allow us to sell our initial production to another lithium carbonate producer in the PRC. [The first shipment of spodumene concentrate from our Mt Cattlin Project, which comprised [●] tonnes, was loaded in March 2011].

[Once the Jiangsu Plant is operational, we expect that spodumene concentrate supplied by the Mt Cattlin Project will be sold by GLAL to GLJL using a transfer price that has been agreed by both Australian and PRC tax authorities. The Company is currently in the process of agreeing this price with the relevant tax authorities.]

Royalties

In respect of product sold from mining lease M74/244, we are required to pay a royalty to the State of Western Australia of 5% of the gross invoice value of products sold less allowable deductions under the applicable Mining Regulations.

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Part of mining lease M74/244 is also subject to a private royalty obligation which requires the Company to pay A\$1.50 for each tonne of “tantalum ore mined and processed” to Red 5. The obligation to pay this royalty was part of the consideration payable by the Company when it acquired the relevant portion of mining lease M74/244 from its previous owner. The Company is mining and processing lithium ore from this tenement. However, Red 5 claims the royalty is payable on all ore mined and processed, which the Company disputes. This dispute is ongoing and may proceed to litigation. Should the Company be required to pay the royalty, the maximum amount payable assuming the Mt Cattlin Project reaches design capacity of 1.0 million tpa of ore mined and processed, would be A\$1.5 million p.a. pre-tax. The Directors do not consider this amount material in the context of the Company’s overall cashflows as it comprises approximately 1.6% of the Company’s expected steady-state annual cash operating costs. The Directors do not consider that this dispute is likely to affect the Company’s operations.

Jiangsu Plant

Overview

We are currently constructing a lithium carbonate plant in Jiangsu Province, PRC. The Jiangsu Plant is expected to commence commissioning in the second quarter of 2011. The Jiangsu Plant has a design capacity of 17,000 tpa of lithium carbonate with a purity level of at least 99.5%. Once it is in operation, all spodumene concentrate supplied by the Mt Cattlin Project will be transported to the Jiangsu Plant for processing into lithium carbonate. The Company intends to manage fluctuations in supply of spodumene concentrate from the Mt Cattlin Project through the use of stockpiles. The Company has the capacity to stockpile spodumene concentrate at the Esperance Port (25,000 tonnes), the Jiangsu Plant (37,500 tonnes) and has the ability to stockpile excess quantities of spodumene concentrate on unused land at the Mt Cattlin Project site. In the first instance, spodumene concentrate from the Mt Cattlin Project will be stockpiled at one or more of the locations described. If supply from the Mt Cattlin Project is temporarily interrupted, the Company can utilize the stockpiles as feedstock for the Jiangsu Plant. If these stockpiles are exhausted, the Company would evaluate at the time whether to purchase spodumene concentrate feedstock from another supplier or scale back production at the Jiangsu Plant.

Our Jiangsu Plant is located at Zhangjiagang, a growing industrial port city located 98 km north-west of Shanghai near the geometrical centre of the Yangtze River Delta. Zhangjiagang has a population of approximately 880,000 as at 2009 according to the Zhangjiagang Free Trade Zone Foreign Investment Bureau. The Zhangjiagang port is an important shipping and distribution centre for containers, steel, oil, timber and chemicals, and conducts business with over 140 ports worldwide via 20 international shipping lines.

Within Zhangjiagang, the plant is located within the Jiangsu Yangtze River International Chemical Industrial Park, a 24 square kilometer specialized chemical construction park that was established in 2001. Since its establishment, it has attracted a number of international chemical companies. Importantly, within the Jiangsu International Chemical Industrial Park, there are suppliers of both sulphuric acid and soda ash, key inputs in the lithium carbonate production process, as well as access to utilities including natural gas, steam, water and electricity.

Process design

At the Jiangsu Plant, we will utilize a continuous process and a high degree of computer control which we expect will enable us to produce a consistent product quality. The process has been designed based on conventional, acid-roast lithium carbonate production technology developed in the 1940s. The production process will comprise the following steps:

- ore stockpiling and reclamation;
- calcination;

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- milling;
- sulphation;
- leaching;
- filtration;
- impurity removal;
- primary lithium carbonate crystallization;
- sodium sulphate crystallization and drying;
- bicarbonation;
- secondary lithium carbonate crystallization; and
- drying and packaging.

These steps are outlined in the figure below and described in detail as follows:

- **Ore stockpiling and reclamation:** spodumene concentrate will be shipped from Australia in maximum 25,000 tonne shipments. It will be unloaded at a wharf located approximately 500 m from the Jiangsu Plant site and transported by conveyor belt to the site boundary. A spodumene concentrate stockpile will be established on site with storage capacity of 37,500 tonne. Spodumene concentrate is recovered from the stockpile by a front end loader and fed into one of two loading hoppers.
- **Calcination, milling and sulphation:** calcination is an essential requirement for the subsequent hydrometallurgical processing of spodumene concentrate. In this step, heat treatment of the spodumene concentrate makes the lithium content in the spodumene crystals amenable to digestion by sulphuric acid during leaching.

Calcination takes place within a rotary kiln. The kiln product is then cooled in a rotary cooler. Cooled calcined material is milled in a rubber-lined ball mill before being thoroughly mixed with concentrated sulphuric acid and fed directly to the sulphating kiln. The sulphating kiln liberates lithium from the spodumene ore. The cooled calcined concentrate is then conveyed to the leach slurry feed tank.

- **Leaching, filtration and impurity removal:** Lithium will be extracted from the calcined concentrate as soluble lithium sulphate, along with some soluble impurities which are then removed to give a purified solution of lithium sulphate and sodium sulphate. Leaching takes place in a series of leach tanks at ambient pressure. Once leaching is largely complete, the leach slurry enters an oxidation tank, where iron impurities are removed and alumina silicate is precipitated and stockpiled.

At this point, the leach liquor still contains unacceptable amounts of soluble magnesium and calcium which is precipitated and filtered out of solution. This is further purified by pumping through two ion

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exchange resin columns which remove residual magnesium and calcium. The purified leach liquor then passes through to the crystallization feed tank.

- **Primary lithium carbonate crystallization and drying:** Lithium carbonate will be crystallized from the feed liquor by the addition of sodium carbonate solution.

Lithium carbonate crystallization takes place in two agitated crystallization tanks in series (lithium carbonate primary crystallizer and lithium carbonate secondary crystallizer). Most crystallization occurs in the primary crystallizer. The lithium carbonate slurry is allowed to thicken and is separated from the liquor by passing through two centrifuges. The damp lithium carbonate crystals are discharged from the centrifuges and bypasses bicarbonate purification. They are pumped to purification centrifuges for recovery and washing, then drying in a rotary dryer. Dried lithium carbonate is stored in storage bins before being bagged as a lower quality product.

- **Bicarbonate purification (secondary lithium carbonate crystallization and drying):** In order to produce a very high quality lithium carbonate product, lithium carbonate from the above process will be dissolved using carbon dioxide gas and recrystallized to free any impurities entrapped within the crystal. Soluble lithium bicarbonate is formed and entrapped sodium sulphate and other impurities are released in the process. The lithium bicarbonate is filtered to remove any insoluble components, and recrystallized to lithium carbonate.
- **Sodium sulphate crystallization and drying:** Sodium sulphate will be crystallized and recovered as an anhydrous product as part of the lithium carbonate crystallization process. Sodium hydroxide is first added to neutralize the sodium sulphate solution, and this is then pumped into an evaporative crystallizer, slurried and washed with cold water on a centrifuge to remove impurities in the liquor. The washed centrifuged sodium sulphate is dried within a natural gas heated rotary dryer, cooled and discharged to trucks collecting this by-product.



We have engaged Hatch to provide engineering, procurement and construction management services in connection with the Jiangsu Plant pursuant to and in accordance with an agreement dated December 2009. Pursuant to the defined scope of services under that agreement, Hatch, amongst others things, coordinates project activities, provides monthly progress reports to us, negotiates the terms and conditions of contracts with equipment suppliers, provides recommendations reviews designs provided by vendors and suppliers for conformity with our specifications and monitors contractors' progress through design, procurement, fabrication, installation and cold commissioning. Hatch also performs quality inspections on certain equipment, and will provide ongoing services during commissioning of the plant and equipment provided by third parties. Hatch has provided an onsite project team to oversee construction activities and is responsible for implementing the project safety management plan approved by the Company.

We received the Land Use Rights Certificate for the Jiangsu Plant issued by the People's Government of Zhangjiagang on April 29, 2010 and the Construction Permit issued by the Construction Administration Bureau of Zhangjiagang Free Trade Zone on May 31, 2010. We also received the Planning Permit of Construction Land Use and the Planning Permit of Construction Project issued by Zhangjiagang Planning Bureau on February 9, 2010 and May 31, 2010 respectively. These certificates and permits represent all necessary approvals required for the level of construction of the Jiangsu Plant currently being carried out. However, due to the changes in the construction design to include a purification step and appointment of a new construction contractor, we have applied for a revised construction permit and a revised Planning Permit of Construction Project with the local

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authorities before commencement of above-ground structural works. We received the revised construction permit and a revised Planning Permit of Construction Project reflecting the design and contractor changes on December 1, 2010. We have obtained all necessary approvals required for commissioning the Jiangsu Plant. Once construction is complete, the Jiangsu Plant will need to pass construction completion inspection prior to commissioning. The Company’s PRC legal advisor confirms that apart from the construction completion inspection, there is no other approval required for commissioning the Jiangsu Plant. The Company’s PRC legal advisor also confirms that there is no foreseeable legal impediment for the Company to pass the construction completion inspection.

Construction budget for the Jiangsu Plant

The construction budget for the Jiangsu Plant as at December 1, 2010 was estimated at RMB 477 million, including a contingency of RMB 15.8 million. Snowden has reviewed this budget and considers that the budget is realistic and unlikely to be exceeded by more than 10%.

The final construction budget is as follows:

Description	Estimate (RMB)
Design, approvals, external services and project management	65,143,000
Site external works and temporary facilities	15,253,000
Process building and warehouses	21,456,000
Other structures	27,913,000
Utilities and ancillary services	38,867,000
Process equipment supply	188,558,000
Process equipment installation and commissioning	29,938,000
Information and plant supervisory systems	20,231,000
Spares	7,156,000
Pre-production and owner’s costs	22,781,000
Contingency	39,704,000
Project total	<u>477,000,000</u>

Current status

As of early December 2010, all site roads, except the weighbridge area, have been completed. Piling for all construction is about 60% complete. Construction of the warehouse, packaging, production and administration buildings has commenced and is progressing well. We expect to complete construction and commence commissioning of the Jiangsu Plant in the second quarter of 2011. First production is anticipated one to two months post commencement of commissioning.

The Jiangsu Plant is expected to undergo a ramp-up period of approximately 10 months where plant throughput, lithium carbonate recovery and product purity increases steadily before reaching the design steady state production rate of 17,000 tpa lithium carbonate with purity levels of at least 99.5% in early 2012. Plant throughput is expected to commence at 5,000 tonnes of spodumene concentrate in the first month of production, increasing to a steady state throughput of 137,000 tpa of spodumene concentrate after 8 months at a utilization

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rate of 85%. Recovery is expected to start at 60% in the first month of production, increasing to steady state recovery of 85% after six months. In terms of purity level, we expect to predominantly produce lithium carbonate with a purity level of less than 99.5% during the first two months. By the sixth month, we expect that at least 40% of lithium carbonate produced will have a purity level of 99.5% or above and within 10 months we expect to have the capability of producing lithium carbonate with purity levels of 99.9% and above.

Total operating costs at the Jiangsu Plant are considered by Snowden to include processing (including reagents), laboratory, utilities, environmental, safety, maintenance, and transport costs, but excluding the internal transfer price of spodumene concentrate and the shipping cost of transporting spodumene concentrate from Esperance to the port of Zhangjiagang. For 2011, while the Jiangsu Plant is in ramp up stage, total operating costs at the Jiangsu Plant are estimated to be RMB 17,845 per tonne of lithium carbonate (US\$2,788 per tonne lithium carbonate). This is estimated to reduce to RMB 14,267 per tonne of lithium carbonate (US\$2,513 per tonne lithium carbonate) once the Jiangsu Plant reaches steady state. Shipping costs of spodumene concentrate from Esperance to the port of Zhangjiagang (which are additional to the operating costs at Jiangsu Plant) have been included in both cases.

Ramp-up operating costs in this section have been translated at foreign exchange rates of US\$1.00 to RMB6.4009 over the ramp-up period at the Jiangsu Plant, which are in turn based on current consensus foreign exchange forecasts for the same period. Steady state operating costs in this section have been translated at foreign exchange rates of US\$1.00 to RMB5.6765 over the life of mine at the Mt Cattlin Project, which are in turn based on the current foreign exchange forward curve for the same period.

Operating Costs

Once the Jiangsu Plant reaches steady state, the combined operating costs of producing lithium carbonate for the Company are estimated to be US\$4,331-4,416/t lithium carbonate produced, as demonstrated in the table below.

Cost Area	Source currency unit cost	Units ⁽¹⁾	Unit cost in US\$/tonne lithium carbonate ^{(2),(3)}	Reference Sections
Mt Cattlin Project	A\$43-45/t ore treated	1 million tpa ore treated	1,809-1,893	Business – Our Operations – Mt Cattlin Project – Operating Costs
Jiangsu Plant	RMB14,267/t lithium carbonate	17,000 tpa lithium carbonate produced	2,523	Business – Our Operations – Jiangsu Plant – Current status
Combined operating costs			4,331-4,416	

Notes:

- (1) Ore treated of 1 million tpa is expected to produce 137,000 tpa of spodumene concentrate, which is in turn expected to produce 17,000 tpa of lithium carbonate (see section “Business – Our Operations – Mt Cattlin Project - Background” and “Business – Overview”). The recovery rates associated within these quantities are 75% at Mt Cattlin Project (see section headed “– Our Operations – Mt Cattlin Project - Background”) and 85% at Jiangsu Plant (see section headed “– Our Operations – Jiangsu Plant – Current status”).
- (2) The life of mine average operating costs are translated at foreign exchange rates of A\$1.00 to US\$0.8056 and US\$1.00 to RMB5.6765 which are in turn based on current foreign exchange forward curves over the life of mine.

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- (3) *The unit costs per tonne are calculated by dividing life of mine average operating costs in US\$ divided by 17,000 tpa lithium carbonate expected to be produced at the Jiangsu Plant.*

Sensitivity analysis

As the Company’s operating costs are incurred primarily in A\$ and RMB, foreign exchange rates fluctuations may have a positive or negative impact on the Company’s combined operating costs of producing lithium carbonate in US\$ terms (i.e. as stated above). For the purposes of illustration, a summary of the sensitivity of the steady state estimated combined operating costs of producing lithium carbonate of foreign exchange assumptions for A\$ to US\$ and US\$ to RMB is shown in the table below. The analysis shows that a depreciation of the A\$ to the US\$ and depreciation of the RMB to the US\$ has a favorable impact on the operating margin of the Company in US\$ terms.

		US\$ to RMB exchange rates			
Estimated combined operating costs (US\$ / t lithium carbonate) A\$ to US\$ exchange rates		6.50	6.00	5.50	5.00
	0.70	3,812	3,978	4,175	4,411
	0.80	4,038	4,205	4,402	4,638
	0.90	4,265	4,431	4,628	4,864
	1.00	4,491	4,658	4,855	5,091

PRODUCTS, SALES AND MARKETING

Products

Lithium carbonate

The primary product we expect to produce from the Jiangsu Plant is lithium carbonate with purity levels of 99.5% and above. The production process to be utilized at the Jiangsu Plant has been tested in a laboratory and these tests show that the design is capable of producing 99.9% pure lithium carbonate. However, this process has not been tested beyond the laboratory stage and there is a risk that these results will not be replicated on the scale proposed for the actual Jiangsu Plant. For further information, please see the section of this document headed “Risk Factors — Risks relating to our business and the industry in which we operate — The commercial feasibility of the Jiangsu Plant has not been fully established and is yet to demonstrate whether it is capable of operating at the targeted level of economic production”.

Mt Cattlin Project by-products

Our processing plant at the Mt Cattlin Project has the capability to recover tantalite from the pegmatite ore, via a standalone tantalite circuit. If the market price for tantalum is higher than the incremental cost of producing it, we have the capacity to produce and sell tantalite concentrate. However, this is not core to our lithium carbonate business.

Jiangsu Plant by-products

We expect that the Jiangsu Plant will also produce sodium sulphate and alumina silicate as by-products. We intend to sell these by-products if economically justified by their market prices. However, these are not core to our lithium carbonate business.

Sodium sulphate is crystallized as part of the lithium carbonate crystallization process and is used in the detergent and textiles industries. Alumina silicate residue remains after the acid digestion process and is used in the manufacture of certain construction materials, including cement and bricks.

Marketing

Our marketing strategy is to target sales of lithium carbonate to the growing lithium-ion battery market. In particular, we believe that as demand for lithium-ion batteries in Electric Powered Vehicles grows, the automotive industry will demand higher quality cathode, which will require lithium carbonate with high purity levels. Consequently, we plan to target this sector and intend to market our lithium carbonate with 99.5% purity level as “Battery Grade”, our lithium carbonate with 99.9% purity level as “EV Grade” and our lithium carbonate with greater than 99.9% purity level as “EV Plus Grade”.

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Offtake framework agreements for lithium carbonate

To support our production, we have entered into offtake framework agreements covering all of our expected production of lithium carbonate with Mitsubishi Corporation and 13 major cathode producers in the PRC. These offtake framework agreements are legally binding between the parties to each of the agreements where the obligations to buy and sell are subject to the parties further agreeing the price of the product to be sold each quarter. None of these agreements include any take or pay obligations. We believe that this quarterly price setting mechanism is appropriate in an industry where there is currently no recognized benchmark price and expect that this will also enable us to capture any increases in pricing for a lithium compound which we anticipate will enjoy increasing demand as the lithium-ion battery market grows.

Under the terms of the offtake framework agreements with the 13 PRC customers, each customer is granted priority customer status and the Company guarantees to supply minimum agreed annual quantities to these priority customers for five years. However, if these customers do not purchase the minimum agreed annual quantities for any contract year, the Company can terminate that customer’s status as a priority customer.

Under the terms of the offtake framework agreement with Mitsubishi Corporation, Mitsubishi Corporation will make reasonable efforts to purchase 5,000 tpa of our lithium carbonate production over a five year term where the obligation to purchase is subject to a price being agreed between the parties each quarter and does not include any take or pay obligations.

Please see the section headed “Risk Factors — Risks relating to our business and the industry in which we operate — Our offtake framework agreements may not deliver the revenues we expect.”

The offtake framework agreements require us to produce lithium carbonate with a minimum purity level of 99.5% and impurities below a certain specification. We expect that our customers will require our products to undergo testing to confirm that they comply with these specifications.

In the ramp-up period after commencement of production at the Jiangsu Plant, we expect to produce some quantities of lithium carbonate that has purity levels below 99.5%. We expect this product to be saleable; however we have not entered into any offtake framework agreements for this product and we expect to sell it at prices lower than prices for lithium carbonate with purity levels of 99.5% or above.

Mitsubishi Corporation

On February 12, 2010, we signed a five year, offtake framework agreement with Mitsubishi Corporation for 5,000 tpa of our lithium carbonate production, on the terms described above. This offtake framework agreement also appoints Mitsubishi Corporation as exclusive distributor of our product in Japan for a period of five years from date of first shipment. During this five year period, we are not permitted to sell our product in Japan to parties other than Mitsubishi Corporation without Mitsubishi Corporation’s consent. This offtake framework agreement is governed by Western Australian law.

Mitsubishi Corporation is one of Japan’s largest general trading companies and, through various related parties or joint ventures, is actively involved in manufacturing lithium-ion batteries and selling Electric Powered

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Vehicles. We believe that Mitsubishi Corporation’s industry presence and brand make it an important strategic offtake partner for our Company.

Chinese lithium cathode producers

We have entered into five year (starting from January 1 of the calendar year of the first shipment) offtake framework agreements with 13 PRC lithium cathode producers for an aggregate of 12,000 tpa of our lithium carbonate production. These agreements are on substantially the same terms as the Mitsubishi Corporation offtake framework agreement, but do not provide the customer with any exclusive distribution rights and are governed by PRC law.

By-product sales

We have entered into non-binding agreements with two local PRC brick manufacturing companies for an aggregate of 130,000 tpa of alumina silicate slag from the Jiangsu Plant, for a period of two years, renewable for successive periods of one year unless terminated by either party. The agreement contemplates that pricing terms will be agreed upon entering into a binding agreement. We have also entered into discussions with a potential buyer for the sodium sulphate produced.

We have entered into an agreement with Global Advanced Metals to sell a total of up to 200,000 lbs of contained tantalum pentoxide in concentrate at an inflation-adjusted price over five years commencing January 2011. Global Advanced Metals has agreed to purchase the concentrate at the Mt Cattlin Project site and will be responsible for all further transporting, processing and marketing. The agreement does not include any take or pay obligations.

FINAL PRODUCT DISTRIBUTION & LOGISTICS

Our lithium carbonate products will be distributed to our customers from three warehouse locations:

- Tianjin warehouse to serve customers located in northern China;
- Changsha warehouse to serve customers located in southern China; and
- Zhangjiagang warehouse to serve customers located in central China and other regions, including export markets.

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Lithium carbonate warehouse locations in PRC



Source: Company

The Zhangjiagang warehouse, which is situated at our Jiangsu Plant, is wholly owned and operated by us and is designated for our exclusive use. The Tianjin and Changsha warehouses are owned and operated by independent third parties and are not occupied exclusively by the Company.

To facilitate the distribution of our products, we have entered into an agreement with Sinotrans Jiangsu, an integrated logistics and warehousing company. Sinotrans Jiangsu will provide transportation services from Jiangsu Plant to Tianjin and Changsha, provide warehousing services and deliver our product to customers from these locations.

LITHIUM BATTERY PROJECT

Consistent with our strategy of becoming a leading, vertically integrated producer of high quality lithium-related products, we have conducted a feasibility study evaluating a potential Lithium Battery Project, located in the Jiangsu Eco-Friendly New Materials Industrial Park in Zhangjiagang, Jiangsu. Based on the feasibility study, we believe the Lithium Battery Project offers a potentially attractive investment opportunity for our downstream expansion into lithium-ion battery manufacturing industry and warrants further evaluation.

The feasibility study envisages production of high quality, lithium-ion battery packs for E-bikes at a rate of 350,000 p.a. in the first phase. It is envisaged that the plant will be highly automated and designed with the potential to expand its capacity to 700,000 packs and 1.05 million packs per annum in the second and third phases respectively. Our current intention is that the battery packs will have a capacity of 10Ah and 36V.

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We are evaluating using KUBT as a turn-key supplier of the equipment for the Lithium Battery Project and have entered into a non-binding memorandum of understanding with Hagi Bridge Co., Ltd., the team leader of the KUBT consortium. 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. We expect that this strategy will enable us to procure all the necessary plant and equipment from a single supplier on a turn-key basis. Members of the KUBT consortium have supplied equipment to large and reputable lithium-ion battery producers including LG Chemical and Samsung.

We have entered into a memorandum of understanding with M+W Shanghai for the provision of initial engineering services for the Lithium Battery’s Project’s plant, comprising plant layout, budget estimates and commissioning of the plant in conjunction with KUBT.

Based on the engineering cost study undertaken by Hatch, capital costs including working capital are estimated to be US\$134 million for the first phase of Lithium Battery Project, with an additional US\$103 million for the second phase and a further US\$103 million for the third phase of operation.

Typical prices of good quality e-bike battery packs in PRC and overseas range from US\$200 to US\$300 per pack.

We have recruited an experienced management team for this initiative, including Ruqing Yi (Managing Director — Battery Division), who has held managerial positions with a number of companies involved in lithium-ion battery manufacture. For further information, please see the section headed “Directors and Senior Management — Senior management”.

We have also commenced the process of investigating and obtaining the required approvals, and negotiating agreements with contractors, customers and suppliers.

In November 2010, we signed a non-binding letter of intent with the Zhangjiagang Free Trade Zone Administrative Committee, for the use of a 10 hectare site located in the Jiangsu Eco-Friendly New Materials Industrial Park. The site will have access to key utilities and infrastructure and is located near our Jiangsu Plant. A number of conditions must be satisfied before entering into a binding agreement, including taking part in a public bidding process for the land use rights and approval from our Board to undertake the Lithium Battery Project.

The Board believes that key factors contributing to the Lithium Battery Project’s potential attractiveness include the possibility of installing a highly automated battery production plant, access to key raw materials (including our own lithium carbonate from the Jiangsu Plant) and access to the same utilities, services and port facility used by the Jiangsu Plant.

Development of the Lithium Battery Project remains at a preliminary stage and we are not yet in a position to decide whether we will commence construction of the Lithium Battery Project in the near future or at all. Before we commence construction, we will need to, among other things, further evaluate the opportunity from a technical, financial and marketing perspective, enter into agreements with potential suppliers and customers, obtain the necessary approvals from the relevant authorities and raise further funding.

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TENEMENTS

As of the Latest Practicable Date, we held 31 prospecting, exploration, mining and miscellaneous tenement interests in Australia, of which [eight] were still pending in application. A number of these tenements relate to early stage exploration projects, on which we have only conducted limited exploration. The table and figure below details our prospecting, exploration and mining tenements in Australia as at the Latest Practicable Date. Standard statutory royalties must be paid to the Government of the State of Western Australia on minerals extracted and sold from the mining tenements. A private royalty of A\$1.50 per tonne must be paid on any tantalum ore mined from part of mining lease M74/244.

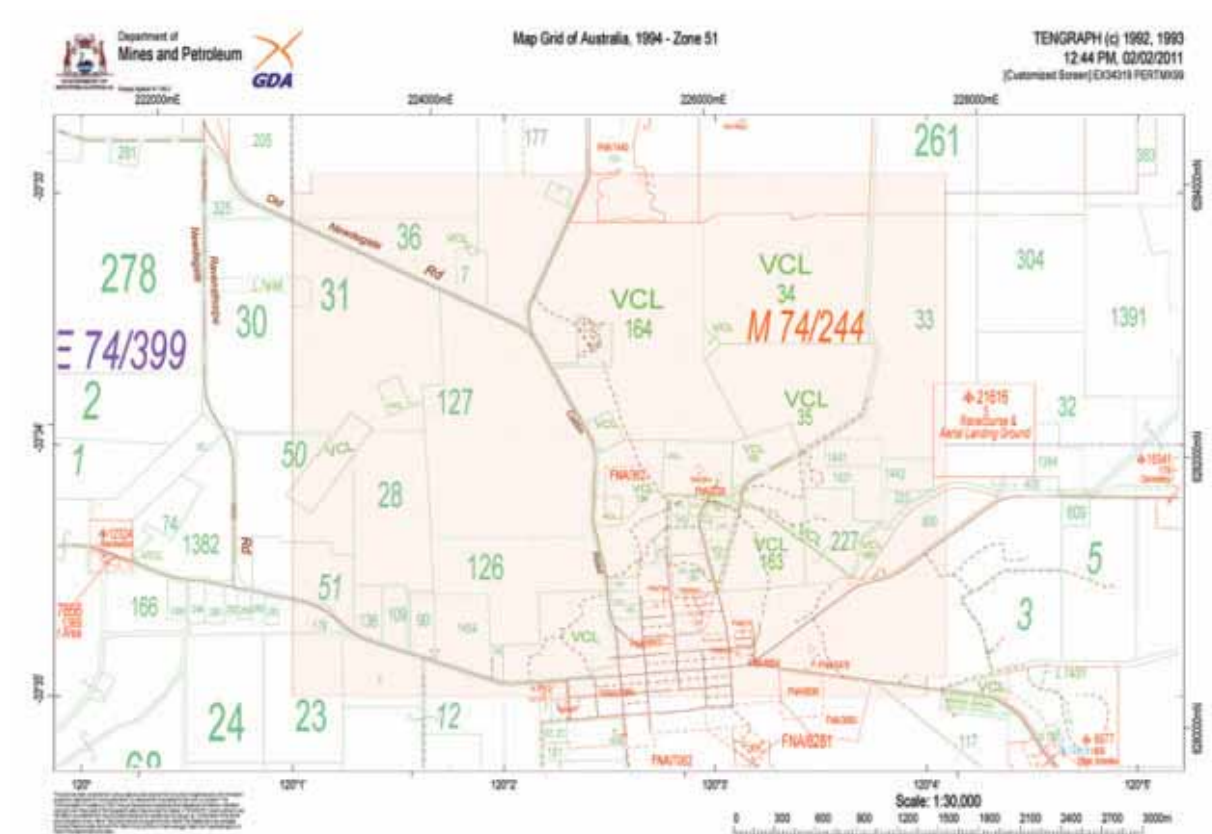
Project Name	Target Mineral / Metal	Tenement	Type of Tenement	Status	Co-Holder Details	Native Title	Aboriginal Heritage
Aerodrome	Lithium, base and precious metals	E74/334	Exploration licence	Granted	100% owned	Registered Native Title claims: - Southern Noongar (Federal Court file WAD6134/98 and NNTT file WC96/109) - Wagyl Kaip (Federal Court file WAD6286/98 and NNTT file WC98/70)	One Aboriginal heritage site is located on this tenement and is registered on the Aboriginal heritage register.
Bakers Hill	Lithium, base and precious metals	E74/398	Exploration licence	Granted	100% owned	Registered Native Title claims: - Southern Noongar (Federal Court file WAD6134/98 and NNTT file WC96/109) - Wagyl Kaip (Federal Court file WAD6286/98 and NNTT file WC98/70)	Two Aboriginal heritage sites are located on this tenement and are registered on the Aboriginal heritage register.
		E74/287	Exploration licence	Granted	100% owned	Registered Native Title claims: - Southern Noongar (Federal Court file WAD6134/98 and NNTT file WC96/109) - Wagyl Kaip (Federal Court file WAD6286/98 and NNTT file WC98/70)	Three Aboriginal heritage sites are located on this tenement and are registered on the Aboriginal heritage register.
		E74/295	Exploration licence	Granted	100% owned	Registered Native Title claims: - Southern Noongar (Federal Court file WAD6134/98 and NNTT file WC96/109) - Wagyl Kaip (Federal Court file WAD6286/98 and NNTT file WC98/70)	One Aboriginal heritage site is located on this tenement and is registered on the Aboriginal heritage register.
		E74/299	Exploration licence	Granted	100% owned	Registered Native Title claims: - Southern Noongar (Federal Court file WAD6134/98 and NNTT file WC96/109) - Wagyl Kaip (Federal Court file WAD6286/98 and NNTT file WC98/70)	To date, no Aboriginal heritage sites have been located on this tenement and registered on the Aboriginal heritage register.
		E74/415	Exploration licence	Granted	100% owned	Registered Native Title claims: - Southern Noongar (Federal Court file WAD6134/98 and NNTT file WC96/109) - Wagyl Kaip (Federal Court file WAD6286/98 and NNTT file WC98/70)	One Aboriginal heritage site is located on this tenement and is registered on the Aboriginal heritage register.
		P74/278	Prospecting licence	Granted	100% owned	Registered Native Title claims: - Southern Noongar (Federal Court file WAD6134/98 and NNTT file WC96/109) - Wagyl Kaip (Federal Court file WAD6286/98 and NNTT file WC98/70)	To date, no Aboriginal heritage sites have been located on this tenement and registered on the Aboriginal heritage register.
		P74/336	Prospecting licence	Granted	20% Traka Resources Ltd	Registered Native Title claims: - Southern Noongar (Federal Court file WAD6134/98 and NNTT file WC96/109) - Wagyl Kaip (Federal Court file WAD6286/98 and NNTT file WC98/70)	One Aboriginal heritage site is located on this tenement and is registered on the Aboriginal heritage register.
Boxwood Hill	Base and precious metals	E70/2493	Exploration licence	Application	100% owned	Registered Native Title claims: - Southern Noongar (Federal Court file WAD6134/98 and NNTT file WC96/109) - Wagyl Kaip (Federal Court file WAD6286/98 and NNTT file WC98/70)	To date, no Aboriginal heritage sites have been located on this tenement and registered on the Aboriginal heritage register.
		E70/2513	Exploration licence	Granted	100% owned	Registered Native Title claims: - Southern Noongar (Federal Court file WAD6134/98 and NNTT file WC96/109) - Wagyl Kaip (Federal Court file WAD6286/98 and NNTT file WC98/70)	To date, no Aboriginal heritage sites have been located on this tenement and registered on the Aboriginal heritage register.
		E70/2514	Exploration licence	Granted	100% owned	Registered Native Title claims: - Southern Noongar (Federal Court file WAD6134/98 and NNTT file WC96/109) - Wagyl Kaip (Federal Court file WAD6286/98 and NNTT file WC98/70)	14 Aboriginal heritage sites are located on this tenement and are registered on the Aboriginal heritage register.
		E70/2547	Exploration licence	Application	100% owned	Registered Native Title claims: - Southern Noongar (Federal Court file WAD6134/98 and NNTT file WC96/109) - Wagyl Kaip (Federal Court file WAD6286/98 and NNTT file WC98/70)	One Aboriginal heritage site is located on this tenement and is registered on the Aboriginal heritage register.
Connolly Basin	Base and precious metals	E69/1878	Exploration licence	Application	100% owned	Determined Native Title area: Martu and Ngurrara (Federal Court file WAD6110/98 and NNTT file WC96/78)	To date, no Aboriginal heritage sites have been located on this tenement and registered on the Aboriginal heritage register.

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Project Name	Target Mineral / Metal	Tenement	Type of Tenement	Status	Co-Holder Details	Native Title	Aboriginal Heritage
Floater	Lithium	E74/400	Exploration licence	Granted	100% owned	Registered Native Title claims: • Southern Noongar (Federal Court file WAD6134/98 and NNTT file WC96/109) • Wagy1 Kaip (Federal Court file WAD6286/98 and NNTT file WC98/70)	To date, no Aboriginal heritage sites have been located on this tenement and registered on the Aboriginal heritage register.
		P74/307-I	Prospecting licence	Granted	100% owned		
		P74/308-I	Prospecting licence	Granted	100% owned		
McMahon	Base metals	M74/165	Mining lease	Application	100% owned	Registered Native Title claims: • Southern Noongar (Federal Court file WAD6134/98 and NNTT file WC96/109) • Wagy1 Kaip (Federal Court file WAD6286/98 and NNTT file WC98/70)	One Aboriginal heritage site is located on this tenement and is registered on the Aboriginal heritage register. One Aboriginal heritage site is located on this tenement and is registered on the Aboriginal heritage register.
		M74/184	Mining lease	Application	100% owned		
		P74/334	Prospecting licence	Application	75% Western Copper Pty Ltd		
Mt Cattlin	Lithium	M74/244	Mining lease	Granted	100% owned	Registered Native Title claims: • Southern Noongar (Federal Court file WAD6134/98 and NNTT file WC96/109) • Wagy1 Kaip (Federal Court file WAD6286/98 and NNTT file WC98/70)	Five Aboriginal heritage sites are located on this tenement and are registered on the Aboriginal heritage register.
		L74/46	Miscellaneous licence	Granted	100% owned		To date, no Aboriginal heritage sites have been located on this tenement and registered on the Aboriginal heritage register.
Ponton	Rare earths and uranium	E28/1317	Exploration licence	Application	100% owned	Registered Native Title claims: • Central East Goldfields People (Federal Court file WAD70/98 and NNTT file WC99/30)	To date, no Aboriginal heritage sites have been located on this tenement and registered on the Aboriginal heritage register.
		E28/1830	Exploration licence	Application	100% owned		
Sirdar	Lithium	E74/401	Exploration licence	Granted	20% Traka Resources Ltd	Registered Native Title claims: • Southern Noongar (Federal Court file WAD6134/98 and NNTT file WC96/109) • Wagy1 Kaip (Federal Court file WAD6286/98 and NNTT file WC98/70)	To date, no Aboriginal heritage sites have been located on this tenement and registered on the Aboriginal heritage register.
		P74/309-I	Prospecting licence	Granted	20% Traka Resources Ltd		
		P74/310-I	Prospecting licence	Granted	20% Traka Resources Ltd		
Shoemaker	Iron ore	E69/1869-I	Exploration licence	Granted	50% General Mining	Registered Native Title claims: • Wiluna (Federal Court file WAD6164/98 and NNTT file WC99/24)	To date, no Aboriginal heritage sites have been located on this tenement and registered on the Aboriginal heritage register.
		E69/1870-I	Exploration licence	Granted	50% General Mining		
		E69/1871-I	Exploration licence	Granted	50% General Mining		
West Kundip	Manganese and dolomite	M74/133	Mining lease	Granted	100% owned	Registered Native Title claims: • Southern Noongar (Federal Court file WAD6134/98 and NNTT file WC96/109) • Wagy1 Kaip (Federal Court file WAD6286/98 and NNTT file WC98/70)	To date, no Aboriginal heritage sites have been located on this tenement and registered on the Aboriginal heritage register.
		M74/238	Mining lease	Granted	100% owned		

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All of the above granted, and pending, tenements are subject to registered or determined native title claims. However, the portion of mining lease M74/244 which we are currently mining is located over areas of freehold title (which we own) as shown in the diagram below.



Accordingly, native title over the area of our current mine (which is over the freehold title owned by us) has been extinguished, and we do not need to negotiate or enter into compensation arrangements with native title claimants in respect of the current mining area.

In addition, we have entered into an agreement with two registered native title claimants whose claim areas cover a significant amount of the South-West of Western Australia including our mining lease M74/244 and all of our other exploration and mining tenements which are over land in the South-West of Western Australia. In broad terms, the native title claimants agree to the Company exploring and mining in the native title claim areas.

In addition, the other key terms of the agreement with the two native title claimants entered into on April 20, 2010 include:

- we will pay initial compensation of \$25,000 and an annual payment of \$90,000 (while production is occurring);
- the provision of an education bursary of \$5,000 by us;

BUSINESS

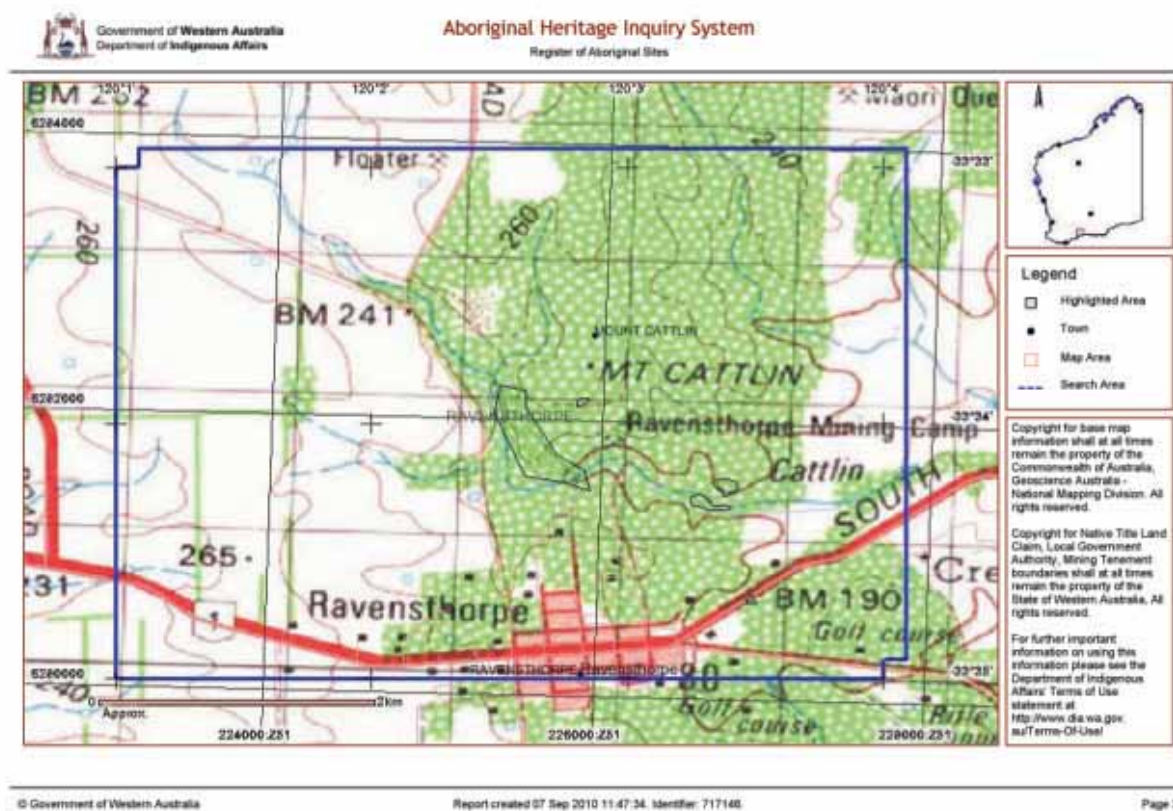
- if we commence another mining project (other than the Mt Cattlin Project) in the native title claim area, we will pay a royalty equivalent to an amount which is 10% of the amount of the royalty paid by us to the Western Australian State Government; and
- we will comply with an agreed Aboriginal heritage protocol in conducting our mining operations and the native title claimants acknowledge that we may need to obtain government consent to mine those sites affected.

Consequently, we consider that the impact of native title in relation to our current mining plans and future plans around the current mine site has been mitigated.

In relation to other native title claimants and future exploration and mining in areas outside of the agreed claim areas, we plan to mitigate the risk of native title delaying or impacting on future mining by:

- commencing any negotiations with registered native title claimants well in advance of requiring further exploration or mining tenements; and
- negotiating with native title claimants in good faith and in an expeditious manner to reach agreement with native title claimants in order to obtain the necessary rights to explore and/or mine the affected area.

In addition, there are several registered Aboriginal heritage sites on the areas of land covered by the following tenements and tenement application in which we have an interest: granted tenements E70/2514, E74/287, E74/295, E74/334, E74/398, E74/415, M74/244 and P74/336; and tenement applications E70/2547, M74/136, M74/165 and M74/184. A map of the Aboriginal heritage sites affecting M74/244 is set out below.

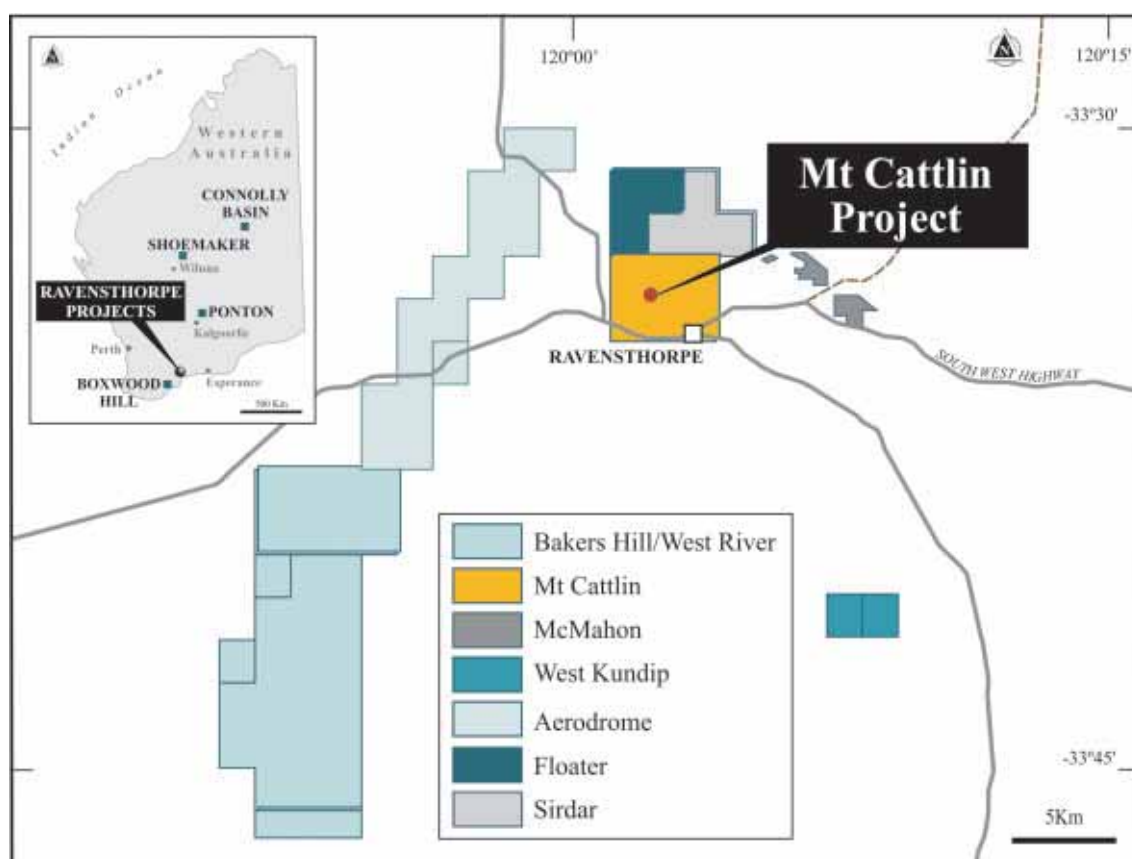


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We intend to mitigate the risk of the impact on future exploration and mining activities by expeditiously seeking any consents which are required in connection with the disturbance of Aboriginal heritage sites.

Based on the mine life of Mt Cattlin, we expect to pay approximately \$1.6 million with respect to compensation in connection with native title and Aboriginal heritage claims with respect to the Mt Cattlin mine over the next 16 years.

Please see the section headed “Laws and Regulations relating to the Industry — Australian Laws and regulations relating to the industry — Overview of the mining law regime in Western Australia.” for further information.



We hold various exploration tenements as we were previously an exploration company. It is typical for exploration companies to hold interests in a wide portfolio of early-stage exploration projects and then identify which projects have the greatest economic potential and seek to develop those projects. We have identified the Mt Cattlin Project as such a project and have now transitioned into a producer, focused on optimizing the operation at the Mt Cattlin Project. Other than M74/244, which covers the Mt Cattlin Project, there are no other mineral resources or ore reserves on any of the Company’s tenements.

In January 2011, we completed a review of our Ponton project located 200 km east of Kalgoorlie, Western Australia, which is prospective for rare earth elements. During the review, we analysed exploration and drilling data compiled by Herald Resources Limited in 1994. This analysis suggested that the Ponton project potentially has rare earth oxide grades comparable with other, more advanced rare earth projects in Australia. The Ponton project comprises two exploration licence applications located on a Class A nature reserve and we are currently

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in discussion with the Western Australian State Government to convert one of those applications to a granted exploration licence. There is, however, no guarantee that the exploration licence will be granted. Despite the positive review of our Ponton project, we remain strongly focused on our lithium-related projects.

We currently maintain a minimal amount of work on all other exploration tenements, but do not dedicate significant time or resources.

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The table below states the exploration work undertaken on each project to date, along with carrying values as at September 30, 2010 and amounts written-off during the Relevant Financial Period.

Project Name	Exploration work undertaken	Carrying value as at September 30, 2010	Amounts written off during the Relevant Financial Period
Aerodrome	Mapping undertaken by previous companies indicated the presence of pegmatites. Surface geochemistry indicated some low level gold anomalies. Since the Company took ownership, it has completed aerial magnetic, radiometric and electromagnetic surveys. A program of soil sampling targeting mainly nickel mineralisation was completed, with no follow up drilling warranted. The Company has also carried out a program of geological mapping and rock chip sampling, to follow up the lithium and tantalum potential of the pegmatites.	A\$88,567	A\$13,342
Bakers Hill	Previously, field mapping, geological surveys and limited drilling has been undertaken. The Company has compiled and reviewed the previous exploration results. It has undertaken geological mapping and rock chip sampling targeting lithium mineralisation. Aboriginal heritage and environmental surveys have been completed and approval is awaited to commence drilling on several targets.	A\$925,501	A\$231,433
Boxwood Hill	The Company has carried out rock chip sampling and reconnaissance over a magnetic anomaly. A ground magnetic survey was completed in late 2010.	A\$94,591	A\$48,202
Connolly Basin	No work has been undertaken on the tenements as they are still in application.	—	—
Floater	The Company has completed rock chip sampling of pegmatite outcrops, which returned significant Li ₂ O values. Follow up drilling was completed in 2010 on one of the outcropping pegmatite zones, which returned anomalous, but potentially sub-economic lithium values.	A\$227,796	—
McMahon	The tenements contain historic copper-gold workings. The Company has completed aerial magnetic, radiometric and electromagnetic surveys over the tenements. The Company has also completed minor drilling, the results of which suggest the project is prospective for volcanic hosted massive sulphide copper-zinc-gold mineralisation.	A\$3,124	A\$99,123
Ponton	Herald Resources Limited previously completed surface sampling over a radiometric anomaly, which produced strongly anomalous rare earth element results. An aircore drilling program returned significant intersections of rare earth element mineralisation. The Company has completed a desktop review of the previous exploration work undertaken by Herald Resources Limited. No work has been undertaken by the Company as the tenements are still in application.	—	A\$15,228
Sirdar	The Company has completed rock chip sampling of pegmatite outcrops, which returned significant Li ₂ O values. Follow up drilling was completed in 2010 on one of the outcropping pegmatite zones, which returned anomalous, but potentially sub-economic lithium values.	A\$304,791	—
Shoemaker	The Company completed a gravity survey and rock chip sampling program in 2008, the results of which confirmed the presence hematite iron ore mineralization. General Mining took over as manager of the project in December 2009 and has since commissioned a technical review of the project and commenced ground mapping and sampling of sites identified as having potential for iron or manganese mineralisation.	(A\$6,135) ⁽¹⁾	A\$400,072
West Kundip	An aerial electromagnetic survey undertaken by the Company revealed manganese anomalies. Further exploration, comprising mapping, sampling and minor drilling was completed in 2010.	A\$298,603	A\$55,518

Note:

(1) Shoemaker has a negative carrying value due to rents that were refunded after the tenements were written-down following a partial sale

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SUMMARY OF JOINT VENTURE AGREEMENTS

James Bay Project

In December 2010, we entered into a non-binding memorandum of understanding with Lithium One to acquire up to 70% of the James Bay Project. We entered into a binding, formal agreement with Lithium One in February 2011. The key terms of the proposed acquisition are:

- the Company may acquire a 20% interest in the James Bay Project for C\$3 million (approximately HK\$[23.83] million) cash (“Initial Interest”). The Company anticipates that the Initial Interest will be acquired in [March 2011];
- the Company will earn a further 31% interest in the James Bay Project, taking its total ownership to 51%, by spending C\$3 million (approximately HK\$[23.83] million) towards a definitive feasibility study within a period commencing on the day which Lithium One receives payment from Galaxy for the Initial Interest and ending on the earlier of the first anniversary of the date the Company is registered as holder of the Initial Interest (such period is extendable by an additional 12 months) or the date upon which the Company delivers the completed definitive feasibility study to Lithium One;
- the Company will earn a further 19% interest in the James Bay Project, taking its total ownership to 70%, generally upon delivery of a completed definitive feasibility study to Lithium One; provided that if the cost to complete the definitive feasibility study is greater than C\$3 million the Company solely funds any costs in excess of C\$3 million and if the costs to complete the definitive feasibility study are less than C\$3 million, the Company pays to Lithium One an amount equal to C\$3 million, less the cost to complete;
- on earning at least a 51% interest in the James Bay Project, Lithium One and the Company will enter into an unincorporated joint venture and negotiate and sign an unincorporated joint venture agreement on terms attached to the Formal Agreement; and
- after the unincorporated joint venture is formed, the Company will have exclusive rights to the promotion, marketing and sale of all spodumene or lithium carbonate and by-products from the James Bay Project, provided that Lithium One has held discussions with Owens Corning Sales, LLC (“Owens Corning”) prior to the date of execution of this agreement, regarding a possible sale to Owens Corning on behalf of the joint venture of spodumene and lithium carbonate products and by-products produced by the James Bay Project or from the relevant tenements. Any introduction or success fee payable in respect of the conclusion of such sales arrangement on behalf of the joint venture will be for the exclusive benefit of Lithium One.

The James Bay Project is a spodumene pegmatite deposit located in Quebec, Canada, adjacent to key infrastructure including high-tension power lines, roads and readily accessible water. It contains a NI 43-101 compliant indicated resource of 11.75 million tonnes at 1.3% lithium oxide and NI 43-101 compliant inferred resource of 10.47 million tonnes at 1.2% lithium oxide. The deposit occurs near the surface and is expected to be suitable for open pit mining.

Preliminary testwork shows that the spodumene ore at the James Bay Project has a similar coarseness to the Mt Cattlin Project and the Company expects that similar processing methods could be adopted. The Company expects this will allow the definitive feasibility study to be completed quickly and cost effectively.

The definitive feasibility study shall comprise a study of the technical, commercial and economic feasibility of development of a commercial mining operation for lithium bearing spodumene in the area of the relevant tenements and for the processing of lithium carbonate.

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We intend to fund our expenditure obligations on the James Bay Project using existing cash reserves.

Shoemaker Joint Venture

In June 2009, we completed a sale agreement and a joint venture agreement with ASX-listed General Mining for the exploration and potential development of the Shoemaker hematite iron ore project. The Shoemaker project is located about 100 km north of Wiluna, Western Australia. In August 2008, we announced the results of a gravity survey and rock chip sampling of hematite iron mineralization. Assay results of the rock chip sampling confirmed the presence of high grade hematite iron mineralization at the project.

Pursuant to the sale agreement, General Mining acquired a 50% interest in the Shoemaker project by payment to the Company of A\$100,000, 5,000,000 shares in General Mining and 2,500,000 options to acquire additional shares in General Mining at an exercise price of A\$0.20, exercisable at any time on or before three years from completion of the sale agreement. The joint venture agreement also allowed General Mining to earn a further 30% interest in the joint venture by spending A\$1.0 million on the Shoemaker project within two years. We are free carried from all expenditure for the project up until the completion of a bankable feasibility study and have the right to appoint a nominee director to the board of General Mining. Craig Readhead and Robert Wanless are also directors of General Mining. As at the Latest Practicable Date, we retained the 5,000,000 shares and 2,500,000 options in General Mining.

The Shoemaker Joint Venture is not currently a key focus of the Company.

Strategic Alliance in Mongolia and Kazakhstan

On October 14, 2009, the Company signed a strategic alliance agreement with General Mining for the exploration of lithium in Mongolia and Kazakhstan. General Mining holds tenements and interests that may be suitable for the exploration and ultimate mining of lithium and associated minerals. Under this agreement, both companies will co-operate on the identification, exploration, acquisition and development of potential lithium projects. Once a lithium project is identified and agreed, the companies will negotiate to execute a joint venture agreement for the project. We will fund further exploration and development of the project up to completion of a bankable feasibility study, earning 80% of the legal and beneficial interest of the project. General Mining will retain a free carried 20% interest up to completion of a bankable feasibility study. Following completion of a bankable feasibility study, if General Mining elects not to contribute to develop the project, its interest will dilute to a free carried 2% net smelter royalty for that project. There is no specified amount to be spent by the Company in respect of the strategic alliance.

The strategic alliance is not currently a key focus of the Company.

CONTRACTING OUT

We engage third party contractors for various services associated with the construction and operation of the Mt Cattlin Project, the construction of the Jiangsu Plant, our exploration activities and other projects as needed from time to time.

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One of the key benefits of using contracting arrangements is that it reduces our need for capital investment in the equipment and human resources. All contracts must be entered into in accordance with our contract policy and procedure, pursuant to which we select contractors for significant contracts through a tendering process to ensure all significant contracts are entered into on competitive terms. We maintain strict supervisory control over our contractors by conducting regular safety and progress meetings with the contractors. We expect our contractors to maintain a high standard of safety and environmental protection. There have been no material disagreements with our contractors during the Relevant Financial Period.

At the Mt Cattlin Project, processing plant engineering, procurement and construction management was contracted to the DMB Joint Venture. In addition, we have also awarded the following major contracts at the Mt Cattlin Project:

- mining services contract with Orionstone. The mining services contract terminates in 2013, unless extended by the Company or terminated upon 90 days’ notice by the Company or by either party for breach of contract. Pursuant to the terms of the contract, Orionstone indemnifies the Company from injury and loss or destruction of property arising out of performance of mining services under the contract caused by Orionstone’s breach of contract or negligent act or omission and Orionstone is required to maintain insurance to cover the same. In order to monitor the contract, Orionstone is required to maintain daily records on machine operating and downtime hours and a representative from each of the Company and Orionstone are required to hold production meetings daily; and
- design, procurement, construction, installation and commissioning and operations contract for the power station, awarded to Contract Power, an Australian-based group of companies that provides services in the design, construction and procurement of power stations. The contract terminates in 2015, unless extended by the Company or terminated upon three months’ notice by the Company or by either party for breach of contract. Pursuant to the terms of the contract, Contract Power indemnifies the Company from injury and loss or destruction of property arising out of Contract Power’s performance of the contract caused by Contract Power’s breach of contract or negligent act or omission and Contract Power is required to maintain insurance to cover the same. In order to monitor the contract, a Company representative carries out daily inspections of the power station.

As is typical for mining and exploration companies, we also use third party contractors to carry out various exploration-related activities including geophysical surveys, drilling and assaying.

Transportation and logistics services to facilitate delivery of our spodumene concentrate from the Mt Cattlin Project to the Jiangsu Plant have been contracted out. The key third party contracts that have been awarded are:

- a non-exclusive contract for the loading, road transport and unloading of spodumene concentrate has been awarded to Esperance Freight Lines, an Australian-based provider of freight solutions. The contract terminates in October 2013 unless terminated upon 90 days’ notice by the Company or by either party for breach of contract; and
- a requirements contract for the shipping of spodumene concentrate from the Esperance Port to Zhangjiagang has been awarded to Pacific Basin. The contract terminates in November 2015 unless terminated by the Company in the case of Pacific Basin’s bankruptcy or insolvency.

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At the Jiangsu Plant, the engineering, procurement and construction management was contracted to Hatch. In addition, as part of the feasibility study on the proposed Lithium Battery Project, the Company has engaged Hatch under an Agreement dated July 8, 2010 to carry out an engineering cost study for the engineering, procurement and construction management of the Lithium Battery Project.

We have also partially contracted out the logistics services for our lithium carbonate products. A shipping and warehousing contract has been awarded to Sinotrans Jiangsu to facilitate the distribution of our lithium carbonate out of warehouses in Tianjin and Changsha to customers in northern PRC and southern PRC, respectively. The contract expires in 2013 and is automatically extended for one year periods unless notice is given 30 days in advance.

A natural gas supply facility construction contract has been awarded to China Gas to design and install the natural gas supply system for the Jiangsu Plant, and to provide natural gas to the Jiangsu Plant beginning from February 2011.

Neither any of the parties in the DMB Joint Venture, Orionstone, Contract Power, Esperance Freight Lines, Esperance Ports Sea and Land, Mobile Conveying Services Pty Ltd, Pacific Basin, Hatch or Sinotrans Jiangsu have any relationship, business or otherwise, that is other than on arm’s length terms, with any shareholder, director, member of the senior management of any company in the Group or their respective associates.

As described above, the Company maintains strict supervisory control over our contractors and we undertake our own detailed mine and geology planning. Other remaining operations directly undertaken by the Company include marketing and sales, financing and administration and technical support.

SUPPLY OF MATERIALS

On September 21, 2010, we signed an agreement with BP Australia Pty Ltd for the supply of seven million litres of diesel per annum to our Mt Cattlin Project. This agreement has an initial term of three years commencing July 1, 2010 and may be extended for a further twelve month period.

On July 15, 2010, we signed two, three year supply agreements with Two Lions (Zhangjiagang) Fine Chemicals Co., Ltd, one agreement for the supply of 24,000 to 50,400 tpa of sulphuric acid and another agreement for the supply of 72,000 to 120,000 tpa of steam from its facilities located adjacent to our Jiangsu Plant. The supply under both agreements will commence on April 1, 2011.

On July 30, 2010, we signed an agreement for the supply of soda ash (sodium carbonate) with Huachang. Huachang will supply up to 143 tonnes per day of soda ash for an initial period of three years. Huachang is based in the Jiangsu International Chemical Industrial Park, close to our Jiangsu Plant site.

On October 18, 2010, we signed an agreement for the supply of natural gas with China Gas. China Gas will supply 8 million cubic meters (up to 40,000 cubic meters per day or up to 2,100 cubic meters per hour) of natural gas in 2011.

Neither BP Australia Pty Ltd, Two Lions (Zhangjiagang) Fine Chemicals Co., Ltd, Huachang or China Gas have any relationship, business or otherwise, that is other than on arm’s length terms, with any shareholder, director, member of the senior management of any company in the Group or their respective associates.

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SUPPLIERS AND CUSTOMERS

Our suppliers include our third party contractors and suppliers for equipment and ancillary materials. For the 12 months ended June 30, 2008 and June 30, 2009, the six months ended December 31, 2009 and the nine months ended September 30, 2010, our five largest suppliers accounted for approximately 52%, 31%, 63% and 30% respectively, of our total purchases. Over the same periods, our largest supplier accounted for 14%, 7%, 22% and 7% of our total purchases respectively.

None of our Directors or their respective associates, or any Shareholder who, to the knowledge of our Directors, holds more than 5% of our issued Shares, had any interest in any of our five largest suppliers during the Relevant Financial Period.

Although we have entered into offtake framework agreements with Mitsubishi Corporation and thirteen major lithium cathode producers in the PRC, the Company has not yet completed any sales of spodumene concentrate or lithium carbonate and has no revenue. As a result, we have not included in this document disclosure regarding the five largest customers of the Company.

FINANCING ARRANGEMENTS

As at the Latest Practicable Date, our outstanding interest-bearing debt comprised the US\$105 million Senior Loan Facility, A\$61.5 million in Convertible Bonds and the US\$7.76 million Letter of Credit.

Senior Loan Facility

On September 10, 2010, we entered into the US\$105 million Senior Loan Facility provided by CDB and RZB. The Senior Loan Facility was fully drawn on September 22, 2010. As a result of the placement of 21.58 million shares in February 2011 described in the section headed “Corporate Structure — Changes in shareholding structure”, we anticipate that a prepayment of US\$[5.37] million will be made in [March 2011] in accordance with the mandatory prepayment terms of the Senior Loan Facility below.

Principal terms

Key terms of the Senior Loan Facility are as follows:

- interest rate is determined by reference to SIBOR with a margin of 4.50% p.a. payable every 6 months;
- principal repayments are made over 10 equal semi-annual repayments commencing on June 10, 2012;
- no break fees are payable if a prepayment is made on an interest payment date;
- debt service reserve account to be maintained to an amount at least equal to the principal and interest payment due on the next interest payment date;

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- US\$50 million to be set aside in an equity account to fund interest prior to operational completion, and on the first interest payment date post operational completion, 100% of the remaining funds in the equity account are to be used towards prepayment and the scheduled repayment amounts reduced proportionately; and
- mandatory prepayment on dilution — if at any time, CRHL’s shareholding in the issued share capital of the Company falls below 19.9%, then additional Shares must be issued to CRHL such that CRHL maintains a 19.9% shareholding within two months of the dilution. If the Company chooses not to issue additional Shares to CRHL, a mandatory prepayment must be made such that the outstanding loan amount (less any amount in the equity account) is reduced by the same proportion as the reduction in CRHL’s shareholding. The mandatory prepayment must occur within 20 days of the dilution or on the next interest payment date, whichever is earlier.

Financial covenants and undertakings

The Senior Loan Facility does not contain any financial covenants. However, the Senior Loan Facility contains a number of undertakings which require us to obtain certain consents prior to carrying out certain activities or entering into certain transactions. The key negative undertakings in the Senior Loan Facility restrict our ability to:

- create additional charges on or further encumber assets, except where such charges or encumbrances are of a type specifically permitted;
- incur additional debt, except where such debt is of a type specifically permitted;
- provide additional guarantees or dispose of certain assets, except where such guarantees or disposals are of a type specifically permitted; and
- pay dividends or make a distribution, whether of a capital or revenue nature to a Shareholder or other person, or repay shareholder loans, except as permitted by the Senior Loan Facility.

These undertakings are likely to have minimal impact from an operational perspective. The restriction on our ability to pay dividends is not expected to have any impact on the Company or our Shareholders as we do not currently intend to pay dividends in the near future (please see the section headed “Summary — Dividend policy” for further information). The Directors believe the obligations of the Senior Loan Facility have had and will continue to have minimal impact on the Company’s operations. The Company has been and will continue to be required to share information with the Lenders and seek consent for certain actions. The main implication of having the Senior Loan Facility in place is the requirement to use project cash flows to service the Senior Loan Facility.

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Security and charges

Pursuant to the Security Trust Deed dated September 10, 2010 among the Lenders, the Company, GLAL, GLIL, GLJL and BOC, Sydney Branch, as a condition of the Senior Loan Facility, the Company, GLAL, GLIL and GLJL agreed to grant security documents in favor of BOC, Sydney Branch. The Senior Loan Facility is secured by the following:

- guarantee and indemnity granted to BOC (as security trustee) by the Company;
- fixed and floating charge granted to BOC (as security trustee) over all assets of the Company, GLAL and GLIL;
- equitable mortgage or like encumbrance granted to BOC (as security trustee) of Shares over the Company’s interest in the share capital of GLAL, GLAL’s interest in the share capital of GLIL [and GLIL’s interest in the share capital of GLJL];
- charge granted to BOC (as security trustee) over various project accounts held by the Company, GLAL and GLIL, including the facility proceeds account, the mine disbursement account, the mine proceeds account, the equity account and the debt service reserve account;
- mortgage granted to BOC (as security trustee) over the Mt Cattlin Project Tenements;
- real property mortgage granted to BOC, (acting as Agent and security trustee) over Lot 30 and 31 on Deposited Plan 224145 and Lot 127 on Deposited Plan 145763 at Mt Cattlin;
- grant of security to the Lenders in the Company’s interest in the contract with DMB Joint Venture and grant of security to the Lenders in GLAL’s interest in the contract with Orionstone; and
- assignment of security granted to BOC (as security trustee) by GLIL over its interest in the security granted by GLJL to GLIL for the US\$10 million shareholder loan from GLIL to GLJL including:
 - mortgage over all of the assets of GLJL, including the Jiangsu Plant, plant area, project authorizations and all other project documents to which GLJL is a party; and
 - charge over receivables in connection to any sale contract entered into by GLJL and a third party;
- equitable mortgage granted to BOC (as security trustee) over CRHL’s present and future shareholding in the Company up to a maximum aggregate of 19.9% of the Company’s issued share capital; and
- put option in favor of the Lenders requiring CRHL to purchase the outstanding debt from the Lenders, exercisable during a four year period after September 22, 2010.

Convertible Bonds

In November 2010, January 2011 and February 2011, we issued Convertible Bonds to the Bondholders raising a total of A\$61.5 million.

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Further information on the Convertible Bonds is disclosed under the sections headed “Financial Information — Indebtedness — Convertible Bonds”.

Letter of Credit

On October 27, 2010, we entered into the US\$7.76 million Letter of Credit provided by BOC. Further information on the Letter of Credit is disclosed under the section headed “Financial Information — Indebtedness — Letter of Credit”.

HEDGING ACTIVITIES

As at the Latest Practicable Date, the Company was not using any form of derivatives to hedge its exposure to market, credit or liquidity risk.

COMPETITION

Our short-term objective is to become an efficient producer of high quality lithium carbonate for use in the growing lithium-ion battery market.

The market for lithium is global and consequently, in achieving this objective, we will compete with both existing producers from both hard rock and brine sources of lithium, who have projects located in Australia, Asia, South America and North America, as well as new producers as their projects are brought into production in the future.

In particular, we will compete with producers of lithium compounds and chemicals from brine sources, including producers of lithium compounds and chemicals from brines for whom lithium products may not be the primary source of income. Some of our competitors, particularly the producers of lithium compounds and chemicals from brines located in North and South America, are larger than us, have greater financial resources and they may also benefit from greater economies of scale and operating efficiencies such that their operating costs are lower than ours. Please see the section headed “Industry Overview — Overview of lithium supply” for more information on these projects.

Nevertheless, based on our competitive advantages, as outlined in the section headed “Business — Competitive advantages”, we believe that we are well positioned to compete effectively in this market and gain market share. We will be vertically integrated, utilizing spodumene concentrate we mine to produce lithium carbonate, allowing us to maintain tight controls on cost and product quality. The Mt Cattlin Project is a significant hard rock lithium ore reserve, which, as at the Latest Practicable Date, makes it the third largest globally and provides an initial mine life of 14 years. Our Jiangsu Plant, which we expect will be one of the largest plants converting hard rock lithium mineral concentrates into lithium compounds and chemicals in the PRC, is strategically located near to a port, suppliers of the key inputs into the lithium carbonate production process and, unlike our brine competitors, our proposed customers. We have filed two patent applications for the production process we have developed at our Jiangsu Plant, and we have recruited an experienced management team to deliver our strategies, with significant mining, processing and marketing experience in both lithium-related products and other industrial minerals.

Our marketing strategy is to target sales of lithium carbonate to the lithium-ion battery market, particularly in Asia, and consequently, we will focus on producing and marketing lithium carbonate with high purity levels. We have entered offtake framework agreements covering all of our expected production of lithium carbonate with Mitsubishi Corporation and 13 major lithium cathode producers in the PRC.

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CORPORATE SOCIAL RESPONSIBILITY

Overview

One of our primary objectives is to ensure sustainable development around our operations and therefore we place great emphasis on health and safety, environment and community relations. We have set up corporate policies for health and safety, environment and community relations, established a Board sub-committee to monitor compliance with stated policies and we complete annual audits and develop action plans to address areas for improvement. In addition, our senior management team includes a corporate risk manager, who reports directly to the Managing Director.

Environment

We appoint an environmental manager at each of our projects to ensure all activities are conducted in an environmentally responsible manner. We have also committed to including environmental considerations in all planning decisions and overall corporate strategy, assessing all services / processes for potential environmental impact from initial design through to delivery and disposal and operating facilities in such a manner that pollution and waste are minimized and efficiency improved wherever possible. We aim to continually improve our environmental management system and performance, taking into account technical developments, scientific understanding, consumer needs and community expectations, and we strive to ensure adequate training is provided, prevent environmental incidents and have contingency plans available for emergency situations.

The Directors confirm that, during the Relevant Financial Period and up to the Latest Practicable Date, the Company has obtained all relevant environmental approvals and materially complied with relevant environmental laws and regulations, apart from certain minor technical breaches which are not expected to have a material or ongoing impact on its operations. No penalties or fines have been issued for these minor technical breaches.

The technical breaches referred to above include where, as a result of an administrative oversight, the Company undertook some commissioning works at its Mt Cattlin facility without having the relevant licence for the discharge of wastes and emissions under the Environmental Protection Act 1986 (WA) until October 14, 2010, and minor technical breaches arising from this (specifically, minor emissions from commissioning which were not authorized until October 14, breach of works approval conditions which required various documents be submitted prior to commissioning, and associated disclosure obligations).

While there was no material impact on the environment from any of the emissions, the Company has since received a formal letter of warning from the WA Department of Environment and Conservation with respect to the undertaking of commissioning works without a relevant licence for the discharge of wastes and emissions. The Company has taken steps to address this technical breach, including through appropriate liaison with the WA Department of Environment and Conservation and obtaining the required licence on October 14, 2010. To the extent that there were emissions as a result of the commissioning works they were minimal and a small fraction of what would now be permitted under the relevant operating licence for the Mt Cattlin Project processing facility as part of normal production. Having received the warning letter, the Company does not anticipate any further action in respect of this breach.

Other minor technical breaches included the construction of the Mt Cattlin Project processing facility not being in strict accordance with the works approval in force at the time (specifically, spill trays or covers were not

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installed for all conveyors as this was practically unnecessary, and a water fogging system was installed instead of a bag house) and associated disclosure obligations. The works approval has since been amended to substantially cover the facility as constructed.

Terry Stark, Managing Director — Resource Division (details on Terry Starks’ experience are set out in the section of this document entitled “Directors and Senior Management — Management Team”) has the overall responsibility for ensuring environmental compliance in respect of the Company’s Australian operations. The Company has retained the services of a specialist environmental consultancy to assist it and provide advice in relation to its environmental licensing and compliance obligations.

We have prepared a comprehensive Environmental Management Plan that will be implemented during the operational phase of the Mt Cattlin Project operations. The report was prepared by Keith Lindbeck and Associates, and sets out rehabilitation objectives for the open pit mining, tailings storage facility, processing plant, ore and concentrate handling and transport, waste rock dump, workshop, stores and laboratory, and additional site infrastructure and support facilities.

During the Relevant Financial Period, we put in place a performance bond of approximately A\$868,000 and spent a further approximately A\$2,600 on rehabilitation. We anticipate that our environmental costs will be approximately A\$100,000 per annum going forward.

Occupational health and safety

We appoint a health and safety manager at each of our projects to ensure any identified occupational health and safety issues are addressed and managed appropriately. We are firmly committed to taking all possible and practical measures to ensure the health and safety of our employees and other personnel directly or indirectly involved with mining, processing and manufacturing activities. This includes providing employee consultation on safety initiatives and accident prevention measures, conducting induction training and on-going safety instructions and ensuring safe working practices are developed, implemented and continually reviewed.

The Directors are of the view that the Company is in compliance in all material respects with its occupational health and safety obligations and has obtained all relevant and material approvals up to the various stages of its projects.

During the Relevant Financial Period and up to the Latest Practicable Date, there have been no incidents relating to the mishandling of dangerous articles and no lost time injuries were recorded.

Community consultation and development

In line with our corporate policies, we seek to contribute to the social, economic and development of local communities with initiatives towards sustainable development and the creation of benefits beyond the life of our current projects.

Awards and certificates

In December 2009, we were announced the winner of the entrepreneurial excellence award at the AustCham Australia-China Business Awards. The award recognizes an Australian business that has demonstrated entrepreneurial excellence in the PRC.

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INSURANCE

Our primary insurance policies are provided by Australian insurance companies. We maintain insurance on contract plant, contract work (including delays in start up and third party liability), corporate travel, liability insurance for our Directors and officers, and public liability. Our insurance policies do not cover commercial legal expenses, extortion, death including in relation to “key man” and non-marine strikes.

We maintain, and intend to continue to maintain insurance within ranges of coverage consistent with industry practice. In order to do this, we maintain the services of an insurance consultant. We will continue to review and assess our risk portfolio and make necessary and appropriate adjustments to our insurance practice.

INTELLECTUAL PROPERTY

We have developed a proprietary process for lithium carbonate production from spodumene concentrate by adapting batch techniques to incorporate standard Australian operational control processes. On January 7, 2010, we filed Australian Provisional Patent Application 2010900057 in respect of our process for the production of lithium carbonate. Extensive patent searches undertaken globally have confirmed our production process incorporates sufficiently unique design features and differences in design philosophy to not infringe on any existing patents.

On September 7, 2010, we filed Australian Provisional Patent Application 20100904019 in respect of our further purification step which comprises dissolving impure lithium carbonate in carbon dioxide to produce a bicarbonate intermediate, removing impurities and then recrystallising lithium carbonate at purities in excess of 99.9%. Extensive patent searches undertaken globally and specifically in the PRC have confirmed the invention does not appear to infringe on any existing patents.

We intend to file international patent applications under the Patent Cooperation Treaty in early 2011 in respect of both Australian Provisional Patent Applications. This will allow us to claim priority over our intellectual property in member countries, which includes the PRC, from the date of the relevant Australian Provisions Patent Application for a period of 30 months or until patent applications are filed in specific countries.

We have made an application for registration of a trademark in Hong Kong and Australia under the name Galaxy Resources Ltd incorporating our corporate logo. We intend to expand this trademark application to South Korea, the United States, Europe, Japan, India and Taiwan. We have also made an application for registration of a trademark in Australia for our key lithium carbonate product names, “EV Grade” and “EV Plus Grade”. We intend to expand this application to the PRC, Hong Kong, South Korea, the United States, Europe, Japan, India and Taiwan.

As at the Latest Practicable Date, we are not aware of any intellectual property disputes or infringements involving the Group.

PROPERTIES

As at the Latest Practicable Date, we held: (i) one leased property interest in Australia, with a total floor space of 450 sq.m., being office space; (ii) two leased property interests in the PRC comprising of 471.56 sq.m.,

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being office space, and a site area of 53,380.9 sq.m. within the Jiangsu International Chemical Industrial Park; and (iii) three freehold (agricultural) land property interests in Australia with an aggregate area of 393.41 hectares. All three of Galaxy’s freehold properties are zoned “agricultural”. However, to the extent that freehold land in Western Australia is covered by a mining tenement, the applicable zoning shall not operate to prohibit or affect the granting of a mining tenement or the carrying out of any mining operations authorized by the Mining Act 1978 (WA). The Company has received an opinion from its Australian legal advisors confirming that this statement fairly presents or fairly summarises the relevant Australian law to the extent appropriate in the context in which it appears and is not misleading or deceptive in any material respect. Two of Galaxy’s freehold properties (Lots 31 and 127) are covered entirely by mining lease M74/244, and its remaining freehold property (Lot 30) is partially covered by miscellaneous licence L74/46. Galaxy’s mining infrastructure is constructed on Lots 31 and 127, and so construction of that infrastructure does not breach the applicable zoning because of the application of the Mining Act. No mining infrastructure is constructed on Lot 30, which is leased to a third party and used for agricultural purposes.

We have signed lease agreements with respect to the office spaces we occupy in Australia[, Hong Kong] and the PRC. We have not received any assertions against the validity of our occupation to these premises. We believe that any defects in the lessors’ title to any of these properties which may result in us being unable to continue to occupy the relevant premises, will not have a material adverse effect on our business. Details of the property valuation by American Appraisal are set out in Appendix V to this document.

EMPLOYEES

Our employees

Our employees are grouped into various divisions, all of which are managed by members of our senior management team and executive team with oversight from our Managing Director, Ignatius Tan. Please see the section headed “Directors and Senior Management — Management team” for further detail on our management team and experience.

As at June 30, 2008 and 2009, December 31, 2009 and September 30, 2010, we employed a total of 3, 8, 17 and 86 individuals respectively, directly and indirectly.

As at January 31, 2011, we had a total of 103 employees based in Australia, PRC and Hong Kong, who can be categorized as follows according to their roles:

Types of employees	Location		
	Australia	Hong Kong	PRC
Management and executive	5	2	1
Operations	46	—	8
Safety and environmental protection	1	—	3
Purchasing and logistics	—	—	3
Technical support	2	—	10
Marketing and sales	3	—	2
Quality control	—	—	2
Finance and administration	6	—	6
Battery	—	—	3
Total	63	2	38

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As at the Latest Practicable Date, we have not experienced any major labor dispute or other labor disturbances that have interfered with our operations.

Employee remuneration policy

Our remuneration policy is designed to attract, retain and motivate highly talented individuals to ensure the capability of our workforce to deliver our business strategy and maximize shareholder wealth creation. The key principles of the remuneration policy are to set competitive rewards to attract, retain and motivate highly skilled people, through establishing short and long-term incentive programs across the organization.

Employees are typically paid a fixed, yearly salary. We make additional, compulsory superannuation and post-retirement benefit contributions (according to the laws of the jurisdictions in which we operate). Executive remuneration also comprises of a fixed yearly salary, performance-based options to purchase our Shares, short term performance-based remuneration comprising a discretionary annual cash bonus and in some cases, a company motor vehicle. Any bonuses for senior executives and executive directors must be approved by the Remuneration and Nomination Committee.

Long term performance based share options

Employees of the Company will be offered participation in our approved ESOP. The Board will determine the conditions on which options are issued under this plan. The options are issued at an exercise price determined by the Board to ensure remuneration planning continues to be integrated within the Company’s business planning process.

RESEARCH AND DEVELOPMENT

We continue to participate in research and development in relation to lithium carbonate processes and production as well as final product applications.

QUALITY CONTROL

We are committed to providing our customers with products and services that consistently match their requirements, and we in turn will seek to obtain the same quality standard from our suppliers. We will implement the Quality Policy Manual in accordance with AS/NZS ISO 9001, such that a quality assurance system can be verified to meet that standard, with provision for feedback to promote continuous quality improvement and customer satisfaction.

LEGAL PROCEEDINGS AND COMPLIANCE

As at the Latest Practicable Date, the Company was not a party to any material legal or administrative proceedings. As at the Latest Practicable Date, the Company had not received notice of any threatened or pending proceedings by government authorities or third parties, which, if adversely determined, would materially and adversely affect us.

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No breach of relevant Australian laws

The directors of the Company have each confirmed that as at the Latest Practicable Date, they have not committed or, to the best of their knowledge, been investigated, for any breach or suspected breach of any relevant Australian laws since the listing of the Company on the ASX on February 5, 2007.

Other than the minor technical environmental breaches referred to in the section of this document entitled “Business — Corporate Social Responsibility — Environment”, the Company confirms that, to the best of its knowledge, during Relevant Financial Period and up to the Latest Practicable Date it has not committed, been investigated, or is being investigated, for any breach or suspected breach of any relevant Australian law.

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS AND EXECUTIVE OFFICERS

The table below sets out the information regarding the Directors and senior management of the Company. The Company’s executive officers are appointed by, and serve at the discretion of, the Board.

Name	Age	Date of Joining the Group	Position
<i>Executive Directors</i>			
Ignatius Kim-Seng TAN	47	September 18, 2008	Managing Director
Anthony Peter TSE	40	October 13, 2010	Executive Director
Charles Bernard Francis WHITFIELD . . .	41	October 13, 2010	Executive Director
<i>Non-executive Directors</i>			
Craig Leslie READHEAD	57	April 27, 1999	Chairman of the Board, Chairman and member of Remuneration and Nomination Committee, member of Audit Committee and Risk Management Committee
Yuewen ZHENG	48	January 7, 2010	Chairman and member of Risk Management Committee, member of Audit Committee and Remuneration and Nomination Committee
Xiaojian REN	53	January 7, 2010	Non-executive Director
Robert James WANLESS	63	January 15, 1996	Non-executive Director
Shaoqing WU	41	February [24], 2011	Non-executive Director
<i>Independent Non-executive Directors</i>			
Ivo John POLOVINEO	60	July 20, 2010	Chairman and member of Audit Committee, member of Remuneration and Nomination Committee and Risk Management Committee
Kai Cheong KWAN	61	October 13, 2010	Member of Audit Committee, Remuneration and Nomination Committee and Risk Management Committee
David Michael SPRATT	65	February 11, 2011	Member of Audit Committee, Remuneration and Nomination Committee and Risk Management Committee

DIRECTORS AND SENIOR MANAGEMENT

Name	Age	Date of Joining the Group	Position
<i>Executive Officers</i>			
John Adam SOBOLEWSKI	31	January 23, 2009	Chief Financial Officer
Andrew Leslie MELONCELLI	35	November 23, 2009	Company Secretary (Australia)
Ella Wai Yee WONG	35	[●]	Company Secretary (Hong Kong)
<i>Senior Management</i>			
Terry Allen STARK	61	June 3, 2008	Managing Director — Resource Division
Guojiang SUN	45	March 1, 2010	Managing Director — Chemical Division
Ruqing YI	44	September 1, 2010	Managing Director — Battery Division
Anand Mahendra SHETH	49	February 2, 2009	General Manager — Marketing and Business Development
Duncan James COUTTS	41	November 1, 2010	General Manager — Development
Philip Mark Angelo TORNATORA	45	October 7, 2008	Exploration and Geology Manager
Christopher John RAINSFORD	55	December 1, 2009	Mt Cattlin Resident Manager
Roger POVER	53	July 1, 2010	Manager Processing
Robert MICHALSKI	54	January 5, 2010	Manager Mining
Xiaoyi WANG	54	April 1, 2010	Jiangsu Operations Manager
Jingyuan LIU	46	February 15, 2010	Process Technical Manager

EXECUTIVE DIRECTORS

Ignatius Kim-Seng TAN, Managing Director

Mr Tan is an experienced operations executive with over [25] years’ experience in the mining and chemical industry. He has a proven background in both marketing and business development. He joined the Company on September 18, 2008 and has been a Director since then. He was appointed as the Managing Director on November 11, 2008, and is in charge of the overall development of the Company’s business from mining through to processing and marketing.

Prior to the Company, Mr Tan was the managing director (re-designated as an executive director in 2009) of Nickelore Ltd (formerly Halcyon Group Ltd), an ASX-listed nickel company, between July 12, 2007 and

DIRECTORS AND SENIOR MANAGEMENT

September 30, 2009. Mr Tan continued his role at Nickelore Ltd for a period of time after commencing at the Company to allow a suitable replacement to be found. Mr Tan has also held the following positions in the past:

<u>Past positions</u>	<u>Period of employment (position)</u>
Managing director (re-designated as an executive director in 2009) of Nickelore Ltd (formerly Halcyon Group Ltd), an ASX-listed nickel exploration company	2007 to 2009
Executive general manager of Metals X Ltd (formerly Bluestone Tin Ltd), an ASX-listed tin and nickel mining and exploration company	2006 to 2007
General manager for Western Australia of Unimin Australia Ltd, a global industrial minerals company	[2005 to 2006]
General manager of IMDEX Ltd, an ASX-listed industrial and agricultural minerals company	2004 to 2005
Mid-West operations manager of Iluka Resources Ltd, an ASX-listed mineral sands mining and processing company	[2001 to 2004]
General manager of Westlime Ltd	1996 to [2001]
Lithium production manager at the Greenbushes mine with Gwalia Consolidated Ltd, previously an ASX-listed company	1995 to 1996
Various management positions at SCM Chemicals	1985 to 1995

Mr Tan has undertaken a number of roles relevant to the activities the Company is pursuing at the Mt Cattlin Project and the Jiangsu Plant. At Metals X Ltd, Mr Tan was involved in the management of the company’s Collingwood mine, a hard-rock underground mining and processing operations producing a tin concentrate. As Mid-West operations manager of Iluka Resources Ltd, Mr Tan was responsible for overseeing a 500 person mining and processing operation which produced various mineral sands products including ilmenite, synthetic rutiles and zircon, as well as transport and marketing of these products. At Westlime Ltd, Mr Tan was responsible for establishing the company’s Western Australia operations and the overall management of the limesand mining and processing operation to produce quicklime. At Gwalia Consolidated Ltd, Mr Tan was the lithium production manager and oversaw the commissioning of a lithium carbonate plant with a capacity of 5,000 tonnes per annum. The plant produced lithium carbonate from spodumene ore sourced from the Greenbushes mine. Mr Tan’s experience at Metals X Ltd, Iluka Resources Ltd, Westlime Ltd and Gwalia Consolidated together constitutes more than 11 years’ experience in extraction and management at operations similar to his current role.

[During his time at Iluka Resources Ltd, Mr Tan won the Prime Minister’s Community and Business Partnership award in recognition of his industry commitment to the local communities in Western Australia.]

Mr Tan received his Master of Business Administration from University of Southern Cross University by distance learning in 2000 and Bachelor of Science from University of Western Australia in 1985. He is a former Chairman of the Western Australian Chamber of Minerals and Energy’s Murchison Regional Council and is a member of Australian Institute of Company Directors.

DIRECTORS AND SENIOR MANAGEMENT

Charles Bernard Francis WHITFIELD, Executive Director

Mr Whitfield has been an Executive Director since October 13, 2010 with responsibilities for corporate finance, merger and acquisition activities and treasury. He has been a director and a chief investment officer of Drumrock Capital since March 2008. He was formerly a managing director with Citigroup Global Markets Asia Limited from June 5, 2006 to March 30, 2008. Prior to this, he worked for Deutsche Bank Group, where his last position was director of Structured Equity Transaction Division, from October 1, 2000 to May 31, 2006. It is expected Mr. Whitfield will spend approximately 2.5 days per week on the Company’s affairs which the Company believes is sufficient for the duties and responsibilities allocated to him.

Mr Whitfield received his Masters in Business Administration from Columbia Business School (New York) in 1998 and his Bachelor of Economics from The University of Exeter (U.K.) in 1992.

Anthony Peter TSE, Executive Director

Mr Tse has been an Executive Director since October 13, 2010 with responsibilities to manage the Company’s office in Hong Kong, compliance matters, investor and public relations. He was previously chief executive officer, from August 2008 to July 2010, and director, from January 2009 to July 2010, of CSN Corporation, a home shopping television channel operations in the PRC. Prior to this, he worked for TOM Group from 2000 to 2008 and served in various positions, including president of China Entertainment Television Broadcast Ltd, director of corporate development of the TOM Group and deputy general manager of online operations. It is expected that Mr. Tse will spend approximately 2.5 days per week on the Company’s affairs which the Company believes is sufficient for the duties and responsibilities allocated to him.

Mr Tse is a former board director and member of the Council of Governors for The Cable & Satellite Broadcasting Association of Asia. He was a member of Digital Information & Telecommunications Committee for the Hong Kong General Chamber of Commerce. He is an advisory board member for Music Matters, a leading music and entertainment industry event in Asia.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Kai Cheong KWAN, Independent Non-executive Director

Mr Kwan graduated from the University of Singapore (since renamed as the National University of Singapore) in 1973 with a degree in Accountancy. Mr Kwan qualified as a Chartered Accountant in Australia in 1979 and has been a member of the Hong Kong Institute of Certified Public Accountants since 1982. He completed the Stanford Executive Program in 1992. Mr Kwan was appointed as Independent Non-executive Director on October 13, 2010. In addition to the above mentioned positions, Mr Kwan has current positions and past positions as follows:

<u>Current positions</u>	<u>Period of employment (position)</u>
Non-executive director of JF Household Furnishings Ltd, a company listed on the Main Board of the Stock Exchange	Since April 9, 2008
Non-executive director of China Properties Group Ltd, a company listed on the Main Board of the Stock Exchange	Since February 2007

DIRECTORS AND SENIOR MANAGEMENT

<u>Current positions</u>	<u>Period of employment (position)</u>
Independent non-executive director of SPG Land (Holdings) Ltd, a company listed on the Main Board of the Stock Exchange	Since September 19, 2006
Independent non-executive director of Win Hanverky Holdings Ltd, a company listed on the Main Board of the Stock Exchange	Since April 18, 2006
Independent non-executive director of Henderson Sunlight Asset Management Limited, the manager of Sunlight REIT which is listed on the Stock Exchange . .	Since February 17, 2006
Independent non-executive director of Hutchison Harbour Ring Ltd, a company listed on the Main Board of the Stock Exchange	Since September 27, 2004
President of Morrison & Company Ltd which is a business consultancy firm	Since January 2003
Director of Yaohan International Holdings Ltd (“Yaohan”), a company previously listed on the Stock Exchange, but is currently being wound up after the order of the court in Hong Kong on February 26, 1999	Since May 9, 1997
<u>Past positions</u>	<u>Period of employment (position)</u>
Independent non-executive director of T.S. Telecom Technologies Ltd (now Great World Company Holdings Ltd), a company listed on GEM	March 10, 2005 to January 23, 2008
Independent non-executive director of Soundwill Holdings Ltd, a company listed on the Main Board of the Stock Exchange	September 30, 2004 to January 7, 2011
Independent non-executive director of Hutchison Telecommunications International Ltd	August 23, 2004 to May 26, 2010
Executive director (re-designated as a non-executive director on January 22, 2007) of China Medical and Bio Science Ltd (formerly known as China Medical Science Ltd), a company listed on GEM with provisional liquidator appointed on December 12, 2008	September 27, 2000 to May 20, 2008
President of Merrill Lynch (Asia Pacific Region)	1992 to 1993
Chief operating officer of Merrill Lynch (Asia Pacific Region)	1990 to 1993
Mr. Kwan was appointed as a director of Yaohan to represent the approximately 19% equity interests of Pacific Concord Holding Limited in Yaohan but without any involvement in Yaohan’s day-to-day management.	
Ivo John POLOVINEO, Independent Non-executive Director	
Mr Polovineo was appointed as an Independent Non-executive Director on July 20, 2010. Mr Polovineo is a Professional National Accountant of the National Institute of Accountants with more than 10 years experience as a chief financial officer or a company secretary in the resources sector.	

DIRECTORS AND SENIOR MANAGEMENT

From 2000 to 2009, Mr Polovineo was the company secretary and from 2000 to 2007, the chief financial officer, of Sino Gold Mining Ltd, a company formerly listed on the ASX and the Stock Exchange. Sino Gold developed and operated gold mines in the PRC. Mr Polovineo was involved in the secondary listing of Sino Gold on the Stock Exchange in 2007.

Michael Spratt, Independent Non-executive Director

Mr Spratt was appointed as an Independent Non-executive Director on February 11, 2011. He has experience in the mining, mineral processing and smelting industries.

Mr Spratt was appointed as a non-executive director of Kasbah Resources Ltd, an ASX-listed company with principal activities in tin and gold exploration in Morocco, in August 2010 and he took over as the chairman of the board of Kasbah Resources Ltd in December 2010. Before that, he was the managing director of Thailand Smelting and Refining Co., Ltd, a manufacturer of tin, tin alloys and tin-related products, from September 2003 to June 2010. Mr Spratt was also a director of Australian Silicon Limited (now Gold One International Limited), an ASX-listed gold mining company, from December 2001 to May 2003.

Mr Spratt received his Bachelor of Science in Metallurgy with first class honours from University of New South Wales in 1971. He is also a Life Member of the Stanford Business School Alumni Association. Mr Spratt is a Fellow of the Institute of Engineers, Australia and a Fellow of Australasian Institute of Mining and Metallurgy. Mr Spratt is also a Fellow of the Australian Institute of Company Directors.

NON-EXECUTIVE DIRECTORS

Craig Leslie READHEAD, Chairman of the Board, Non-executive Director

Mr Readhead joined the Company on April 27, 1999 and has been a Director and the Chairman of the Board of the Company since then. He has more than 11 years’ experience in the mining industry. In addition to the above mentioned positions, Mr Readhead has current positions and past positions as follows:

<u>Current positions</u>	<u>Period of employment (position)</u>
Chairman and non-executive director of Beadell Resources Ltd, an ASX-listed mineral resources company	Since April 14, 2010
Partner of Allion Legal, a specialist mining and corporate law firm	Since 2009
Chairman (retired on October 1, 2009) and non-executive director of General Mining Corporation Ltd, an ASX-listed mineral resources company	Since September 2007
Non-executive director of India Resources Ltd, an ASX-listed mineral resources company	Since February 2007
Chairman and non-executive director of Heron Resources Ltd, an ASX-listed mineral resources company	Since November 23, 2001
Non-executive director of Mt. Gibson Iron Ltd, an ASX-listed mineral resources company	Since December 21, 2001
Chairman (appointed on March 31, 2009) and non-executive director of Frankland River Olive Company Ltd, an ASX-listed olive product company	Since September 13, 1999

DIRECTORS AND SENIOR MANAGEMENT

<u>Past positions</u>	<u>Period of employment (position)</u>
Chairman and non-executive director of Agincourt Resources Ltd, a formerly ASX-listed mineral resources company	December 4, 2003 to April 2, 2007
Chairman and independent non-executive director of Nickelore Limited (formerly Halcyon Group Ltd), an ASX-listed mineral resources company	April 18, 2000 to October 11, 2007

Mr Readhead received Bachelor of Jurisprudence and Bachelor of Laws from University of Western Australia in 1976 and 1977 respectively. He is a barrister and solicitor and was admitted to the Law Society of Western Australia in 1977. He is a member of the Fellow of the Australian Institute of Company Directors (FAICD). He was the President of Australian Mining and Petroleum Law Association Ltd.

Yuewen ZHENG, Non-executive Director

Dr Zheng has been a Director since January 7, 2010. He has six years’ experience in assuming managerial and advisory roles in the mineral resources industry. He was the chief executive officer of Creat Group from 1992 to 2002 and has been the chairman since 2002. Creat Group is the substantial interest holder of CRHL, a mining resources company listed on AIM. He has also been a non-executive chairman of CRHL since March 16, 2008 and has been the managing director and chief executive officer of CRHL since June 24, 2010.

Dr Zheng has been a director of Beijing Keruicheng Mining Investment Co Ltd and Beijing Keruicheng Jinchuan Mining Investment Co Ltd since 2006 and 2007 respectively. From November 16, 2000 to June 22, 2009, he was the chairman and an executive director of Yantai North Andre Juice Co., Ltd, which is listed on the Main Board of the Stock Exchange. He has also been chairman of Shanghai RAAS Blood Products Co., Ltd, a company specializes in the research, manufacture and sale of plasma derived medical products listed on Shenzhen Stock Exchange, since June 16, 2004.

Dr Zheng received his Doctor of Philosophy in Finance from Dongbei University of Finance and Economics in the PRC by distance learning in 1999, his Master of Business Administration from Asia International Open University (Macau) by distance learning in 1999 and Bachelor of Economics from Jiangxi University of Finance & Economics in the PRC in 1985. He is the vice president of the Non-Governmental Science & Technology Entrepreneurs Association, and was the vice president of the All-China Federation of Industry & Commerce.

Xiaojian REN, Non-executive Director

Mr Ren was formerly an Alternative Director for Dr Zheng. He has six years of experience in performing managerial and advisory roles in the mineral resources industry. He has been the chief executive officer of Creat Group since 2002 and has been a director of Creat Group since 1992. He has been a director of CRHL since 2008. Mr Ren has been a director of Beijing Keruicheng Mining Investment Co Ltd and Beijing Keruicheng Jinchuan Mining Investment Co Ltd since 2006 and 2007 respectively. He was a non-executive director of Yantai North Andre Juice Co., Ltd from November 16, 2000 to May 18, 2007. He has been a director of Shanghai RAAS Blood Products Co., Ltd since June 16, 2004. Mr Ren was appointed as Non-executive Director on October 13, 2010.

Mr Ren received his Master of Business Administration from La Trobe University in Australia in 2001.

DIRECTORS AND SENIOR MANAGEMENT

Robert James WANLESS, Non-executive Director

Mr Wanless has been a Director since January 15, 1996. He has negotiated numerous mining-related sale and joint venture agreements with several international and Australian mining companies involving gold, base metals and industrial mineral properties.

Mr Wanless is a prospector and mining investor with more than 14 years’ experience in the mineral resources industry. He has been a director of General Mining Corporation Ltd, an ASX-listed mining resource company, since May 2007. He was a director of Greenstone Resources NL (now Red 5), an ASX-listed mining resource company, from September 1996 to November 1998.

Shaoqing WU, Non-executive Director

Mr Wu was appointed as Non-executive Director on February [24], 2011. He has 17 years’ experience in the steel raw materials trading and processing, oversea shipping and port logistics industries.

Mr. Wu has been employed by Fengli Group since July 1993. He was a vice general manager of Jiangsu Yongheng Furnace Material Industrial Co., Ltd., a subsidiary of Fengli Group, from July 1993 to October 1997 and was responsible for the sales of raw steel scrap and boiler materials. He was vice general manager of Jiangsu Fengli International Trade Co., Ltd, a subsidiary of Fengli Group, from October 1997 to April 2004 and was responsible for the export and re-export of raw steel scrap and metal scrap. Mr. Wu was then vice general manager of Fengli Group from April 2004 to January 2011 and was responsible for the international trade businesses and general management of VIP customers. Mr. Wu was appointed as the general manager of Fengli Group in January 2011 and is responsible for all the senior management and daily activities of Fengli Group.

Mr. Wu has been chairman of Good Credit International Trade Co., Ltd. since June 23, 2010.

[Mr. Wu received his Bachelor of Civil Engineering from Shazhou Vocational Institute of Technology in 1992.]

EXECUTIVE OFFICERS

John Adam SOBOLEWSKI, Chief Financial Officer

Mr Sobolewski joined the Company on January 23, 2009 and has been the Chief Financial Officer since then. He has six years experience in the mining industry. He was also the Company Secretary from January 23, 2009 to November 23, 2009.

Mr Sobolewski was a chief financial officer and company secretary of Vital Metals Ltd, an ASX-listed mineral resources company from March 3, 2006 to January 22, 2009. He was a company secretary of Croesus Mining NL from December 2004 to February 2006.

Mr Sobolewski is a member of the Institute of Chartered Accountants in Australia. He received his Bachelor of Commerce in Accounting and Finance from Curtin University of Technology in Australia in 2000.

DIRECTORS AND SENIOR MANAGEMENT

Andrew Leslie MELONCELLI, Company Secretary (Australia)

Mr Meloncelli joined the Company on November 23, 2009 and has been the Company Secretary since then. He has more than seven years experience in the mining industry. He has over seven years’ experience working as a company secretary for resources companies listed on ASX and TSX in the areas of corporate compliance / governance, finance, investor relations, prospectus fundraisings, systems implementation and taxation.

Mr Meloncelli joined Marengo Mining Ltd (listed on TSX) on November 12, 2007 as Manager – Finance and Treasury and subsequently worked as its company secretary and chief financial officer from April 28, 2008 to March 30, 2009. Mr Meloncelli is a former company secretary of Impress Energy Ltd, an ASX-listed oil and gas exploration and production company from March 15, 2002 to June 7, 2007. He is a former company secretary of Carpathian Resources Ltd (previously listed on AIM) from April 1, 2004 to June 7, 2007. Mr Meloncelli is the former company secretary of Novacoat Holdings Ltd (now Decmil Group Ltd), an ASX-listed company from October 1, 2004 to June 30, 2005.

Mr Meloncelli received his Bachelor of Commerce Degree from the University of Western Australia in 1996. He is an Associate Member of the Institute of Chartered Accountants in Australia, a Fellow of Chartered Secretaries Australia, Taxation Institute of Australia and the Financial Services Institute of Australasia.

Wai Yee Ella WONG, Company Secretary (Hong Kong)

Ms Wong joined Tricor Services Ltd (“Tricor”) in January 1, 2004 and is currently a manager of the corporate services division of Tricor. Ms Wong is a chartered secretary and an associate member of both The Institute of Chartered Secretaries and Administrators and The Hong Kong Institute of Chartered Secretaries. Ms Wong received her Bachelor of Economics from the University of Hong Kong in 1997 and has also completed a Postgraduate Diploma in Corporate Administration at the City University of Hong Kong in 2000. Ms Wong has 13 years’ of experience in corporate secretarial practice. Over the years, Ms Wong has provided outsourced company secretarial services to many private companies and has been actively involved, as a manager of Tricor, in servicing a number of public companies listed on the Stock Exchange. These public companies include reputable H share companies engaged in insurance, banking and electricity supply businesses, some of which Ms Wong has been servicing since their listing in Hong Kong. In the years 2006 to 2009, Ms Wong worked in the China services team of Tricor, which allowed her work commitments to branch out into the provision of corporate services for PRC businesses. Prior to joining Tricor, Ms Wong worked for Ernst & Young and Tengis Ltd in Hong Kong from March 1, 2001 to December 31, 2003.

Ms Wong joined the Company on [●] and has been the Company Secretary since then. Given the market share of Tricor as a provider of public company secretarial services, Tricor has the resources, experience and expertise to provide secretarial services to the Company.

SENIOR MANAGEMENT

Terry Allen STARK, Managing Director — Resource Division

Mr Stark is a mining engineer with 37 years of experience in the nickel, gold, manganese and chromite industries within Australia. He joined the Company in June 2008. Since then, he has been the Managing Director — Resource Division of the Company. His experience covers mine developments and operations.

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Mr Stark was a director of Noble Mineral Resources Ltd, an ASX-listed gold resources company, from August 4, 2007 to April 18, 2008. He was the managing director from February 23, 2007 to September 5, 2007 of Millennium Minerals Ltd (formerly Wedgetail Mining Ltd), an ASX-listed mineral (gold) resources company. [He worked as the managing director of Precious Metals Australia Ltd, a mineral (vanadium) resources company from August 1996 to May 1997 and he also worked as the chief executive officer from March 1996 to August 1996.] Mr Stark worked as an operations manager of Bootu Creek Resources Pty Ltd at the Bootu Creek Manganese Mine situated in the Northern Territory, Australia from August 2005 to June 2006.

[Mr Stark worked for Consolidated Minerals Ltd, a previously ASX-listed manganese and chromite producer, from August 2001 to November 2002 where he served as a general manager for operations of Pilbara Chromite Pty Ltd and general manager of Pilbara Contracting Pty Ltd.] [He worked as a general manager for operations of Homestake Gold of Australia Ltd, a subsidiary of previously ASX-listed gold producer Homestake Mining Company, from July 1998 to February 1999.] [He worked as the managing director and chief executive officer of Nova Resources NL (now Imagine UN Ltd), a mineral (gold) resources company from June 1994 to February 1996.] [He worked as an operations manager for Meekatharra of previously ASX-listed gold producer Dominion Mining Ltd from December 1992 to June 1994. He worked as a group operations manager of previously ASX-listed gold company Zapopan NL from March 1990 to May 1991. He worked as a mine manager of Harbour Lights Mining Ltd from November 1986 to March 1990.]

Mr Stark received his Bachelor of Applied Science in Mineral Engineering from South Australian Institute of Technology in 1973. He received his West Australian First Class Mine Manager’s Certificate of Competency from Department of Mines of Western Australia in 1989 and his Quarry Manager’s Certificate of Competency from Department of Mines of Western Australia in 1977. He is a former Associate Member of the Australasian Institute of Mining & Metallurgy. He was a graduate of the Institution of Engineers in Australia in 1974. He is also a former member of the Institution of Engineers of Australia.

Guojiang SUN, Managing Director — Chemical Division

Mr Sun joined the Company in March 2010 and has been Managing Director — Chemical Division since then. He has six years’ experience in the management of chemical and processing facilities in the PRC.

Mr Sun was the general manager of Vale Inco New Nickel Materials (Dalian) Co. Ltd., a subsidiary of Vale S.A., which produces nickel products in Dalian, PRC from October 2005 to February 2010. He was appointed as general manager of Automa-tech Shanghai Co. Ltd. from October 2001 to October 2003 and from April 2005 to September 2005.

Mr Sun was recognized as a “Project Management Professional” by the Project Management Institute in the United States in June 2005. He received his Bachelor of Engineering and Master of Business Administration from Northeastern University in the PRC in 1984 and the Shanghai Jiao Tong University in the PRC in 2001 respectively.

Ruqing YI, Managing Director — Battery Division

Mr Yi worked as a technical consultant to the Company from July 16, 2010 to September 1, 2010 to conduct a study into the potential for establishing a lithium-ion battery and cathode manufacturing plant in the

DIRECTORS AND SENIOR MANAGEMENT

PRC. He was then appointed managing director of the Battery Business Division in September 1, 2010 to oversee the continuing evaluation of the Lithium Battery Project.

Mr Yi worked for Qihao Consulting (Suzhou) as the general manager, providing consultancy services to the lithium-ion battery industry, from December 2008 to August 2010. His consulting work focused on lithium battery cathode manufacturing process improvement, lithium-ion battery coating process design of experiments, cell assembly and packing process optimization. Prior to this position, he worked at A123 Systems (China) Materials Co Ltd as general manager from October 2005 to October 2008 and was responsible for the manufacture of lithium cathode material and lithium-ion batteries. Mr Yi has extensive experience and knowledge of lithium-ion battery process control and new technology development. Mr Yi received his Bachelor Degree in Applied Physics from TonJi University in 1989 and his Masters Degree in Mechanical Engineering from Beijing Technology and Business University (formerly Beijing Institute of Light Industry) in 1994.

Anand Mahendra SHETH, General Manager — Marketing and Business Development

Mr Sheth was appointed as the General Manager of Marketing & Business Development on February 2, 2009 with responsibilities to establish the Company’s global market for lithium carbonate. He has more than 10 years’ experience in the mineral resources industry.

Mr Sheth is a technical marketing professional with experience in the international marketing and global sales of lithium and tantalite mineral products. He was a technical marketing manager for Talison Minerals Pty Ltd (formerly Sons of Gwalia Ltd) for global sales of lithium & tantalite mineral products from November 2, 1998 to January 22, 2009. He was an export manager for India of Ferro Corporations (Aust.) Pty Ltd from January 2, 1997 to October 13, 1998.

Mr Sheth received his Bachelor of Technology in Ceramic Engineering from Banaras Hindu University in India in 1985.

Duncan James COUTTS, General Manager — Development

Mr. Coutts worked as a contract Project Manager, through GR Engineering Services Pty Ltd, to the Company from December 2009 to October 2010. He was then appointed as the General Manager — Development on November 1, 2010 with responsibilities to manage and coordinate the business readiness program which focuses on the development and implementation of systems and processes parallel with project construction.

Mr. Coutts has more than 15 years’ experience in the mining industry. Mr. Coutts has been a non-executive director of Black Range Minerals Ltd, an ASX-listed mineral (uranium and coal) resources company since May 15, 2009.

Mr. Coutts was the chief development officer of Metals X Ltd, an ASX-listed mining resource company, from August 27, 2007 to August 14, 2009. He was responsible for overseeing mining and processing activities at the newly re-opened Renison tin mine. Mr. Coutts joined ASX-listed gold producer Newcrest Mining Ltd as mining manager of the New Celebration Gold Mine on March 28, 2000. He was subsequently appointed as underground and registered manager of the Mt Marion Gold Mine for Hill 50 Gold NL following Hill 50 Gold

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NLs purchase of the New Celebration Gold Mine assets from Newcrest Mining Ltd in July 2001. Following a successful takeover of Hill 50 Gold NL by Harmony Gold (Australia) Pty Ltd in April 2002, Mr. Coutts joined Harmony Gold (Australia) Pty Ltd and served in various positions, including mining manager, operations manager and chief operating officer from February 8, 2000 to June 20, 2007. He was involved in the development and management of the Mt Magnet and South Kal open pit and underground gold mines.

Mr. Coutts received his Bachelor of Engineering from Curtin University of Technology in 1991. He also received West Australian First Class Mine Manager’s Certificate of Competency from Department of Minerals and Energy of Western Australia in 1995. He is a member of the Australasian Institute of Mining & Metallurgy and a member of Australian Institute of Company Directors.

Philip Mark Angelo TORNATORA, Exploration and Geology Manager

Mr Tornatora was appointed as the Exploration and Geology Manager in October 2008 with responsibilities to manage the Company’s exploration and geology interests in Western Australia. He has over 14 years’ experience in the mineral resources industry.

Mr Tornatora is a geologist and his experience is mainly in regional and near mine exploration and mineral resource developments. He was a district geologist for AngloGold Ashanti Australia Ltd, a subsidiary of global gold producer AngloGold Ashanti Ltd, with responsibilities to manage its gold exploration interests in the Philippines from July 4, 2005 to October 3, 2008. Mr Tornatora worked for AngloGold Exploration (Mali) Ltd, a subsidiary of global gold producer AngloGold Ashanti Ltd, as an exploration manager from January 17, 2003 to July 3, 2005. Mr. Tornatora worked for AngloGold Ashanti Australia Ltd as a senior project geologist at the Sunrise Dam Gold Mine from February 1999 to January 2003, prior to which he worked for AngloGold Australia Ltd as a senior project geologist from December 1997 to February 1999 and as a project geologist from May 1995 to December 1997.

Mr Tornatora received his Master of Economic Geology from University of Tasmania in 2002 and his Bachelor of Science (majored in Geology) from University of Western Australia in 1993. He received a Certificate of Frontline Management AQF Level 3 from Mt Eliza Business School in 2000 and a Postgraduate Diploma in Management (Management Practice) from University of Cape Town in South Africa in 2006. Mr Tornatora is a member of Australian Institute of Geoscientists and the Australasian Institute of Mining & Metallurgy.

Christopher John RAINSFORD, Mt Cattlin Resident Manager

Dr Rainsford joined the Company on December 1, 2009 as Mt Cattlin Resident Manager, a role which involves overall site management at the Mt Cattlin Project.

Before taking up his current position, he worked for Gold Fields Ltd, a mineral resources (gold) company listed on the JSE and NYSE, and was appointed mining manager and acting general manager from March 2, 2009 to November 19, 2009.

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Dr Rainsford is a mining engineer with over seven years’ experience in the mining industry with strategic planning and operational experience in both large and small scale open cut and underground mining operations. He has been a director of Blue Reef Enterprises Pty Ltd located in Western Australia since April 6, 2000.

Dr Rainsford worked for Golder Associates, an engineering consultant company to the mining industry, as a principal mining engineer for underground from April 15, 2002 to May 27, 2003 and was employed in a casual capacity at Golder Associates until mid 2005. Dr Rainsford was employed as manager for underground projects at Sons of Gwalia Ltd from 2000 to 2001, where he was responsible for planning and commissioning of the underground operation of the Greenbushes lithium and tantalum mine. He worked for Sons of Gwalia Ltd as a resident manager of the Yilgarn Star gold mine from 1995 to 2000. He worked for ASX-listed gold producer Newcrest Mining Ltd from May 24, 1993 to October 24, 1995. He was a mine manager at the Woodcutters zinc, silver and lead mine of Nicron Resources Ltd from July 1992 to December 1992. From September 1982 to September 1985, he was a mining engineer-in-charge at the Emperor Gold Mine of Western Mining Corporation (now Alumina Ltd), an ASX-listed mineral resources company.

Dr Rainsford received his Bachelor of Science in Mining Engineering and Doctor of Philosophy from Camborne School of Mines of University of Exeter in 1977 and University of Nottingham in 1982 respectively. He received a First Class Mine Manager’s Certificate of Competency for Western Australia in 1991 and a First Class Mine Manager’s Certificate, New Zealand in 1990. Dr Rainsford is a member of the Australasian Institute of Mining and Metallurgy and is an Associate of the Chamberne School of Mines.

Roger POVER, Manager Processing

Mr Pover joined the Company on July 1, 2010 as the Manager Processing, a role which involves crushing and processing management on site. He has over 16 years of experience in project management, production, processing, engineering and maintenance of the lithium (spodumene) and tantalum mine at Sons of Gwalia (now Talison Greenbushes Pty Ltd) Greenbushes operations.

Mr Pover joined HWE Newman Services Pty Ltd, a mining services contractor in November 2008 and held various positions, including ore handling plant maintenance superintendent from November 2008 to March 2009 and ore handling plant manager from March 2009 to December 2009. From October 2007 to November 2008, he was operations manager of CCR Group Pty Ltd, a mining and industry services provider.

Prior to that, Mr Pover joined Sons of Gwalia in October 1990 and held various positions, including safety and training manager and engineering projects manager from October 2005 to March 2007, engineering projects manager from October 2004 to October 2005, production and engineering manager from February 2002 to October 2004, engineering and maintenance manager from August 1998 to February 2002, and maintenance superintendent and engineering manager from October 1990 to August 1998.

Mr Pover received a Diploma of Business for Front Line Management from Education Training Advisory Services (WA) Pty Ltd in 2003. He received an Advanced Certificate of Engineering from South West Regional College of Technical and Further Education in Australia in 1997. He took courses in industrial hydraulics from Technical Education Service of Education Department of Western Australia and Technical and Further Education in 1984 and 1989 respectively. He received a Certificate of Trade Studies (Fitting & Machining) from Bunbury Technical College in Western Australia in 1977.

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Robert MICHALSKI, Manager Mining

Mr Michalski joined the Company on January 5, 2010 as the Manager Mining, a role which involves open pit mining management on site. He has over five years experience in both surface and underground mining involving hard coal, nickel and gold.

Mr Michalski was a mining manager of Global Resources Ventures Ltd in the PRC from October 20, 2007 to December 31, 2008. Mr Michalski worked as a contractor for several mining companies, including civil and mining contractor NRW Holdings Ltd from February 2004 to August 2004, and Tolukuma Gold Mines Ltd, a former subsidiary of Emperor Mines Ltd, previously an ASX-listed gold producer, from May 2007 to October 2007. Mr Michalski worked at the lithium, tantalum and gold producer Sons of Gwalia Ltd as a full time contract mining engineer from August 1996 to the end of 2001 and held various positions, including mining engineer, underground manager, quarry manager and projects manager.

Mr Michalski received his Masters of Engineering (majored in Mining Engineering) from Academy of Mining and Metallurgy in Krakow in 1981. He is a holder of the Western Australia First Class Mine Manager’s Certificate of Competency.

Xiaoyi WANG, Jiangsu Operations Manager

Mr Wang was appointed as the Jiangsu Operations Manager on April 1, 2010 with responsibility for setting up the operations in Zhangjiangang, Jiangsu Province, PRC. He has 32 years’ experience in the production of lithium carbonate and other lithium chemicals. Mr Wang joined Xinjiang Lithium Plant in 1976 and served in various positions, including as lithium hydroxide production workshop director from April 1984 to August 1990, production schedule director from May 1993 to December 1994, operation managing director from January 1995 to May 1996 and sales and marketing managing director from June 1996 to January 2008.

Mr Wang is a metallurgical engineer. He received a Professional Certificate in Chemical Machinery from Xinjiang Institute of Technology (now Xinjiang University) in 1991 and a Certificate for Leading Officials in 1994. He obtained a Certificate for Safety Qualification which was valid from December 2006 to December 2009.

Jingyuan LIU, Process Technical Manager

Dr Liu joined the Company on February 15, 2010 and has been the Process Technical Manager since then. He has over 18 years’ experience in the area of mineral processing, chemical industries, non-ferrous industries, iron and steel industries and energy industries. Dr Liu joined Hatch in May 2005 and served various positions, including as fluidization specialist from May 2005 to April 2007 and fluidization consultant in April 2007 to February 2010. He was a process engineer of Metso Minerals (Pyrotherm) Pty Ltd from May 2001 to April 2005 and was responsible for the overall process design of pyrometallurgical equipment.

Dr Liu received his Doctor of Philosophy from University of Newcastle in 2000, his Master of Engineering from Xian Jiaotong University in the PRC in 1988 and his Bachelor of Engineering in Energy and Power Engineering from Xian Jiaotong University in the PRC in 1985. He was a research associate of University of Newcastle from January 2000 to April 2001. He was a scientist in the Industrial Research Ltd in the Chemical

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Processing Science Team in New Zealand from November 1995 to July 1996. He joined Shanghai Jiaotong University in the PRC in 1988 and served various positions, including a lecturer from June 1988 to November 1994 and an associate professor in Thermal Energy Engineering from December 1994 to November 1995.

MANAGEMENT TEAM

The Group comprises four divisions; the resource division, the chemical division, the battery division and the corporate division. These divisions as well as all other activities of the Group are managed by the Managing Director and a member of the Board, Ignatius Tan. Mr Tan has over [25] years’ experience in senior management positions for companies in the mining and chemical industries.

Our exploration and extraction activities are carried out by our resource division based in Australia. The main activity of this division is the Mt Cattlin Project which commenced mining and production of spodumene concentrate in October 2010.

Members of the resource division have significant lithium-specific as well as general mining experience. The division is overseen by a member of the Group’s executive team, Terry Stark (Managing Director — Resource Division). Mr Stark is a mining engineer with 37 years’ experience in lithium and other hard rock minerals such as nickel, gold, manganese and chromite. The Mt Cattlin Project is managed on-site by three members of the Group’s senior management team, Robert Michalski (Manager Mining), Roger Pover (Manager Processing) and Chris Rainsford (Resident Manager / Overall Mine Manager). Each of these three senior managers has over five years’ experience in the extraction of minerals, either in spodumene or other hard rock minerals such as gold, nickel or hard coal. Mr Michalski and Mr Rainsford are both mining engineers and Mr Pover has over 16 years’ experience working at the spodumene and tantalum mine at Greenbushes, Western Australia. In addition to this, another member of the senior management team, Philip Tornatora (Exploration and Geology Manager) is responsible for exploration activities. Mr Tornatora is a geologist with over 13 years’ experience in the mineral resources industry.

The mining and processing of spodumene is similar to the mining and processing of other minerals such as gold, nickel, tin, vanadium, manganese, limesand and mineral sands. They each involve the use of open-cut mines for the mining of the ore (the Company’s Mt Cattlin Project is an open cut mine). They also all involve the use of gravity separation and crushers to process the ore extracted from the mine, which is the process being employed at the Mt Cattlin Project. In many respects, the processing of spodumene is simpler than the processing of other minerals such as gold. For instance, the processing of ore containing spodumene uses the same steps as for gold but does not require the final steps needed for gold (i.e. floatation and use of chemicals for bleaching). We therefore believe that the experience gained by the members of our senior management in industries other than lithium is relevant and valuable to the current activities of the Group in mining and processing spodumene and complements their other experience gained in the lithium industry.

Our chemical division is based in the PRC and will operate the Jiangsu Plant. We have recruited management professionals who have extensive experience in China’s lithium industry. These professionals include the operations management, the technical manager, process engineers, the laboratory manager and the logistics manager of the Jiangsu Plant. The division is overseen by a member of the Group’s executive team, Guojiang Sun (Managing Director — Resource Division). Mr Sun has six years’ experience in the management of chemical and processing facilities in the PRC. Other members of the chemical division include Xiaoyi Wang (Jiangsu Operations Manager), a metallurgical engineer with 32 years’ experience in the production of lithium carbonate and other lithium chemicals, and Jingyuan Liu (Process Technical Engineer), who has over 18 years’

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experience in mineral processing, chemical industries, non-ferrous industries, iron and steel industries and energy industries.

Our battery division is based in the PRC and will progress our proposed Lithium Battery Project. An experienced team has been recruited for the battery division, headed by Ruqing Yi (Managing Director – Battery Division). Mr Yi has held managerial positions with a number of companies involved in lithium-ion battery manufacture.

In addition, our corporate division has extensive lithium-related and mining-related experience. Anand Sheth (General Manager — Marketing and Business Development) has more than 10 years’ experience in the mineral resources industry, including in the marketing and sales of lithium and tantalite mineral products. Duncan Coutts (General Manager — Development), is a qualified mining engineer with 15 years’ experience in the mining industry in a range of operating and corporate roles for tin and gold mining companies.

The Company was previously an exploration company with management skills primarily relating to geology and exploration. As the Company is transitioning itself into a producer, previous management with skills in exploration, which is no longer the primary focus of the Company, have left and been replaced with management with skills in mining and processing.

CONNECTIONS BETWEEN EXECUTIVES, DIRECTORS AND SENIOR MANAGEMENT

None of the executive officers, Directors or senior management of the Company are related to any other executive officer, Director or member of senior management.

COMPETING INTERESTS

The business of General Mining of which Mr. Wanless is a non-executive director does not compete and is not likely to compete with the Company’s business for the following reasons:

- General Mining’s principal focus is exploration in Mongolia. It has an agreement with the Company to refer any lithium discoveries to the Company for a joint venture negotiation; and
- the Shoemaker project, which is an iron ore project in Western Australia, is a non-core asset of the Company. The Company has granted General Mining the right to farm in.

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The businesses of the following mining companies of which Mr. Readhead is a non-executive director do not compete and are not likely to compete with the Company’s business under for the following reasons:

<u>Name of company</u>	<u>Reasons</u>	<u>Position</u>
General Mining Corporation Ltd.	General Mining’s principal focus is exploration in Mongolia. It has an agreement with the Company to refer any lithium discoveries to the Company for a joint venture negotiation. The Shoemaker project, which is an iron ore project in Western Australia, is a non-core asset of the Company. The Company has granted General Mining the right to farm in.	Non-executive director
Heron Resources Ltd.	Heron Resources Ltd has a nickel laterite project in Western Australia and an option over a gold project in Victoria.	Chairman and non-executive director
India Resources Ltd.	India Resources Ltd operates a copper mine in India and is looking at coal projects in India.	Non-executive director
Mt. Gibson Iron Ltd.	Mt. Gibson Iron Ltd operates 2 iron ore mines in Western Australia.	Non-executive director
Beadell Resources Ltd.	Beadell Resources Ltd is in the process of re-starting a gold mine in Brazil.	Non-executive director

The businesses of Creat Group, of which Mr Zheng is the chairman and Mr Ren is the chief executive officer, and its subsidiaries, including Beijing Keruicheng Mining Investment Co Ltd and Beijing Keruicheng Jinchuan Mining Investment Co Ltd, do not compete and is not likely to compete for the following reasons:

For its mining project:

- Creat Group invested in the Tungsten and Molybdenum mine in Jiangxi Duchang in 2005;
- Creat Group acquired several lead-zinc mines in Liaoning in early 2006; and
- Creat Group acquired Hui Dong Jin Suo Qiao Mineral Co. Ltd, a gold mining and nonferrous processing in Southwest of Sichuan province through Beijing Keruicheng Jinchuan Mining Investment Co Ltd., in 2007.

For its co-operation with the Changchun government:

- Creat Group held meetings with the Changchun government (and subsequently signed meeting minutes) in relation to the development of a real estate project in the region;
- while preliminary discussions have been carried out between Creat Group and Changchun government in relation to the development of a project in automobile battery, no MOU or agreement has been signed. In addition, it is not Creat Group’s intention to venture into any battery project separately (i.e. without the Company’s involvement) at this point; and

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- the signed documents confirm the intention of the parties to co-operate, but the final forms of the co-operations have yet to be determined.

For its co-operation with Xinjiang Nonferrous (“XNF”):

- XNF is not only a lithium carbonate supplier in China. It also has a significant presence in other rare earth mineral businesses;
- co-operation with XNF is still at a very early stage, is geared towards the development of the various resources as a whole; and
- Creat Group understands that XNF is a prominent player in the lithium carbonate industry in China. Creat Group intends to leverage on XNF’s experience to assist developing the company’s business in China.

Co-operation with the Changchun government and co-operation with XNF are still in their early stages. The final form of the co-operation is still subject to further negotiations and obtaining the necessary approvals. It is not certain at this stage how these investments will take shape. However, Creat Group is determined to work closely with the Company to ensure that the Company will benefit from Creat Group’s investments and that any potential conflict of interests between these projects will be avoided.

COMPANY SECRETARY

Andrew Meloncelli is the company secretary in Australia. Ella Wai Yee Wong is the company secretary in Hong Kong. For details of Mr Meloncelli’s and Ms Wong’s backgrounds, see the section headed “Directors and Senior Management — Executive Officers” of this document.

BOARD PRACTICES

In the absence of extraordinary events, it is the practice of the Board to meet at least six times a year. At such meetings, the Directors conduct, among other things, an operational review of the business.

BOARD COMMITTEES

Audit Committee

The Company has established an Audit Committee with a detailed charter setting out its terms of reference. The Audit Committee must have at least three members, who must all be Non-executive Directors. The Audit Committee currently comprises the Company’s five Non-executive Directors, Mr Readhead, Mr Spratt, Mr Polovineo, Mr Kwan and Dr Zheng. Mr Meloncelli is Secretary to the Committee.

The primary objective of the Audit Committee is to assist the Board to fulfill its responsibilities in relation to the Company’s accounting and financial reporting practices. The Audit Committee also plays a key role in

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assisting the Board to fulfill its responsibilities to oversee financial reporting, internal control structure, risk management systems and the internal and external audit functions.

Remuneration and Nomination Committee

The Company has established a Remuneration and Nomination Committee. The Remuneration and Nomination Committee has a detailed charter setting out its terms of reference. The Remuneration and Nomination Committee is responsible for, amongst other things, overseeing the selection and appointment of directors, reviewing succession plans and the evaluation of the Board and its committees.

In addition, the Remuneration and Nomination Committee:

- makes decisions with respect to appropriate remuneration and incentive policies for executive directors and senior executives, ensures that executive remuneration packages involve a balance between fixed and incentive pay, and reflects short and long term performance objectives appropriate to the Company’s circumstances and objectives;
- makes recommendations to the Board with respect to the quantum of bonuses to be paid to executives;
- reviews and makes recommendations to the Board with respect to termination payments;
- has responsibility for the Company’s employee equity schemes; and
- reviews and makes recommendations to the Board with respect to the remuneration structure for Non-executive Directors.

The Remuneration and Nomination Committee currently comprises the Non-executive Directors Mr Readhead, Mr Spratt, Mr Polovineo, Mr Kwan and Dr Zheng. Mr Readhead is the chairman of the Remuneration and Nomination Committee. Access is also available to the Company’s auditors and senior managers and the committee has ability to consult independent experts when necessary. The Remuneration and Nomination Committee reports a summary of the findings of each Committee Meeting to the Board. The Board receives a copy of the minutes of the Remuneration and Nomination Committee meetings.

The Company Secretary, Mr Meloncelli, is Secretary to the Committee.

The Directors are aware of their responsibilities and obligations to protect shareholder’s funds. Due care is taken to explain both the positive and negative aspects in all reports, to highlight the inherent risks involved in mineral exploration and development and other activities.

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Directors’ Remuneration

The Company has established policies for the remuneration of Executive and Non-executive Directors as well as the process for evaluation of the Board and senior executives. The Chairman oversees the evaluation of Non-executive Directors.

In relation to Non-executive Directors, there are presently no schemes for retirement benefits, other than statutory superannuation.

The Executive Directors are remunerated based on the provision of services provided to the Company under employment contracts for executive management and for their services as Directors. The Directors’ fees are determined by the Company in general meeting and other consulting services are remunerated at levels independently agreed by the Remuneration Committee.

Non-executive Directors are paid their fees out of the maximum aggregate amount approved by Shareholders for the remuneration of Non-executive Directors. The sum each Non-executive Director is paid is determined by the Remuneration Committee from time to time. Additional fees may be paid for participation on Board Committees, however, the total fees paid to Non-executive Directors, including fees paid for participation on Board Committees, are kept within the total amount approved by Shareholders of A\$800,000 with effect from the general meeting of the Company held on December 22, 2010.

Risk Management Committee

Risk recognition and management are viewed by the Company as integral to its objectives of creating and maintaining shareholder value, and the successful execution of the Company’s research and development.

The Board as a whole is responsible for oversight of the processes by which risk is considered for both ongoing operations and prospective actions. To assist with this role, the Company has established a Risk Management Committee with a detailed Charter setting out its terms of reference. The Risk Management Committee currently comprises the Company’s Non-executive Directors, Mr Readhead, Mr Spratt, Mr Polovineo, Mr Kwan and Dr Zheng. Mr Meloncelli is Secretary to the Risk Management Committee.

Management is responsible for establishing procedures which provide assurance that major business risks are identified, consistently assessed and appropriately addressed.

The Risk Management Committee shall ensure that management has implemented a process and an annual risk management plan to identify, manage and report on the risks that might prevent the Company from achieving its strategic objectives. In particular, the Committee is responsible to, amongst other things:

- review and recommend amendments to the risk management policy;
- evaluate the adequacy and effectiveness of operations risk management controls;
- evaluate the adequacy and effectiveness of business continuity plans;

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- evaluate exposure to fraud;
- evaluate the structure and adequacy of insurances on an annual basis;
- ensure appropriate review of identified risks, together with the assessments of probability and impact;
- ensure that weaknesses in internal controls that have been identified have been followed up on a timely basis;
- review significant transactions that are not a normal part of the Company’s business; and
- review and monitor related party transactions and assess their propriety.

DIRECTORS’ REMUNERATION

For the two years ended June 30, 2008 and 2009, the six months ended December 31, 2009 and the nine months ended September 30, 2010, the total remuneration paid to Directors was A\$261,500, A\$961,590, A\$4,381,345 and A\$544,865 respectively.

The following table provides details of the various components of total remuneration paid:

	Year ended June 30, 2008	Year ended June 30, 2009	Six months ended December 31, 2009	Nine months ended September 30, 2010
	A\$	A\$	A\$	A\$
Salaries, allowances and benefits in kind	181,500	368,071	165,769	293,297
Directors’ fees	80,000	108,389	62,500	161,158
Contribution to retirement benefit schemes	—	19,288	16,269	30,375
Share-based payments	—	465,842	4,136,807	60,035
Total	<u>261,500</u>	<u>961,590</u>	<u>4,381,345</u>	<u>544,865</u>

The maximum allowable Non-executive Director remuneration currently stands at A\$800,000 in aggregate. Currently, each Non-executive Director receives cash salary and fees of A\$70,000 p.a. (plus superannuation and performance-based options). The Chairman of Directors receives A\$120,000 p.a. (plus superannuation and performance-based options). There is no performance based remuneration component built into Non-executive Director remuneration packages. Each Director is entitled to reimbursement for actual expenses reasonably incurred in the performance of duties or any special duties as a Director. There is no scheme to provide retirement benefits, other than statutory superannuation, to any of the Non-executive Directors of the Company.

There were no amounts paid or receivable by the Directors as an inducement to join or upon joining the Company, and there were no arrangements under which a Director has waived or agreed to waive any emoluments.

DIRECTORS AND SENIOR MANAGEMENT

Details of the nature and amount of each element of the total remuneration paid to the five highest paid individuals of the Company during the Relevant Financial Period are shown below.

	Year ended June 30, 2008	Year ended June 30, 2009	Six months ended December 31, 2009	Nine months ended September 30, 2010
	A\$	A\$	A\$	A\$
Salaries and other emoluments	66,000	402,683	404,840	741,459
Contribution to retirement benefit schemes	—	126,241	36,436	64,315
Share-based payments	—	583,207	4,105,437	450,194
Total	<u>66,000</u>	<u>1,112,131</u>	<u>4,546,713</u>	<u>1,255,968</u>

The aggregate amount of remuneration paid by the Company to the five highest paid individuals for the 12 months ended June 30, 2008 and June 30, 2009, the six months ended December 31, 2009 and the nine months ended September 30, 2010 was A\$66,000, A\$1,112,131, A\$4,546,713 and A\$1,255,968 respectively.

EQUITY BASED PLANS

Details of the Company’s equity based plans are set out in the section headed “Appendix VIII — Statutory and General Information — Other information” of this document.

SHARE CAPITAL

SHARE CAPITAL

The Company is a public company registered in Western Australia, Australia and listed on the ASX (symbol “GXY”).

All of the issued Shares in the Company comprise fully paid ordinary shares. Australian registered companies do not have an authorized capital, and there is no concept of a “par value” in respect of issued shares. All Shares are recorded in the Company’s financial statements at their issue price less issue costs.

Details of the Company’s issued capital are as follows:

Fully paid Shares as at the Latest Practicable Date. [214,236,091]

Note:

Save as disclosed in this document, no share or loan capital of the Company or any of its subsidiaries is under any Option or is agreed conditionally or unconditionally to be put under any option.

The issued ordinary Shares rank pari passu in all respects, and in particular, for all dividends and other distributions, declared, paid, or made on the Shares.

SHARE CAPITAL

The following table sets forth for the periods indicated the reported high, low, period end, and average of the closing trading prices on the ASX for the Company’s shares from its listing on February 6, 2007 until the Latest Practicable Date.

Periods	High	Low	Period End	Average
	A\$	A\$	A\$	A\$
Annual				
12 months ended December 31,				
2007 (February 6 to December 31)	1.030	0.200	0.660	0.566
2008	0.670	0.305	0.400	0.471
2009	2.190	0.265	1.280	0.944
2010	1.635	0.920	1.450	1.237
2011 (up to the Latest Practicable Date)	[●]	[●]	[●]	[●]
Quarterly				
First Quarter 2007 (February 6 to March 31)	0.265	0.200	0.260	0.230
Second Quarter 2007	0.880	0.285	0.660	0.616
Third Quarter 2007	0.735	0.375	0.530	0.602
Fourth Quarter 2007	1.030	0.535	0.660	0.698
First Quarter 2008	0.670	0.305	0.520	0.473
Second Quarter 2008	0.640	0.375	0.560	0.477
Third Quarter 2008	0.600	0.380	0.500	0.506
Fourth Quarter 2008	0.550	0.350	0.400	0.424
First Quarter 2009	0.430	0.265	0.385	0.364
Second Quarter 2009	0.785	0.345	0.630	0.539
Third Quarter 2009	2.190	0.570	1.750	1.311
Fourth Quarter 2009	2.050	1.220	1.280	1.534
First Quarter 2010	1.510	1.050	1.185	1.256
Second Quarter 2010	1.490	0.935	0.935	1.139
Third Quarter 2010	1.440	0.920	1.440	1.101
Fourth Quarter 2010	1.635	1.330	1.450	1.454
First Quarter 2011 (up to the Latest Practicable Date)	[●]	[●]	[●]	[●]

SHARE CAPITAL

Periods	High	Low	Period End	Average
	A\$	A\$	A\$	A\$
Monthly				
January 2009	0.430	0.370	0.370	0.399
February 2009	0.390	0.300	0.300	0.344
March 2009	0.410	0.265	0.385	0.347
April 2009	0.430	0.345	0.420	0.388
May 2009	0.785	0.410	0.650	0.556
June 2009	0.700	0.625	0.630	0.667
July 2009	0.995	0.570	0.995	0.812
August 2009	1.425	1.020	1.410	1.239
September 2009	2.190	1.385	1.750	1.926
October 2009	2.050	1.305	1.480	1.738
November 2009	1.705	1.375	1.485	1.559
December 2009	1.480	1.220	1.280	1.334
January 2010	1.510	1.250	1.250	1.391
February 2010	1.305	1.050	1.185	1.191
March 2010	1.255	1.135	1.185	1.198
April 2010	1.490	1.180	1.270	1.340
May 2010	1.210	0.970	1.060	1.090
June 2010	1.080	0.935	0.935	1.005
July 2010	1.160	0.920	1.155	1.037
August 2010	1.255	0.975	1.030	1.094
September 2010	1.440	1.070	1.440	1.174
October 2010	1.565	1.330	1.465	1.434
November 2010	1.635	1.420	1.420	1.503
December 2010	1.480	1.350	1.450	1.423
January 2011	1.800	1.575	1.575	1.666
February 2011	●	●	●	●
March 2011 (up to the Latest Practicable Date)	●	●	●	●

EMPLOYEE SHARE OPTION PLAN

The Company has established the ESOP on April 2, 2009 as approved by Shareholders.

The total number of Options that may be issued under the ESOP, when aggregated with the number of Shares that may be issued under all other options and the number of Shares issued under employee incentive schemes in the previous five years, subject to certain conditions, may not exceed five percent of the total number of issued shares in that share class at the time the Option is offered. The Company had on issue [27.95] million Options under the ESOP as at the Latest Practicable Date. Each Option gives the holder the right to acquire one Share. The Shares issuable upon exercise of the Options rank equally with all other Shares.

For further details, please refer to “Appendix VIII — Statutory and General Information — Other Information” of this document.

SHARE CAPITAL

NON ESOP OPTIONS

As at the Latest Practicable Date, the Company had on issue [24.00] million non ESOP options issued to Directors and other [Shareholders]. Each option gives the holder the right to acquire one Share. The Shares issuable upon exercise of the Options rank equally with all other Shares.

CONVERTIBLE BONDS

In November 2010, January 2011 and February 2011, we issued Convertible Bonds to the Bondholders to raise a total of A\$61.5 million.

The Convertible Bonds are convertible into 39,802,978 Shares based on the current conversion price. The current conversion price is subject to adjustment upon the occurrence of certain prescribed events.

Further information on the Convertible Bonds is disclosed under the section headed “Financial Information — Indebtedness — Convertible Bonds”.

FINANCIAL INFORMATION

OVERVIEW

The Company has historically been engaged in mining exploration activities and has a short operating history, and consequently we have not generated net profits and have not recorded positive operating cash flows to date. However, we believe there are significant growth opportunities in the market for lithium-ion batteries, driven by their current and potential use in applications such as Electric Powered Vehicles, E-bikes, alternative energy storage and portable electronics, and we are aiming to position the Company to capitalize on this growth by becoming a leading, vertically integrated producer of high quality lithium-related products in the growing lithium-ion battery market.

We currently own and operate a hard rock lithium mineral mine and processing plant at the Mt Cattlin Project, near Ravensthorpe in Western Australia, where we produce spodumene concentrate. Spodumene concentrate is one of the most common lithium-bearing raw materials used in the PRC for conversion into lithium compounds, including lithium carbonate. We are constructing a lithium carbonate plant in Jiangsu Province, PRC, where we will process spodumene concentrate produced at the Mt Cattlin Project into lithium carbonate. Lithium carbonate is an important lithium compound that is applied in a variety of end-uses including the manufacture of cathode for lithium-ion batteries. We are also actively considering further downstream opportunities, including entering into lithium-ion battery production.

We commenced production of spodumene concentrate from the Mt Cattlin Project in October 2010. The Mt Cattlin Project is currently in ramp-up, and at full capacity, which is expected to be achieved by the fourth quarter of 2011, we expect the Mt Cattlin Project to produce approximately 137,000 tpa of spodumene concentrate containing 6% lithium oxide. The Mt Cattlin Project currently has an ore reserve of 11.4 million tonnes at 1.05% lithium oxide and a mineral resource of 15.9 million tonnes at 1.08% lithium oxide. Mt Cattlin has an expected mine life of 14 years, which may be extended by further exploration. A number of aspects of the operations at the Mt Cattlin Project are undertaken by contractors under the supervision of the Company’s employees, including mining and earthmoving, power station operation and transport and handling of spodumene concentrate. The remaining operations at the Mt Cattlin Project are undertaken by the Company and its employees.

The Jiangsu Plant, which is under construction, has been designed to produce 17,000 tpa of high quality lithium carbonate, making it one of the largest such facilities in the PRC. The Jiangsu Plant is being constructed by the Company, which has engaged Hatch Project Consulting (Shanghai) Co. Ltd to provide project management, engineering, procurement and construction management services pursuant to and in accordance with an agreement dated December 8, 2009. The Jiangsu Plant will be operated by the Company and its employees. It is expected to commence commissioning and start-up of lithium carbonate in the second quarter of 2011, following which it will undergo a ramp-up period of approximately 10 months where plant throughput, lithium carbonate recovery and product purity is expected to increase steadily before reaching design capacity in early 2012. The construction budget for the Jiangsu Plant is RMB 477 million, 34% of which had been spent by December 31, 2010. The Jiangsu Plant will be operated by the Company and its employees.

Once the Jiangsu Plant is operational, we expect that all of the spodumene concentrate produced by the Company at the Mt Cattlin Project will be shipped from the port of Esperance to PRC by the Company’s shipping contractor, Pacific Basin, and consumed by the Jiangsu Plant. Until then, spodumene concentrate from the Mt Cattlin Project is expected to be shipped from Esperance to PRC by Pacific Basin and sold to another lithium carbonate producer.

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We believe there are significant growth opportunities in the market for lithium-ion batteries, driven by their current and potential use in applications such as Electric Powered Vehicles, E-bikes, alternative energy storage and portable electronics. We are positioning the Company to capitalize on this growth by aiming to become a leading, vertically integrated producer of high quality lithium-related products in the growing, global lithium-ion battery market.

Please refer to “Business — Overview” for further information on our Business.

As described above, the Mt Cattlin Project is our flagship asset. We commenced pre-strip mining at Mt Cattlin in March 2010, followed by commissioning in September 2010 and first production in October 2010. Since the start of construction in the second half of 2009 to the end of the Relevant Financial Period, total expenditure on property, plant and equipment was A\$104.4 million. Prior to the commencement of construction, total expenditure on property, plant and equipment in the 12 months ended June 30, 2008 and 12 months ended June 30, 2009 was A\$0.03 million and A\$0.2 million respectively. In comparison, the construction costs of the Jiangsu Plant have been estimated by our Independent Technical Engineer, Snowden, to amount to RMB477.0 million (includes contingency of RMB15.8 million).

As we had not commenced commercial production during the Relevant Financial Period, we did not generate net profits and recorded net operating cash outflows. Our focus on exploration activities and delineation of economic spodumene ore reserves in the earlier years has seen cash outflows used in investing activities primarily in relation to exploration and evaluation assets expenditure. For the 12 months ended June 30, 2008 and 2009, the six months ended December 31, 2009 and the nine months ended September 30, 2010, these cash outflows used in investing activities in relation to exploration and evaluation assets expenditure amounted to A\$1.9 million, A\$4.9 million, A\$1.6 million and A\$2.6 million, respectively.

As at September 30, 2010, we have two reportable operating segments: Australia, which includes the Mt Cattlin Project; and China, which includes the Jiangsu Plant. Each segment represents distinct stages in the lithium carbonate production process, i.e. extraction of spodumene and the processing of spodumene into lithium carbonate, and is separated by geography. For each of our strategic divisions, the Group’s Managing Director (the chief operating decision maker) reviews internal management reports on at least a monthly basis. Historically, from the commencement of the Relevant Financial Period to December 31, 2009, we had only one reportable operating segment, being mineral exploration in Western Australia.

RECENT DEVELOPMENTS

In November 2010, January 2011 and February 2011, we issued Convertible Bonds to the Bondholders, raising A\$61.5 million towards completing construction of the Jiangsu Plant. They carry a fixed interest rate of 8% p.a. and are exercisable in Shares at a current price of A\$1.545 per Share, which is subject to adjustments upon the occurrence of certain prescribed events. As at the Latest Practicable Date, the Convertible Bonds are convertible into approximately 39.80 million Shares. Please see the section headed “— Indebtedness” for further detail.

In February 2011, we issued 21.58 million Shares to Fengli Group at an issue price of A\$1.39 per Share to raise A\$30 million.

FINANCIAL INFORMATION

On December 8, 2010, we entered into a memorandum of understanding with Lithium One to acquire up to 70% of the James Bay Project. In February 2011, we entered into a formal, binding agreement to acquire up to 70% of the James Bay Project. Following the satisfaction of certain conditions precedent we will acquire an initial 20% ownership interest in the James Bay Project for C\$3 million (approximately HK\$[23.83] million) with the potential to increase our interest to 70% by completing a definitive feasibility study for the project within a 24 month period. The James Bay Project does not constitute a business for financial reporting purposes and accordingly, should the transaction complete as envisaged, the initial 20% ownership interest will be recorded in the balance sheet as exploration and evaluation expenditure at cost and subsequent expenditure to achieve a 70% ownership interest will be capitalized at cost (in accordance with the Company’s accounting policy on exploration and evaluation expenditure) as exploration and evaluation expenditure. For further information, please see “Business — Summary of joint venture agreements — James Bay Project”.

On March 31, 2011, we plan to announce the audited consolidated financial information of the Group, including the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement of the Group for the year ended December 31, 2010 and the consolidated balance sheets of the Group and the balance sheet of the Company as at December 31, 2010.

BASIS OF PRESENTATION

Our consolidated financial information has been prepared in accordance with IFRSs under historical cost basis except as otherwise stated in Note 1 of the Accountants’ Report as set out in Appendix I to this document. Our consolidated financial information is presented in A\$, which is our presentation currency.

Our Company is a publicly listed company incorporated and registered in Western Australia, Australia on January 15, 1996. We have been listed on the ASX since February 2007.

We have, up until June 30, 2009, prepared our financial statements on the basis of a June 30 year end, which is the standard financial year in Australia. On December 23, 2009 the Australian Securities and Investments Commission granted us approval to change our financial year-end date to December 31, 2009 effective July 1, 2009. The purpose of this change was to synchronize the operations of our Australian and Hong Kong entities with our subsidiaries in the PRC. The three financial years included in this document are the twelve months ended June 30, 2008 and June 30, 2009 and the six months ended December 31, 2009. Our consolidated financial information for the nine months ended September 30, 2010 is also presented in the Accountants’ Report as set out in Appendix I to this document.

During the Relevant Financial Period, we were at the exploration and pre-production stage and did not engage in any trading activities or revenue-generating business that was continuous in nature. Significant fundamental changes in the business took place during 2010 when the Mt Cattlin Project moved into commissioning stage and we set up our PRC operations.

Our principal accounting policies have been consistently applied throughout the financial periods presented in the Accountants’ Report as set out in Appendix I to this document.

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KEY FACTORS AFFECTING OUR RESULTS OF OPERATIONS AND FINANCIAL POSITION

Our results of operations and financial position have been and will continue to be affected by a number of factors, some of which are beyond our control. The principal factors affecting our results of operations and financial position are discussed below.

Completion of our projects and achieving commercial production

We expect our sales and results of operations to fluctuate depending on the development stage and completion of our projects, in particular our Mt Cattlin Project and Jiangsu Plant. Over the Relevant Financial Period, our activities primarily consisted of exploration in the earlier years, followed by development and construction of the Mt Cattlin Project, which commenced production in October 2010, and the Jiangsu Plant, which is currently being constructed. Hence, our results of operations and financial position will depend on the successful and timely completion of these commissioning and construction activities. Further, as we had not commenced production and had no product sales during the Relevant Financial Period, results of operations over the Relevant Financial Period will not be indicative of future sales and results of operations.

Once our Jiangsu Plant has commenced production, our results of operations and financial position will depend, among others, on the quantity and quality of our production and our ability to sell lithium carbonate. To support the sale of our lithium carbonate production, we have entered into offtake framework agreements with Mitsubishi Corporation and 13 lithium cathode producers in the PRC. The offtake framework agreements require us to produce lithium carbonate with a minimum purity level of 99.5% lithium carbonate and impurities below certain specifications. We expect that our customers will require our products to undergo testing to confirm that they are in compliance. We will also need to agree the price of our products to be sold each quarter. Failure to agree to a price or produce products of this purity level and within these specifications may result in no or lesser than expected sales being concluded under these agreements, which could materially and adversely affect our financial performance and results of operations. Please see “Business — Products, Sales and Marketing — Offtake framework agreements” for further information.

In addition, capital expenditure, which may be required at a later stage of our development for further expansions, and our inability to fund such expenditure may also negatively impact our business and results of operations.

Lithium carbonate prices and demand

During the Relevant Financial Period, we had not commenced production and made no sales of lithium carbonate; thus, lithium carbonate market prices had no impact on our results of operations or financial position. Most of our revenue will ultimately be derived from the sale of lithium carbonate and consequently, our expected earnings will be dependent on lithium carbonate market prices and demand. Lithium carbonate prices have been and will be subject to numerous factors beyond our control, including:

- supply and demand for lithium carbonate in the PRC and globally, particularly with respect to demand for lithium-ion batteries;
- the prices set by the world’s largest producers of lithium carbonate;

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- production costs and capacities in major lithium-producing regions;
- level of competition between lithium carbonate producers;
- utilization rates at existing lithium carbonate production facilities worldwide; and
- technological advancements in the production of lithium carbonate and end-uses of lithium carbonate.

Please see “Industry Overview — Lithium carbonate pricing” for further information.

A decrease in the market prices of lithium carbonate will have a negative impact on our results of operations and financial condition once we have commenced commercial production.

Cost of sales

During the Relevant Financial Period, we had not commenced production and consequently, cost of sales did not have an impact on our results of operations or financial position. Once we commence production, we will start realizing these costs which will ultimately impact on our results of operations and financial position. Key factors that will affect our cost of sales will include:

- costs of mining and processing at the Mt Cattlin Project; and
- costs of processing at the Jiangsu Plant.

The key cost inputs to mining and processing at Mt Cattlin include the cost of hiring contractors for earthmoving operations, diesel fuel relating to power generation on site and running of the mining fleet, and ferrosilicon as one of the major processing reagents. With regard to processing at the Jiangsu Plant, the key costs inputs are energy and reagents including soda ash and sulphuric acid, for which we have secured long term contracts. These contracts are further disclosed in “Business — Supply of materials”.

There is no guarantee we will be able to completely or partially reflect future increases in the prices of cost inputs in our selling prices in the future. If unmatched by corresponding increases in the selling prices of our products, such increases would have a negative impact on our margins and thus, results of operations and financial condition.

Exploration and evaluation costs

We carry out exploration activities in order to delineate mineral resources and ore reserves. Some of our exploration is undertaken to meet Australian legal requirements and ensure retention of our exploration licences.

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We expect to have ongoing exploration costs and these costs will vary materially due to factors including the number, location and characteristics of our projects and the legal and regulatory requirements for each. Increased exploration and evaluation costs may adversely impact our margin, results of operations and financial condition.

Foreign exchange rates

As a result of the international nature of our businesses, we are exposed to currency risk in relation to several foreign currencies. Although we had neither production nor sales of lithium carbonate over the Relevant Financial Period, we expect a substantial portion of our sales will be denominated in currencies other than A\$, our reporting currency, principally in US\$ and RMB in the future. We expect that exposure to fluctuations in the A\$/RMB exchange rate will be partly matched by costs denominated in RMB in connection with our Jiangsu Plant. Further detail on our foreign currency exposure is disclosed in “Risk Factors — Risks relating to our business and the industry in which we operate — Foreign currency fluctuations could affect revenue, expenses and future earnings” and in Note 26 of the Accountants’ Report as set out in Appendix I to this document.

In addition, all of our debt is denominated in US\$. Hence, fluctuations in the US\$/A\$ exchange rate may positively or negatively impact our financial position.

With respect to our existing or future consolidated entities whose functional currency is not A\$, fluctuations in exchange rates between the A\$ and the other non-A\$ currencies, primarily RMB, will impact on the following:

- translation of non-A\$ denominated results of operations and financial position of our existing or future consolidated entities into A\$, therefore affecting our consolidated results of operations and financial position;
- the resultant A\$ values of translated consolidated assets and liabilities which may cause foreign currency exchange differences to be recorded in other comprehensive income and to be presented in the foreign currency translation reserve in equity; and
- the value of any distributions that our foreign subsidiaries may make to us.

Whilst we do not currently have a hedging policy, we have a draft Foreign Exchange Risk Management Policy which will be updated and adopted should we decide to hedge our foreign currency exposure in the future. We intend to hedge a portion of our foreign currency exposure using forward exchange contracts. At any point in time we may hedge our estimated foreign currency exposure in respect of forecast sales and purchases over the following months. We may also hedge a percentage of all trade receivables and trade payables denominated in a foreign currency.

The purpose of the Foreign Exchange Risk Management Policy will be to confirm at the Board level the framework for the ongoing measurement and management of the foreign exchange market exposures and interest rate exposures inherent in the Company’s business of through the regular monitoring, assessment and management of foreign exchange rate risks associated with exposures between the A\$, US\$ and RMB, which encompass the bulk of the foreign exchange risk in our business.

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Once implemented, the Foreign Exchange Risk Management Policy will establish the basis on which the following are incorporated into the existing broader risk management practices in the Company and the established management and Board reporting processes:

- the timeframe over which risks will be monitored and managed;
- the maintenance of policy and execution of those actions appropriate to maintain the risks within the desired parameters set out in the Foreign Exchange Risk Management Policy; and
- the regular reporting of the risk management process and its impact on corporate profitability.

As a result of the foregoing, our business, results of operations, financial condition and prospects may be positively or adversely affected by foreign exchange fluctuations between the A\$ and the US\$, and between the A\$ and the RMB.

Changes in the tax environment

Our mining operations are subject to the payment of various Australian state and federal royalties and taxes. There is a risk that the royalty and tax regime could be changed, resulting in higher costs for our operations.

The Federal Government of Australia has recently proposed the introduction of a new tax on profits from mining operations in Australia, the MRRT. As the announced MRRT proposal will only apply to iron ore and coal projects, our lithium mining and exploration activities will not be affected. However, the MRRT proposal may affect the value and economic viability of our 50% interest in the non-core Shoemaker project, which is prospective for iron ore. Please see “Laws and Regulations Relating to the Industry — Federal resource tax” for further information on the MRRT and “Risk Factors — Risks relating to our business and the industry in which we operate — Our joint venture and strategic alliance arrangements may not be successful” for further information on the Shoemaker project.

We plan to operate the Jiangsu Plant in the Jiangsu International Chemical Industrial Park within the Zhangjiagang Free Trade Zone, alongside many international chemical companies. As such, changes in the PRC government regulations with respect to income taxes may materially and adversely affect our results of operations and financial position.

CRITICAL ACCOUNTING POLICIES

The preparation of our consolidated financial statements in accordance with IFRSs requires our management to adopt accounting policies and make estimates and assumptions that affect amounts reported in our financial information. Critical accounting policies are those that are the most important to the portrayal and understanding of our financial condition and / or results of operations and require the most difficult, subjective or complex judgment by our management, often as a result of the need to make estimates that are particularly sensitive because of their significance to our financial statements and because of the possibility that future events affecting the estimates may differ significantly from management’s current judgments. Many of these policies, estimates and related judgments are common in our industry; others are specific to our businesses and operations.

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Our significant accounting policies are stated in Note 1 in the Accountant’s Report in Appendix I to this document. Note 27 in the Accountant’s Report in Appendix I to this document also describes critical accounting judgments and estimates.

The following subsections describe the critical accounting policies applied in preparing our financial information that our management believes are most dependent on the application of these judgments and estimates, and where actual results may differ from these estimates under different assumptions and conditions, which may materially affect our financial results or our financial position reported in future periods.

Impairment of assets

Loans and receivables

The Group considers evidence of impairment for loans and receivables at both a specific asset and collective level. All individually significant receivables are assessed for specific impairment. All individually significant loans and receivables found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and receivables that are not individually significant are collectively assessed for impairment by grouping together loans and receivables with similar risk characteristics.

In assessing collective impairment we use historical trends of the probability of default, the timing of recoveries and the amount of loss incurred, adjusted for management’s judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset’s original effective interest rate. Losses are recognized in profit or loss and reflected in an allowance account against loans and receivables. Interest on the impaired asset continues to be recognized. When a subsequent event (e.g. a repayment by a debtor) causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Available-for-sale financial assets

Impairment losses on available-for-sale financial assets are recognized by reclassifying the losses accumulated in the fair value reserve in equity to profit or loss. The cumulative loss that is reclassified from equity to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortization, and the current fair value, less any impairment loss recognized previously in profit or loss. Changes in impairment provisions attributable to application of the effective interest method are reflected as a component of interest income. If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognized in profit or loss, then the impairment loss is reversed, with the amount of the reversal recognized in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognized in other comprehensive income.

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Non-financial assets

The carrying amounts of our non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset’s recoverable amount is estimated. An impairment loss is recognized when the carrying amount of an asset or its related CGU exceeds its estimated recoverable amount.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generate cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGU.

The Group’s corporate assets do not generate separate cash inflows and are utilized by more than one CGU. Corporate assets are allocated to CGUs on a reasonable and consistent basis and tested for impairment as part of the testing of the CGU to which the corporate asset is allocated.

Impairment losses are recognized in profit or loss.

Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset’s carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

Share-based payment transactions

The grant-date fair value of share-based payment awards granted to employees (including directors) is recognized as an employee expense, with a corresponding increase in equity, over the period that the employees unconditionally become entitled to the awards. The fair value of Options is measured using a Black-Scholes option valuation model or Monte-Carlo valuation model. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information), weighted average expected life of the instruments (based on historical experience and general option holder behavior), expected dividends, and the risk-free interest rate (based on government bonds). Service and non-market performance conditions attached to the transactions are not taken into account in determining fair value.

The amount recognized as an expense is adjusted to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognized as an expense is based on the number of awards that meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant-date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

Share-based payment arrangements in which the Group receives goods or services as consideration for its own equity instruments are accounted for as equity-settled share-based payment transactions, regardless of how the equity instruments are obtained by the Group.

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Exploration and evaluation assets

Exploration for and evaluation of mineral resources is the search for mineral resources after we have obtained legal rights to explore in a specific area, as well as the determination of the technical feasibility and commercial viability of extracting the mineral resources. Accordingly, exploration and evaluation assets are those expenditures incurred by the Group in connection with the exploration for and evaluation of mineral resources before the technical feasibility and commercial viability of extracting a mineral resources are demonstrable.

Accounting for exploration and evaluation assets is assessed separately for each “area of interest”. An “area of interest” is an individual geological area which is considered to constitute a favorable environment for the presence of a mineral deposit or has been proved to contain such a deposit.

Expenditure incurred on activities that precede exploration and evaluation of mineral resources, including all expenditure incurred prior to securing legal rights to explore an area, is expensed as incurred. For each area of interest the expenditure is recognized as an exploration and evaluation asset where the following conditions are satisfied:

- (a) the rights to tenure of the area of interest are current; and
- (b) at least one of the following conditions is also met:
 - (i) the expenditure is expected to be recouped through successful development and commercial exploitation of an area of interest, or alternatively by its sale; and
 - (ii) exploration and evaluation activities in the area of interest have not, at reporting date, reached a stage which permits a reasonable assessment of the existence or otherwise of “economically recoverable reserves” and active and significant operations in, or in relation to, the area of interest are continuing. Economically recoverable reserves are the estimated quantity of product in an area of interest that can be expected to be profitably extracted, processed and sold under current and foreseeable conditions.

Exploration and evaluation activities include:

- acquisition of rights to explore;
- topographical, geological, geochemical and geophysical studies;
- exploratory drilling, trenching, and sampling; and
- activities in relation to evaluating the technical feasibility and commercial viability of extracting the mineral resource.

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General and administrative costs are allocated to, and included in, the cost of exploration and evaluation assets only to the extent that those costs can be related directly to the operational activities in the area of interest to which the exploration and evaluation assets relate. In all other instances, these costs are expensed as incurred.

Exploration and evaluation assets include:

- piping and pumps;
- tanks;
- exploration vehicles and drilling equipment;
- drilling rights;
- acquired rights to explore;
- exploratory drilling costs; and
- trenching and sampling costs.

Exploration and evaluation assets are transferred to development expenditure, which is disclosed as a component of property, plant and equipment, once technical feasibility and commercial viability of an area of interest is demonstrable. Exploration and evaluation assets are assessed for impairment, and any impairment loss is recognized, prior to being reclassified.

The carrying amount of the exploration and evaluation assets is dependent on successful development and commercial exploitation, or alternatively, sales of the respective area of interest.

Impairment testing of exploration and evaluation assets

Exploration and evaluation assets are assessed for impairment if sufficient data exists to determine technical feasibility and commercial viability or facts and circumstances suggest that the carrying amount exceeds the recoverable amount.

Exploration and evaluation assets are tested for impairment when any of the following facts and circumstances exist:

- the term of exploration licence in the specific area of interest has expired during the reporting period or will expire in the near future, and is not expected to be renewed;
- substantive expenditure on further exploration for and evaluation of mineral resources in the specific area are not budgeted nor planned;

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- exploration for and evaluation of mineral resources in the specific area have not led to the discovery of commercially viable quantities of mineral resources and the decision was made to discontinue such activities in the specified area; or
- sufficient data exists to indicate that, although a development in the specific area is likely to proceed, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale.

Where a potential impairment is indicated, an assessment is performed for each CGU which is no larger than the area of interest. The Group performs impairment testing in accordance with accounting policy.

Determination of ore reserves

Economically recoverable ore reserves represent the estimated quantity of product in an area of interest that can be expected to be profitably extracted, processed and sold under current and foreseeable economic conditions. The Group determines and reports ore reserves under the standards incorporated in the Australasian Code for Reporting Exploration Results, Mineral Resources and Ore Reserves, 2004 edition (the JORC Code). The determination of ore reserves includes estimates and assumptions about a range of geological, technical and economic factors, including: quantities, grades, production techniques, recovery rates, production costs, transport costs, commodity demand, commodity prices and exchange rates. Changes in ore reserves impact the assessment of recoverability of exploration and evaluation assets, property, plant and equipment, the carrying amount of assets depreciated on a units of production basis, provision for site restoration and the recognition of deferred tax assets, including tax losses.

Subsequent costs, development expenditure and depreciation of property, plant and equipment

Subsequent costs

The Group recognizes in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if:

- it is probable that the future economic benefits embodied within the item will flow to the Group; and
- the cost of the item can be measured reliably.

All other costs are recognized in profit or loss as an expense as incurred.

Development expenditure

Development expenditure relates to costs incurred to access a mineral resource. It represents those costs incurred after the technical feasibility and commercial viability of extracting the mineral resource has been demonstrated and an identified mineral reserve is being prepared for production (but is not yet in production).

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Significant factors considered in determining the technical feasibility and commercial viability of the project are the completion of a feasibility study, the existence of sufficient proven and probable reserves to proceed with development and approval by our Board to proceed with development of the project.

Development expenditure is capitalized as either a tangible or intangible asset depending on the nature of the costs incurred.

Development expenditure includes the following:

- reclassified exploration and evaluation assets;
- direct costs of construction;
- pre-production stripping costs; and
- an appropriate allocation of overheads and borrowing costs incurred during the production phase.

Capitalization of development expenditure ceases once the mining property is capable of commercial production, at which point it is depreciated in accordance with accounting policy set out below in this note. Any development expenditure incurred once a mine property is in production is immediately expensed to profit or loss except where it is probable that future economic benefits will flow to the entity, in which case it is capitalized as property, plant and equipment.

Depreciation

Depreciation is recognized in profit or loss over the estimated useful life of each part or item of property, plant and equipment. Development expenditure is depreciated or amortized over the lower of their estimated useful lives and the remaining life of mine. The estimated life of mine is based upon geological resources.

- | | |
|---------------------------|---|
| ● Freehold land | Not depreciated |
| ● Plant and equipment | 3 – 16 years |
| ● Development expenditure | Units of production basis over the total estimated proven and probable reserves related to the area of interest |

No depreciation is made on assets under construction until such time when the assets are substantially completed and ready for use.

Income tax

Income tax expense comprises current and deferred taxes. Income tax is recognized in profit or loss except to the extent that they relate to items recognized directly in equity or in other comprehensive income, in which case the relevant amounts of tax are recognized in equity or in other comprehensive income, respectively.

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Current tax is the expected tax payable on the taxable income for the year/period, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax assets also arise from unused tax losses. The following temporary differences, of which deferred taxes are not provided for: initial recognition of goodwill, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses, that is those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Provisions for site restoration liability

The Group provides for the future cost of rehabilitating its exploration sites in accordance with environmental and legal obligations imposed on the tenements. A provision for rehabilitation is required to be brought to account as soon as there is a probable outflow of resources that can be measured reliably. Provisions for restoration are based on the discounted cash flow of expected future cost.

Convertible Bonds

As detailed in “— Indebtedness”, the Company has issued A\$61.5 million of Convertible Bonds, which are unsecured, interest-bearing at 8% p.a. and convertible into Shares within five years from issuance or wholly repayable in cash three or five years from issuance, at the option of the holder. The number of Shares that would be issued on conversion would change depending on the change in the Company’s share price quoted on the ASX.

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The Convertible Bonds will be separated into two components, a liability derivative component representing the embedded option to convert into Shares and a liability component representing the straight debt element.

On issuance of the Convertible Bonds, the fair value of the derivative component is measured using a valuation technique. Any excess of gross proceeds over the amount initially recognized as the derivative component is recognized as the straight debt component.

Subsequent to initial recognition, the derivative component is measured at fair value on the balance sheet with any subsequent changes in fair value being recognized in profit or loss. The straight debt component is subsequently carried at amortized cost. The interest recognized in the profit or loss on the straight debt component is calculated using the effective interest rate method.

On conversion, the carrying amounts of the derivative component and straight debt component are reclassified to share capital; no gain or loss is recognized on conversion. If the convertible note is redeemed, any difference between the amount paid and the carrying amounts of both components is recognized in profit or loss.

NEW ACCOUNTING STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after January 1, 2010, and have not been applied in preparing this Financial Information. None of these are expected to have a significant impact on the Group, except for *IFRS 9 Financial Instruments*, which becomes mandatory for our 2013 consolidated financial statements and could change the classification and measurement of financial assets. We do not plan to adopt this standard early and the extent of the impact has not been determined.

PRINCIPAL COMPONENTS OF LINE ITEMS IN THE STATEMENT OF CONSOLIDATED INCOME

Set forth below are descriptions of the key line items of our statement of consolidated income.

Turnover

Our principal activities during the Relevant Financial Period were exploration for minerals, the development and construction of the Mt Cattlin Project, and the development of Jiangsu Plant. As such, we did not earn any revenue from these activities during this period and accordingly, no cost of sales were recorded over the Relevant Financial Period.

Other income

Our other income includes various sources of revenue not related to sales of our products. Other income includes proceeds from the sale of tenement interests.

Staff costs

Our staff costs include salaries, wages and benefits to our employees, contributions to defined contribution retirement plans and equity settled share-based payments. Equity settled share-based payments take the form of Options, the fair value of which is determined in accordance with IFRSs.

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Exploration and evaluation assets written-off

Exploration and evaluation assets are written-off when the carried forward carrying value of such expenditure is assessed and considered to be in excess of the proven commercially recoverable reserves in the area of interest or when the area is no longer being actively explored.

Depreciation and amortization

Depreciation is recognized in profit or loss over the estimated useful life of each depreciable part or item of property, plant and equipment.

The cost of acquiring land held under an operating lease is amortized on a straight-line basis over the period of the lease term, which is 50 years.

Other operating expenses

Our other operating expenses include corporate administration expenses, rent for properties used for administrative purposes, travel expenses, office-related expenses, professional fees, legal expenses and ASX listing fees. They also consist of items such as non-capitalized exploration and evaluation expenditure and stamp duty.

Finance income

Finance income is comprised solely of interest income derived from our cash balances on hand and invested from time to time.

Finance costs

Finance costs include interest on our bank loans, bank charges, foreign exchange differences arising from translation of foreign currency denominated financial liabilities and impairment of the value of financial assets.

Income tax

We are subject to income tax on an entity basis on profit arising in, or derived from, the tax jurisdictions in which members of our Group are domiciled and operate. The income tax benefits that we have received in the past relate to research and development tax concessions for exploration expenditure incurred.

Foreign currency translation differences — foreign operations

Foreign currency translation differences are differences arising from translating the financial statements of our foreign subsidiaries, GLJL and GLIL, into A\$ for the purposes of consolidation. These foreign currency translation differences are reflected through equity and other comprehensive income. These differences result from the translation of the GLJL balance sheet, which has RMB as the functional currency, and the GLIL balance sheet, which has HK\$ as the functional currency, into A\$ upon consolidation. The nine month period ended September 30, 2010 is the first occurrence of this translation difference.

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RESULTS OF OPERATIONS

The following sets out selected financial data extracted from our consolidated statements of comprehensive income during the Relevant Financial Period as set out in “Appendix I — Accountants’ Report”. As described under “— Basis of Preparation”, the three financial years included in this document are the twelve months ended June 30, 2008 and June 30, 2009, and the six months ended December 31, 2009. Our consolidated financial information for the nine months ended September 30, 2010 is also presented in the Accountants’ Report as set out in Appendix I to this document. These periods are replicated in the table below.

	12 months ended June 30		Six months ended December 31		Nine months ended September 30	
	2008	2009	2008	2009	2009	2010
	A\$	A\$	A\$	A\$	A\$	A\$
			(unaudited)		(unaudited)	
Turnover	—	—	—	—	—	—
Other income	—	—	—	1,081,356	—	—
Staff costs	(306,502)	(2,105,616)	(475,830)	(10,041,306)	(1,966,193)	(7,333,729)
Exploration and evaluation assets written-off	(49,557)	(1,520,875)	(1,520,875)	—	—	—
Depreciation and amortization	(1,013)	(15,724)	(3,088)	(21,162)	(12,636)	(126,131)
Other operating expenses	(81,075)	(785,224)	(227,788)	(3,569,707)	(1,242,620)	(6,542,974)
Loss from operations	(438,147)	(4,427,439)	(2,227,581)	(12,550,819)	(3,221,449)	(14,002,834)
Finance income	48,973	78,278	55,108	483,894	33,840	4,276,163
Finance costs	(3,946)	(1,732)	(913)	(255,067)	(1,670)	(2,988,099)
Net finance income	45,027	76,546	54,195	228,827	32,170	1,288,064
Loss before taxation	(393,120)	(4,350,893)	(2,173,386)	(12,321,992)	(3,189,279)	(12,714,770)
Income tax	—	592,343	280,120	—	312,223	—
Loss for the year / period	(393,120)	(3,758,550)	(1,893,266)	(12,321,992)	(2,877,056)	(12,714,770)
Other comprehensive income for the year / period						
Foreign currency translation differences — foreign operations	—	—	—	—	—	(2,458,746)
Available-for-sale financial assets						
— Changes in fair value recognized during the period	—	—	—	—	—	(225,000)
— Reclassification adjustments for amounts transferred to profit or loss upon impairment	—	—	—	—	—	575,000
Net movement in the fair value reserve during the period in other comprehensive income	—	—	—	—	—	350,000
Total comprehensive income for the year / period	(393,120)	(3,758,550)	(1,893,266)	(12,321,992)	(2,877,056)	(14,823,516)

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PERIOD TO PERIOD COMPARISON OF RESULTS OF OPERATIONS

Comparison for the nine months ended September 30, 2010 and the nine months ended September 30, 2009

Turnover

Our turnover for the nine months ended September 30, 2009 and September 30, 2010 was nil as our operations at the Mt Cattlin Project and Jiangsu Plant had not yet commenced commercial production.

Other income

Our other income for the nine months ended September 30, 2009 and September 30, 2010 was nil as we did not have any source of other income.

Staff costs

Our staff costs increased by A\$5,367,536, from A\$1,966,193 for the nine months ended September 30, 2009 to A\$7,333,729 for the nine months ended September 30, 2010. From September 30, 2009 to September 30, 2010 we increased the number of employees from seven to 86 as we were in the process of constructing the Mt Cattlin Project and had started establishing our Hong Kong and PRC operations. The increase in our staff costs corresponded to increases in the following items:

- contributions to defined contribution retirement plans increased by A\$25,030, or approximately 21%, from A\$118,998 for the nine months ended September 30, 2009 to A\$144,028 for the nine months ended September 30, 2010;
- equity settled share-based payment expenses increased by A\$2,996,682 from A\$853,152 for the nine months ended September 30, 2009 to A\$3,849,834 for the nine months ended September 30, 2010; and
- salaries, wages and other benefits increased by A\$2,345,824 from A\$994,043 for the nine months ended September 30, 2009 to A\$3,339,867 for the nine months ended September 30, 2010.

Depreciation and amortization

Depreciation and amortization increased by A\$113,495 from A\$12,636 for the nine months ended September 30, 2009 to A\$126,131 for the nine months ended September 30, 2010 due to depreciation of additional plant and equipment installed or acquired for construction of the Mt Cattlin Project.

Other operating expenses

Our other operating expenses increased by A\$5,300,354 from A\$1,242,620 for the nine months ended September 30, 2009 to A\$6,542,974 for the nine months ended September 30, 2010. This increase primarily related to a general increase in activity as we advanced construction of the Mt Cattlin Project and establishment

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of our Hong Kong and PRC operations in the nine months ended September 30, 2010. The key items which impacted our operating expenses in the nine months ended September 30, 2010 are as follows:

- travel expenses increased by A\$486,619 from A\$279,613 for the nine months ended September 30, 2009 to A\$766,232 for the nine months ended September 30, 2010;
- legal fees increased by A\$380,900 from A\$149,421 for the nine months ended September 30, 2009 to A\$530,321 for the nine months ended September 30, 2010;
- consultant fees increased by A\$2,670,042 from A\$177,883 for the nine months ended September 30, 2009 to A\$2,847,925 for the nine months ended September 30, 2010; and
- PRC office costs increased by A\$1,334,342 from nil for the nine months ended September 30, 2009 to A\$1,334,392 for the nine months ended September 30, 2010.

Finance income

Our finance income increased by A\$4,242,323 from A\$33,840 for the nine months ended September 30, 2009 to A\$4,276,163 for the nine months ended September 30, 2010. Finance income comprised of interest earned on cash balances. The increase in our finance income was primarily due to interest earned on higher average cash balances in the nine months ended September 30, 2010 from various financing arrangements. The following financing activities increased our cash balances during the nine months ended September 30, 2010:

- a placement of 31,000,000 Shares to CRHL that raised A\$27.3 million before costs;
- the full repayment of the RZB Bridging Loan of A\$22.4 million;
- drawdown of the A\$107.6 million Senior Loan Facility which included the associated funding of A\$52.1 million to the equity account designated for principal repayment and interest service of the Senior Loan Facility; and
- the exercise of 9,618,750 Options that raised A\$6.2 million before costs.

These activities, together with the costs of equity issuance of A\$1.7 million as well as bank charges and interest paid of A\$870,950, resulted in net financing cash inflow of A\$64.1 million in the nine months ended September 30, 2010. Interest was also earned on the equity account designated for principal repayment and interest service of the Senior Loan Facility.

Finance costs

Our finance costs increased A\$2,986,429 from A\$1,670 for the nine months ended September 30, 2009 to A\$2,988,099 for the nine months ended September 30, 2010. This increase was principally due to:

- interest payable on the RZB Bridging Loan of A\$592,253 in the nine months ended September 30, 2010;
- an impairment loss of A\$575,000 recognized in the nine months ended September 30, 2010 in relation to our investment of 5,000,000 shares held in ASX-listed General Mining. Subsequent to the

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recognition of this impairment loss, there was a recovery in the fair value of A\$350,000 which was recognized through fair value reserve in equity, reflecting the movement in value of our investment in General Mining from A\$1.025 million at the beginning of the nine months ended September 30, 2010 to A\$0.8 million at the end of this same period; and

- foreign currency translation losses of A\$1,578,324 attributed to the US\$20 million RZB Bridging Loan obtained in November 2009 and repaid in June 2010, during which time the A\$ appreciated against the US\$.

Further detail on the RZB Bridging Loan and Senior Loan Facility is provided in the section entitled “— Indebtedness”.

Loss before taxation

As a result of the foregoing, loss before taxation increased by A\$9,525,491 from A\$3,189,279 for the nine months ended September 30, 2009 to A\$12,714,770 for the nine months ended September 30, 2010.

Income tax

We received a non-recurring income tax refund of A\$312,223 for the nine months ended September 30, 2009 in relation to research and development expenditure. As we did not generate assessable income, we were not subject to income tax for the nine months ended September 30, 2010.

The Commonwealth Government of Australia provides a range of financial incentives for companies developing or acquiring intellectual property, of which the research and development tax concession is a major form of financial assistance. Under this scheme, companies with turnover less of than A\$5.0 million and research and development expenditure of less than A\$1 million can elect to receive a cash rebate of 37.5 cents per dollar of eligible research and development expenditure. As we anticipate that our future operations and research and development expenditure will exceed these thresholds, it is unlikely that the Company will be eligible for future cash rebates in relation to research and development expenditure. In this case, we will still be eligible to receive the tax concession in the form of a tax credit.

Loss after taxation

As a result of the foregoing, loss after taxation increased by A\$9,837,714 from A\$2,877,056 for the nine months ended September 30, 2009 to A\$12,714,770 for the nine months ended September 30, 2010.

Foreign currency translation differences

Foreign currency translation differences decreased by A\$2,458,746 from nil for the nine months ended September 30, 2009 to negative A\$2,458,746 for the nine months ended September 30, 2010. These differences arose from the translation of GLIL and GLJL balance sheets into A\$ for the purposes of preparing our consolidated financial statements.

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Comparison for the six months ended December 31, 2009 and the six months ended December 31, 2008

Turnover

Our turnover from product sales for both the six months ended December 31, 2008 and the six months ended December 31, 2009 was nil as our operations at the Mt Cattlin Project and Jiangsu Plant had not yet commenced commercial production.

Other income

Our other income increased by A\$1,081,356 from nil for the six months ended December 31, 2008 to A\$1,081,356 for the six months ended December 31, 2009. This was principally due to a A\$1.06 million gain recognized from the sale of a 50% interest in the non-core Shoemaker project to General Mining during the six months ended December 31, 2009. Further detail on the Shoemaker project is disclosed under “Risk Factors — Risks relating to our business and the industry in which we operate — Our joint venture and strategic alliance arrangements may not be successful”.

Staff costs

Our staff costs increased by A\$9,565,476 from A\$475,830 for the six months ended December 31, 2008 to A\$10,041,306 for the six months ended December 31, 2009. From December 31, 2008 to December 31, 2009, we increased the number of employees from five to 17 as we had commenced construction of the Mt Cattlin Project and establishment of our Hong Kong and PRC operations. The increase in our staff costs corresponded to the following items:

- contributions to defined contribution retirement plans increased by A\$21,076, or approximately 37%, from A\$57,477 for the six months ended December 31, 2008, to A\$78,553 for the six months ended December 31, 2009;
- equity settled share-based payment expenses increased by A\$8,751,781 from A\$182,351 for the six months ended December 31, 2008, to A\$8,934,132 for the six months ended December 31, 2009; and
- salaries, wages and other benefits increased by A\$792,619 from A\$236,002 for the six months ended December 31, 2008, to A\$1,028,621 for the six months ended December 31, 2009. The increase in the average salary per employee reflected a change in the seniority profile of our workforce, as we added new senior management staff to direct our growth.

Exploration and evaluation assets written-off

For the six months ended December 31, 2008, we wrote off A\$1,520,875 in relation to tenement expenditure due to our reassessment of the fair value of some of our non-core exploration tenements in the ordinary course of business. This writing-off was approved by our Directors. In comparison, for the six months ended December 31, 2009, we did not record any impairment loss on exploration and evaluation assets.

Depreciation

Depreciation increased by A\$18,074 from A\$3,088 for the six months ended December 31, 2008 to A\$21,162 for the six months ended December 31, 2009 due to depreciation of additional plant and equipment installed or acquired for the construction of the Mt Cattlin Project.

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Other operating expenses

Our other operating expenses increased by A\$3,341,919 from A\$227,788 for the six months ended December 31, 2008, to A\$3,569,707 for the six months ended December 31, 2009. During the six months ended December 31, 2009, we incurred significant legal and consultant fees, as we were in the process of constructing the Mt Cattlin Project and establishing our Hong Kong and PRC operations. In comparison, we were predominantly focused on exploration activities and developing feasibility studies for the Mt Cattlin Project during the six months ended December 31, 2008. The following items mainly impacted our operating expenses in the six months ended December 31, 2009:

- travel expenses increased by A\$411,853, from A\$6,187 for the six months ended December 31, 2008 to A\$418,040 for the six months ended December 31, 2009;
- consultant fees increased by A\$1,955,012, from A\$79,014 for the six months ended December 31, 2008 to A\$2,034,026 for the six months ended December 31, 2009;
- advertising and promotional fees increased by A\$210,136, from A\$30,306 for the six months ended December 31, 2008 to A\$240,442 for the six months ended December 31, 2009; and
- office rent increased by A\$109,737, from A\$95,534 for the six months ended December 31, 2008 to A\$205,271 for the six months ended December 31, 2009 as we moved into our current offices at West Perth.

Finance income

Our finance income increased by A\$428,786 from A\$55,108 for the six months ended December 31, 2008 to A\$483,894 for the six months ended December 31, 2009. Finance income is comprised of interest earned on cash balances. The increase in our finance income was primarily due to higher average cash balances in the six months ended December 31, 2009, with cash and cash equivalents of A\$1,335,219 as at December 31, 2008 increasing to A\$83,441,378 as at December 31, 2009. The following financing activities also increased our average cash balances during the six months ended December 31, 2009:

- drawings under the RZB Bridging Loan of A\$22.4 million in the six months ended December 31, 2009;
- a placement of 67,418,182 Shares that raised A\$74.6 million before costs;
- the exercise of 6,390,610 Options that raised A\$2.4 million before costs; and
- a Director loan from Mr Craig Readhead of A\$0.07 million.

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These activities, together with costs of equity issuance of A\$4.7 million as well as bank charges and interest paid of A\$0.1 million, resulted in net financing cash inflow of A\$93.7 million in the six months ended December 31, 2009.

Finance costs

Our finance costs increased by A\$254,154 from A\$913 for the six months ended December 31, 2008 to A\$255,067 for the six months ended December 31, 2009. This increase was principally due to:

- interest payable on the RZB Bridging Loan of A\$105,833 in the six months ended December 31, 2009;
- foreign exchange losses that increased by A\$44,671 from nil in the six months ended December 31, 2008 to A\$44,671 in the six months ended December 31, 2009 due to the translation of US\$-denominated RZB Bridging Loan into A\$; and
- bank charges that increased A\$103,650, from A\$913 in the six months ended December 31, 2008 to A\$104,563 in the six months ended December 31, 2009 in relation fees paid on securing the RZB Bridging Loan.

Loss before taxation

As a result of the foregoing, loss before taxation increased by A\$10,148,606 from A\$2,173,386 for the six months ended December 31, 2008 to A\$12,321,992 for the six months ended December 31, 2009.

Income tax

We received an income tax refund of A\$280,120 for the six months ended December 31, 2008 in relation to research and development expenditure. As we did not generate assessable income, we were not subject to income tax for the six months ended December 31, 2009. We do not anticipate that the Company will be eligible for future tax refunds in relation to the research and development tax concession scheme as provided for by the Commonwealth Government of Australia. See above at “— Nine months ended September 30, 2010 and the nine months ended September 30, 2009 — Income tax” for further information.

Loss after taxation

As a result of the foregoing, loss after taxation increased by A\$10,428,726 from A\$1,893,266 for the six months ended December 31, 2008 to A\$12,321,992 for the six months ended December 31, 2009.

Foreign currency translation differences

Foreign currency translation differences for the six months ended December 31, 2008 and the six months ended December 31, 2009 was nil, as we did not have any monetary assets or liabilities denominated in foreign currencies during these periods.

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Comparison for the 12 months ended June 30, 2009 and the 12 months ended June 30, 2008

Turnover

Our turnover from product sales for the 12 months ended June 30, 2008 and June 30, 2009 was nil as our operations at the Mt Cattlin Project and Jiangsu Plant had not yet commenced commercial production.

Other income

Our other income for the 12 months ended June 30, 2008 and the 12 months ended June 30, 2009 was nil as we did not have any source of other income.

Staff costs

Our staff costs increased by A\$1,799,114 from A\$306,502 for the 12 months ended June 30, 2008 to A\$2,105,616 for the 12 months ended June 30, 2009. From June 30, 2008 to June 30, 2009, we increased the number of our employees from three to eight as the Company commenced gearing up towards construction of the Mt Cattlin Project and overseas operations for the Jiangsu Plant. The increase in our staff costs corresponded to increases in the following items:

- contributions to defined contribution retirement plans increased by A\$145,528 from nil in the 12 months ended June 30, 2008 to A\$145,528 in the 12 months ended June 30, 2009;
- equity settled share-based payment expenses increased by A\$1,035,503 from nil in the 12 months ended June 30, 2008 to A\$1,035,503 in the 12 months ended June 30, 2009; and
- salaries, wages and other benefits increased by A\$618,083 from A\$306,502 in the 12 months ended June 30, 2008 to A\$924,585 in the 12 months ended June 30, 2009. This increase in average salary per employee reflected the hiring of senior management staff to direct our growth.

Exploration and evaluation assets written-off

Exploration and evaluation assets written-off increased by A\$1,471,318 from A\$49,557 for the 12 months ended June 30, 2008 to A\$1,520,875 for the 12 months ended June 30, 2009. This was principally due to the writing off of tenement expenditure due to our reassessment of the fair value of some of our non-core exploration tenements not associated with Mt Cattlin in the ordinary course of business. This writing-off was approved by our Directors.

Depreciation and amortization

Depreciation and amortization increased by A\$14,711 from A\$1,013 for the 12 months ended June 30, 2008 to A\$15,724 for the 12 months ended June 30, 2009 due to depreciation of additional plant and equipment installed or acquired for the construction of the Mt Cattlin Project.

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Other operating expenses

Other operating expenses increased by A\$704,149 from A\$81,075 for the 12 months ended June 30, 2008 to A\$785,224 for the 12 months ended June 30, 2009. During the 12 months ended June 30, 2009, the Company commenced gearing up towards construction of the Mt Cattlin Project and development of the Jiangsu Plant, securing supply of raw materials and the Jiangsu site, in comparison to the 12 months ended June 30, 2008, when we were predominantly focused on exploration activities and completing feasibility studies for the Mt Cattlin Project. The following items mainly impacted our operating expenses in the 12 months ended June 30, 2009:

- travel expenses increased by A\$133,104 from A\$1,533 in the 12 months ended June 30, 2008 to A\$134,637 in the 12 months ended June 30, 2009;
- consultant fees increased by A\$118,032 from A\$52,090 in the 12 months ended June 30, 2008 to A\$170,122 in the 12 months ended June 30, 2009;
- accounting and audit fees increased by A\$138,850 from A\$25,000 in the 12 months ended June 30, 2008 to A\$163,850 in the 12 months ended June 30, 2009; and
- office rent increased by A\$249,805 from nil in the 12 months ended June 30, 2008 to A\$249,805 in the 12 months ended June 30, 2009.

In addition, we incurred increased expenditure of A\$23,000 for industry-related subscriptions as well as increases in sponsorships of A\$16,900 during the 12 months ended June 30, 2009. Sponsorships during this period included A\$10,000 in support of the University of Western Australia’s Renewable Energy Vehicle Project and A\$6,050 for a Sydney Resources Round-up conference.

Finance income

Our finance income increased by A\$29,305, or approximately 60%, from A\$48,973 for the 12 months ended June 30, 2008 to A\$78,278 for the 12 months ended June 30, 2009. Finance income is comprised of interest earned on cash balances. The increase in our finance income was primarily due to higher average cash balances in the 12 months ended June 30, 2009, with the cash and cash equivalents of A\$1,929,722 as at June 30, 2008 increasing to A\$3,441,613 as at June 30, 2009. The following financing activities also increased our average cash balances during the 12 months ended June 30, 2009:

- a Placement of 4,220,000 Shares and 4,220,000 free attaching Options that raised A\$1.4 million before costs;
- a Share purchase plan that raised A\$0.3 million before costs;
- a placement of 6,560,000 Shares that raised A\$2.0 million before costs;
- a placement of 9,400,000 Shares that raised A\$3.3 million before costs;
- the exercise of 3,583,500 Options for proceeds of A\$0.7 million before costs;

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- a Director loan from Mr Craig Readhead of A\$0.2 million; and
- advanced receipt of issue of Shares of A\$0.2 million.

These activities, together with costs of equity issuance of A\$0.4 million as well as bank charges and interest paid of A\$1,732, resulted in net financing cash inflow of A\$7.7 million in the 12 months ended June 30, 2009.

Finance costs

Our finance costs decreased by A\$2,214, or approximately 56%, from A\$3,946 for the 12 months ended June 30, 2008 to A\$1,732 for the 12 months ended June 30, 2009. This was due to interest paid of A\$3,682 to Pioneer Nickel Ltd on overdue amounts corresponding to the share of expenditure on the Elverdton Joint Venture borne by us in the 12 months ended June 30, 2008. The Elverdton Joint Venture was a joint venture between us and Western Copper Pty Ltd (a wholly-owned subsidiary of Pioneer Nickel Ltd) which had a 75%-interest in this joint venture. Pioneer Nickel Ltd has since acquired our share of this joint venture, which was not core to our lithium business.

Loss before taxation

As a result of the foregoing, loss before taxation increased by A\$3,957,773 from A\$393,120 for the 12 months ended June 30, 2008 to A\$4,350,893 for the 12 months ended June 30, 2009.

Income tax

As we did not generate assessable income, we were not subject to income tax for the 12 months ended June 30, 2008. We received an income tax refund of A\$592,343 for the 12 months ended June 30, 2009 in relation to research and development expenditure. We do not anticipate that the Company will be eligible for future tax refunds in relation to the research and development tax concession scheme as provided for by the Commonwealth Government of Australia. See above at “— Nine months ended September 30, 2010 and the nine months ended September 30, 2009 — Income tax” for further information.

Loss after taxation

As a result of the foregoing, loss after taxation increased by A\$3,365,430 from A\$393,120 for the 12 months ended June 30, 2008 to A\$3,758,550 for the 12 months ended June 30, 2009.

Foreign currency translation differences

Foreign currency translation differences for the 12 months ended June 30, 2008 and the 12 months ended June 30, 2009 was nil, as we did not have any monetary assets or liabilities denominated in foreign currencies during this period.

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LIQUIDITY AND FINANCIAL RESOURCES

Financial resources

During the Relevant Financial Period, our primary source of funds for working capital and funding needs was cash flows from financing activities, which consisted principally of the issuance of Shares and short-term loans from banks. Our Directors confirm that over the Relevant Financial Period, we have been able to pay our obligations when they became due.

As at September 30, 2010, we had cash and cash equivalents of A\$38.1 million. The bank and cash balances are required to finance working capital and part of our capital expenditure for our continuing growth and expansion plans. Specific considerations in determining the appropriate cash position include forecast working capital and capital expenditure needs. We also aim to maintain a certain level of excess cash to meet unexpected circumstances and to position ourselves to take advantage of potential business expansion opportunities as they arise.

On September 10, 2010, we entered into the US\$105 million Senior Loan Facility in relation to the Mt Cattlin Project and Jiangsu Plant. The facility was fully drawn down on September 22, 2010.

On October 27, 2010, we entered into the US\$7.76 million Letter of Credit provided by BOC.

In November 2010, January 2011 and February 2011, we issued Convertible Bonds to the Bondholders, raising a total of A\$61.5 million in three tranches.

In February 2011 we issued A\$30 million in Shares by placement.

Thereafter, operating activities would be financed with net cash generated from operations and, if required, additional debt or equity financing.

Cash flows

We need cash primarily to fund operating expenses and capital expenditure relating to our Mt Cattlin Project and Jiangsu Plant.

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The following table sets forth a condensed summary of our consolidated statements of cash flows for the periods indicated.

	12 months ended June 30		Six months ended December 31		Nine months ended September 30,	
	2008	2009	2008	2009	2009	2010
	A\$	A\$	A\$	A\$	A\$	A\$
			(Unaudited)		(Unaudited)	
Net cash (used in) / generated from operating activities	(362,282)	(1,141,681)	195,692	(4,935,780)	(2,499,436)	(6,749,519)
Net cash used in investing activities	(1,904,303)	(5,085,778)	(2,603,421)	(9,261,347)	(5,752,648)	(98,461,808)
Net cash generated from financing activities	2,448,347	7,739,350	1,813,226	93,690,468	9,171,191	64,109,745
Net increase / (decrease) in cash and cash equivalents	181,762	1,511,891	(594,503)	79,493,341	919,107	(41,101,582)
Cash and cash equivalents at the beginning of the financial year / period . . .	1,747,960	1,929,722	1,929,722	3,441,613	1,335,219	83,441,378
Effect of foreign exchange rate changes	—	—	—	506,424	—	(4,239,170)
Cash and cash equivalents at the end of the financial year / period	1,929,722	3,441,613	1,335,219	83,441,378	2,254,326	38,100,626

Cash flows from operating activities

As we were not in operation during the Relevant Financial Period, the other operating expenses resulted in net cash outflows. Hence, the main contributing items to our cash outflows from operating activities over the Relevant Financial Period were cash-based items that contributed to our results of operations, i.e. other income, administrative expenses and other expenses.

Net cash used in operating activities amounted to A\$6.7 million for the nine months ended September 30, 2010 and A\$4.9 million for the six months ended December 31, 2009. During these two periods, the net cash outflows were primarily attributable to payments made to suppliers and contractors for the construction of the Mt Cattlin Project and development of the Jiangsu Plant as well as higher administrative costs associated with increased construction activities. This was accompanied by an increase in other payables over the corresponding period to A\$23.1 million as at September 30, 2010 from A\$6.2 million as at December 31, 2009.

Net cash used in operating activities amounted to A\$1.1 million for the 12 months ended June 30, 2009. The net cash outflow was primarily attributable to administrative costs, as we were still an exploration company gearing towards development of our Mt Cattlin Project, partially offset by the receipt of A\$0.6 million in relation to the tax concessionary refund for research and development expenditure.

Net cash used in operating activities amounted to A\$0.4 million for the 12 months ended June 30, 2008. The net cash outflow was primarily attributable to administrative costs relating to our exploration operations.

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Cash flows from investing activities

Net cash used in investing activities amounted to A\$98.5 million for the nine months ended September 30, 2010. The net cash outflow was primarily attributable to the acquisition of property, plant and equipment that amounted to A\$97.1 million in connection with the construction of our Mt Cattlin Project.

Net cash used in investing activities amounted to A\$9.3 million for the six months ended December 31, 2009. As described in the preceding paragraph, the net cash outflow was primarily attributable to payments of A\$7.2 million that related to the construction of our Mt Cattlin Project. In addition, we incurred A\$1.6 million in exploration expenditure over the same period, including exploration vehicles and drilling equipment, drilling rights, acquired rights to explore, exploratory drilling costs and trenching and sampling costs.

Net cash used in investing activities amounted to A\$5.1 million for the 12 months ended June 30, 2009 and A\$1.9 million for the 12 months ended June 30, 2008. In both 12-month periods, the net cash outflows were primarily attributable to payments for exploration expenditure including exploration vehicles and drilling equipment, drilling rights, acquired rights to explore, exploratory drilling costs and trenching and sampling costs.

Cash flows from financing activities

Net cash generated from financing activities amounted to A\$64.1 million for the nine months ended September 30, 2010. During this period, we had the following financing activities:

- a Placement of 31,000,000 Shares to CRHL raising A\$27.3 million before costs;
- drawdown of the Senior Loan Facility of A\$107.6 million;
- funding of the equity amount designated for the principal repayment and interest service of the Senior Loan Facility of A\$52.1 million;
- repayment of the RZB Bridging Loan of A\$22.4 million; and
- exercise of 9,618,750 Options raising A\$6.2 million before costs.

Costs of equity issuance of A\$1.7 million as well as bank charges and interest paid of A\$0.9 million resulted in net cash generated from financing activities during this period of A\$64.1 million.

Net cash generated from financing activities amounted to A\$93.7 million for the six months ended December 31, 2009. During this period, we had the following financing activities:

- drawings under the RZB Bridging Loan of A\$22.4 million;
- a Placement of 67,418,182 Shares raising A\$74.6 million before costs;
- exercise of 6,390,610 Options raising A\$2.4 million before costs; and
- a Director loan from Mr Craig Readhead of A\$0.07 million.

Costs of equity issuance of A\$4.7 million as well as bank charges and interest paid of A\$0.1 million resulted in net cash generated from financing activities during this period of A\$93.7 million.

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Net cash generated from financing activities amounted to A\$7.7 million for the 12 months ended June 30, 2009. During this period, we had the following financing activities:

- a Placement of 4,220,000 Shares and 4,220,000 free attaching Options raising A\$1.4 million before costs;
- a Share purchase plan raising A\$0.3 million before costs;
- a Placement of 6,560,000 Shares raising A\$2.0 million before costs;
- a Placement of 9,400,000 Shares raising A\$3.3 million before costs;
- an exercise of 3,583,500 Options for proceeds of A\$0.7 million before costs;
- a Director loan from Mr Craig Readhead of A\$0.2 million; and
- an advanced receipt of issue of Shares of A\$0.2 million.

Costs of equity issuance of A\$0.4 million as well as bank charges and interest paid of A\$1,732 resulted in net cash generated from financing activities during this period of A\$7.7 million.

Net cash generated from financing activities amounted to A\$2.4 million for the 12 months ended June 30, 2008. During this period, we had the following financing activities:

- a Placement of 5,000,000 Shares raising A\$2.25 million before costs; and
- an exercise of 1,750,000 Options for proceeds of A\$0.35 million before costs.

Costs of equity issuance of A\$0.2 million as well as bank charges and interest paid of A\$264 resulted in net cash generated from financing activities during this period of A\$2.4 million.

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BALANCE SHEET ITEMS

Plant, property and equipment

The following table sets forth a condensed summary of our consolidated property, plant and equipment position for the periods indicated below, as disclosed in Note 10 of the Accountants’ Report set out in Appendix I to this document:

	June 30, 2008	June 30, 2009	December 31, 2009	September 30, 2010
	A\$	A\$	A\$	A\$
Land	75,000	175,000	932,000	1,172,000
Plant and equipment	6,274	89,824	168,276	540,329
Assets under construction	—	—	7,304,818	102,915,068
Development expenditure	—	—	12,410,078	16,050,237
Total property, plant and equipment	81,274	264,824	20,815,172	120,677,634

We commenced construction at our Mt Cattlin Project in the six months ended December 31, 2009, which was the main contributing factor to the significant increases in “Plant and equipment”, “Assets under construction” and “Development expenditure” balances as at December 31, 2009 and September 30, 2010.

Other receivables

The following table sets forth a condensed summary of our consolidated other receivables position for the periods indicated as disclosed in Note 15 of the Accountants’ Report set out in Appendix I to this document:

	June 30, 2008	June 30, 2009	December 31, 2009	September 30, 2010
	A\$	A\$	A\$	A\$
Non-current other receivables	—	—	868,000	894,033
Current other receivables	141,680	373,791	1,632,946	3,373,084
Total other receivables	141,680	373,791	2,500,946	4,267,117

All of the current receivables as at each balance sheet date are expected to be recovered or recognized as expense within one year, except for rental deposits receivables of nil, A\$57,380, A\$57,880 and A\$57,380 as at June 30, 2008, June 30, 2009, December 31, 2009 and September 30, 2010 respectively.

Non-current other receivables as at December 31, 2009 and September 30, 2010 include non-current security bonds, which mainly relate to a restoration performance bond paid to the Australian government authorities to secure the mining lease for the Mt Cattlin spodumene mine. The bond is interest-bearing at 4.27%, unsecured and repayable once rehabilitation of the Mt Cattlin spodumene mine is completed to the Western Australian State Government’s satisfaction.

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Other payables

The following table sets forth a condensed summary of our consolidated trade and other payables position for the periods indicated as disclosed in Note 18 of the Accountants’ Report set out in Appendix I to this document:

	<u>June 30, 2008</u>	<u>June 30, 2009</u>	<u>December 31, 2009</u>	<u>September 30, 2010</u>
	<u>A\$</u>	<u>A\$</u>	<u>A\$</u>	<u>A\$</u>
Other payables	606,776	1,034,657	6,163,776	22,982,059
Loans from a director	—	210,000	—	—
Amounts due to related party	—	6,250	33,975	74,885
Trade and other payables	<u>606,776</u>	<u>1,250,907</u>	<u>6,197,751</u>	<u>23,056,944</u>

Other payables mainly represented payments to suppliers primarily for engineering and construction services. In the six months to December 31, 2009, we commenced construction at our Mt Cattlin Project; in accordance with the increased levels of construction activity, we accrued additional payments to suppliers and contractors which contributed to large increases in current receivables as at December 31, 2009 and September 30, 2010. These are current as at each of the balance sheet dates, and are expected to be settled within one year.

On May 20, 2009, we entered into a credit facility agreement with Hengolo Pty Ltd (a company wholly owned by one of our directors, Mr Craig Readhead). Under this interest-free and unsecured credit facility, we could borrow up to A\$280,000 for working capital purposes, repayable on August 31, 2009. This credit facility included an equity conversion redemption mechanism whereby the lender could choose to redeem the loan by receiving 800,000 new Shares of the Company at A\$0.35 each, totalling A\$280,000, subject to the our shareholders’ approval. We drew down A\$210,000 on June 30, 2009 and another A\$70,000 on December 31, 2009. On August 24, 2009, our shareholders approved the conversion of this loan into 800,000 of our Shares, at A\$0.35 each. Therefore, this loan was extinguished and the corresponding amount was recognized in share capital on September 8, 2009.

INDEBTEDNESS

Borrowings

As of January 31, 2011, which is the latest practicable date for the purposes of the indebtedness statement, our total outstanding interest-bearing debt comprised the US\$105 million Senior Loan Facility and A\$42.5 million in Convertible Bonds (as described below).

RZB Bridging Loan

On November 24, 2009, we obtained a US\$20 million bridging loan through RZB. The loan carried an interest rate ranging from 4.77% to 5.15% and was secured over our cash assets via a performance guarantee. We subsequently repaid the loan in full on June 22, 2010.

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Senior Loan Facility

On September 10, 2010, we entered into the US\$105 million Senior Loan Facility provided by CDB and RZB. The Senior Loan Facility was fully drawn on September 22, 2010. As a result of the placement of 21.58 million Shares to Fengli Group in February 2011 described in “Corporate Structure — Changes in shareholding structure”, we anticipate that a prepayment of US\$[5.37] million will be made in [March 2011] in accordance with the mandatory prepayment terms of the Senior Loan Facility below.

Principal terms

Key terms of the Senior Loan Facility are as follows:

- interest rate is determined by reference to SIBOR with a margin of 4.50% p.a. payable every six months;
- principal repayments are made over 10 equal semi-annual repayments commencing on June 10, 2012;
- no break fees are payable if a prepayment is made on an interest payment date;
- debt service reserve account to be maintained to an amount at least equal to the principal and interest payment due on the next interest payment date;
- US\$50 million to be set aside in an equity account to fund interest prior to operational completion, and on the first interest payment date post operational completion, 100% of the remaining funds in the equity account are to be used towards prepayment and the scheduled repayment amounts reduced proportionately; and
- mandatory prepayment on dilution — if at any time, CRHL’s shareholding in the issued share capital of the Company falls below 19.9%, then additional Shares must be issued to CRHL such that CRHL maintains a 19.9% shareholding within two months of the dilution. If the Company chooses not to issue additional Shares to CRHL, a mandatory prepayment must be made such that the outstanding loan amount (less any amount in the equity account) is reduced by the same proportion as the reduction in CRHL’s shareholding. The mandatory prepayment must occur within 20 days of the dilution or on the next interest payment date, whichever is earlier.

Financial covenants and undertakings

The Senior Loan Facility does not contain any financial covenants. However, the Senior Loan Facility contains a number of undertakings which require us to obtain certain consents prior to carrying out certain activities or entering into certain transactions. The key negative undertakings in the Senior Loan Facility restrict our ability to:

- create additional charges on or further encumber assets, except where such charges or encumbrances are of a type specifically permitted;
- incur additional debt, except where such debt is of a type specifically permitted;
- provide additional guarantees or dispose of certain assets, except where such guarantees or disposals are of a type specifically permitted; and
- pay dividends or make a distribution, whether of a capital or revenue nature to a Shareholder or other person, or repay shareholder loans, except as permitted by the Senior Loan Facility.

These undertakings are likely to have minimal impact from an operational perspective. The restriction on our ability to pay dividends is not expected to have any impact on the Company or our Shareholders as we do not

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currently intend to pay dividends in the near future (please refer to “Summary — Dividend policy” for further information). The Directors believe the obligations of the Senior Loan Facility have had and will continue to have minimal impact on the Company’s operations. The Company has been and will continue to be required to share information with the Lenders and seek consent for certain actions. The main implication of having the Senior Loan Facility in place is the requirement to use project cash flows to service the Senior Loan Facility.

Security and charges

Pursuant to the Security Trust Deed dated September 10, 2010 among the Lenders, the Company, GLAL, GLIL, GLJL and BOC, Sydney Branch, as a condition of the Senior Loan Facility, the Company, GLAL, GLIL and GLJL agreed to grant security documents in favor of BOC, Sydney Branch. The Senior Loan Facility is secured by the following:

- guarantee and indemnity granted to BOC (as security trustee) by the Company;
- fixed and floating charge granted to BOC (as security trustee) over all assets of the Company, GLAL and GLIL;
- equitable mortgage or like encumbrance granted to BOC (as security trustee) of Shares over the Company’s interest in the share capital of GLAL, GLAL’s interest in the share capital of GLIL [and GLIL’s interest in the share capital of GLJL];
- charge granted to BOC (as security trustee) over various project accounts held by the Company, GLAL and GLIL, including the facility proceeds account, the mine disbursement account, the mine proceeds account, the equity account and the debt service reserve account;
- mortgage granted to BOC (as security trustee) over the Mt Cattlin Project Tenements;
- real property mortgage granted to BOC (acting as agent and security trustee) over Lot 30 and 31 on Deposited Plan 224145 and Lot 127 on Deposited Plan 145763 at Mt Cattlin;
- grant of security to the Lenders in the Company’s interest in the contract with DMB Joint Venture and grant of security to the Lenders in GLAL’s interest in the contract with Orionstone;
- assignment of security granted to BOC (as security trustee) by GLIL over its interest in the security granted by GLJL to GLIL for the US\$10 million shareholder loan from GLIL to GLJL including:
 - mortgage over all of the assets of GLJL, including the Jiangsu Plant, plant area, project authorizations and all other project documents to which GLJL is a party; and
 - charge over receivables in connection to any sale contract entered into by GLJL and a third party;
- equitable mortgage granted to BOC (as security trustee) over CRHL’s present and future shareholding in the Company up to a maximum aggregate of 19.9% of the Company’s issued share capital; and
- put option in favor of the Lenders requiring CRHL to purchase the outstanding debt from the Lenders, exercisable during a four year period after September 22, 2010.

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Convertible Bonds

In November 2010, January 2011 and February 2011 the Company issued the Convertible Bonds to the Bondholders, raising a total of A\$61.5 million in three tranches.

The net proceeds of the Convertible Bonds will be used to fund construction and commissioning of the Mt Cattlin Project and Jiangsu Plant and for the potential acquisition of other lithium-related projects and working capital.

Principal terms of the Convertible Bonds

The principal terms of the Convertible Bonds are set out below.

Principal amount

The aggregate principal amount of the Convertible Bonds is A\$61.5 million.

Issue price

The issue price was 100% of the principal amount of each Convertible Bond, being A\$100,000 per Convertible Bond.

Interest

Interest is payable semi annually in arrears at a fixed rate of 8% p.a.

Date of closing

The dates of closing for Tranche 1, Tranche 2 and Tranche 3 of the Convertible Bonds are November 19, 2010, January 14, 2011 and February 15, 2011 respectively.

Conversion period

Subject to the relevant Bondholder complying with the relevant conversion procedures, and provided a Bondholder does not give a notice requiring redemption of the Convertible Bonds, the Convertible Bonds are convertible into Shares at any time on or after November 25, 2010 up to the close of business on the seventh day prior to the maturity date, which is five years from date of closing, or if a Convertible Bond has been called by the Company, then up to the close of business on the date seven days prior to the date fixed for redemption of the Convertible Bonds.

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Conversion price

The Convertible Bonds were to be converted into Shares at an initial conversion ratio of 64,102.56 Shares per Convertible Bond, reflecting an initial conversion price of A\$1.56 per Share and for a total of 39,423,077 Shares.

The initial conversion price represented a premium of 33.8% to the volume weighted price of the Shares on the ASX for the 20 trading days prior to September 28, 2010 which was the day the Convertible Bonds were priced following negotiations with the Bondholders.

Adjustment to the conversion price

The conversion price will be subject to adjustment upon the occurrence of certain prescribed events including, among others, consolidation, subdivision or reclassification of Shares; capitalization of profits or reserves, capital distributions (including dividends); rights issue of Shares, options over Shares or other securities, issue of Shares, or options to subscribe for Shares or other securities convertible into Shares, at less than 95% of the then current market price up until six months from the date of closing, or at less than the market price thereafter; modification of rights of certain convertible securities, other offers to Shareholders and other anti-dilution adjustment events.

The conversion price will also be adjusted downwards to reflect the then current market price of the Shares as at 12 months from date of closing if the then current market price of the Shares is below the conversion price otherwise prevailing at the time, subject to a minimum conversion price of 80% of such conversion price.

No adjustment will be made to the conversion price when Shares are issued to employees (including Directors) of the Group pursuant to any employee’s share scheme or plan, including the ESOP.

The initial conversion price of A\$1.56 per Share was adjusted to approximately A\$1.545 per Share as a result of the placement of new Shares to Fengli Group occurring at less than 95% of the then market price.

Assuming full conversion of the Convertible Bonds at the current conversion price of A\$1.545 per Share, the Convertible Bonds will be converted into 39,802,978 Shares, representing approximately [15.7]% of the expanded share capital of the Company at the Latest Practicable Date.

Ranking of conversion Shares

Shares issued upon conversion of the Convertible Bonds will be fully paid and in all respects will rank *pari passu* with the Shares on issue on the date the relevant Bondholder is registered as a Shareholder in the Company’s register of members.

Transferability

The Convertible Bonds are generally transferable, subject to the terms of the paying, transfer and conversion agency agreement in respect of the Convertible Bonds.

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Maturity date

Unless previously redeemed or converted, the Company must redeem each Convertible Bond at 100% of its principal amount of A\$100,000 on the fifth year anniversary from the date of closing.

Redemption for taxation reasons

The Convertible Bonds may be redeemed at the option of the Company in whole, but not in part, at any time in the event of certain changes in taxation laws and regulations, or general application or official interpretation of such laws and regulations, as a result of which the Company will become obliged to pay an additional amount in relation to the Convertible Bonds, provided certain conditions are met and subject to certain limitations.

Redemption at the option of the Company

On or at any time after three years from the date of closing and prior to the maturity date, the Company may redeem all, but not some only, of the Convertible Bonds at 100% of their principal amount if:

- (i) the closing price of the Shares for 20 trading days in any 30 consecutive trading day period is greater than 130% of the then applicable conversion price; or
- (ii) at least 90% of the Convertible Bonds have already been converted or redeemed.

Redemption at the option of the Bondholders

A Bondholder may, on the third year anniversary from the date of closing, require the Company to redeem all, or some only, of such Bondholder’s Convertible Bonds at 100% of their principal amount.

Redemption for delisting or change of control

Following the occurrence of a change of control or delisting of the Company (including suspension of the trading of the Shares on a relevant stock exchange for more than 60 consecutive trading days), the Bondholders will have the right to require the Company to redeem all, or some only, of such Bondholder’s Convertible Bonds at 100% of their principal amount.

Event of default

Upon occurrence of any of the events of default specified in the terms of the Convertible Bonds, the Convertible Bonds shall become immediately due and payable at 100% of their principal amount upon the trustee exercising its right to accelerate repayment of the Convertible Bonds according to the terms of the Convertible Bonds.

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Form of the Convertible Bonds and denomination

The Convertible Bonds are issued in registered form in the denomination of A\$100,000 each.

Ranking of the Convertible Bonds

The Convertible Bonds constitute direct, unsubordinated (other than to the Senior Loan Facility), unconditional and unsecured obligations of the Company and shall at all times rank pari passu and without any preference or priority among themselves.

Letter of Credit

On October 27, 2010, we entered into the US\$7.76 million Letter of Credit provided by BOC. Interest is payable on the Letter of Credit at a rate of 3.00% p.a., payable at the time of repayment. We intend to repay the Letter of Credit in April 2011 from the Company’s existing cash balances.

The Letter of Credit is not guaranteed and is secured by the shipment of spodumene concentrate from the port of Esperance to the Zhangjiagang port. The spodumene concentrate shipped is subject to specific conditions with regard to its quality, including a minimum lithium oxide concentration of 6%, 5% maximum moisture level and 6mm minimum grain size.

Disclaimer

Save as otherwise disclosed herein and apart from intra-group liabilities, we did not have any mortgages, charges, debentures or other loan capital or bank overdrafts, debt securities or other similar indebtedness, finance leases or hire purchase commitments, liabilities under acceptances or acceptances credits or any guarantees outstanding and any off-balance sheet arrangements at the close of business on the Latest Practicable Date.

Save as otherwise disclosed herein, our Directors have confirmed that there have been no material changes in the indebtedness, commitments and contingent liabilities of the Group since September 30, 2010.

CAPITAL EXPENDITURES AND CONTRACTUAL ARRANGEMENTS

During the Relevant Financial Period, our principal capital requirements related to capital expenditures for the development and construction of the Mt Cattlin Project, the development of the Jiangsu Plant and exploration expenditure. The following table sets forth a breakdown of our total capital expenditures for the periods indicated below:

	12 months ended June 30,		Six months ended December 31,		Nine months ended September 30,	
	2008	2009	2008	2009	2009	2010
	A\$	A\$	A\$	A\$	A\$	A\$
			(Unaudited)		(Unaudited)	
Acquisition of property, plant and equipment	28,224	199,273	140,279	7,249,071	473,881	97,119,698
Payments for exploration and evaluation assets	1,925,052	4,879,158	2,460,870	1,576,937	5,292,524	2,556,129
Outflow for security deposits / performance bonds	—	77,380	57,380	868,700	20,000	74,421
Total	<u>1,953,276</u>	<u>5,155,811</u>	<u>2,658,529</u>	<u>9,694,708</u>	<u>5,786,405</u>	<u>99,750,248</u>

FINANCIAL INFORMATION

The significant increase in our capital expenditure in the nine months ended September 30, 2010 mainly represented our investment in development and construction of the Mt Cattlin Project which has been funded by a combination of equity issuance and bank borrowings.

Commitments

In addition to payment obligations under our borrowings set forth above, we also have continuing obligations to make payments relating to various commitments are disclosed below:

- with respect to mining tenement leases, as at September 30, 2010, an amount of A\$576,375 was required to be spent on exploration work to meet minimum expenditure requirements specified by the Western Australian State Government and pay tenement lease rents in order to maintain current rights of tenure to our mining tenements. The minimum expenditure requirements relating to mining tenements fall within one year;
- with respect to investment committed to the PRC government in relation to establishment of GLJL, US\$10 million was paid on October 8, 2010;
- with respect to operating leases, as at September 30, 2010, an amount of A\$830,524 was to be paid as minimum operating lease payments over the next five years relating to certain items of plant, machinery, office equipment and the office lease in West Perth; and
- with respect to construction contract commitments, as at September 30, 2010, an amount of A\$28,851,759 is to be paid in relation to the construction and commissioning of the Mt Cattlin Project and Jiangsu Plant. These construction contract commitments represent amounts we had contractually committed to spend on construction as at September 30, 2010 and do not represent the total capital cost of Mt Cattlin and Jiangsu Plant.

Our planned future capital expenditure items, after construction of the Mt Cattlin Project, mainly include:

- construction of the Jiangsu Plant at an estimated cost of RMB477.0 million, including contingency of RMB15.8 million. Of this total, RMB163 million (or 34%) had been spent as at December 31, 2010, leaving a remaining RMB314 million to be spent over the next four months;
- costs of up to US\$[70] million of the net proceeds in relation to the assessment of, and subject to the outcome of that assessment, commencement of the development and construction of the Lithium Battery Project; and
- ongoing exploration expenditure on our projects.

We may adjust the timing and amounts of capital expenditures based on various factors, including cash flow from operations and market conditions generally in the industry.

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CONTINGENT LIABILITIES

As at the Latest Practicable Date, we had no material contingent liabilities.

NET CURRENT ASSETS

As of January 31, 2011, which is the latest practicable date for the purposes of the net current assets statement, we had net current assets of A\$24 million, consisting of A\$40 million of current assets and A\$16 million of current liabilities. As at September 30, 2010, we had net current assets of A\$22.5 million, consisting of A\$45.9 million of current assets and A\$23.3 million of current liabilities.

The following table sets forth a breakdown of our net current assets for the dates indicated below:

	December 31, 2009	September 30, 2010	January 31, 2011
	A\$ (audited)	A\$ (audited)	A\$ (unaudited)
CURRENT ASSETS			
Other receivables	1,632,946	3,373,084	4,885,040
Restricted cash deposit	—	4,388,118	5,589,827
Cash and cash equivalents	83,441,378	38,100,626	26,533,564
Other	—	—	3,443,880
TOTAL CURRENT ASSETS	85,074,324	45,861,828	40,452,310
CURRENT LIABILITIES			
Other payables	6,197,751	23,056,944	8,480,482
Provisions	69,024	270,180	330,431
Interest bearing liabilities	22,361,360	—	7,812,972
TOTAL CURRENT LIABILITIES	28,628,135	23,327,124	16,623,884
NET CURRENT ASSETS	56,446,189	22,534,704	23,828,426

This A\$1.3 million increase in our net current assets from September 30, 2010 to January 31, 2011 was primarily due to the following:

- a A\$5.4 million decrease in total current assets from A\$45.9 million as at September 30, 2010 to A\$40.5 million as at January 31, 2011. This decrease in total current assets was primarily due to the funding of capital expenditure at the Mt Cattlin Project, which resulted in a A\$11.6 million decrease in cash and cash equivalents, from A\$38.1 million as at September 30, 2010 to A\$26.5 million as at January 31, 2011. This decrease was partially offset by a A\$1.5 million increase in current other receivables from A\$3.4 million as at September 30, 2010 to A\$4.9 million as at January 31, 2011. This increase in current other receivables was primarily due to receivables recognized in relation to goods and services tax (“GST”) receipts from construction at the Mt Cattlin Project; and
- a A\$6.7 million decrease in total current liabilities from A\$23.3 million as at September 30, 2010 to A\$16.6 million as at January 31, 2011. The decrease in total current liabilities was primarily due to a

FINANCIAL INFORMATION

A\$14.6 million decrease in other payables from A\$23.1 million as at September 30, 2010 to A\$8.5 million as at January 31, 2010, which is the result of payment of suppliers and contractors in relation to the ramp-up and commissioning at Mt Cattlin. This was partially offset by a A\$7.8 million increase in interest-bearing liabilities due to the drawdown of the Letter of Credit in October 2010.

WORKING CAPITAL

Our consolidated cash and cash equivalents balances over the Relevant Financial Period are set forth in the following table, with the higher cash balances of A\$83.4 million as at December 31, 2009 reflecting proceeds received from financing activities disclosed above, and lower cash balances of A\$38.1 million as at September 30, 2010 reflecting the utilization of these proceeds towards construction at the Mt Cattlin Project. The cash balance at January 31, 2011 reflects gross proceeds of A\$42.5 million from the first and second tranches of the Convertible Bonds received in November 2010 and January 2011 respectively, and the utilization of these proceeds predominantly towards progressing construction at the Jiangsu Plant. These cash balances exclude the restricted cash deposit, which relate to the equity account designated for principal repayment and interest service of the Senior Loan Facility. Please see the section entitled “— Liquidity and Financial Resources — Cash Flows” for further information.

	<u>June 30, 2008</u>	<u>June 30, 2009</u>	<u>December 31, 2009</u>	<u>September 30, 2010</u>	<u>January 31, 2011</u>
As at	A\$ (audited)	A\$ (audited)	A\$ (audited)	A\$ (audited)	A\$ (unaudited)
Restricted cash deposit	—	—	—	52,080,074	48,505,603
Cash and cash equivalents . . .	<u>1,929,722</u>	<u>3,441,613</u>	<u>83,441,378</u>	<u>38,100,626</u>	<u>26,533,564</u>

As described in the section headed “— Capital expenditures and contractual arrangements”, our principal capital requirements over the Relevant Financial Period related to capital expenditures for the development and construction of the Mt Cattlin Project, development of the Jiangsu Plant and exploration expenditure. As referred to in the section headed “— Summary”, we have continued with construction at the Jiangsu Plant since the end of the Relevant Financial Period, such that RMB163 million (or 34%) of the RMB477 million construction budget for Jiangsu Plant had been spent as at December 31, 2010, leaving a remaining RMB314 million (approximately A\$50 million) to be spent. This capital expenditure will be funded from existing cash balances of A\$26.5 million as at January 31, 2010 (excluding cash held in the restricted cash deposit) and A\$49 million in gross proceeds from the Convertible Bond and equity issuance undertaken on February 15, 2011.

Our estimated initial cash flow requirements for the period from February 1, 2011 to March 31, 2012, taking into account amongst other things, our future planned capital expenditure on the Jiangsu Plant, repayment of the Senior Loan Facility, payments to suppliers and contractors in relation to the commissioning, ramp-up and operation of the Mt Cattlin Project and Jiangsu Plant, cost of sales, administrative and other expenses, are approximately A\$262 million.

As production at the Jiangsu Plant is anticipated to commence in the second quarter of 2011 with production at designed rates by early 2012, the Company does not expect to generate net operating cash inflow for the year ending December 31, 2011. Consequently, we will continue to utilize cash from our existing cash balances as well as proceeds raised from the Convertible Bonds and equity issuance on February 15, 2011, for the commissioning and ramp-up of the Mt Cattlin Project and Jiangsu Plant until both projects are in full production. Thereafter, we expect to begin to finance our operations with internally generated resources,

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including net operating cash flows generated from the sales of lithium carbonate and by-products. During the period from February 1, 2011 to March 31, 2012, other major cash inflows include general corporate purposes of US\$[24] million (approximately A\$[24] million). As such, our estimated initial cash flows generated for this period are approximately A\$282 million.

On this basis, our cash receipts and cash payments during the period from February 1, 2011 to March 31, 2012 are summarized as follows:

	<u>Approximate Amount</u>
Cash and cash equivalents as at January 31, 2010 ⁽¹⁾	A\$ 27 million
Estimated cash receipts from February 1, 2011 to March 31, 2012 ⁽²⁾	A\$311 million
Estimated cash payments from February 1, 2011 to March 31, 2012 ⁽³⁾	A\$262 million

Notes:

- (1) Excludes restricted cash deposits of A\$49 million.
- (2) Estimated major cash receipts for the period include A\$49 million in gross proceeds from the Convertible Bonds and equity issuance on February 15, 2011, receipts from sales of lithium carbonate, spodumene concentrate (in 2011 only) and by-products of approximately A\$84 million, release of the restricted cash of A\$50 million upon repayment of the Senior Loan Facility and general corporate purposes of US\$[24] million (approximately A\$[24] million).
- (3) Estimated major cash payments for the period include the repayment of the Senior Loan Facility, payments to suppliers and contractors of A\$93 million in relation to the ramp-up, commissioning and operation of Mt Cattlin Project and the Jiangsu Plant and remaining capital expenditure of A\$[40] million on the Jiangsu Plant.

DIVIDENDS AND DIVIDEND POLICY

We do not have a dividend policy and we did not pay any dividends to the Shareholders during the Relevant Financial Period. However, our Directors may determine when dividends are paid, and subject to the Corporations Act and the Company’s constitution, may establish dividend plans in the future. We are also restricted from paying dividends as one of the negative undertakings under the Senior Loan Facility, for which further information can be found under the section headed “— Indebtedness — Senior Loan Facility”.

DISTRIBUTABLE RESERVES

As at September 30, 2010, we had no reserves available for distribution to Shareholders, as determined in accordance with IFRSs.

QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISKS

We are exposed to various types of market risks, including credit and counterparty risk, liquidity risk, interest risk, foreign currency risk and commodity price risk, which arise in the normal course of business. Our Board has overall responsibility for the establishment and oversight of the risk management framework. Management is responsible for establishing procedures which provide assurance that major business risks are

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identified, consistently assessed and appropriately mitigated. We have developed a framework for a risk management policy and an internal compliance and control system which cover organization, financial and operational aspects of our activities. Our Audit Committee oversees how management monitors compliance with our risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Company.

Our exposure to each of the market risks, our objectives, policies and processes for measuring and managing risk is outlined below.

Credit and counterparty risk

Credit risk is the risk of financial loss if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from our receivables from customers and investment securities. Other receivables predominantly relates to GST receivables from the Australian federal government. We do not consider that this receivable balance is subject to any material credit risk.

We limit our exposure to credit risk by only investing in liquid securities and only with counterparties that have credit ratings of between A2 and A1+ from Standard & Poor’s and A from Moody’s, with more weighting given to investments in the higher credit ratings. Given these credit ratings, we do not expect any counterparty to fail to meet its obligations.

Our cash and cash equivalents are placed with various financial institutions with sound credit ratings, and we consider the Group’s exposure to credit risk to be low. The following table sets out the carrying amount of our financial assets which represents our maximum credit exposure at the dates presented below.

	June 30, 2008	June 30, 2009	December 31, 2009	September 30, 2010
As at	A\$	A\$	A\$	A\$
Other receivables	141,680	373,791	1,632,946	3,373,084
Cash and cash equivalents	1,929,722	3,441,613	83,441,378	38,100,626

Liquidity risk

Liquidity risk is the risk that we will not be able to meet our financial obligations as they fall due. Our approach to managing liquidity is to ensure, as far as possible, that we will always have sufficient liquidity to meet our liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to our reputation.

Typically we ensure that we have sufficient cash on demand to meet expected operational and capital expenses for a period of 90 days, including the servicing of financial obligations.

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Interest rate risk

At any point in time, the Group may monitor and manage its interest rate exposure on future borrowings. The Group’s main interest rate risk arises from cash at bank and interest bearing liabilities, which are held at a variable rate that exposes the Group to cash flow interest rate risk.

The Group’s interest bearing cash at bank and liabilities and the respective interest rates as at each balance sheet date are set as below:

	12 months ended June 30, 2008	12 months ended June 30, 2009	Six months ended December 31, 2009	Nine months ended September 30, 2010
	A\$	A\$	A\$	A\$
Cash and cash equivalents	1,929,722	3,441,613	83,441,318	38,100,626
Interest rate	0% to 7.00%	0% to 3.7%	0% to 4.82%	0% to 6%
Interest bearing liabilities	—	—	22,361,360	95,249,790
Interest rate	—	—	4.77%	SIBOR + 4.5%

Sensitivity analysis

A general increase / decrease of 100 basis points in interest rates of variable rate borrowings prevailing at the balance sheet dates, with all other variables held constant, would have the following impacts on our profit after tax and retained profits by the amounts shown below:

	12 months ended June 30, 2008	12 months ended June 30, 2009	six months ended December 31, 2009	nine months ended September 30, 2010
As at	A\$	A\$	A\$	A\$
Increase of 100 basis points	19,297	34,416	834,414	(701,356)
Decrease of 100 basis points	(19,297)	(34,416)	(834,414)	701,356

Currency risk

We are exposed to currency risk on purchases of property, plant and equipment and on borrowings that are denominated in a currency other than the respective functional currencies of the Group or our subsidiaries. The currencies in which these transactions primarily are denominated are US\$, HK\$ and RMB.

Whilst we do not currently have a hedging policy, we have in place a draft Foreign Exchange Risk Management Policy and we intend to hedge a portion of our foreign currency exposure in the future. At any point in time we may monitor and manage our estimated foreign currency exposure in respect of cash and cash equivalents, other receivables and interest bearing liabilities. We ensure that the net exposure is kept to an acceptable level by buying or selling foreign currency at spot rates where necessary to address short-term imbalances.

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Our exposure to foreign currency risk at balance date was as follows. For presentation purposes, the amounts of the exposure are shown in A\$ translated using the spot rate at each balance sheet date.

	December 31, 2009			September 30, 2010		
	US\$	HK\$	RMB	US\$	HK\$	RMB
Cash and cash equivalents	21,019,398	—	—	37,603,741	27,100	183,521
Restricted cash deposit	—	—	—	52,080,074	—	—
Other receivables	—	—	—	—	—	800,639
Interest bearing liabilities	(22,361,360)	—	—	(95,249,790)	—	—
Balance sheet exposure	<u>(1,341,962)</u>	<u>—</u>	<u>—</u>	<u>(5,565,975)</u>	<u>27,100</u>	<u>984,160</u>

We had no currency risk exposures for up to June 30, 2009, hence no exchange rates are shown prior to this date.

Sensitivity analysis

A 10% strengthening of the A\$, as indicated below, against the following currencies would have increased (decreased) equity and profit or loss by the amounts shown below. The analysis assumes that all other variables, in particular interest rates, remain constant.

Effect in thousands of A\$	December 31, 2009		September 30, 2010	
	Accumulated losses	Loss for the period	Accumulated losses	Loss for the period
US\$	120,025	120,025	556,598	556,598
HK\$	—	—	(2,710)	(2,710)
RMB	—	—	(98,416)	(98,416)

A 10% weakening of the A\$ against the above currencies would have had the equal but opposite effect on the above currency to the amounts shown above. The analysis has been performed on the basis that all other variables remain constant.

As the Company’s operating costs are incurred primarily in A\$ and RMB, foreign exchange rates may also have a positive or negative impact on the Company’s combined operating costs of producing lithium carbonate in US\$ terms. A summary of the Company’s estimated combined operating costs is included in the section headed “Business — Our Operations — Operating Costs” and, for the purposes of illustration, the sensitivity of the steady state estimated combined operating costs of producing lithium carbonate to foreign exchange assumptions for A\$ to US\$ and US\$ to RMB is shown in the table below. The analysis shows that a depreciation of the A\$ to the US\$ and depreciation of the RMB to the US\$ has a favorable impact on the operating margin of the Company in US\$ terms.

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<u>A\$ to US\$ exchange rates</u>	<u>US\$ to RMB exchange rates</u>			
Estimated combined operating costs (US\$ / t lithium carbonate)	6.50	6.00	5.50	5.00
0.70	3,812	3,978	4,175	4,411
0.80	4,038	4,205	4,402	4,638
0.90	4,265	4,431	4,628	4,864
1.00	4,491	4,658	4,855	5,091

Commodity price risk

Our profitability depends on lithium carbonate prices. These prices are affected by numerous factors such as exchange rates, inflation or deflation, and global and regional supply and demand. We do not enter into commodity derivative instruments or futures to hedge any potential price fluctuations of lithium carbonate. Therefore, fluctuations in the prices of lithium carbonate will have a direct effect on our sales and profits.

HEDGING ACTIVITIES

We are currently not a party to any credit, liquidity, interest rate or currency risk management transactions.

TRANSACTIONS WITH RELATED PARTIES

Our transactions with related parties are disclosed at Note 24 to our financial information as set forth in the Accountants’ Report set out in “Appendix I — Accountants’ Report”. In the opinion of our Directors, these transactions with related parties were conducted in the ordinary and usual course of business and on normal commercial terms.

NO MATERIAL ADVERSE CHANGE

Our Directors confirm that, up to the Latest Practicable Date, there has been no material adverse change in the Group’s financial or trading position or prospects since September 30, 2010, and there is no event since September 30, 2010 which would materially affect the information shown in the Group’s consolidated financial information included in “Appendix I — Accountants’ Report” of this document, in each case except as otherwise disclosed herein.

PROPERTY VALUATION

Our property interests are set out in “Appendix V — Property Valuation” to this document. The Property Valuation was prepared by American Appraisal China Ltd, an independent property valuation firm, who valued our property interests in Australia and the PRC as at December 31, 2010 at A\$43.5 million.

The table below sets forth (i) a reconciliation of the net book value of our property interests from our consolidated financial information as of September 30, 2010 to the unaudited net book value of such property interests as of December 31, 2010; and (ii) a comparison between the unaudited net book value of our property

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interests and the valuation of such property interests performed by American Appraisal China Ltd. as of December 31, 2010:

	<u>In millions of A\$</u>
Net book value of our property interests as of September 30, 2010 ⁽¹⁾	39.0
Movements during the three months ended December 31, 2010	
— Additions	1.6
— Depreciation	—
— Disposals	—
Net book value as of December 31, 2010	<u>40.6</u>
Valuation surplus as of December 31, 2010	<u>2.9</u>
Valuation as of December 31, 2010 as set forth in Appendix V to this document	43.5

Note:

(1) Net book value is defined as an asset’s original cost less any depreciation and amortization.

FUTURE PLANS

FUTURE PLANS

For a description of our corporate strategy, please refer to the section headed “Business — Business Strategies”.

APPENDIX I

ACCOUNTANTS’ REPORT

The following is the text of a report, prepared for the purpose of incorporation in this document, received from the joint reporting accountants, KPMG, Chartered Accountants, Australia and KPMG, Certified Public Accountants, Hong Kong.



KPMG
235 St Georges Terrace
Perth, WA 6000
Australia

KPMG
8th Floor
Prince’s Building
10 Chater Road
Central
Hong Kong

[Date]

The Directors
Galaxy Resources Limited

[●]

[●]

Dear Sirs,

INTRODUCTION

We set out below our report on the financial information relating to Galaxy Resources Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) including the consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated cash flow statements of the Group, for each of the years ended June 30, 2008 and 2009, the six months ended December 31, 2009 and the nine months ended September 30, 2010 (the “Relevant Period”), and the consolidated balance sheets of the Group and the balance sheets of the Company as at June 30, 2008, June 30, 2009, December 31, 2009 and September 30, 2010, together with the notes thereto (the “Financial Information”), for inclusion in this document.

The Company was incorporated on January 15, 1996 and registered in Western Australia under the name Galaxy Resources NL, a “no liability” company under the Corporations Act 2001 of the Commonwealth of Australia. The Company changed its company type to a public company under the name Galaxy Resources Limited on September 28, 2001. The Company’s shares have been listed on the Australian Securities Exchange (the “ASX”) since February 6, 2007.

The Company and its subsidiary incorporated in Australia had adopted June 30, as their financial year-end date up to June 30, 2009. On December 23, 2009, the Company and its subsidiary incorporated in Australia were granted approval from the Australian Securities and Investments Commission to change their financial year-end date to December 31. The change was effective from July 1, 2009. The Company’s subsidiaries incorporated/established in Hong Kong and the People’s Republic of China have adopted December 31, as their financial

APPENDIX I

ACCOUNTANTS’ REPORT

year-end date since their incorporation. Details of the companies comprising the Group that are subject to audit during the Relevant Period and the names of the respective auditors are set out in note 13 of Section B. The statutory financial statements of these companies were prepared in accordance with the relevant accounting rules and regulations applicable to entities in the jurisdictions in which they were incorporated and/or established.

The directors of the Company have prepared the consolidated financial statements of the Group for the Relevant Period in accordance with International Financial Reporting Standards (“IFRSs”) issued by the International Accounting Standards Board (the “IASB”), and the applicable disclosure provisions of the Hong Kong Companies Ordinance (the “Underlying Financial Statements”). The Underlying Financial Statements for each of the years ended June 30, 2008 and 2009, the six months ended December 31, 2009 and the nine months ended September 30, 2010 were audited by KPMG in Australia in accordance with International Standards on Auditing issued by the International Auditing and Assurance Standards Board (the “IAASB”).

The Financial Information has been prepared by the directors of the Company based on the Underlying Financial Statements, with no adjustments made thereon.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND REPORTING ACCOUNTANTS

The directors of the Company are responsible for the preparation and true and fair presentation of the Financial Information in accordance with IFRSs issued by the IASB, the disclosure requirements of the Hong Kong Companies Ordinance and the applicable rules. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the Financial Information that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Our responsibility is to form an opinion on the Financial Information based on our procedures.

BASIS OF OPINION

As a basis for forming an opinion on the Financial Information, for the purpose of this report, we have examined the Underlying Financial Statements and have carried out such appropriate procedures as we considered necessary in accordance with Auditing Guideline “Prospectuses and the Reporting Accountant” (Statement 3.340) issued by the Hong Kong Institute of Certified Public Accountants.

We have not audited any financial statements of the Company, its subsidiaries or the Group in respect of any period subsequent to September 30, 2010.

OPINION

In our opinion, for the purpose of this report, the Financial Information, prepared in accordance with the accounting policies set out in Section B below, gives a true and fair view of the Group’s consolidated results and cash flows for the Relevant Period, and the state of affairs of the Group and the Company as at June 30, 2008, June 30, 2009, December 31, 2009 and September 30, 2010.

APPENDIX I**ACCOUNTANTS’ REPORT**

CORRESPONDING FINANCIAL INFORMATION

For the purpose of this report, we have also reviewed the unaudited corresponding interim financial information of the Group comprising the consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows for the six months ended December 31, 2008 and nine months ended September 30, 2009, together with the notes thereon (the “Corresponding Financial Information”), for which the directors are responsible, in accordance with International Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the IAASB.

The directors of the Company are responsible for the preparation of the Corresponding Financial Information in accordance with the same basis adopted in respect of the Financial Information. Our responsibility is to express a conclusion on the Corresponding Financial Information based on our review.

A review 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 International Standards on Auditing 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 on the Corresponding Financial Information.

Based on our review, for the purpose of this report, nothing has come to our attention that causes us to believe that the Corresponding Financial Information is not prepared, in all material respects, in accordance with the same basis adopted in respect of the Financial Information.

APPENDIX I

ACCOUNTANTS' REPORT

A FINANCIAL INFORMATION

1 CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Expressed in Australian dollars unless otherwise indicated)

	Section B Note	Years ended June 30,		Six months ended December 31,		Nine months ended September 30,	
		2008	2009	2008	2009	2009	2010
		\$	\$	\$	\$	\$	\$
		(Unaudited)		(Unaudited)		(Unaudited)	
Turnover	2	—	—	—	—	—	—
Other income	4(a)	—	—	—	1,081,356	—	—
Staff costs	4(b)	(306,502)	(2,105,616)	(475,830)	(10,041,306)	(1,966,193)	(7,333,729)
Exploration and evaluation assets written-off	12(a)	(49,557)	(1,520,875)	(1,520,875)	—	—	—
Depreciation and amortization		(1,013)	(15,724)	(3,088)	(21,162)	(12,636)	(126,131)
Other operating expenses		(81,075)	(785,224)	(227,788)	(3,569,707)	(1,242,620)	(6,542,974)
Loss from operations		<u>(438,147)</u>	<u>(4,427,439)</u>	<u>(2,227,581)</u>	<u>(12,550,819)</u>	<u>(3,221,449)</u>	<u>(14,002,834)</u>
Finance income		48,973	78,278	55,108	483,894	33,840	4,276,163
Finance costs		(3,946)	(1,732)	(913)	(255,067)	(1,670)	(2,988,099)
Net finance income	3	<u>45,027</u>	<u>76,546</u>	<u>54,195</u>	<u>228,827</u>	<u>32,170</u>	<u>1,288,064</u>
Loss before taxation	4	<u>(393,120)</u>	<u>(4,350,893)</u>	<u>(2,173,386)</u>	<u>(12,321,992)</u>	<u>(3,189,279)</u>	<u>(12,714,770)</u>
Income tax	5	—	592,343	280,120	—	312,223	—
Loss for the year/period		<u>(393,120)</u>	<u>(3,758,550)</u>	<u>(1,893,266)</u>	<u>(12,321,992)</u>	<u>(2,877,056)</u>	<u>(12,714,770)</u>
Other comprehensive income for the year/period							
Foreign currency translation differences — foreign operations		—	—	—	—	—	(2,458,746)
Available-for-sale financial assets							
— Changes in fair value recognized during the period		—	—	—	—	—	(225,000)
— Reclassification adjustments for amounts transferred to profit or loss upon impairment		—	—	—	—	—	575,000
Net movement in the fair value reserve during the period in other comprehensive income		—	—	—	—	—	350,000
Total comprehensive income for the year/period		<u>(393,120)</u>	<u>(3,758,550)</u>	<u>(1,893,266)</u>	<u>(12,321,992)</u>	<u>(2,877,056)</u>	<u>(14,823,516)</u>
Loss per share							
Basic and diluted loss per share (cents per share)	8	<u>(0.87c)</u>	<u>(6.40c)</u>	<u>(3.57c)</u>	<u>(11.91c)</u>	<u>(4.21c)</u>	<u>(7.33c)</u>

The accompanying notes form part of the Financial Information.

APPENDIX I

ACCOUNTANTS' REPORT

2 CONSOLIDATED BALANCE SHEETS

(Expressed in Australian dollars unless otherwise indicated)

	Section B Note	June 30, 2008	June 30, 2009	December 31, 2009	September 30, 2010
		\$	\$	\$	\$
NON-CURRENT ASSETS					
Property, plant and equipment	10	81,274	264,824	20,815,172	120,677,634
Lease prepayment	11	—	—	—	2,845,289
Exploration and evaluation assets	12	5,260,250	8,618,533	1,267,375	1,941,565
Available-for-sale financial assets	14	—	—	1,025,000	800,000
Other receivables	15	—	—	868,000	894,033
Restricted cash deposit	17	—	—	—	47,691,956
TOTAL NON-CURRENT ASSETS		5,341,524	8,883,357	23,975,547	174,850,477
CURRENT ASSETS					
Other receivables	15	141,680	373,791	1,632,946	3,373,084
Restricted cash deposit	17	—	—	—	4,388,118
Cash and cash equivalents	16	1,929,722	3,441,613	83,441,378	38,100,626
TOTAL CURRENT ASSETS		2,071,402	3,815,404	85,074,324	45,861,828
TOTAL ASSETS		7,412,926	12,698,761	109,049,871	220,712,305
CURRENT LIABILITIES					
Other payables	18	606,776	1,250,907	6,197,751	23,056,944
Provisions	19	—	22,107	69,024	270,180
Interest bearing liabilities	20	—	—	22,361,360	—
TOTAL CURRENT LIABILITIES		606,776	1,273,014	28,628,135	23,327,124
NON-CURRENT LIABILITIES					
Provisions	19	—	—	—	868,000
Interest bearing liabilities	20	—	—	—	95,249,790
TOTAL LIABILITIES		606,776	1,273,014	28,628,135	119,444,914
NET ASSETS		6,806,150	11,425,747	80,421,736	101,267,391
CAPITAL AND RESERVES					
Share capital	22	8,218,905	15,637,914	88,834,372	127,299,511
Reserves	22	(1,412,755)	(4,212,167)	(8,412,636)	(26,032,120)
TOTAL EQUITY		6,806,150	11,425,747	80,421,736	101,267,391
NET CURRENT ASSETS		1,464,626	2,542,390	56,446,189	22,534,704
TOTAL ASSETS LESS CURRENT LIABILITIES		6,806,150	11,425,747	80,421,736	197,385,181

The accompanying notes form part of the Financial Information.

APPENDIX I

ACCOUNTANTS' REPORT

3 COMPANY BALANCE SHEETS

(Expressed in Australian dollars unless otherwise indicated)

	Section B Note	June 30, 2008 \$	June 30, 2009 \$	December 31, 2009 \$	September 30, 2010 \$
NON-CURRENT ASSETS					
Property, plant and equipment	10	81,274	264,824	20,815,172	1,609,904
Exploration and evaluation assets	12	5,260,250	8,618,532	1,267,375	1,636,773
Investments in subsidiaries	13	—	1	1	1
Available-for-sale financial assets	14	—	—	1,025,000	800,000
Other receivables	15	—	—	919,000	51,013,590
Restricted cash deposit	17	—	—	—	47,691,956
TOTAL NON-CURRENT ASSETS		<u>5,341,524</u>	<u>8,883,357</u>	<u>24,026,548</u>	<u>102,752,224</u>
CURRENT ASSETS					
Other receivables	15	141,680	373,791	1,632,946	371,062
Restricted cash deposit	17	—	—	—	3,871,510
Cash and cash equivalents	16	1,929,722	3,441,613	62,373,900	194,393
TOTAL CURRENT ASSETS		<u>2,071,402</u>	<u>3,815,404</u>	<u>64,006,846</u>	<u>4,436,965</u>
TOTAL ASSETS		<u>7,412,926</u>	<u>12,698,761</u>	<u>88,033,394</u>	<u>107,189,189</u>
CURRENT LIABILITIES					
Other payables	18	606,776	1,250,907	6,087,550	3,065,044
Provisions	19	—	22,107	69,024	162,283
TOTAL CURRENT LIABILITIES		<u>606,776</u>	<u>1,273,014</u>	<u>6,156,574</u>	<u>3,227,327</u>
TOTAL LIABILITIES		<u>606,776</u>	<u>1,273,014</u>	<u>6,156,574</u>	<u>3,227,327</u>
NET ASSETS		<u>6,806,150</u>	<u>11,425,747</u>	<u>81,876,820</u>	<u>103,961,862</u>
CAPITAL AND RESERVES					
Share capital	22	8,218,905	15,637,914	88,834,372	127,299,511
Reserves	22	(1,412,755)	(4,212,167)	(6,957,552)	(23,337,649)
TOTAL EQUITY		<u>6,806,150</u>	<u>11,425,747</u>	<u>81,876,820</u>	<u>103,961,862</u>
NET CURRENT ASSETS		<u>1,464,626</u>	<u>2,542,390</u>	<u>57,850,272</u>	<u>1,209,638</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>6,806,150</u>	<u>11,425,747</u>	<u>81,876,820</u>	<u>103,961,862</u>

The accompanying notes form part of the Financial Information.

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ACCOUNTANTS' REPORT

4 CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (Expressed in Australian dollars unless otherwise indicated)

	Section B Note	Share capital	Equity-settled payments reserve	Fair value reserve	Foreign currency translation reserve	Accumulated losses	Total equity
		\$	\$	\$	\$	\$	\$
Balance at July 1, 2007		5,727,439	392,313	—	—	(1,369,093)	4,750,659
Total comprehensive income for the year		—	—	—	—	(393,120)	(393,120)
Issue of shares, net of transaction costs	22(b)	2,098,611	—	—	—	—	2,098,611
Exercise of share options	22(b)	350,000	—	—	—	—	350,000
Transfer of reserve upon exercise of share options	22(a)	42,855	(42,855)	—	—	—	—
Balance at June 30, 2008 and July 1, 2008		8,218,905	349,458	—	—	(1,762,213)	6,806,150
Total comprehensive income for the year		—	—	—	—	(3,758,550)	(3,758,550)
Issue of shares, net of transaction costs	22(b)	6,617,169	—	—	—	—	6,617,169
Exercise of share options	22(b)	725,475	—	—	—	—	725,475
Transfer of reserve upon exercise of share options	22(a)	76,365	(76,365)	—	—	—	—
Share-based payment transactions	22(a)	—	1,035,503	—	—	—	1,035,503
Balance at June 30, 2009 and July 1, 2009		15,637,914	1,308,596	—	—	(5,520,763)	11,425,747
Total comprehensive income for the period		—	—	—	—	(12,321,992)	(12,321,992)
Issue of shares, net of transaction costs	22(b)	69,958,698	—	—	—	—	69,958,698
Exercise of share options	22(b)	2,425,151	—	—	—	—	2,425,151
Transfer of reserve upon exercise of share options	22(a)	812,609	(812,609)	—	—	—	—
Share-based payment transactions	22(a)	—	8,934,132	—	—	—	8,934,132
Balance at December 31, 2009 and January 1, 2010		88,834,372	9,430,119	—	—	(17,842,755)	80,421,736
Total comprehensive income for the period		—	—	350,000	(2,458,746)	(12,714,770)	(14,823,516)
Issue of shares, net of transaction costs	22(b)	25,593,712	—	—	—	—	25,593,712
Exercise of share options	22(b)	6,225,625	—	—	—	—	6,225,625
Transfer of reserve upon exercise of share options	22(a)	6,645,802	(6,645,802)	—	—	—	—
Share-based payment transactions	22(a)	—	3,849,834	—	—	—	3,849,834
Balance at September 30, 2010		127,299,511	6,634,151	350,000	(2,458,746)	(30,557,525)	101,267,391

The accompanying notes form part of the Financial Information.

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ACCOUNTANTS' REPORT

4 CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (CONTINUED) (Expressed in Australian dollars unless otherwise indicated)

	Share capital	Equity-settled payments reserve	Foreign currency translation reserve	Fair value reserve	Accumulated losses	Total equity
	\$	\$	\$	\$	\$	\$
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Balance at July 1, 2008	8,218,905	349,458	—	—	(1,762,213)	6,806,150
Total comprehensive income for the period	—	—	—	—	(1,893,266)	(1,893,266)
Issue of shares, net of transaction costs	1,109,139	—	—	—	—	1,109,139
Exercise of share options	705,000	—	—	—	—	705,000
Transfer of reserve upon exercise of share options	76,365	(76,365)	—	—	—	—
Share-based payment transactions	—	182,351	—	—	—	182,351
Balance at December 31, 2008 and January 1, 2009	<u>10,109,409</u>	<u>455,444</u>	<u>—</u>	<u>—</u>	<u>(3,655,479)</u>	<u>6,909,374</u>
Total comprehensive income for the period	—	—	—	—	(2,877,056)	(2,877,056)
Issue of shares, net of transaction costs	8,655,902	—	—	—	—	8,655,902
Exercise of share options	582,625	—	—	—	—	582,625
Transfer of reserve upon exercise of share options	35,973	(35,973)	—	—	—	—
Share-based payment transactions	—	853,152	—	—	—	853,152
Balance at September 30, 2009	<u>19,383,909</u>	<u>1,272,623</u>	<u>—</u>	<u>—</u>	<u>(6,532,535)</u>	<u>14,123,997</u>

The accompanying notes form part of the Financial Information.

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ACCOUNTANTS' REPORT

5 CONSOLIDATED CASH FLOW STATEMENTS (Expressed in Australian dollars unless otherwise indicated)

	Section B Note	Years ended June 30,		Six months ended December 31,		Nine months ended September 30,	
		2008	2009	2008	2009	2009	2010
		\$	\$	\$	\$	\$	\$
				(Unaudited)		(Unaudited)	
Operating activities							
Receipts of research and development tax concession		—	592,343	280,120	—	312,223	—
Payments to suppliers and contractors		(362,282)	(1,734,024)	(84,428)	(4,935,780)	(2,811,659)	(6,749,519)
Net cash (used in)/generated from operating activities		(362,282)	(1,141,681)	195,692	(4,935,780)	(2,499,436)	(6,749,519)
Investing activities							
Interest received		48,973	70,033	55,108	258,361	33,757	1,288,440
Acquisition of property, plant and equipment		(28,224)	(199,273)	(140,279)	(7,249,071)	(473,881)	(97,119,698)
Proceeds from sale of tenements . . .		—	—	—	175,000	—	—
Payments for exploration and evaluation assets		(1,925,052)	(4,879,158)	(2,460,870)	(1,576,937)	(5,292,524)	(2,556,129)
Outflow for security deposits/performance bonds		—	(77,380)	(57,380)	(868,700)	(20,000)	(74,421)
Net cash used in investing activities		(1,904,303)	(5,085,778)	(2,603,421)	(9,261,347)	(5,752,648)	(98,461,808)
Financing activities							
Net proceeds from issue of shares		2,448,611	7,342,644	1,814,139	71,915,411	8,773,589	31,819,337
Advance receipt of issue of shares		—	188,438	—	—	188,438	—
Bank charges and interest paid		(264)	(1,732)	(913)	(105,194)	(836)	(870,950)
Proceeds from loan from a director		—	210,000	—	70,000	210,000	—
Proceeds from borrowings		—	—	—	21,810,251	—	107,602,792
Repayments of borrowings		—	—	—	—	—	(22,361,360)
Deposit restricted for loan repayment		—	—	—	—	—	(52,080,074)
Net cash generated from financing activities		2,448,347	7,739,350	1,813,226	93,690,468	9,171,191	64,109,745
Net increase/(decrease) in cash and cash equivalents		181,762	1,511,891	(594,503)	79,493,341	919,107	(41,101,582)
Cash and cash equivalents at the beginning of the year/period	16	1,747,960	1,929,722	1,929,722	3,441,613	1,335,219	83,441,378
Effect of foreign exchange rate changes		—	—	—	506,424	—	(4,239,170)
Cash and cash equivalents at the end of the year/period	16	1,929,722	3,441,613	1,335,219	83,441,378	2,254,326	38,100,626

The accompanying notes form part of the Financial Information.

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ACCOUNTANTS’ REPORT

B NOTES TO THE FINANCIAL INFORMATION **(Expressed in Australian dollars unless otherwise indicated)**

The Company was incorporated on January 15, 1996 and registered in Western Australia under the name Galaxy Resources NL, a “no liability” company under the Corporations Act 2001 of the Commonwealth of Australia. The Company changed its company type to a public company under the name Galaxy Resources Limited on September 28, 2001. The Company’s shares have been listed on the ASX since February 6, 2007.

The Company’s registered office is at Level 2, 16 Ord Street, West Perth, Australia.

The principal activities of the Group are the development of the Mt. Cattlin spodumene mine, development of the Jiangsu lithium carbonate plant, and exploration for minerals.

1. SIGNIFICANT ACCOUNTING POLICIES

a. Statement of compliance

The Financial Information set out in this report has been prepared in accordance with IFRSs, which collective term includes International Accounting Standards (“IASs”) and related interpretations issued by the IASB. Further details of the significant accounting policies adopted by the Group are set out in the remainder of this Section B.

The IASB has issued a number of new and revised IFRSs. For the purpose of preparing the Financial Information, the Group has adopted all these new and revised IFRSs applicable to the Relevant Period, except for any new standards or interpretations that are not yet effective for the accounting period beginning January 1, 2010. The revised and new accounting standards and interpretations issued but not yet effective for the accounting period beginning January 1, 2010 are set out in note 1(w).

The Financial Information also complies with the disclosure requirements of the Hong Kong Companies Ordinance.

The accounting policies set out below have been applied consistently to all periods presented in the Financial Information.

The Corresponding Financial Information for each of the six months ended December 31, 2008 and nine months ended September 30, 2009 has been prepared in accordance with the same basis and accounting policies adopted in respect of the Financial Information.

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b. Basis of preparation of the Financial Information

The Financial Information comprises the Company and its subsidiaries.

The Financial Information is presented in Australian dollars, which is the functional currency of the Company, except as otherwise stated herein.

The measurement basis used in the preparation of the Financial Information is the historical cost basis except as otherwise stated in the accounting policies set out below.

The preparation of Financial Information in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized 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.

Judgments made by management in the application of IFRSs that have a significant effect on the Financial Information and major sources of estimation uncertainty are discussed in note 27.

The principal activities of the Group are the development of the Mt Cattlin spodumene mine, development of the Jiangsu lithium carbonate plant, and exploration for minerals. The plan of the Group is to mine and process the hard rock lithium minerals at Mt Cattlin situated in Western Australia which are further processed into spodumene concentrate. The spodumene concentrate will then be delivered to Jiangsu plant situated in the People Republic of China (the “PRC”) for conversion into lithium compounds and chemicals, including lithium carbonate.

Currently, the Group is in the process of mining and processing hard rock lithium minerals at Mt Cattlin and constructing the Jiangsu plant (the “Project”). In order to complete the construction, commissioning and ramp up of the Project over the coming twelve months, the Project activities have been funded through equity contributions together with a bridging finance facility from Creat Group Co. Limited (“Creat Group”), a shareholder of the Group, of US\$14 million, which was drawdown in two equal instalments on August 16, 2010 and September 2, 2010 and repaid on September 20, 2010, and the drawdown of the senior loan facility on September 22, 2010, as detailed in note 20.

In addition, on November 4, 2010 the Company entered a Convertible Bond subscription Agreement to issue up to \$A61.5 million, 8% convertible bonds (“Bonds”) maturing in November 2015. The Bonds are unsecured and subordinated to the senior loan facility.

Interest is payable semi annually in arrears. Each Bond is convertible into fully paid ordinary shares of the Company at an initial conversion price of \$1.56 per share (conversion price). Subject to certain restrictions, a Bondholder is entitled to convert at any time until maturity date in November 2015. The

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conversion price will be subject to adjustment upon the occurrence of certain prescribed events including among others, consolidation, subdivision or reclassification of the Company’s shares, capitalisation of profits or reserves, capital distributions (including dividends), rights issues, the grant of options over shares or other securities convertible into shares at less than 95% of the then current market price up until six months from the date of closing or at less than the market price thereafter subject to certain conditions.

In addition the conversion price may be reset downwards to reflect the then current market price of the shares as at 12 months from the date of issuing the Bonds if the then share price is below the conversion price at that time subject to a minimum of 80% of such conversion price.

A Bondholder may, at the end of year 3, require the Company to redeem all, or some of the Bonds at their principal amount.

The Company may redeem all (but not some) of the Bonds on issue from November 2013 at their principal amount where if for 20 out of 30 relevant trading days the share price exceeds 130% of the applicable conversion price or at any time 90% or more of the aggregated principal of the original Bonds issued has been converted or redeemed. The Bond issue is subject to the approval of the Company’s senior lenders, RZB and CDB and the Company’s shareholders.

On November 19, 2010, the Company issued the first tranche of the Bonds being \$32 million receiving \$29.69 million in net proceeds. The balance of the Bonds are to be issued in tranches on completion of conditions precedent. The Company anticipates the receipt of final tranche proceeds before end of February 2011.

On January 4, 2011, the Company issued the initial part of the second tranche of Bonds being \$10.5 million and on February 16, 2011, the Company issued the remaining second tranche of Bonds being \$19 million.

On February 16, 2011, the Company completed the issue of 21,582,733 ordinary shares to an investor at \$1.39 per share raising \$30 million.

c. Principles of consolidation

Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group 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 the subsidiaries are included in the Financial Information from the date that control commences until the date when control ceases.

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ACCOUNTANTS’ REPORT

In the Company’s balance sheet, investments in subsidiaries are carried at their cost of acquisition less impairment losses.

Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealized gains and losses arising from intra-group transactions, are eliminated in preparing the Financial Information.

d. Available-for-sale financial assets

The Group’s investments in equity securities are classified as available-for-sale financial assets. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses, are recognized in other comprehensive income and presented in the fair value reserve in equity, except for impairment losses. When an investment is derecognized, the cumulative gain or loss in equity is reclassified to profit or loss.

e. Exploration and evaluation assets

Exploration for and evaluation of mineral resources is the search for mineral resources after the Group has obtained legal rights to explore in a specific area, as well as the determination of the technical feasibility and commercial viability of extracting the mineral resources. Accordingly, exploration and evaluation assets are those expenditures incurred by the Group in connection with the exploration for and evaluation of minerals resources before the technical feasibility and commercial viability of extracting a mineral resources are demonstrable.

Accounting for exploration and evaluation assets is assessed separately for each ‘area of interest’. An ‘area of interest’ is an individual geological area which is considered to constitute a favorable environment for the presence of a mineral deposit or has been proved to contain such a deposit.

Expenditure incurred on activities that precede exploration and evaluation of mineral resources, including all expenditure incurred prior to securing legal rights to explore an area, is expensed as incurred. For each area of interest the expenditure is recognized as an exploration and evaluation asset where the following conditions are satisfied:

- (a) The rights to tenure of the area of interest are current; and
- (b) At least one of the following conditions is also met:
 - (i) The expenditure is expected to be recouped through successful development and commercial exploitation of an area of interest, or alternatively by its sale; and
 - (ii) Exploration and evaluation activities in the area of interest have not, at reporting date, reached a stage which permits a reasonable assessment of the existence or otherwise of ‘economically recoverable reserves’ and active and significant operations in, or in

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relation to, the area of interest are continuing. Economically recoverable reserves are the estimated quantity of product in an area of interest that can be expected to be profitably extracted, processed and sold under current and foreseeable conditions.

Exploration and evaluation activities include:

- Acquisition of rights to explore;
- Topographical, geological, geochemical and geophysical studies;
- Exploratory drilling, trenching, and sampling; and
- Activities in relation to evaluating the technical feasibility and commercial viability of extracting the mineral resource.

General and administrative costs are allocated to, and included in, the cost of exploration and evaluation assets only to the extent that those costs can be related directly to the operational activities in the area of interest to which the exploration and evaluation assets relate. In all other instances, these costs are expensed as incurred.

Exploration and evaluation assets include:

- Piping and pumps;
- Tanks;
- Exploration vehicles and drilling equipment;
- Drilling rights;
- Acquired rights to explore;
- Exploratory drilling costs; and
- Trenching and sampling costs.

Exploration and evaluation assets are transferred to development expenditure, which is disclosed as a component of property, plant and equipment, once technical feasibility and commercial viability of an area of interest is demonstrable. Exploration and evaluation assets are assessed for impairment, and any impairment loss is recognized, prior to being reclassified.

The carrying amount of the exploration and evaluation assets is dependent on successful development and commercial exploitation, or alternatively, sales of the respective area of interest.

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Impairment testing of exploration and evaluation assets

Exploration and evaluation assets are assessed for impairment if sufficient data exists to determine technical feasibility and commercial viability or facts and circumstances suggest that the carrying amount exceeds the recoverable amount.

Exploration and evaluation assets are tested for impairment when any of the following facts and circumstances exist:

- The term of exploration licence in the specific area of interest has expired during the reporting period or will expire in the near future, and is not expected to be renewed;
- Substantive expenditure on further exploration for and evaluation of mineral resources in the specific area are not budgeted nor planned;
- Exploration for and evaluation of mineral resources in the specific area have not led to the discovery of commercially viable quantities of mineral resources and the decision was made to discontinue such activities in the specified area; or
- Sufficient data exists to indicate that, although a development in the specific area is likely to proceed, the carrying amount of the exploration and evaluation assets is unlikely to be recovered in full from successful development or by sale.

Where a potential impairment is indicated, an assessment is performed for each cash generating unit (“CGU”) which is no larger than the area of interest. The Group performs impairment testing in accordance with accounting policy (see note 1(g)).

f. Property, plant and equipment

Property, plant and equipment is stated at historical cost less depreciation and impairment losses, with the exception of assets under construction which are stated at cost less any impairment losses. The cost of self-constructed assets includes the cost of materials, direct labor, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads and borrowings costs. Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment. Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognized net within “other income” in the profit or loss.

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Subsequent costs

The Group recognizes in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied within the item will flow to the Group and the cost of the item can be measured reliably. All other costs are recognized in profit or loss as an expense as incurred.

Assets under construction

Assets under construction represent property, plant and equipment under construction and are stated at cost less impairment losses. Cost comprises direct costs of construction. Depreciation of these costs commences when substantially all of the activities necessary to prepare the assets for their intended use are complete.

Development expenditure

Development expenditure relates to costs incurred to access a mineral resource. It represents those costs incurred after the technical feasibility and commercial viability of extracting the mineral resource has been demonstrated and an identified mineral reserve is being prepared for production (but is not yet in production).

Significant factors considered in determining the technical feasibility and commercial viability of the project are the completion of a feasibility study, the existence of sufficient proven and probable reserves to proceed with development and approval by the board of directors to proceed with development of the project.

Development expenditure is capitalized as either a tangible or intangible asset depending on the nature of the costs incurred.

Development expenditure includes the following:

- Reclassified exploration and evaluation assets
- Direct costs of construction
- Pre-production stripping costs
- An appropriate allocation of overheads and borrowing costs incurred during the production phase.

Capitalization of development expenditure ceases once the mining property is capable of commercial production, at which point it is depreciated in accordance with accounting policy set out below in this note. Any development expenditure incurred once a mine property is in production is immediately expensed to profit or loss except where it is probable that future economic benefits will flow to the entity, in which case it is capitalized as property, plant and equipment.

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Depreciation

Depreciation is recognized in profit or loss over the estimated useful life of each part or item of property, plant and equipment. Development expenditure is depreciated or amortized over the lower of their estimated useful lives and the remaining life of mine. The estimated life of mine is based upon geological resources.

- | | |
|---------------------------|---|
| ● Freehold land | Not depreciated |
| ● Plant and equipment | 3 – 16 years |
| ● Development expenditure | Units of production basis over the total estimated proven and probable reserves related to the area of interest |

No depreciation is made on assets under construction until such time when the assets are substantially completed and ready for use.

De-recognition

Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the profit or loss in the period the item is derecognized.

g. Impairment of assets

Loans and receivables

The Group considers evidence of impairment for loans and receivables at both a specific asset and collective level. All individually significant receivables are assessed for specific impairment. All individually significant loans and receivables found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and receivables that are not individually significant are collectively assessed for impairment by grouping together loans and receivables with similar risk characteristics.

In assessing collective impairment the Group uses historical trends of the probability of default, the timing of recoveries and the amount of loss incurred, adjusted for management’s judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset’s original effective interest rate. Losses are recognized in profit or loss and reflected in an allowance account against loans and receivables. Interest on the impaired asset continues to be recognized. When a subsequent event (e.g. a repayment by a debtor) causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

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Available-for-sale financial assets

Impairment losses on available-for-sale financial assets are recognized by reclassifying the losses accumulated in the fair value reserve in equity to profit or loss. The cumulative loss that is reclassified from equity to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortization, and the current fair value, less any impairment loss recognized previously in profit or loss. Changes in impairment provisions attributable to time value are reflected as a component of interest income. If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognized in profit or loss, then the impairment loss is reversed, with the amount of the reversal recognized in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognized in other comprehensive income.

Non-financial assets

The carrying amounts of the Group’s non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset’s recoverable amount is estimated. An impairment loss is recognized if the carrying amount of an asset or its related CGU exceeds its estimated recoverable amount.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generate cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGU.

The Group’s corporate assets do not generate separate cash inflows and are utilized by more than one CGU. Corporate assets are allocated to CGUs on a reasonable and consistent basis and tested for impairment as part of the testing of the CGU to which the corporate asset is allocated.

Impairment losses are recognized in profit or loss.

Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset’s carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

h. Receivables

Receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment, except where the receivables are interest-free loans made to related parties without any fixed terms or the effect of discounting would be immaterial. Collectability of receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off.

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i. Other payables

Trade and other payables are initially recognized at fair value. Other payables are subsequently stated at amortized cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

j. Cash and cash equivalents

For cash flow statement presentation purposes, cash and cash equivalents include cash at bank and on hand, deposits with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

k. Interest-bearing borrowings

Interest-bearing borrowings are recognized initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortized cost with any difference between the amount initially recognized and redemption value being recognized in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

l. Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. The unwinding of the discount is recognized as a finance cost.

Site restoration

The Group provides for the future cost of rehabilitating its exploration sites in accordance with the environmental and legal obligations imposed on the tenements. A provision for rehabilitation is required to be brought to account as soon as there is a probable outflow of resources that can be measured reliably. Provisions for restoration are based on the discounted cash flow of expected future cost.

m. Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

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Assets that are held by the Group under leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases.

Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total expense, over the term of the lease.

The cost of acquiring land held under an operating lease is amortized on a straight-line basis over the period of the lease term, which is 50 years.

n. Finance income and finance costs

Finance income represents interest income on funds invested (including available-for-sale financial assets). Interest income is recognized as it accrues in profit or loss, using the effective interest rate method.

Finance costs comprise interest expense on borrowings, unwinding of the discount on provisions and bank charges.

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

Foreign currency gains and losses are reported on a net basis as either finance income or finance costs depending on whether foreign currency movements are in a net gain or net loss position.

o. Foreign currency translation

The Financial Information is presented in Australian dollars, which is the functional currency of the Company and its Australian subsidiary. The functional currencies of the Company’s Hong Kong subsidiary and the People’s Republic of China (the “PRC”) subsidiary are Hong Kong dollars (“HKD”) and Renminbi (“RMB”) respectively.

Foreign currency transactions

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to the functional currency of the entity at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognized in profit or loss. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Nonmonetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to the functional currency of the entity at foreign exchange rates ruling at the dates the fair value was determined.

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Foreign operations

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 recognized in other comprehensive income, and presented in the foreign currency translation reserve in equity. When a foreign operation is disposed of such that control, significant influence or joint control is lost, the cumulative amount in the foreign currency translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal.

p. Employee benefits

Defined contribution retirement plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contribution into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution retirement plans are recognized as staff costs in profit or loss as incurred.

Short term benefits

Liabilities for employee benefits for wages, salaries, annual leave and sick leave that are expected to be settled within 12 months of the reporting date represent present obligations resulting from employee’s services provided to reporting date, are calculated at undiscounted amounts based on remuneration wage and salary rates that the Group expects to pay as at reporting date including related on-costs, such as workers compensation insurance and payroll tax. Non-accumulating monetary benefits, such as medical care and motor vehicles, are expensed as the benefits are taken by the employees.

q. Taxes

Income tax

Income tax expense comprises current and deferred taxes. Income tax is recognized in profit or loss except to the extent that they relate to items recognized directly in equity or in other comprehensive income, in which case the relevant amounts of tax are recognized in equity or in other comprehensive income, respectively.

Current tax is the expected tax payable on the taxable income for the year/period, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts

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used for taxation purposes. Deferred tax assets also arise from unused tax losses. The following temporary differences, of which deferred taxes are not provided for: initial recognition of goodwill, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses, that is those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Goods and Services Tax (“GST”)

Revenues, expenses and assets are recognized net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Taxation Office (“ATO”). In these circumstances the GST is recognized as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables are stated with the amount of GST included. The net amount of the GST recoverable from, or payable to, the ATO is included as a current asset or liability in the balance sheets.

Cash flows are included in the cash flow statements on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

Tax consolidation

The Company and the Australian subsidiary, Galaxy Lithium Australia Limited, formed a tax consolidated group on July 1, 2008 under Australian taxation laws, whereby all entities within the tax consolidated group are taxed as a single entity. The head entity of the tax consolidated group is Galaxy Resources Limited.

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r. Operating segments

Operating segments are reported in a manner consistent with internal reporting provided regularly to the Group’s most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group’s lines of business and geographical locations. Segment liabilities information is not provided to the Group’s most senior executive management.

s. Share capital

Ordinary shares are classified as share capital. Costs directly attributable to the issue of new shares or options are shown in share capital as a deduction from the proceeds.

A contract that will be settled by the entity delivering a fixed number of its own equity instruments in exchange for a fixed amount of cash or another financial asset is an equity instrument. Any consideration received from such equity instrument is credited to share capital. Changes in fair value of such equity instrument subsequently are not recognized in the Financial Information.

t. Earnings/loss per share

Basic earnings/loss per share is determined by dividing the profit or loss after income tax attributable to equity holders of the Company by the weighted average number of ordinary shares outstanding during the financial year/period.

u. Related parties

For the purpose of the Financial Information, a party is considered to be related to the Group if:

- (i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;
- (ii) the Group and the party are subject to common control;
- (iii) the party is an associate of the Group or a joint venture in which the Group is a venturer;
- (iv) the party is a member of key management personnel of the Group or the Group’s parent, or a close family member of such individual, or is an entity under the control, joint control or significant influence of such individuals;
- (v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or
- (vi) the party is a post-employment benefit plan which is for the benefit of employees of the Group or of any entity that is a related party of the Group.

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Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

v. Share based payment transactions

The grant-date fair value of share-based payment awards granted to employees (including directors) is recognised as an employee expense, with a corresponding increase in equity, over the period that the employees unconditionally become entitled to the awards. The fair value of employee share options is measured using a Black & Scholes option valuation model (“Black & Scholes”) or Monte-Carlo valuation model (“Monte-Carlo”). Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information), weighted average expected life of the instruments (based on historical experience and general option holder behaviour), expected dividends, and the risk-free interest rate (based on government bonds). Service and non-market performance conditions attached to the transactions are not taken into account in determining fair value.

The amount recognised as an expense is adjusted to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant-date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

Share-based payment arrangements in which the Group receives goods or services as consideration for its own equity instruments are accounted for as equity-settled share-based payment transactions, regardless of how the equity instruments are obtained by the Group.

w. New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after January 1, 2010, and have not been applied in preparing this Financial Information. None of these are expected to have a significant effect on the Group, except for *IFRS 9 Financial Instruments*, which becomes mandatory for the Group’s 2013 consolidated financial statements and could change the classification and measurement of financial assets. The Group does not plan to adopt this standard early and the extent of the impact has not been determined.

2. TURNOVER

The principal activities of the Group are the development of the Mt. Cattlin spodumene mine, development of Jiangsu lithium carbonate plant, and exploration for minerals. The Group did not earn any revenue from these activities during the Relevant Period as it was still in a development stage.

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3. FINANCE INCOME AND FINANCE COSTS

	Years ended June 30,		Six months ended December 31,		Nine months ended September 30,	
	2008	2009	2008	2009	2009	2010
	\$	\$	\$	\$	\$	\$
			(Unaudited)		(Unaudited)	
Finance income						
Interest income on cash assets	48,973	78,278	55,108	483,894	33,840	1,054,745
Foreign exchange gains	—	—	—	—	—	3,221,418
	48,973	78,278	55,108	483,894	33,840	4,276,163
Finance costs						
Interest expense on financial liabilities						
wholly repayable within five years	(3,682)	—	—	(105,833)	(17)	(690,292)
Impairment loss on available-for-sale						
financial assets (note 14)	—	—	—	—	—	(575,000)
Bank charges	(264)	(1,732)	(913)	(104,563)	(1,653)	(144,483)
Foreign exchange losses	—	—	—	(44,671)	—	(1,578,324)
	(3,946)	(1,732)	(913)	(255,067)	(1,670)	(2,988,099)
Net finance income	<u>45,027</u>	<u>76,546</u>	<u>54,195</u>	<u>228,827</u>	<u>32,170</u>	<u>1,288,064</u>

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4. LOSS BEFORE TAXATION

Loss before taxation is arrived at after (charging)/crediting:

	Years ended		Six months ended		Nine months ended	
	June 30,		December 31,		September 30,	
	2008	2009	2008	2009	2009	2010
	\$	\$	\$	\$	\$	\$
			(Unaudited)		(Unaudited)	
(a) Other income						
Net gain on sale of mineral tenements (note 12(b))	—	—	—	1,056,356	—	—
Others	—	—	—	25,000	—	—
	—	—	—	1,081,356	—	—
	<u>—</u>	<u>—</u>	<u>—</u>	<u>1,081,356</u>	<u>—</u>	<u>—</u>
(b) Staff costs						
Contributions to defined contribution retirement plans . .	—	(145,528)	(57,477)	(78,553)	(118,998)	(144,028)
Equity settled share-based payment expenses	—	(1,035,503)	(182,351)	(8,934,132)	(853,152)	(3,849,834)
Salaries, wages and other benefits	(306,502)	(924,585)	(236,002)	(1,028,621)	(994,043)	(3,339,867)
	<u>(306,502)</u>	<u>(2,105,616)</u>	<u>(475,830)</u>	<u>(10,041,306)</u>	<u>(1,966,193)</u>	<u>(7,333,729)</u>
(c) Other items						
Operating lease charges for property rental	(11,501)	(254,463)	(95,534)	(209,319)	(342,536)	(321,514)
Auditors' remuneration						
— audit services	(25,000)	(32,000)	(4,000)	(30,000)	(28,000)	(45,000)
— other assurance services	—	—	—	—	—	(551,019)
— tax services	(2,000)	—	—	—	—	—
	<u>(27,000)</u>	<u>(32,000)</u>	<u>(4,000)</u>	<u>(30,000)</u>	<u>(28,000)</u>	<u>(596,019)</u>

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5. INCOME TAX

Years ended June 30,		Six months ended December 31,		Nine months ended September 30,	
2008	2009	2008	2009	2009	2010
\$	\$	\$	\$	\$	\$
		(Unaudited)		(Unaudited)	

(a) Taxation in the consolidated statements of comprehensive income

Current tax

Research and development tax
concession

—	592,343	280,120	—	312,223	—
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(b) Reconciliation between tax expense and accounting loss at applicable tax rates⁽ⁱ⁾⁽ⁱⁱ⁾⁽ⁱⁱⁱ⁾

Loss before taxation	(393,120)	(4,350,893)	(2,173,386)	(12,321,992)	(3,189,279)	(12,714,770)
Notional tax on loss before taxation, calculated at the rates applicable to losses in the jurisdictions concerned . . .	117,936	1,305,268	652,016	3,696,598	956,784	3,814,431
Non-deductible expenses	(117,936)	(550,615)	(72,404)	(3,020,435)	(603,929)	(1,891,917)
Tax effect of other deductible temporary differences not recognized for deferred tax purposes	—	(17,497)	(16,654)	—	—	(394,015)
Tax effect on reversal of previously unrecognised other deductible temporary differences	—	—	—	11,677	—	5,820
Tax effect of losses not recognized for deferred tax purposes	—	(737,156)	(562,958)	(687,840)	(352,855)	(1,534,319)
Research and development tax concession (iv)	—	592,343	280,120	—	312,223	—
Income tax benefit	—	592,343	280,120	—	312,223	—

- (i) The statutory tax rate applicable to the Company and the Australian subsidiary was 30% during the Relevant Period. No provision for Australian taxation was made during the Relevant Period as the Company and the Australian subsidiary sustained losses for taxation purposes in Australia.
- (ii) Hong Kong’s statutory tax rate for 2009 and 2010 was 16.5%. No provision for Hong Kong Profits Tax was made for the Hong Kong subsidiary incorporated in July 2009 as it did not have assessable profits subject to Hong Kong Profits Tax for 2009 and 2010.
- (iii) The statutory tax rate applicable to the subsidiary established in the PRC in February 2010 was 25%. No provision for the PRC profits tax was made as the PRC subsidiary suffered losses for taxation purposes for 2010.
- (iv) This tax concession represents Australian Federal tax rebates on qualifying research and development expenditures.

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(c) Recognized deferred tax assets and liabilities

Group

The components of deferred tax (assets) / liabilities recognized in the consolidated balance sheets and the movements during the year / period are as follows:

Deferred tax arising from:	Other receivables	Property, plant and equipment	Exploration and evaluation assets	Available- for-sale financial assets	Other payables	Provisions	Interest bearing liabilities	Tax losses	Others	Total
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Balance at July 1, 2007	—	—	1,015,427	—	—	—	—	(1,015,427)	—	—
Charged/(credited) to profit or loss	—	—	562,648	—	(3,000)	—	—	(499,284)	(60,364)	—
Balance at June 30, 2008 and July 1, 2008 ..	—	—	1,578,075	—	(3,000)	—	—	(1,514,711)	(60,364)	—
Charged/(credited) to profit or loss	4,206	—	1,007,484	—	(2,400)	(6,632)	—	(1,063,022)	60,364	—
Balance at June 30, 2009 and July 1, 2009 ..	4,206	—	2,585,559	—	(5,400)	(6,632)	—	(2,577,733)	—	—
Charged/(credited) to profit or loss	65,902	—	437,489	7,500	(3,600)	(14,075)	—	(493,216)	—	—
Reclassifications	—	2,642,835	(2,642,835)	—	—	—	—	—	—	—
Balance at December 31, 2009 and January 1, 2010	70,108	2,642,835	380,213	7,500	(9,000)	(20,707)	—	(3,070,949)	—	—
(Credited)/charged to profit or loss	(70,108)	426,154	202,256	(67,500)	(14,518)	(75,022)	12,061	(791,826)	378,503	—
Balance at September 30, 2010	—	3,068,989	582,469	(60,000)	(23,518)	(95,729)	12,061	(3,862,775)	378,503	—

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Company

The components of deferred tax (assets) / liabilities recognized in the balance sheets and the movements during the year / period are as follows:

Deferred tax arising from:	Other receivables	Property, plant and equipment	Exploration and evaluation assets	Available-for- sale financial assets	Other payables	Provisions	Tax losses	Others	Total
	\$	\$	\$	\$	\$	\$	\$	\$	\$
Balance at July 1, 2007	—	—	1,015,427	—	—	—	(1,015,427)	—	—
Charged/(credited) to profit or loss	—	—	562,648	—	(3,000)	—	(499,284)	(60,364)	—
Balance at June 30, 2008 and July 1, 2008 ...	—	—	1,578,075	—	(3,000)	—	(1,514,711)	(60,364)	—
Charged/(credited) to profit or loss	4,206	—	1,007,484	—	(2,400)	(6,632)	(1,063,022)	60,364	—
Balance at June 30, 2009 and July 1, 2009 ...	4,206	—	2,585,559	—	(5,400)	(6,632)	(2,577,733)	—	—
Charged/(credited) to profit or loss	65,902	—	437,489	7,500	(3,600)	(14,075)	(493,216)	—	—
Reclassifications	—	2,642,835	(2,642,835)	—	—	—	—	—	—
Balance at December 31, 2009 and January 1, 2010	70,108	2,642,835	380,213	7,500	(9,000)	(20,707)	(3,070,949)	—	—
(Credited)/charged to profit or loss	(70,108)	144,891	428,520	(67,500)	1,195	(35,504)	(7,064)	(394,430)	—
Assets transferred to a subsidiary	—	(2,642,835)	(317,700)	—	—	—	2,960,535	—	—
Balance at September 30, 2010	—	144,891	491,033	(60,000)	(7,805)	(56,211)	(117,478)	(394,430)	—

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(d) Unrecognized deferred tax assets

Deferred tax assets have not been recognized in respect of the temporary differences relating to the following items:

Group

	June 30, 2008	June 30, 2009	December 31, 2009	September 30, 2010
	\$	\$	\$	\$
Transaction costs for issue of shares	862,540	714,367	3,077,023	3,432,530
Other deductible temporary differences	—	58,323	19,400	1,576,058
Unused tax losses	—	2,457,187	4,749,987	9,864,383
	<u>862,540</u>	<u>3,229,877</u>	<u>7,846,410</u>	<u>14,872,971</u>

Company

	June 30, 2008	June 30, 2009	December 31, 2009	September 30, 2010
	\$	\$	\$	\$
Transaction costs for issue of shares	862,540	714,367	3,077,023	3,432,530
Other deductible temporary differences	—	58,323	19,400	—
Unused tax losses	—	2,457,187	4,749,987	9,864,383
	<u>862,540</u>	<u>3,229,877</u>	<u>7,846,410</u>	<u>13,296,913</u>

Tax consolidation

The Company and the Australian subsidiary, Galaxy Lithium Australia Limited, formed a tax consolidated group on July 1, 2008 under Australian taxation laws, whereby they are taxed as a single entity. The head entity of the tax consolidated group is the Company. Also, the Company and the Australian subsidiary entered into a tax funding agreement which provides for the allocation of current taxes between these two entities. The allocation of taxes under the tax funding agreement is recognized as a movement in the intercompany accounts.

The unused tax losses relating to the Company (including the Australian subsidiary) do not expire under the current tax legislation. Deferred tax assets have not been recognised in respect of the above-mentioned deductible temporary differences and unused tax losses as it is not probable that future taxable profits will be available against which they can be utilised.

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6. DIRECTORS’ REMUNERATION

Directors’ remuneration disclosed pursuant to section 161 of the Hong Kong Companies Ordinance is as follows:

Name of Directors	Year ended June 30, 2008				
	Salaries, allowances and benefits in kind	Director’s fees	Contributions to retirement benefit schemes	Share-based payments	Total
	\$	\$	\$	\$	\$
<i>Chairman</i>					
Craig Leslie Readhead	—	50,000	—	—	50,000
<i>Executive director</i>					
Michael George Fotios	181,500	—	—	—	181,500
<i>Non-executive director</i>					
Robert James Wanless	—	30,000	—	—	30,000
	<u>181,500</u>	<u>80,000</u>	<u>—</u>	<u>—</u>	<u>261,500</u>
Name of Directors	Year ended June 30, 2009				
	Salaries, allowances and benefits in kind	Director’s fees	Contributions to retirement benefit schemes	Share-based payments	Total
	\$	\$	\$	\$	\$
<i>Chairman</i>					
Craig Leslie Readhead	—	62,500	—	132,695	195,195
<i>Executive directors</i>					
Ignatius Kim Seng Tan ¹	196,945	5,889	17,038	200,452	420,324
Michael George Fotios ²	171,126	—	—	—	171,126
<i>Non-executive director</i>					
Robert James Wanless	—	40,000	2,250	132,695	174,945
	<u>368,071</u>	<u>108,389</u>	<u>19,288</u>	<u>465,842</u>	<u>961,590</u>
Name of Directors	Six months ended December 31, 2008 (Unaudited)				
	Salaries, allowances and benefits in kind	Director’s fees	Contributions to retirement benefit schemes	Share-based payments	Total
	\$	\$	\$	\$	\$
<i>Chairman</i>					
Craig Leslie Readhead	—	25,000	—	104,045	129,045
<i>Executive directors</i>					
Ignatius Kim Seng Tan ⁽¹⁾	41,072	5,889	3,988	—	50,949
Michael George Fotios ⁽²⁾	171,126	—	—	—	171,126
<i>Non-executive director</i>					
Robert James Wanless	—	15,000	—	104,045	119,045
	<u>212,198</u>	<u>45,889</u>	<u>3,988</u>	<u>208,090</u>	<u>470,165</u>

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Notes:

- (1) Mr Tan was appointed as a non executive director on September 18, 2008 and subsequently appointed as Managing Director on November 11, 2008.
- (2) Mr Fotios resigned as Managing Director of the Company and was appointed as a non-executive director on November 11, 2008 and subsequently resigned as a non-executive director on December 16, 2008.

Name of Directors	Six months ended December 31, 2009				
	Salaries, allowances and benefits in kind	Director’s fees	Contributions to retirement benefit schemes	Share-based payments	Total
	\$	\$	\$	\$	\$
<i>Chairman</i>					
Craig Leslie Readhead	—	37,500	—	689,468	726,968
<i>Executive director</i>					
Ignatius Kim Seng Tan	165,769	—	14,019	2,757,871	2,937,659
<i>Non-executive director</i>					
Robert James Wanless	—	25,000	2,250	689,468	716,718
	<u>165,769</u>	<u>62,500</u>	<u>16,269</u>	<u>4,136,807</u>	<u>4,381,345</u>

Name of Directors	Nine months ended September 30, 2009 (Unaudited)				
	Salaries, allowances and benefits in kind	Director’s fees	Contributions to retirement benefit schemes	Share-based payments	Total
	\$	\$	\$	\$	\$
<i>Chairman</i>					
Craig Leslie Readhead	—	56,250	—	28,650	84,900
<i>Executive director</i>					
Ignatius Kim Seng Tan	222,796	—	20,991	200,452	444,239
<i>Non-executive director</i>					
Robert James Wanless	—	37,500	3,375	28,650	69,525
	<u>222,796</u>	<u>93,750</u>	<u>24,366</u>	<u>257,752</u>	<u>598,664</u>

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Name of Directors	Nine months ended September 30, 2010				
	Salaries, allowances and benefits in kind	Director’s fees	Contributions to retirement benefit schemes	Share-based payments	Total
	\$	\$	\$	\$	\$
<i>Chairman</i>					
Craig Leslie Readhead	—	67,500	—	10,006	77,506
<i>Executive director</i>					
Ignatius Kim Seng Tan	293,297	—	27,000	40,023	360,320
<i>Non-executive directors</i>					
Robert James Wanless	—	42,500	3,375	10,006	55,881
Yuewen Zheng ⁽³⁾	—	42,500	—	—	42,500
Ivo Polovineo ⁽⁴⁾	—	8,658	—	—	8,658
	<u>293,297</u>	<u>161,158</u>	<u>30,375</u>	<u>60,035</u>	<u>544,865</u>

Notes:

(3) Mr Zheng was appointed as a non-executive director on January 7, 2010.

(4) Mr Polovineo was appointed as a non-executive director on July 20, 2010.

No director received any emoluments from the Group as an inducement to join or upon joining the Group or as compensation for loss of office during the Relevant Period. No director waived or agreed to waive any emoluments during the Relevant Period.

7. INDIVIDUALS WITH HIGHEST EMOLUMENTS

The five highest paid individuals of the Group include 3, 1, 3, 1, 1, and 1 directors during the years ended June 30, 2008 and 2009, the six months ended December 31, 2008 and 2009 and the nine months ended September 30, 2009 and 2010, respectively, whose emoluments are disclosed in note 6. The aggregate of the emoluments in respect of the remaining highest paid individuals are as follows:

	Years ended June 30,		Six months ended December 31,		Nine months ended September 30,	
	2008	2009	2008	2009	2009	2010
	\$	\$	\$	\$	\$	\$
			(Unaudited)		(Unaudited)	
Salaries and other emoluments	66,000	402,683	95,270	404,840	491,386	741,459
Contributions to retirement benefit schemes	—	126,241	53,490	36,436	88,858	64,315
Share-based payments	—	583,207	—	4,105,437	567,750	450,194
	<u>66,000</u>	<u>1,112,131</u>	<u>148,760</u>	<u>4,546,713</u>	<u>1,147,994</u>	<u>1,255,968</u>

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The emoluments of these individuals are within the following bands:

	Number of individuals					
	Years ended June 30,		Six months ended December 31,		Nine months ended September 30,	
	2008	2009	2008	2009	2009	2010
			(Unaudited)	(Unaudited)		
\$Nil — \$142,000 (equivalent to HK\$Nil to HK\$1,000,000)	2	—	2	—	—	—
\$142,001 — \$213,000 (equivalent to HK\$1,000,001 to HK\$1,500,000)	—	2	—	—	—	1
\$213,001 — \$284,000 (equivalent to HK\$1,500,001 to HK\$2,000,000)	—	1	—	—	3	1
\$284,001 — \$355,000 (equivalent to HK\$2,000,001 to HK\$2,500,000)	—	—	—	—	—	1
\$426,001 — \$497,000 (equivalent to HK\$3,000,001 to HK\$3,500,000)	—	1	—	—	1	1
\$781,001 — \$852,000 (equivalent to HK\$5,500,001 to HK\$6,000,000)	—	—	—	3	—	—
\$2,059,001 — \$2,130,000 (equivalent to HK\$14,500,001 to HK\$15,000,000)	—	—	—	1	—	—
	<u>2</u>	<u>4</u>	<u>2</u>	<u>4</u>	<u>4</u>	<u>4</u>

No emoluments have been paid to these individuals as inducement to join or upon joining the Group or as compensation for loss of office during the Relevant Period.

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8. LOSS PER SHARE

The calculation of basic loss per share for each of the year/period was based on the loss attributable to ordinary shareholders and using a weighted average number of ordinary shares outstanding during the Relevant Period.

	Years ended June 30,		Six months ended December 31,		Nine months ended September 30,	
	2008	2009	2008	2009	2009	2010
			(Unaudited)		(Unaudited)	
Basic loss per share						
(cents)	(0.87)	(6.40)	(3.57)	(11.91)	(4.21)	(7.33)
Loss attributable to the ordinary shareholders of the Company	(393,120)	(3,758,550)	(1,893,266)	(12,321,992)	(2,877,056)	(12,714,770)
Weighted average number of shares						
Issued ordinary shares at beginning of the year/ period	44,662,297	51,412,297	51,412,297	76,125,816	58,297,297	149,934,608
Effect of share options exercised	196,038	2,575,786	1,628,397	1,573,117	32,544	5,988,439
Effect of shares issued	81,967	4,735,733	—	25,797,991	10,076,636	17,642,519
Weighted average number of ordinary shares outstanding during the year/period	<u>44,940,302</u>	<u>58,723,816</u>	<u>53,040,694</u>	<u>103,496,924</u>	<u>68,406,477</u>	<u>173,565,566</u>

There were no dilutive ordinary shares during the Relevant Period.

9. OPERATING SEGMENTS

The Group had one operating and reportable segment up to the period ended December 31, 2009, which was Australian operation which included the development of the Mt. Cattlin spodumene mine and exploration for minerals. The segment information reported internally to the Group’s most senior executive management for the purposes of resource allocation and performance assessment was the same as those reported in this Financial Information up to December 31, 2009.

In February 2010, the Group established a subsidiary in the PRC, which mainly engaged in the construction of the Jiangsu lithium carbonate plant. Since then, the Group has managed its businesses by geographic location, which resulted in two operating and reportable segments which consisted of Australian operation and the PRC operation as set out below. This is consistent with the way in which information is reported internally to the Group’s most senior executive management for the purposes of resource allocation and performance assessment.

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- Australia operation includes the development of the Mt. Cattlin spodumene mine and exploration for minerals. Australia operation has existed throughout the Relevant Period.
- China operation represents the Jiangsu lithium carbonate plant and was established in February 2010.

(a) Segment results and assets

For the purposes of resource allocation and performance assessment, the Group’s senior executive management monitors the results and assets attributable to each reportable segment on the following bases:

Segment results are profit or loss before taxation which is measured by allocating revenue and expenses to the reportable segments according to geographic location which they arose in or related to.

Segment assets include property, plant and equipment, lease prepayment and exploration and evaluation assets. The geographical location of the segment assets is based on the physical location of the assets.

	For the nine months ended September 30, 2010		
	Australia operation	China operation	Total
	\$	\$	\$
Segment results:			
Reportable segment loss before taxation	(11,138,712)	(1,576,058)	(12,714,770)
Depreciation	(70,210)	(27,961)	(98,171)
Finance income/loss	1,501,769	(213,705)	1,288,064
Impairment loss on available-for-sale financial assets	(575,000)	—	(575,000)
Segment assets:			
Reportable segment assets	108,620,977	16,843,511	125,464,488
Additions to non-current segment assets during the period	86,636,604	16,843,511	103,480,115

(b) Reconciliation of reportable segment results and assets

There were no inter-segment transactions during the nine months ended September 30, 2010. Accordingly there are no reconciling items between reportable segment’s loss and the Group’s loss.

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The reconciliation between reportable segment assets and the Group’s consolidated total assets as at September 30, 2010 is as follows:

<u>Assets</u>	<u>\$</u>
Reportable segment assets	125,464,488
Available-for-sale financial assets	800,000
Other receivables	4,267,117
Restricted cash deposit	58,782,349
Cash and cash equivalents	<u>38,100,626</u>
Consolidated total assets	<u><u>227,414,580</u></u>

10. PROPERTY, PLANT AND EQUIPMENT

Group

	<u>June 30, 2008</u>	<u>June 30, 2009</u>	<u>December 31, 2009</u>	<u>September 30, 2010</u>
	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
Cost				
<i>Land (note 10(c))</i>				
Balance at beginning of the year / period	50,000	75,000	175,000	932,000
Additions	<u>25,000</u>	<u>100,000</u>	<u>757,000</u>	<u>240,000</u>
Balance at end of the year / period	<u>75,000</u>	<u>175,000</u>	<u>932,000</u>	<u>1,172,000</u>
<i>Plant and equipment</i>				
Balance at beginning of the year / period	5,330	8,554	107,828	207,442
Additions	<u>3,224</u>	<u>99,274</u>	<u>99,614</u>	<u>470,223</u>
Balance at end of the year / period	<u>8,554</u>	<u>107,828</u>	<u>207,442</u>	<u>677,665</u>
<i>Assets under construction (note 10(a))</i>				
Balance at beginning of the year / period	—	—	—	7,304,818
Additions	<u>—</u>	<u>—</u>	<u>7,304,818</u>	<u>95,610,250</u>
Balance at end of the year / period	<u>—</u>	<u>—</u>	<u>7,304,818</u>	<u>102,915,068</u>
<i>Development expenditure</i>				
Balance at beginning of the year / period	—	—	—	12,410,078
Additions	<u>—</u>	<u>—</u>	<u>3,600,627</u>	<u>2,581,363</u>
Transfer from exploration and evaluation assets (note 12)	<u>—</u>	<u>—</u>	<u>8,809,451</u>	<u>1,058,796</u>
Balance at end of the year / period	<u>—</u>	<u>—</u>	<u>12,410,078</u>	<u>16,050,237</u>
Total				
Balance at beginning of the year / period	55,330	83,554	282,828	20,854,338
Additions	<u>28,224</u>	<u>199,274</u>	<u>11,762,059</u>	<u>98,901,836</u>
Transfer from exploration and evaluation assets	<u>—</u>	<u>—</u>	<u>8,809,451</u>	<u>1,058,796</u>
Balance at end of the year / period	<u>83,554</u>	<u>282,828</u>	<u>20,854,338</u>	<u>120,814,970</u>

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	June 30, 2008	June 30, 2009	December 31, 2009	September 30, 2010
	\$	\$	\$	\$
Accumulated depreciation				
<i>Land</i>				
Balance at beginning and end of the year/period	—	—	—	—
<i>Plant and equipment</i>				
Balance at beginning of the year/period	1,267	2,280	18,004	39,166
Depreciation	1,013	15,724	21,162	98,170
Balance at end of the year/period	2,280	18,004	39,166	137,336
<i>Assets under construction</i>				
Balance at beginning and end of the year/period	—	—	—	—
<i>Development expenditure</i>				
Balance at beginning and end of the year/period	—	—	—	—
Total				
Balance at beginning of the year/period	1,267	2,280	18,004	39,166
Depreciation	1,013	15,724	21,162	98,170
Balance at end of the year/period	<u>2,280</u>	<u>18,004</u>	<u>39,166</u>	<u>137,336</u>
Carrying amounts				
Land	75,000	175,000	932,000	1,172,000
Plant and equipment	6,274	89,824	168,276	540,329
Assets under construction	—	—	7,304,818	102,915,068
Development expenditure	—	—	12,410,078	16,050,237
Total property, plant and equipment	<u>81,274</u>	<u>264,824</u>	<u>20,815,172</u>	<u>120,677,634</u>

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Company

	June 30, 2008	June 30, 2009	December 31, 2009	September 30, 2010
	\$	\$	\$	\$
Cost				
<i>Land (note 10(c))</i>				
Balance at beginning of the year / period	50,000	75,000	175,000	932,000
Additions	25,000	100,000	757,000	240,000
Balance at end of the year / period	75,000	175,000	932,000	1,172,000
<i>Plant and equipment</i>				
Balance at beginning of the year / period	5,330	8,554	107,828	207,442
Additions	3,224	99,274	99,614	339,391
Balance at end of the year / period	8,554	107,828	207,442	546,833
<i>Assets under construction (note 10(a))</i>				
Balance at beginning of the year / period	—	—	—	7,304,818
Additions	—	—	7,304,818	—
Transfer to a subsidiary (note 10(b))	—	—	—	(7,304,818)
Balance at end of the year / period	—	—	7,304,818	—
<i>Development expenditure</i>				
Balance at beginning of the year / period	—	—	—	12,410,078
Additions	—	—	3,600,627	2,581,363
Transfer from exploration and evaluation assets (note 12)	—	—	8,809,451	1,058,796
Transfer to a subsidiary (note 10(b))	—	—	—	(16,050,237)
Balance at end of the year / period	—	—	12,410,078	—
Total				
Balance at beginning of the year / period	55,330	83,554	282,828	20,854,338
Additions	28,224	199,274	11,762,059	3,160,754
Transfer from exploration and evaluation assets	—	—	8,809,451	1,058,796
Transfer to a subsidiary	—	—	—	(23,355,055)
Balance at end of the year / period	<u>83,554</u>	<u>282,828</u>	<u>20,854,338</u>	<u>1,718,833</u>

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	June 30, 2008	June 30, 2009	December 31, 2009	September 30, 2010
	\$	\$	\$	\$
Accumulated depreciation				
<i>Land</i>				
Balance at beginning and end of the year/period	—	—	—	—
<i>Plant and equipment</i>				
Balance at beginning of the year / period	1,267	2,280	18,004	39,166
Depreciation	1,013	15,724	21,162	69,763
Balance at end of the year / period	2,280	18,004	39,166	108,929
<i>Assets under construction</i>				
Balance at beginning and end of the year/period	—	—	—	—
<i>Development expenditure</i>				
Balance at beginning and end of the year/period	—	—	—	—
Total				
Balance at beginning of the year / period	1,267	2,280	18,004	39,166
Depreciation	1,013	15,724	21,162	69,763
Balance at end of the year / period	<u>2,280</u>	<u>18,004</u>	<u>39,166</u>	<u>108,929</u>
Carrying amounts				
Land	75,000	175,000	932,000	1,172,000
Plant and equipment	6,274	89,824	168,276	437,904
Assets under construction	—	—	7,304,818	—
Development expenditure	—	—	12,410,078	—
Total property, plant and equipment	<u>81,274</u>	<u>264,824</u>	<u>20,815,172</u>	<u>1,609,904</u>

- (a) Assets under construction represented plant and equipment and construction works under way at the Mt Cattlin spodumene mine and the Jiangsu lithium carbonate plant site. Mt Cattlin construction has been substantially completed as at September 30, 2010, and Jiangsu plant construction is planned to be completed in the first half of 2011.
- (b) During the nine months ended September 30, 2010, the assets under construction of \$7,304,818 and development expenditure of \$16,050,237 relating to the Mt Cattlin spodumene mine were transferred from the Company to its subsidiary, Galaxy Lithium Australia Limited, at cost.
- (c) All of the Group’s and the Company’s land is freehold land located in Australia.

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11. LEASE PREPAYMENT

Group

	June 30, 2008	June 30, 2009	December 31, 2009	September 30, 2010
	\$	\$	\$	\$
Cost				
Balance at beginning of the year / period	—	—	—	—
Additions	—	—	—	2,873,250
Balance at the of the year / period	<u>—</u>	<u>—</u>	<u>—</u>	<u>2,873,250</u>
Accumulated amortisation				
Balance at beginning of the year / period	—	—	—	—
Amortisation	—	—	—	27,961
Balance at the of the year / period	<u>—</u>	<u>—</u>	<u>—</u>	<u>27,961</u>
Carrying amounts	<u>—</u>	<u>—</u>	<u>—</u>	<u>2,845,289</u>

Lease prepayment represented a lump sum prepayment made in April 2010 for a land use right in the PRC with the lease term of 50 years. Lease prepayment is amortized on a straight-line basis over the period of the lease term.

12. EXPLORATION AND EVALUATION ASSETS

Group

	June 30, 2008	June 30, 2009	December 31, 2009	September 30, 2010
	\$	\$	\$	\$
Cost:				
Balance at beginning of the year / period	3,384,755	5,260,250	8,618,533	1,267,375
Additions	1,925,052	4,879,158	1,576,937	1,732,986
Less: Exploration and evaluation assets written-off				
(note 12(a))	(49,557)	(1,520,875)	—	—
Costs of tenements sold (note 12(b))	—	—	(118,644)	—
Transfer to property, plant and equipment (notes 10 and 12 (c))	—	—	(8,809,451)	(1,058,796)
Balance at end of the year / period	<u>5,260,250</u>	<u>8,618,533</u>	<u>1,267,375</u>	<u>1,941,565</u>

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Company

	June 30, 2008	June 30, 2009	December 31, 2009	September 30, 2010
	\$	\$	\$	\$
Cost:				
Balance at beginning of the year / period	3,384,755	5,260,250	8,618,533	1,267,375
Additions	1,925,052	4,879,157	1,576,937	1,428,194
Less: Exploration and evaluation assets written-off				
(note 12(a))	(49,557)	(1,520,875)	—	—
Costs of tenements sold (note 12(b))	—	—	(118,644)	—
Transfer to property, plant and equipment (notes 10 and 12(c))	—	—	(8,809,451)	(1,058,796)
Balance at end of the year / period	<u>5,260,250</u>	<u>8,618,532</u>	<u>1,267,375</u>	<u>1,636,773</u>

- (a) During the year ended June 30, 2009, the Group has written-off exploration and evaluation assets of \$1,520,875 in respect of exploration areas of interest at various locations in Western Australia which the Group decided not to pursue in order to concentrate the Group’s resources on the development of Mt Cattlin spodumene mine and Jiangsu lithium carbonate plant.
- (b) During the six months ended December 31, 2009, the Group sold its mineral tenements in the Shoemaker project and its 25% interest in the Ravensthorpe joint venture exploration tenement to General Mining Corporation and Pioneer Resources Limited, respectively. For Shoemaker project, sales consideration was \$1.1 million, which was settled by \$100,000 in cash and 5,000,000 shares in General Mining Corporation at \$0.2 each which were then its fair value (see note 14). Net gain from this sales amounted to \$998,031. For the Ravensthorpe joint venture, sales consideration was \$75,000, which was settled in cash and gave rise to a net gain of \$58,325.
- (c) The Group has undertaken various feasibility studies in relation to the mining and extraction of spodumene ore and lithium carbonate since its listing on ASX on February 6, 2007. The Group’s major mining tenements incorporate the Mt Cattlin spodumene mine which is located near the town of Ravensthorpe in Western Australia. Exploration and evaluation assets relating to Mt Cattlin were transferred to property, plant and equipment upon the board of directors’ approval of commercial viability on July 1, 2009 and the balances as at September 30, 2010 mostly related to the Bakers Hill project, which is another lithium reserve located near Ravensthorpe in Western Australia.
- (d) There exist, on the Group’s exploration properties, areas containing sacred sites or sites of significance to Aboriginal people. As a result, exploration properties or areas within the tenements may be subject to exploration and mining restrictions. The Directors are of the opinion that those sites are immaterial to the whole tenements and do not have a significant impact on the Group’s exploration and mining plans.

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13. INVESTMENTS IN SUBSIDIARIES

Company

	June 30, 2008	June 30, 2009	December 31, 2009	September 30, 2010
	\$	\$	\$	\$
Unlisted share — at cost	—	1	1	1

The following list contains the particulars of all of the subsidiaries of the Company. The issue of shares held is ordinary.

Name of company	Place of incorporation/ establishment and operation	Type of legal entity	Particulars of issued/ registered/paid up capital	Proportion of ownership interest as at				Principal activity
				June 30, 2008	June 30, 2009	December 31, 2009	September 30, 2010	
Galaxy Lithium Australia Limited	Australia	Limited company	1 share of \$1 each	100%	100%	100%	100%	Mining of Mt Cattlin spodumene
Galaxy Lithium International Limited*	Hong Kong	Limited company	194,365,400 shares of HK\$ 1 each	N/A	N/A	100%	100%	Investment holding company
Galaxy Lithium (Jiangsu) Co., Limited**	The PRC	Limited company	US\$ 25million	N/A	N/A	N/A	100%	Operations of Jiangsu lithium carbonate plant

* Galaxy Lithium International Limited was incorporated in Hong Kong on July 23, 2009.

** Galaxy Lithium (Jiangsu) Co., Limited was established in the PRC on February 10, 2010 as a wholly-foreign owned enterprise with an operating period of 50 years expiring on February 1, 2060.

The list of auditors for the statutory financial statements of the subsidiaries was as follows:

Name of entities	External independent auditors		
	June 30, 2008	June 30, 2009	December 31, 2009
Galaxy Lithium Australia Limited	Rothsay Chartered Accountants	Rothsay Chartered Accountants	KPMG Australia

No statutory financial statements have been prepared for Galaxy Lithium International Limited and Galaxy Lithium (Jiangsu) Co., Limited during the Relevant Period as these companies have not yet been subject to statutory audit requirements under the relevant rules and regulations in their jurisdiction of incorporation/establishment.

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14. AVAILABLE-FOR-SALE FINANCIAL ASSETS

Group and Company

	June 30, 2008	June 30, 2009	December 31, 2009	September 30, 2010
	\$	\$	\$	\$
Equity securities listed in Australia, at fair value	—	—	1,025,000	800,000

During the six months ended December 31, 2009, the Group and the Company received 5,000,000 shares in General Mining Corporation, which is listed on the ASX, as part of the consideration for the sale of the Group's mineral tenements in the Shoemaker project (see note 12(b)).

As at September 30, 2010, the Group's and the Company's available-for-sale financial assets were individually determined to be impaired on the basis of a material decline in their fair value below cost and adverse changes in the market in which these investees operated which indicated that the cost of the Group's and the Company's investment in them may not be recovered. As such, an impairment loss of \$575,000 was recognized, which represented the excess of carrying amount over the fair value and were recognized in profit or loss in accordance with the policy set out in note 1(g). Subsequent to the recognition of this impairment loss, there was a recovery in the fair value of \$350,000 which was recognized through the fair value reserve in equity.

15. OTHER RECEIVABLES

Group

	June 30, 2008	June 30, 2009	December 31, 2009	September 30, 2010
	\$	\$	\$	\$
Current				
Other receivables (note 15(a))	141,680	270,882	1,529,899	2,514,565
Prepayments	—	25,529	24,967	800,639
Others	—	77,380	78,080	57,880
	<u>141,680</u>	<u>373,791</u>	<u>1,632,946</u>	<u>3,373,084</u>
Non-Current				
Security bonds (note 15(b))	—	—	868,000	868,000
Others	—	—	—	26,033
	<u>—</u>	<u>—</u>	<u>868,000</u>	<u>894,033</u>
	<u>141,680</u>	<u>373,791</u>	<u>2,500,946</u>	<u>4,267,117</u>

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Company

	June 30, 2008	June 30, 2009	December 31, 2009	September 30, 2010
	\$	\$	\$	\$
Current				
Other receivables (note 15(a))	141,680	270,882	1,529,899	313,182
Prepayments	—	25,529	24,967	—
Others	—	77,380	78,080	57,880
	<u>141,680</u>	<u>373,791</u>	<u>1,632,946</u>	<u>371,062</u>
Non-current				
Security bonds (note 15(b))	—	—	868,000	868,000
Amounts due from subsidiaries (note 15(c))	—	—	51,000	50,145,590
	<u>—</u>	<u>—</u>	<u>919,000</u>	<u>51,013,590</u>
	<u>141,680</u>	<u>373,791</u>	<u>2,551,946</u>	<u>51,384,652</u>

Notes:

- (a) All of the current receivables as at each balance sheet date are expected to be recovered or recognized as expense within one year, except for rental deposits receivables of \$nil, \$57,380, \$57,880 and \$57,380 as at June 30, 2008, June 30, 2009, December 31, 2009 and September 30, 2010 respectively.
- (b) The non-current security bonds mainly relate to a restoration performance bond paid by the Group and the Company to the Australian government authorities to secure the Group’s mining lease for the Mt. Cattlin spodumene mine. The bond is interest-bearing at 4.27%, unsecured and repayable once rehabilitation of the Mt. Cattlin spodumene mine is completed to the Western Australian Government’s satisfaction.
- (c) Amounts due from subsidiaries represents funds transferred to subsidiaries for the investment in the PRC subsidiary, which are unsecured, interest-free and expected to be recovered after one year.

16. CASH AND CASH EQUIVALENTS

Group

	June 30, 2008	June 30, 2009	December 31, 2009	September 30, 2010
	\$	\$	\$	\$
Cash at bank and on hand	1,929,722	3,441,613	58,441,378	38,100,626
Pledged deposit	—	—	25,000,000	—
	<u>1,929,722</u>	<u>3,441,613</u>	<u>83,441,378</u>	<u>38,100,626</u>

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Company

	June 30, 2008	June 30, 2009	December 31, 2009	September 30, 2010
	\$	\$	\$	\$
Cash at bank and on hand	1,929,722	3,441,613	37,373,900	194,393
Pledged deposit	—	—	25,000,000	—
	<u>1,929,722</u>	<u>3,441,613</u>	<u>62,373,900</u>	<u>194,393</u>

The deposit is pledged as security pursuant to the terms of the RB International Finance (Hong Kong) Limited (formerly RZB Austria Finance (Hong Kong) Limited) bridging finance facility detailed in note 20(a). The maturity of this pledged deposit is less than three months.

Non-cash transactions

- (a) During the six months ended December 31, 2009, the Group sold its mineral tenements in the Shoemaker project and received the consideration of \$1.1 million, which was settled by \$100,000 in cash and 5,000,000 shares in General Mining Corporation at \$0.20 each, amounting to \$1,000,000 (see note 12(b)).
- (b) During the six months ended December 31, 2009, the loan from a director of \$280,000 was settled by converting the loan into 800,000 ordinary shares of the Company (see note 18(b)).

17. RESTRICTED CASH DEPOSIT

Group

	June 30, 2008	June 30, 2009	December 31, 2009	September 30, 2010
	\$	\$	\$	\$
Current				
Restricted cash deposit	—	—	—	4,388,118
Non-current				
Restricted cash deposit	—	—	—	47,691,956
	<u>—</u>	<u>—</u>	<u>—</u>	<u>52,080,074</u>

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Company

	June 30, 2008	June 30, 2009	December 31, 2009	September 30, 2010
	\$	\$	\$	\$
Current				
Restricted cash deposit	—	—	—	3,871,510
Non-current				
Restricted cash deposit	—	—	—	47,691,956
	<u>—</u>	<u>—</u>	<u>—</u>	<u>51,563,466</u>

The restricted cash deposits of \$51,563,466 were pledged as security pursuant to the terms of the China Development Bank Corporation and RB International Finance (Hong Kong) Limited loan facilities detailed in note 20(b).

18. OTHER PAYABLES

Group

	June 30, 2008	June 30, 2009	December 31, 2009	September 30, 2010
	\$	\$	\$	\$
Other payables (note 18(a))	606,776	1,034,657	6,163,776	22,982,059
Loan from a director (note 18(b))	—	210,000	—	—
Amounts due to Allion Legal Pty Ltd (note 24(a))	—	6,250	33,975	74,885
	<u>606,776</u>	<u>1,250,907</u>	<u>6,197,751</u>	<u>23,056,944</u>

Company

	June 30, 2008	June 30, 2009	December 31, 2009	September 30, 2010
	\$	\$	\$	\$
Other payables (note 18(a))	606,776	1,034,657	6,053,575	2,990,159
Loan from a director (note 18(b))	—	210,000	—	—
Amounts due to Allion Legal Pty Ltd (note 24(a))	—	6,250	33,975	74,885
	<u>606,776</u>	<u>1,250,907</u>	<u>6,087,550</u>	<u>3,065,044</u>

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Notes:

- (a) Other payables mainly represented payments for engineering and construction services and are expected to be settled within one year.
- (b) On May 20, 2009, Hengolo Pty Ltd (a company wholly owned by the Chairman of the Group) advanced a loan of \$210,000 to the Group for working capital purposes. The loan facility limit was \$280,000, which was interest free, unsecured and repayable on August 31, 2009. An equity conversion redemption condition was attached to this loan whereby the lender can choose to redeem the loan by receiving 800,000 new shares of the Company at \$0.35 each, totalling \$280,000, subject to the shareholders’ approval. The Group drew down \$210,000 as at June 30, 2009.

During the six months ended December 31, 2009, \$70,000 was further drawn down by the Group. On August 24, 2009, shareholder approval was received to convert the loan into 800,000 ordinary shares of the Company at \$0.35 each. The loan was extinguished and the same amount was recognized in share capital on September 8, 2009.

19. PROVISIONS

Group

	June 30, 2008	June 30, 2009	December 31, 2009	September 30, 2010
	\$	\$	\$	\$
Provision for annual leave — current				
Balance at beginning of the year / period	—	—	22,107	69,024
Additional provisions made	—	22,107	46,917	441,893
Provisions utilized	—	—	—	(240,737)
Balance at end of the year / period	—	22,107	69,024	270,180
Provision for rehabilitation — non-current				
Balance at beginning of the year / period	—	—	—	—
Additional provisions made	—	—	—	868,000
Balance at end of the year / period	—	—	—	868,000

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Company

	June 30, 2008	June 30, 2009	December 31, 2009	September 30, 2010
	\$	\$	\$	\$
Provision for annual leave — current				
Balance at beginning of the year / period	—	—	22,107	69,024
Additional provisions made	—	22,107	46,917	256,358
Provisions utilized	—	—	—	(163,099)
Balance at end of the year / period	<u>—</u>	<u>22,107</u>	<u>69,024</u>	<u>162,283</u>

The Group has a legal obligation to rehabilitate the site where the Mt. Cattlin spodumene mine is located once the mining operations ceased which would be when the current mine life of the project expires which is estimated to be 16 years from the date of production. This is subject to an increase through further exploration drilling results, once mining commences.

20. INTEREST BEARING LIABILITIES

Group

	June 30, 2008	June 30, 2009	December 31, 2009	September 30, 2010
	\$	\$	\$	\$
Current				
Secured bank loan (note 20(a))	<u>—</u>	<u>—</u>	<u>22,361,360</u>	<u>—</u>
Non-Current				
Secured bank loan (note 20(b))	<u>—</u>	<u>—</u>	<u>—</u>	<u>95,249,790</u>

Notes:

- (a) On November 24, 2009, a loan of \$22,361,360 was drawn down from RB International Finance (Hong Kong) Limited as a bridging facility. This loan was initially scheduled for repayment on February 26, 2010, which was, subsequent to December 31, 2009, extended to April 30, 2010 and then further extended to August 31, 2010. The loan carried an interest rate ranging from 4.77% to 5.15% and was secured over the Group’s bank deposits amounting to \$25,000,000 (refer to note 16). The Group subsequently repaid the loan in full on June 22, 2010. There was no covenant attached to this loan.
- (b) On September 10, 2010, the Group executed a loan facility agreement with China Development Bank Corporation and RB International Finance (Hong Kong) Limited of US\$105,000,000 (the “Facility”). On September 22, 2010, the Facility was drawn down in full. Transaction costs of \$12,729,737 that were directly attributable to the acquisition of the Facility have been capitalised into the cost of the Facility. Amortization recognized for the period was nil as the loan was drawn down close to September 30, 2010.

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The key terms of the facility are as follows:

- Interest rate is determined by reference to Singapore Interbank Offered Rate with a margin of 4.50% per annum payable every six months;
- Principal repayments are made over ten equal repayments every six months commencing on June 10, 2012;
- No break fees are payable if a prepayment is made on an interest payment date;
- Debt service reserve account to be maintained to an amount at least equal to the principal and interest payment due on the next interest payment date;
- Mandatory prepayment on dilution – if at any time, the amount of the shareholding held by Creat Resources Holdings Ltd (“CRHL”), a subsidiary of Creat Group, in the issued share capital of the Company falls below 19.99%, then additional shares must be issued to CRHL such that CRHL maintains its 19.99% within two months of the dilution, or a prepayment must be made such that the outstanding loan amount is reduced in proportion to the dilution of CRHL from 19.99% within 20 days or on the next interest payment date, whichever is earlier; and
- US\$50 million has been set aside in an equity account to fund interest prior to completion, and on the first interest payment date post completion, 100% of the remaining funds in the equity account are to be used towards prepayment and the scheduled repayment amounts reduced proportionately (see note 17).

The Facility does not contain any financial covenants, however, contains a number of undertakings which require the Group to obtain certain consents prior to carrying out certain activities or entering into certain transactions. The key undertakings in the Facility restrict the Group’s ability to:

- Create additional charges on or further encumber assets, except where such charges or encumbrances are of a type specifically permitted;
- Incur additional debt, except where such debt is of a type specifically permitted;
- Provide additional guarantees or dispose of certain assets, except where such guarantees or disposals are of a type specifically permitted; and
- Pay dividends or repay shareholder loans, except as permitted by the Facility.

In addition, as a condition of the Facility, the Group agreed to grant security documents in favour of Bank of China Ltd and its subsidiaries (as security trustee) pursuant to the security trust deed dated September 10, 2010. The Facility is secured by following:

- Guarantee and indemnity granted to Bank of China Ltd and its subsidiaries by the Company;
- Fixed and floating charge granted to Bank of China Ltd and its subsidiaries over all assets of the Company, the Australian subsidiary and the Hong Kong subsidiary;

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- Equitable mortgage or like encumbrance granted to Bank of China Ltd and its subsidiaries of shares over the Company’s interests in subsidiaries;
- Charge granted to Bank of China Ltd and its subsidiaries over various project accounts held by the Company, the Australian, subsidiary and the Hong Kong subsidiary, including the facility proceeds account, the mine disbursement account, the mine proceeds account, the equity account and the debt service reserve account;
- Mortgage granted to Bank of China Ltd and its subsidiaries over the Mt Cattlin Project Tenements;
- Real property mortgage granted to Bank of China Ltd and its subsidiaries over certain areas of Mt Cattlin;
- Grant of security to the lenders of the Facility in the Company’s interest in its process plant engineering, procurement and construction contract with DMB Joint Venture and the mining services contract with Orionstone Pty Ltd in relation with Mt Cattlin;
- Assignment of security granted to Bank of China Ltd and its subsidiaries by the Hong Kong subsidiary over its interest in the security granted by the PRC subsidiary to the Hong Kong subsidiary for the US\$10 million shareholder loan from the Hong Kong subsidiary to the PRC subsidiary including:
 - Mortgage over all of the assets of the PRC subsidiary, including the Jiangsu Plants, plant area, project authorisations and all other project documents to which the PRC subsidiary is a party; and
 - Charge over receivables in connection to any sale contract entered into by the PRC subsidiary and a third party;
- Equitable mortgage granted to Bank of China Ltd and its subsidiaries over CRHL’s interest in 19.99% of the Company’s shares; and
- Put option in favour of the lenders requiring CRHL to purchase the outstanding debt the lenders, exercisable during a four year period after September 22, 2010.

21. EQUITY SETTLED SHARE-BASED TRANSACTIONS

The Company has an employee share option scheme which was adopted on February 5, 2007 and approved by the shareholders on April 2, 2009 whereby the directors of the Company are authorized, at their discretion, to invite employees of the Group to take up options at nil consideration to subscribe for shares in the Company. Options are also granted to directors from time to time as approved by the shareholders under the Corporations Act 2001 of the Commonwealth of Australia. Options vest immediately or after a certain period from the grant date and are then exercisable within a period of three to five years. Each option gives the holder the right to subscribe for one ordinary share in the Company and is settled gross in shares.

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(a) The terms and conditions of the share options existed during the Relevant Period are as follows:

(i) Options granted to directors

Grant date	Options Classes	Number of instruments	Vesting conditions	Non-vesting conditions	Contractual life of option	Market value per share at date of grant of options
15/03/2005	N/A	5,225,000	Fully vested	None	3 years from the grant date	N/A
19/05/2006	A (Delta)	1,500,000	Fully vested	None	Expire on September 30, 2008	N/A
19/05/2006	B (Delta)	1,500,000	Michael George Fotios to remain in the position of managing director as at June 30, 2007	The Company successfully lists its shares on the ASX.	3 years from satisfaction of non- vesting conditions	N/A
19/05/2006	C (Delta)	1,500,000	Michael George Fotios to remain in the position of managing director as at June 30, 2008	The Company successfully lists its shares on the ASX.	4 years from satisfaction of non- vesting conditions	N/A
27/11/2008	A	500,000	Fully vested	Each option shall vest on completion of the Company securing all necessary debt and equity funding for the development of the Mt Cattlin project	3 years from the grant date	\$0.43
27/11/2008	B	500,000	Fully vested	Each option shall vest on achievement of commercial production of lithium concentrate at the Mt Cattlin project at the nameplate rate specified in the bankable feasibility study for that project	3 years from the grant date	\$0.43

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Grant date	Options Classes	Number of instruments	Vesting conditions	Non-vesting conditions	Contractual life of option	Market value per share at date of grant of options
27/11/2008	C	500,000	Fully vested	Each option shall vest once the Company achieves a positive earnings before interest and tax from production of lithium carbonate and concentrate from its Mt Cattlin project	3 years from the grant date	\$0.43
2/04/2009	D1	3,000,000	Fully vested	Each option shall vest on completion of the Company securing all necessary debt and equity funding for the development of the Mt Cattlin project	5 years from satisfaction of non-vesting conditions	\$0.39
2/04/2009	E1	2,500,000	Fully vested	Each option shall vest on achievement of commercial production of lithium concentrate at the nameplate capacity specified in the final plant design at the Company’s Mt Cattlin project for 3 consecutive months	5 years from satisfaction of non-vesting conditions	\$0.39
17/04/2009	F	750,000	Fully vested	None	5 years from the grant date	\$0.43
14/10/2009	G1	3,000,000	Fully vested	Each option will be issued on completion of the Company securing all necessary debt and equity funding for the development of the Jiangsu lithium carbonate plant	5 years from the satisfaction of non-vesting conditions	\$1.92

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Grant date	Options Classes	Number of instruments	Vesting conditions	Non-vesting conditions	Contractual life of option	Market value per share at date of grant of options
31/05/2010	J	3,000,000	Completion of 18 months of service from date of grant and increase shareholder returns by 68% measured by 5 day volume-weighted-average-price being greater than \$2.00 per share	None	5 years from the vesting date	\$1.06

(ii) Options granted to third parties

Grant date	Options classes	Number of instruments	Vesting conditions	Non-vesting conditions	Contractual life of option	Market value per share at date of grant of options
29/06/2007	Advisor 1	750,000	Fully vested	None	Expire on January 30, 2010	\$0.66
4/06/2010	Advisor 2	1,000,000	Fully vested	None	Expire on June 30, 2012	\$1.02

The Company granted 750,000 share options to the financial advisors who sponsored the Company's initial public offering on the ASX as part of the compensation for their professional services provided.

The Company granted 1,000,000 share options to a consultant advisor as part of the compensation for the professional services provided.

(iii) Options granted to employees

Grant date	Options classes	Number of instruments	Vesting conditions	Non-vesting conditions	Contractual life of option	Market value per share at date of grant of options
17/04/2009	D2	4,100,000	Fully vested	Each option shall vest on completion of the Company securing all necessary debt and equity funding for the development of the Mt Cattlin project	5 years from satisfaction of non-vesting conditions	\$0.43

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Grant date	Options classes	Number of instruments	Vesting conditions	Non-vesting conditions	Contractual life of option	Market value per share at date of grant of options
17/04/2009	E2	2,850,000	Fully vested	Each option shall vest on achievement of commercial production of lithium concentrate at the nameplate capacity specified in the final plant design at the Company’s Mt Cattlin project for 3 consecutive months	5 years from satisfaction of non-vesting conditions	\$0.43
14/10/2009	D3	1,250,000	Fully vested	Each option shall vest on completion of the Company securing all necessary debt and equity funding for the development of the Mt Cattlin project	5 years from satisfaction of non-vesting conditions	\$1.92
23/11/2009	G2	4,000,000	Fully vested	Each option will be issued on completion of the Company securing all necessary debt and equity funding for the development of the Jiangsu lithium carbonate plant	5 years from satisfaction of non-vesting conditions	\$ 1.6
10/03/2010	E3	850,000	Fully vested	Each option shall vest on achievement of commercial production of lithium concentrate at the nameplate capacity specified in the final plant design at the Company’s Mt Cattlin project for 3 consecutive months	5 years from satisfaction of non-vesting conditions	\$1.24
10/03/2010	H	2,200,000	Fully vested	Each option shall vest on achievement of commercial production of lithium concentrate at the nameplate capacity specified in the final plant design at the Company’s Jiangsu project for 3 consecutive months	5 years from satisfaction of non-vesting conditions	\$1.24
10/03/2010	I	3,600,000	Completion of 18 months of employment	None	5 years from the vesting date	\$1.24

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(b) The number and weighted average exercise prices of share options are as follows:

	Year ended June 30, 2008		Year ended June 30, 2009		Six months ended December 31, 2009		Nine months ended September 30, 2010	
	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options
	\$	'000	\$	'000	\$	'000	\$	'000
Outstanding at the beginning of the year/period	0.25	10,475	0.26	8,725	0.57	18,450	0.62	22,969
Exercised during the year/ period	0.20	(1,750)	0.20	(3,525)	0.43	(2,231)	0.65	(9,619)
Cancelled during the year/ period	—	—	—	—	1.00	(1,500)	—	—
Expired during the year/ period	—	—	0.20	(1,450)	—	—	—	—
Granted during the year/ period	—	—	0.63	14,700	0.75	8,250	1.01	10,650
Outstanding at the end of the year/period	<u>0.26</u>	<u>8,725</u>	<u>0.57</u>	<u>18,450</u>	<u>0.62</u>	<u>22,969</u>	<u>0.78</u>	<u>24,000</u>
Exercisable at the end of the year/period	<u>0.26</u>	<u>8,725</u>	<u>0.56</u>	<u>13,100</u>	<u>0.63</u>	<u>17,619</u>	<u>0.65</u>	<u>9,000</u>
Weighted average market value per share on exercise of options	<u>0.48</u>	<u>—</u>	<u>0.45</u>	<u>—</u>	<u>1.56</u>	<u>—</u>	<u>1.27</u>	<u>—</u>

The options outstanding at June 30, 2008, June 30, 2009, December 31, 2009 and September 30, 2010 had an exercise price of \$0.2 to \$0.4, \$0.3 to \$1.2, \$0.3 to \$0.9 and \$0.4 to \$1.11 and a weighted average remaining contractual life of 0.77 years, 4.73 years, 4.51 years and 4.65 years respectively.

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(c) Fair value of share options and assumptions

The fair value of services received in return for share options granted is measured by reference to the fair value of the share options granted. The estimate of the fair value of these share options granted is measured using a generally accepted valuation techniques including Black & Scholes and Monte-Carlo simulations. The Company has applied an appropriate probability weighting to factor the likelihood of the satisfaction of non-vesting conditions.

Fair value of share options and assumptions per class issued	Options classes															
	A	B	C	D1	D2	D3	E1	E2	F	G1	G2	E3	H	I	J	Advisor 2
Fair value at grant date	0.23	0.21	0.20	0.29	0.33	1.41	0.29	0.33	0.33	1.41	0.92	1.00	1.00	1.03	0.77	0.64
Share price at grant date	0.43	0.43	0.43	0.39	0.43	1.92	0.39	0.43	0.43	1.92	1.60	1.24	1.24	1.24	1.06	1.02
Exercise price (\$)	0.80	1.00	1.20	0.60	0.60	0.60	0.60	0.60	0.45	0.60	0.90	1.11	1.11	1.11	0.96	1.00
Expected volatility (%) (weighted average volatility)	104.5	104.5	104.5	101.6	101.3	99.60	101.6	101.3	101.3	99.60	99.13	97.00	97.00	97.00	97.00	92.00
Option life (years)	3.0	3.0	3.0	5.7	5.6	1.0	5.6	5.6	5.0	1.0	1.0	5.6	5.6	6.5	6.5	2.1
Expected dividends	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Risk-free interest rate (%) (based on government bonds)	6.25	6.25	6.25	6.25	6.25	6.25	6.25	6.25	6.25	6.25	6.25	6.50	6.50	6.50	6.50	6.50
Probability applied to the non-vesting conditions	100%	100%	100%	30%	30%	100%	100%	10%	100%	100%	100%	80%	60%	70%	N/A	100%

The expected volatility is based on the historic volatility (calculated based on the weighted average remaining life of the share options), adjusted for any expected changes to future volatility based on publicly available information. Changes in the subjective input assumptions could materially affect the fair value estimate.

Probability applied to the non-vesting conditions is based on the management’s judgment which was formed in consideration of all the facts and circumstances that were available to management at the grant date of each class of share options. Such facts and circumstances included the overall economy condition, lithium market condition, the Company’s business plan and management’s industry experience. Changes in the subjective probability ratios applied could materially affect the fair value estimate.

Certain share options were granted under a service condition. This condition has not been taken into account in the grant date fair value measurement. There were no market conditions associated with the share option grants, except for class J, which has been taken into account in measuring the grant date fair value.

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22. CAPITAL AND RESERVES

(a) Movements in components of equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statements of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year/period are set out below:

Company

	Share capital	Equity-settled payments reserve	Accumulated losses	Total equity
	\$	\$	\$	\$
Balance at July 1, 2007	5,727,439	392,313	(1,369,093)	4,750,659
Total comprehensive income for the year	—	—	(393,120)	(393,120)
Issue of shares, net of transaction costs	2,098,611	—	—	2,098,611
Exercise of share options	350,000	—	—	350,000
Transfer of reserve upon exercise of share options	42,855	(42,855)	—	—
Balance at June 30, 2008 and July 1, 2008	<u>8,218,905</u>	<u>349,458</u>	<u>(1,762,213)</u>	<u>6,806,150</u>
Total comprehensive income for the year	—	—	(3,758,550)	(3,758,550)
Issue of shares, net of transaction costs	6,617,169	—	—	6,617,169
Exercise of share options	725,475	—	—	725,475
Transfer of reserve upon exercise of share options	76,365	(76,365)	—	—
Share-based payment transactions	—	1,035,503	—	1,035,503
Balance at June 30, 2009 and July 1, 2009	<u>15,637,914</u>	<u>1,308,596</u>	<u>(5,520,763)</u>	<u>11,425,747</u>
Total comprehensive income for the period	—	—	(10,866,908)	(10,866,908)
Issue of shares, net of transaction costs	69,958,698	—	—	69,958,698
Exercise of share options	2,425,151	—	—	2,425,151
Transfer of reserve upon exercise of share options	812,609	(812,609)	—	—
Share-based payment transactions	—	8,934,132	—	8,934,132
Balance at December 31, 2009	<u>88,834,372</u>	<u>9,430,119</u>	<u>(16,387,671)</u>	<u>81,876,820</u>

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	Share Capital	Equity-settled payments reserve	Fair value reserve	Accumulated Losses	Total Equity
	\$	\$	\$	\$	\$
Balance at January 1, 2010	88,834,372	9,430,119	—	(16,387,671)	81,876,820
Total comprehensive income for the period	—	—	350,000	(13,934,129)	(13,584,129)
Issue of shares, net of transaction costs	25,593,712	—	—	—	25,593,712
Exercise of share options	6,225,625	—	—	—	6,225,625
Transfer of reserve upon exercise of share options	6,645,802	(6,645,802)	—	—	—
Share-based payment transactions	—	3,849,834	—	—	3,849,834
Balance at September 30, 2010	<u>127,299,511</u>	<u>6,634,151</u>	<u>350,000</u>	<u>(30,321,800)</u>	<u>103,961,862</u>

The consolidated loss attributable to equity shareholders of the Company includes a loss of \$393,120, \$3,758,550, \$10,866,908 and \$13,934,129 for the years ended June 30, 2008 and 2009, the six months ended December 31, 2009 and the nine months ended September 30, 2010, respectively, which have been dealt with in the financial statements of the Company.

(b) Share capital

(i) Authorized and issued share capital

	June 30, 2008	June 30, 2009	December 31, 2009	September 30, 2010
	\$	\$	\$	\$
Authorized:				
Ordinary shares at no par value	<u>8,218,905</u>	<u>15,637,914</u>	<u>88,834,372</u>	<u>127,299,511</u>
Ordinary shares, issued and fully paid				
Balance at the beginning of the year/period	5,727,439	8,218,905	15,637,914	88,834,372
Issue of shares	2,250,000	7,067,507	74,640,000	27,280,000
Exercise of share options via equity settled share-based transactions	350,000	705,000	969,375	6,225,625
Exercise of free options (*)	—	20,475	1,455,776	—
Exercise of share options	<u>350,000</u>	<u>725,475</u>	<u>2,425,151</u>	<u>6,225,625</u>
Transfer from equity-settled payment reserve upon exercise/cancellation of share options	42,855	76,365	812,609	6,645,802
Transaction costs	<u>(151,389)</u>	<u>(450,338)</u>	<u>(4,681,302)</u>	<u>(1,686,288)</u>
Balance at the end of the year/period	<u>8,218,905</u>	<u>15,637,914</u>	<u>88,834,372</u>	<u>127,299,511</u>

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	Number of shares			
Authorized:				
Ordinary shares at no par value	<u>51,412,297</u>	<u>76,125,816</u>	<u>149,934,608</u>	<u>190,553,358</u>
Ordinary shares, issued and fully paid				
Balance at the beginning of the year/period	44,662,297	51,412,297	76,125,816	149,934,608
Issue of shares	5,000,000	21,130,019	67,418,182	31,000,000
Exercise of options (equity settled share-based transactions)	1,750,000	3,525,000	2,231,250	9,618,750
Exercise of free options (*)	—	58,500	4,159,360	—
	<u>1,750,000</u>	<u>3,583,500</u>	<u>6,390,610</u>	<u>9,618,750</u>
Balance at the end of the year/period	<u>51,412,297</u>	<u>76,125,816</u>	<u>149,934,608</u>	<u>190,553,358</u>

Note:

* The Company issued 4,220,000 ordinary shares of \$0.35 each on December 15, 2008 together with free attaching, 4,220,000 unlisted one year share options exercisable at \$0.35 each. There were no conditions attached to these options. Proceeds from the exercise of these options were recognized in equity when they were received.

Shares were issued during the Relevant Period in order to provide working capital to the Company. 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 creditors and are fully entitled to any proceeds of liquidation.

(ii) Shares issued under share option scheme

Particulars of shares exercised under share option scheme during the Relevant Period are as follows. All of the shares issued were ordinary.

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Options exercised by directors:

<u>Date of exercise</u>	<u>Number of shares issued</u>	<u>Transfer from equity settled payment reserve to share capital</u>	<u>Consideration recognized in share capital</u>
May 8, 2008	750,000	11,375	150,000
May 8, 2008	250,000	4,500	50,000
May 8, 2008	750,000	26,980	150,000
September 30, 2008	500,000	8,900	100,000
September 30, 2008	750,000	13,345	150,000
September 30, 2008	750,000	13,345	150,000
September 30, 2008	750,000	13,345	150,000
September 30, 2008	25,000	450	5,000
September 30, 2008	250,000	8,990	50,000
September 30, 2008	500,000	17,990	100,000
September 23, 2009	1,000,000	35,973	300,000
November 19, 2009	731,250	129,423	219,375
January 20, 2010	18,750	3,318	5,625
February 4, 2010	500,000	17,987	150,000
March 10, 2010	250,000	8,993	100,000
March 22, 2010	500,000	17,987	200,000
April 9, 2010	250,000	8,993	100,000
April 29, 2010	500,000	32,714	300,000
April 29, 2010	2,000,000	2,757,871	1,200,000
Total	<u>11,025,000</u>	<u>3,132,479</u>	<u>3,630,000</u>

Options exercised by employees:

<u>Date of exercise</u>	<u>Number of shares issued</u>	<u>Transfer from equity settled payment reserve to share capital</u>	<u>Consideration recognized in share capital</u>
December 4, 2009	300,000	259,459	270,000
December 7, 2009	200,000	172,973	180,000
January 7, 2010	100,000	86,486	90,000
January 12, 2010	200,000	172,973	180,000
January 15, 2010	200,000	172,973	180,000
January 20, 2010	200,000	172,973	180,000
April 29, 2010	1,650,000	124,933	990,000
April 29, 2010	2,000,000	1,729,725	1,800,000
April 29, 2010	1,250,000	1,337,877	750,000
Total	<u>6,100,000</u>	<u>4,230,372</u>	<u>4,620,000</u>

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(iii) Terms of unexpired and unexercised share options at each balance sheet date

Options issued to directors:

<u>Exercise period</u>	<u>Exercise price</u>	<u>June 30, 2008 Number</u>	<u>June 30, 2009 Number</u>	<u>December 31, 2009 Number</u>	<u>September 30, 2010 Number</u>
March 15, 2005 to September 30, 2008	\$0.20	4,225,000	—	—	—
February 6, 2007 to February 6, 2009	\$0.20	750,000	—	—	—
February 6, 2007 to February 6, 2010	\$0.30	1,500,000	1,500,000	500,000	—
February 6, 2007 to February 6, 2011	\$0.40	1,500,000	1,500,000	1,500,000	500,000
June 29, 2007 to January 30, 2010	\$0.30	750,000	750,000	18,750	—
December 16, 2008 to August 12, 2009	\$0.80	—	500,000	—	—
December 16, 2008 to August 12, 2009	\$1.00	—	500,000	—	—
December 16, 2008 to August 12, 2009	\$1.20	—	500,000	—	—
November 26, 2009 to November 26, 2014	\$0.60	—	3,000,000	3,000,000	2,500,000
November 26, 2009 to November 26, 2014	\$0.60	—	—	3,000,000	1,000,000
Not exercisable until satisfaction of non-vesting conditions	\$0.60	—	2,500,000	2,500,000	2,500,000
Not exercisable until satisfaction of vesting conditions	\$1.11	—	—	—	3,000,000
Total		<u>8,725,000</u>	<u>10,750,000</u>	<u>10,518,750</u>	<u>9,500,000</u>

Options issued to employees:

<u>Exercise period</u>	<u>Exercise price</u>	<u>June 30, 2008 Number</u>	<u>June 30, 2009 Number</u>	<u>December 31, 2009 Number</u>	<u>September 30, 2010 Number</u>
April 17, 2009 to April 17, 2014	\$0.45	—	750,000	750,000	750,000
November 26, 2009 to November 26, 2014	\$0.60	—	4,100,000	4,100,000	2,450,000
November 26, 2009 to November 26, 2014	\$0.90	—	—	3,500,000	800,000
November 26, 2009 to November 26, 2014	\$0.60	—	—	1,250,000	—
Not exercisable until satisfaction of non-vesting conditions	\$0.60	—	2,850,000	2,850,000	2,850,000
Not exercisable until satisfaction of non-vesting conditions	\$1.11	—	—	—	850,000
Not exercisable until satisfaction of non-vesting conditions	\$1.11	—	—	—	2,200,000
Not exercisable until satisfaction of vesting conditions	\$1.11	—	—	—	3,600,000
Total		<u>—</u>	<u>7,700,000</u>	<u>12,450,000</u>	<u>13,500,000</u>

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Options issued to third parties:

<u>Exercise period</u>	<u>Exercise price</u>	<u>June 30, 2008 Number</u>	<u>June 30, 2009 Number</u>	<u>December 31, 2009 Number</u>	<u>September 30, 2010 Number</u>
June 4, 2010 to June 30, 2012	\$1.00	—	—	—	1,000,000

(c) Nature and purpose of reserves

(i) Equity-settled payment reserve

The equity-settled payments reserve comprise the portion of the grant date fair value of unexercised share options granted to employees of the Company that has been recognized in accordance with the accounting policy adopted for share-based payments in note 1(v).

(ii) Foreign currency translation reserve

The foreign currency translation reserve comprises all foreign exchange differences arising from the translation of the financial information of foreign operations. The reserve is dealt with in accordance with the accounting policies set out in note 1(o).

(d) Distributability of reserves

Prior to June 28, 2010, the Company could only pay a dividend out of profit as provided by the Australian Corporation Act 2001. Therefore the distributable reserves for the years ended June 30, 2008 and June 30, 2009 and six months ended December 31, 2009 were nil.

On June 28, 2010, the Australian federal government passed changes to the distributability of reserves, which became effective immediately. The Company may pay a dividend only if the following conditions are met as provided by the Australian Corporation Act 2001:

- (a) The Company’s assets exceed its liabilities immediately before the dividend is declared and the excess is sufficient for the payment of the dividend; and
- (b) The payment of the dividend is fair and reasonable to the Company’s shareholders as a whole; and
- (c) The payment of the dividend does not materially prejudice the Company’s ability to pay its creditors.

At September 30, 2010, management considered that the distributable reserve is nil given the Company had significant accumulated losses whereby the payment of a dividend may not be fair and reasonable to the Company’s shareholders as a whole.

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(e) Capital Management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Group manages its capital to ensure its entities will be able to continue as going concern while maximizing the return to shareholders through the optimization of its capital structure comprising all components of equity and loans and borrowings.

During the Relevant Period, the Group have maintained the capital base through a prudent cash management strategy including the preparation and monitoring of cash flow forecasts and stringent cost control. Where a cash requirement is identified management will prepare suitable funding solutions to address the identified requirement.

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

23. COMMITMENTS

(1) Capital commitments outstanding as at each balance sheet date not provided for in the Financial Information were as follows:

(a) Mining tenements

In order to maintain current rights of tenure to mining tenements, the Group will be required to perform minimum exploration work to meet the minimum expenditure requirements specified by the Western Australia State Government. The estimated exploration expenditure commitment for the ensuing year, but not recognized as a liability in the balance sheets is as follows:

Group

	June 30, 2008	June 30, 2009	December 31, 2009	September 30, 2010
	\$	\$	\$	\$
Within one year	<u>455,680</u>	<u>514,480</u>	<u>523,780</u>	<u>576,375</u>

This expenditure will only be incurred should the Group 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 exploration and evaluation activities. Tenure to mining tenements can be released by the Group and returned to the Australian government after one year. The remaining period of mining tenements is optional. As such, the minimum expenditure requirements relating to mining tenements fall within one year.

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(b) Construction contract commitments

Group

	June 30, 2008	June 30, 2009	December 31, 2009	September 30, 2010
	\$	\$	\$	\$
Contracted for	—	—	29,540,203	28,851,759

It includes various capital commitments to property, plant and equipments as at each balance sheet date.

- (c) The Company has established Galaxy Lithium (Jiangsu) Co., Limited in the PRC on February 10, 2010. The total investment committed to the PRC government is US\$35,000,000, out of which US\$25,000,000 has been paid up to September 30, 2010 and the remaining US\$10,000,000 was paid up on October 8, 2010.

(2) As at each balance sheet date, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

<u>Group and Company</u>	June 30, 2008	June 30, 2009	December 31, 2009	September 30, 2010
	\$	\$	\$	\$
Within one year	—	244,919	99,132	332,210
More than one year but less than five years	—	—	29,407	498,314
	—	244,919	128,539	830,524

The Group and the Company is the lessee in respect of some properties and items of plant and machinery and office equipment held under operating leases. The leases typically run for an initial period of 3 years, with an option to renew the lease when all terms are terminated. None of the leases includes contingent rentals.

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24. MATERIAL RELATED PARTY TRANSACTIONS

Related party	Type of transaction	Note	Years ended June 30,		Six months ended December 31,		Nine months ended September 30,	
			2008	2009	2008	2009	2009	2010
			\$	\$	\$	\$	\$	\$
					(Unaudited)		(Unaudited)	
Allion Legal Pty Ltd	Legal consulting	23(a)	16,592	99,155	35,932	154,460	128,391	408,669
Delta Resources Management Pty Ltd . . .	Consulting fees	23(b)	181,500	171,126	171,126	—	—	—
Robert James Wanless	Consulting fees	23(c)	28,410	2,150	—	—	2,150	—
Creat Resources Holdings Ltd	Commission	23(d)	—	—	—	—	—	97,658
Marvel Link Group Limited	Commission	23(e)	—	—	—	—	—	2,157,970

Notes:

- (a) Allion Legal Pty Ltd is a related party being an entity over which Mr Craig Leslie Readhead has the capacity to exercise significant influence. Mr Readhead is the Chairman of the Company during the Relevant Period.
- (b) Delta Resources Management Pty Ltd is a company in which Mr Michael George Fotios had a substantial financial interest. Mr Fotios resigned as Managing Director of the Company and was appointed as a non-executive director on November 11, 2008 and subsequently resigned as a non-executive director on December 16, 2008.
- (c) Mr Robert James Wanless is a non-executive director of Galaxy during the Relevant Period.
- (d) Creat Resources Holdings Ltd is a major shareholder of the Company with 19.99% interest in the Company.
- (e) Marvel Link Group Limited is a related entity to CRHL and received commission on behalf of CRHL for facilitating in the Group obtaining the facility.

The directors of the Company are of the opinion that the above related party transactions were conducted on terms no less favorable to the Group than terms available to or from independent third parties, and in the ordinary course of business.

Apart from the loan from a director and amounts due to related party as at June 30, 2009 and December 31, 2009 as disclosed in note 18, there were no outstanding balances relating to the above transactions at each balance sheet date.

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Key management personnel remuneration

Remuneration for key management personnel of the Group, including amounts paid to the Company’s directors as disclosed in note 6 and certain of the highest paid employees as disclosed in note 7, is as follow:

	Years ended June 30,		Six months ended December 31,		Nine months ended September 30,	
	2008	2009	2008	2009	2009	2010
	\$	\$	\$	\$	\$	\$
			(Unaudited)		(Unaudited)	
Salaries and other emoluments	306,502	890,753	236,002	896,031	809,850	1,540,097
Contributions to retirement benefit schemes	—	145,528	57,477	62,467	111,306	123,984
Share-based payments	—	1,007,601	182,351	8,934,134	825,250	510,229
	<u>306,502</u>	<u>2,043,882</u>	<u>475,830</u>	<u>9,892,632</u>	<u>1,746,406</u>	<u>2,174,310</u>

Total remuneration is included in “staff costs” (see note 4(b)).

25. NON-ADJUSTING POST BALANCE SHEET EVENTS

Subsequent to September 30, 2010 and up to the date of this report, the following events have occurred:

- (i) On December 22, 2010, shareholders approved the issue of 15,000,000 share options to Directors. The options have an exercise price of \$1.16 and expire in 5 years from the vesting date.
- (ii) On December 22, 2010, the Company approved the issue of 14,800,000 share options to selected employees. The options have an exercise price of \$1.16 and expire 5 years from the vesting date. The vesting conditions are the same as those for the Directors options stated above.
- (iii) On October 14, 2010, the Company appointed four new directors to the Galaxy board:
 - Mr. Xiaojian Ren as Non Executive Director;
 - Mr. Kai Cheong Kwan as Independent Non-Executive Director;
 - Mr. Charies Whitfield as Executive Director; and
 - Mr. Anthony Tse as Executive Director.

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- (iv) On November 4, 2010, the Company entered a Convertible Bond Subscription Agreement to issue up to \$A61.5 million, 8% convertible bonds (“Bonds”) maturing in November 2015. The Bonds are unsecured and subordinated to the senior loan facility.

On November 19, 2010, the Company issued the first tranche of the Bonds being \$32 million.

On January 4, 2011, the Company issued the initial part of the second tranche of Bonds being \$10.5 million and on February 16, 2011, the Company issued the remaining second tranche of Bonds being \$19 million.

- (v) On December 8, 2010, the Company entered into a memorandum of understanding with Lithium One to acquire up to 70% of the James Bay Project. In February 2011, the Company entered into a farm-in and joint venture agreement to acquire up to 70% of the James Bay Project. Following the satisfaction of certain conditions precedent the Company will acquire an initial 20% ownership interest in the James Bay Project for C\$3 million with the potential to increase its interest to 70% by completing a definitive feasibility study for the project within a 24 month period. The James Bay Project does not constitute a business for financial reporting purposes and accordingly the transaction, should it complete as envisaged, would be recognized as exploration and evaluation expenditure acquired at cost.
- (vi) On December 22, 2010, shareholders approved the issue of up to 197 million fully paid ordinary shares in the Company.
- (vii) On February 11, 2011, the Company appointed Mr. Michael Spratt as Independent Non Executive Director.
- (viii) On February 16, 2011, the Company completed the issue of ordinary shares to an investor at \$1.39 per share raising \$30 million.
- (ix) The Company has issued a total 2,100,000 fully paid ordinary shares through the exercise of options.

26. FINANCIAL RISK MANAGEMENT

The Group have exposure to the following risks from their use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

This note presents information about the Group’s exposure to each of the above risks, their objectives, policies and processes for measuring and managing risk, and quantitative disclosures.

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group’s income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

The Board of Directors has overall responsibility for the establishment and oversight of the risk management framework. Management is responsible for establishing procedures which provide assurance that

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major business risks are identified, consistently assessed and appropriately mitigated. The Group has developed a framework for a risk management policy and internal compliance and control system which covers organization, financial and operational aspects of the Group’s activities.

The Group’s audit committee oversees how management monitors compliance with the Group’s risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group.

(a) Credit risk

Credit risk is the risk of financial loss to the Group if counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group’s cash and cash equivalents and available-for-sale financial assets. Other receivables predominantly relates to GST receivable from the Australian federal government. Management do not consider this receivable balance is subject to any material credit risk.

The Group limit their exposure to credit risk by only investing in liquid securities and only with counterparties and financial institutions that have credit ratings of between A2 and A1+ from Standard & Poor’s and A from Moody’s, with more weighting given to investments in the higher credit ratings. Given these credit ratings, management does not expect any counterparty to fail to meet its obligations.

The Group’s cash and cash equivalents are placed with various financial institutions with sound credit ratings, and the management consider the Group’s exposure to credit risk is low.

The carrying amount of the Group’s financial assets represents the maximum credit exposure. The Group’s maximum exposure to credit risk is represented by the carrying amount of each financial assets.

(b) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group’s approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group’s reputations.

Typically the Group ensures that it has sufficient cash and cash equivalents to meet expected operational expenses for a period of 90 days, including the servicing of financial obligations.

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(c) Foreign exchange risk

The Group is exposed to currency risk on purchases of property, plant and equipment and on borrowings that are denominated in a currency other than the respective functional currencies of the Company or its subsidiaries. The currencies in which these transactions primarily are denominated are USD, HKD and RMB.

At any point in time the Group may monitor and manage its estimated foreign currency exposure in respect of cash and cash equivalents, other receivables and interest bearing liabilities. The Group ensures that the net exposure is kept to an acceptable level by buying or selling foreign currency at spot rates where necessary to address short-term imbalances.

The Group’s exposure to foreign currency risk at each balance date was as follows. For presentation purposes, the amounts of the exposure are shown in Australian dollars translated using the spot rate at each balance sheet date.

Group

	December 31, 2009	September 30, 2010		
	USD	USD	HKD	RMB
Cash and cash equivalents	21,019,398	37,603,741	27,100	183,521
Restricted cash deposit	—	52,080,074	—	—
Other receivables	—	—	—	800,639
Interest bearing liabilities	(22,361,360)	(95,249,790)	—	—
Balance sheet exposure	<u>(1,341,962)</u>	<u>(5,565,975)</u>	<u>27,100</u>	<u>984,160</u>

Sensitivity analysis

A 10% strengthening of the Australian dollar against the following currencies would have (increased)/decreased accumulated losses and loss for the year/period by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant.

Effect in Australian dollars	December 31, 2009		September 30, 2010	
	Accumulated losses	Loss for the period	Accumulated losses	Loss for the period
USD	120,025	120,025	556,598	556,598
HKD	—	—	(2,710)	(2,710)
RMB	—	—	(98,416)	(98,416)

A 10% weakening of the Australian dollar against the above currencies would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

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ACCOUNTANTS’ REPORT

(d) Interest rate risk

At any point in time, the Group may monitor and manage its interest rate exposure on future borrowings. The Group’s main interest rate risk arises from cash at bank and interest bearing liabilities, which are held at a variable rate that exposes the Group to cash flow interest rate risk.

The Group’s interest-bearing cash at bank and liabilities and the respective interest rates as at each balance sheet date are set as below:

Group

	June 30, 2008	June 30, 2009	December 31, 2009	September 30, 2010
	\$	\$	\$	\$
Cash and cash equivalents	1,929,722	3,441,613	83,441,378	38,100,626
— Interest rate	0% to 7.00%	0% to 3.7%	0% to 4.82%	0% to 6%
Interest bearing liabilities	—	—	22,361,360	95,249,790
— Interest rate			4.77%	SIBOR + 4.5%

Company

Cash and cash equivalents	1,929,722	3,441,613	62,373,900	194,393
— Interest rate	0% to 7.00%	0% to 3.7%	0% to 4.82%	0% to 6%

Sensitivity Analysis

A general increase/decrease of 100 basis points in interest rates of variable rate instruments prevailing at each balance sheet dates, with all other variables held constant, would increase/(decrease) the Group’s loss after tax and accumulated losses by the amounts shown below:

	Year ended June 30, 2008	Year ended June 30, 2009	Six months ended December 31, 2009	Nine months ended September 30, 2010
Increase of 100 basis points	19,297	34,416	834,414	(701,356)
Decrease of 100 basis points	(19,297)	(34,416)	(834,414)	701,356

(e) Equity Price Risk

Equity price risks arise from available-for-sale financial assets. Both during and at the end of the Relevant Period, movements in the fair value of this investment do not have a significant impact on the Group’s financial position and performance.

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ACCOUNTANTS’ REPORT

(f) Fair value

(i) Financial instruments carried at fair value

Fair value hierarchy

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Group and Company

	<u>December 31, 2009</u>	<u>September 30, 2010</u>
	<u>Level 1</u>	<u>Level 1</u>
Available-for-sale financial assets	<u>1,025,000</u>	<u>800,000</u>

The Group had no financial instruments during the years ended June 30, 2008 and 2009.

(ii) Fair values of financial instruments carried at other than fair value

Amounts due from subsidiaries are unsecured, interest-free and expected to be recovered after one year. Given these terms, it is not meaningful to disclose the fair values of such balances.

All of the other financial assets and liabilities are carried at amounts that are not materially different from their fair values.

27. ACCOUNTING JUDGEMENTS AND ESTIMATES

(a) Critical judgments

Going concern

A key assumption underlying the preparation of the Financial Information is that the entity will continue as a going concern. An entity is a going concern when it is considered to be able to pay its debts as and when they are due, and to continue in operations.

APPENDIX I

ACCOUNTANTS’ REPORT

Recent fundraising success, together with the drawdown of the secured bank loan support the going concern basis of preparation for the financial information. However, the validity of the going concern assumption is dependent on future events, some of which would be out of the Director’s control such as financial market conditions and the prospects of lithium related industries. The Financial Information does not include any adjustments relating to the recoverability and classification of recorded asset amounts or to amounts and classification of liabilities that may be necessary if the Group were unable to continue as a going concern.

(b) Estimates and assumptions

(i) Ore reserves

Economically recoverable ore reserves represent the estimated quantity of product in an area of interest that can be expected to be profitably extracted, processed and sold under current and foreseeable economic conditions. The Group determines and reports ore reserves under the standards incorporated in the Australasian Code for Reporting Exploration Results, Mineral Resources and Ore Reserves, 2004 edition (the JORC Code). The determination of ore reserves includes estimates and assumptions about a range of geological, technical and economic factors, including: quantities, grades, production techniques, recovery rates, production costs, transport costs, commodity demand, commodity prices and exchange rates. Changes in ore reserves impact the assessment of recoverability of exploration and evaluation assets, property, plant and equipment, the carrying amount of assets depreciated on a units of production basis, provision for site restoration and the recognition of deferred tax assets, including tax losses.

(ii) Exploration and evaluation assets

Determining the recoverability of exploration and evaluation assets capitalized in accordance with the Group’s accounting policy (see note 1(e)) requires estimates and assumptions as to future events and circumstances, in particular, whether successful development and commercial exploration, or alternatively sale, of the respective areas of interest will be achieved. Critical to this assessment is estimates and assumptions as to ore reserves (see note 27(b)(i) above), the timing of expected cash flows, exchange rates, commodity prices and future capital requirements. Changes in these estimates and assumptions as new information about the presence or recoverability of an ore reserve becomes available, may impact the assessment of the recoverable amount of exploration and evaluation assets. If, after having capitalized the expenditure under the accounting policies, a judgment is made that the recovery of the expenditure is unlikely, an impairment loss is recorded in the statement of comprehensive income in accordance with accounting policy (see note 1(e)).

(iii) 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 (see note 1(l)), 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.

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ACCOUNTANTS’ REPORT

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

(iv) Impairment of assets

The recoverable amount of each non financial asset or CGU is determined as the higher of the value-in-use and fair value less costs to sell, in accordance with the Group’s accounting policies (see note 1(g)). Determination of the recoverable amount of an asset or CGU based on a discounted cash flow model, requires the use of estimates and assumptions, including: the appropriate rate at which to discount the cash flows, the timing of cash flow and expected life of the relevant area of interest, exchange rates, commodity prices, ore reserves, future capital requirements and future operating performance. Changes in these estimates and assumptions impact the recoverable amount of the asset or CGU, and accordingly could result in an adjustment to the carrying amount of that asset or CGU.

(v) Valuation of share based payments

The fair value of employee share options is measured using Black & Scholes and Monte-Carlo simulation. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information), weighted average expected life of the instruments (based on historical experience and general option holder behavior), expected dividends, the risk-free interest rate (based on government bonds) and probability applied to the non-vesting conditions (based on management’s judgment formed in consideration of all the available facts and circumstances). Service and non-market performance conditions attached to the transactions are not taken into account in determining fair value. Any different estimates and assumptions affecting the measurement inputs would have resulted in different grant date fair values, which would have changed equity settled share-based payments expense.

C SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company and its subsidiaries in respect of any period subsequent to September 30, 2010.

Yours faithfully

KPMG
Certified Public Accountants
Hong Kong

KPMG
Chartered Accountants
Australia

APPENDIX II

APPENDIX III

APPENDIX IV

MINING EXPLORATION ENTITY QUARTERLY REPORT

The following is an extract of an announcement made by the Company on the ASX on February 1, 2011. The mining exploration entity quarterly report presents, amongst other things, the Company’s unaudited cash flows for the three months ended December 31, 2010 and the 12 months ended December 31, 2010. Under the ASX Listing Rules, a “mining exploration entity” (as defined in the ASX Listing Rules) is required to compile and announce this report on the ASX each quarter. The Company is currently classified as a mining exploration entity. The financial information in this Appendix has not been audited nor has it been reviewed by KPMG, the joint reporting accountants or any other external accountants. Investors should take caution when reviewing, and not place undue reliance on, the information contained in this Appendix.

For more information, please see the section headed “Appendix VII — Summary of the Constitution of the Company and Australian Corporations Act — Principals differences between the continuing obligations applicable to list companies under the ASX Listing Rules — 1. Financial reporting obligations — (E) Quarterly financial results”.

APPENDIX IV

MINING EXPLORATION ENTITY QUARTERLY REPORT

Rule 5.3

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'000	Year to date (12 months) \$A'000
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)

APPENDIX IV 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'ooo
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

APPENDIX IV MINING EXPLORATION ENTITY QUARTERLY REPORT

Financing facilities available

Add notes as necessary for an understanding of the position.

	Amount available \$A'ooo	Amount used \$A'ooo
3.1 Loan facilities	98,716	98,716
3.2 Credit standby arrangements	-	-

Estimated cash outflows for next quarter

	\$A'ooo
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'ooo	Previous quarter \$A'ooo
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				

APPENDIX IV MINING EXPLORATION ENTITY QUARTERLY REPORT

6.2 Interests in mining tenements acquired or increased

--	--	--	--

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.	-	-	-

APPENDIX IV MINING EXPLORATION ENTITY QUARTERLY REPORT

7.7	Options (description and conversion factor)			Exercise price	Expiry date
		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

APPENDIX IV

MINING EXPLORATION ENTITY QUARTERLY REPORT

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

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

APPENDIX V

PROPERTY VALUATION REPORT

The following is the text of the letter, a summary of values and an extract of the valuation certificate received from American Appraisal China Limited, an independent property valuer, prepared for the purpose for incorporation in this document, in connection with their valuation of the property interests held by the Group as at December 31, 2010.

American Appraisal China Limited
1506 / Dah Sing Financial Centre
108 Gloucester Road / Wanchai / Hong Kong
美國評值有限公司
香港灣仔告士打道108號大新金融中心1506室
Tel +852 2511 5200 / Fax +852 2511 9626

Leading / Thinking / Performing



[*] 2011

The Board of Directors
[Galaxy Resources Limited]
Level 2, No. 16 Ord Street,
West Perth,
WA 6005,
Australia

Dear Sirs,

In accordance with the instructions to value property interests of Galaxy Resources Limited (the “Company”) and its subsidiaries (hereinafter together referred to as the “Group”) in Australia and the People’s Republic of China (the “PRC”), we confirm that we have carried out inspections for the property interests, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market values of such property interests as at December 31, 2010 (the “date of valuation”).

This letter that forms part of our valuation report explains the basis and methodology of valuations and clarifies our assumptions made on the ownerships to the property interests and the limiting conditions.

BASIS OF VALUATION

Our valuation is our opinion of the market value which we would define as intended to mean “the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm’s-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion”.

This estimate specifically excludes an estimated price inflated or deflated by special considerations or concessions granted by anyone associated with the sale, or any element of special value. The value of a property is also estimated without regard to costs of sales and purchase, and without offset for any associated taxes.

PROPERTY CATEGORIZATION

- Group I — Property interests owned and occupied by the Group in Australia
- Group II — Property interests owned and occupied by the Group in the PRC
- Group III — Property interests rented and occupied by the Group in Australia
- Group IV — Property interests rented and occupied by the Group in the PRC

APPENDIX V

PROPERTY VALUATION REPORT

VALUATION METHODOLOGY

For the property interests in Group I and Group II, which are owned and occupied by the Group in Australia and the PRC, cost approach has been adopted in our valuation analysis. Under this approach, in valuing the buildings and structures of the property, we have determined its depreciated replacement cost, which is defined as the gross replacement cost of the asset, from which appropriate deductions may then be made to allow for age, condition, economic/external and functional obsolescence and environmental factors etc. All of these might result in the existing asset being worth less to the undertaking in occupation than would a new replacement. To determine the value for the land portions, we have made reference to the similar transactions in the locality and the published standard land price from the local authorities.

For the property interests in Group III and Group IV, which are rented and occupied by the Group in Australia and the PRC, they are considered to have no commercial value, either because of their non-assignability in the market or because there are prohibitions against subletting and/or assignment contained in the respective leases and/or tenancy agreements or the lack of substantial profit rent.

TITLE INVESTIGATION

We have been provided with copies of documents in relation to the title of the property interests situated in Australia and the PRC. However, we have not scrutinized the original documents to verify ownership or to verify any amendments, which may not appear on the copies handed to us. We have relied to a considerable extent on the information provided by the Group.

For the properties located in the PRC, we also relied to a considerable extent on the PRC legal opinion given by the Group’s legal advisor, Zhong Lun Law Firm on the PRC law as to the validity of the title of the owners to the relevant property interests.

All legal documents disclosed in this letter and valuation certificates are for reference only and no responsibility is assumed for any legal matters concerning the legal title to the property interests set out in this letter and valuation certificates.

ASSUMPTIONS

Our valuations have been made on assumptions that the owners sell the property interests on the market in its existing state without the benefit of deferred terms contracts, leaseback, joint ventures, management agreements or any similar arrangement which would serve to affect their values of the property interests.

No allowance has been in our valuations for any charges, mortgages or amounts owing on the properties valued nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, all the property interests are free from encumbrances, restrictions and outgoings of an onerous nature which could affect their values.

We have assumed that the owners of the property interests have free and uninterrupted rights to use, lease, sell or mortgage the property interests for the whole of the unexpired term of its respective land use rights.

APPENDIX V

PROPERTY VALUATION REPORT

We have also assumed that the property interests are freely disposable and transferable in the market to both local and overseas purchasers for the whole of the respective unexpired terms as granted without any fees or charge incurred unless otherwise stated.

We have valued the property interests on the assumption that it is developed in accordance with the development proposals or building plans given to us. We have assumed that all consents, approvals and licences from relevant government authorities for the buildings and structures erected or to be erected thereon have been granted. Also, we have assumed that unless otherwise stated, all buildings and structures erected on the land parcels are held by the owners or permitted to be occupied by the owners.

It is assumed that all applicable zoning, land use regulations and other restrictions have been complied with unless non-conformity has been stated, defined and considered in the valuation certificates. Further, it is assumed that the utilization of the land and improvements is within the boundaries of the property interests described and that no encroachment or trespass exists unless noted in the valuation certificates.

Other special assumptions and qualifications for the property interests, if any, have been stated in the footnotes of the valuation certificate for the respective property.

LIMITING CONDITIONS

We have relied to a considerable extent on the information provided by the Group and have accepted advice given to us by the Group on such matters as statutory notices, easements, tenure, occupancy, site areas and floor areas and all other relevant matters. Dimensions and areas included in the valuation certificate are based on information contained in the documents provided to us and are only approximations.

We have no reason to doubt the truth and accuracy of the information as provided to us by the Group. We were also advised by the Group that no material facts have been omitted from the information so supplied. We consider we have been provided with sufficient information to reach an informed view.

We have inspected the exterior and, where possible, the interior of the properties included in the attached valuation certificates. However, no structural survey has been made and we are therefore unable to report as to whether the properties are or are not free of rot, infestation or any other structural defects. No tests were carried out on any of the services.

We have not carried out investigations on site to determine the suitability of ground conditions and services for the proposed development, nor have we undertaken archaeological, ecological or environmental surveys. Our valuation is prepared on the assumption that these aspects are satisfactory and that no extraordinary expenses or delays will be incurred during construction period.

REMARKS

In valuing the property interests, we have complied with all the requirements contained in Paragraph 34(2), (3) of Schedule 3 of the Companies Ordinance (Cap. 32), the International Valuation Standards (8th Edition 2007) published by the International Valuation Standards Council, the HKIS Valuation Standards on Properties (1st Edition 2005) published by the Hong Kong Institute of Chartered Surveyors, the Valuation and Property Standards of the Australian Property Institute and the relevant rules.

APPENDIX V

PROPERTY VALUATION REPORT

We hereby certify that we have neither a present nor a prospective interest in the property interest or the value reported. We enclose herewith the summary of valuation and the valuation certificate.

Unless otherwise stated, all monetary amounts stated in this report are in Australia Dollars. The exchange rates adopted in our valuations as at December 31, 2010 being AUD1=RMB6.7606.

Yours Faithfully,
For and on behalf of
American Appraisal China Limited

Eric M. H. Poon

Ross Henderson

MRICS, MHKIS
Assistant Vice President

AAPI (P&M), MRICS
Managing Director

Note: Mr. Eric Poon, who is a Chartered Valuation Surveyor, has over 10 years experience in valuation of properties in Hong Kong, the PRC and overseas.

Mr. Ross Henderson, who is a Certified Practising Valuer (P&M) and a Chartered Valuation Surveyor, has over 20 years experience in asset valuations in Australia.

The valuations on the property interests in Australia are supported by American Appraisal (Australia) Pty Limited.

APPENDIX V

PROPERTY VALUATION REPORT

SUMMARY OF VALUATION

Group I — Property interests owned and occupied by the Group in Australia

No.	Property	Capital Value in existing state as at December 31, 2010
		(AUD)
1.	Land parcels (Lots 30, 31 & 127), buildings and structures located at Old Newdegate Road, Ravensthorpe, Western Australia, 6346 (Mt Cattlin)	43,507,000
		<u>43,507,000</u>
	Sub-total :	

Group II — Property interests owned and occupied by the Group in the PRC

No.	Property	Capital Value in existing state as at December 31, 2010
		(AUD)
2.	A land parcel and Construction in Progress (CIP) located at No.5 Dong Xin Road, Jiangsu Yangtze River International Chemical Industrial Park, Zhangjiagang City, Suzhou City, Jiangsu Province, The PRC	6,162,000
	中國江蘇省蘇州市張家港市江蘇揚子江國際化學工業園東新路5號之土地及其上之在建工程	
		<u>6,162,000</u>
	Sub-total :	

Group III — Property interests rented and occupied by the Group in Australia

No.	Property	Capital Value in existing state as at December 31, 2010
		(AUD)
3.	Suite 2 on 2 nd Floor, No. 16 Ord Street, West Perth, Western Australia, 6005	No Commercial Value
	Sub-total :	<u>No Commercial Value</u>

APPENDIX V

PROPERTY VALUATION REPORT

Group IV — Property interests rented and occupied by the Group in the PRC

No.	Property	Capital Value in existing state as at December 31, 2010 (AUD)
4.	8 Office Units (Nos. 2201 – 2208) on 22 nd Floor, International Finance Centre, No. 20 Jingang Road, Free Trade Zone, Zhangjiagang City, Suzhou City, Jiangsu Province, The PRC	No Commercial Value
中國江蘇省蘇州市張家港市保稅區金港路20號國際金融中心22樓 之8個辦公室(2201-2208室)		
Sub-total :		No Commercial Value
Grand-total:		<u><u>49,669,000</u></u>

APPENDIX V

PROPERTY VALUATION REPORT

VALUATION CERTIFICATE

Group I — Property interests owned and occupied by the Group in Australia

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at December 31, 2010 (AUD)										
1.	Land parcels (Lots 30, 31 & 127), buildings and structures located at Old Newdegate Road, Ravensthorpe, Western Australia, 6346 (Mt Cattlin)	The property comprises 6 buildings and structures erected on 3 adjacent land parcels with a total site area of approximately 3,934,045 square metres. The details of which are tabulated below: <table><tr><th>Lot Nos.</th><th>Site Area (sq.m.)</th></tr><tr><td>30</td><td>968,210</td></tr><tr><td>31</td><td>1,288,671</td></tr><tr><td>127</td><td>1,677,164</td></tr><tr><td>Total:</td><td>3,934,045</td></tr></table>	Lot Nos.	Site Area (sq.m.)	30	968,210	31	1,288,671	127	1,677,164	Total:	3,934,045	The property is currently occupied by the Group for mining, production and administration purposes.	43,507,000
Lot Nos.	Site Area (sq.m.)													
30	968,210													
31	1,288,671													
127	1,677,164													
Total:	3,934,045													

The buildings of the property comprise an administration building, a mine workshop, a workshop office, storage, a motor control centre and a switch room, with a total gross floor area of approximately 2,887 square metres. The buildings were completed in mid-2010. The details of which are tabulated below:

No.	Building	GFA (sq.m.)
1	Administration	789
2	Mine workshop	1,056
3	Workshop office	266
4	Storage	240
5	Motor control centre	420
6	Switch room	116
	Total:	2,887

The property also comprises other supporting improvements include service roads, water bores, dams & pipelines, tailings & fuel facilities and wash-down pad.

APPENDIX V

PROPERTY VALUATION REPORT

Notes:

- (1) Pursuant to a Contract for Sale of Land or Strata Title by Offer and Acceptance entered into between Raymond Max Edwards (the “seller”) and Galaxy Resources Limited (the “buyer”) dated January 8, 2010, Land plot No. 30 has been acquired by the Group as a freehold land at a consideration of A\$240,000 for Agricultural purpose.
- (2) Pursuant to Contract for Sale of Land or Strata Title by Offer and Acceptance entered into between Raymond Max Edwards (the “seller”) and Galaxy Resources Limited (the “buyer”) dated October 28, 2009, Land plot No. 31 has been acquired by the Group as a freehold land at a consideration of A\$318,000 for Agricultural purpose.
- (3) Pursuant to Contract for Sale of Land or Strata Title by Offer and Acceptance entered into between Raymond Max Edwards (the “seller”) and Galaxy Resources Limited (the “buyer”) dated October 9, 2009, Land plot No. 127 has been acquired by the Group as a freehold land at a consideration of A\$414,000 for Agricultural purpose.
- (4) Pursuant to 3 Duplicated Certificates of Title, Registered Nos. 30/DP224145, 31/DP224145 and 127/DP145763, Galaxy Resources Ltd. is the registered owner of the land parcels and they are not subject to any encumbrances as at the date of valuation. The salient details of the land parcels are as follows:

Land parcels	Title details	Name of the Authority	Date of issue	Name of the Landowners
Lot 30 Deposited Plan 224145	Volume 51 Folio 139A	Government of Western Australia	January 20, 2010	Galaxy Resources Ltd
Lot 31 Deposited Plan 224145	Volume 1091 Folio 512	Government of Western Australia	February 11, 2010	Galaxy Resources Ltd
Lot 127 Deposited Plan 145763	Volume 1960 Folio 654	Government of Western Australia	November 26, 2009	Galaxy Resources Ltd

- (5) The permitted uses of the land parcels of the property under a General Agriculture zoning in the Shire of Ravensthorpe include single house, industry, mining, agriculture extensive and family day centre.
- (6) Our valuation of the land parcels of the property is concluded with regard to the valuation report undertaken by the partner of Albany Valuation Services — Opteon, Mr. Grant Solomon, who is a qualified valuer who has 29 years’ valuation experience in respect of properties in Australia and is a fellow of the Australia Property Institute (Licensed Valuer No. 404).

APPENDIX V

PROPERTY VALUATION REPORT

Group II — Property interests owned and occupied by the Group in the PRC

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at December 31, 2010 (AUD)																										
2.	A land parcel and Construction in Progress (CIP) located at No.5 Dong Xin Road, Jiangsu Yangtze River International Chemical Industrial Park, Zhangjiagang City, Suzhou City, Jiangsu Province, The PRC	The property comprises a CIP work erected on a land parcel with a site area of approximately 53,380.9 square metres. The proposed development of the property is an industrial complex. Upon completion, the property will have a total gross floor area (“GFA”) of approximately 11,857 square metres. The GFA breakdowns is as follows: <table><tr><th>Buildings</th><th>GFA (sq.m.)</th></tr><tr><td>中國江蘇省</td><td>Warehouse</td><td>4,046</td></tr><tr><td>蘇州市張家港市</td><td>Package workshop</td><td>3,382</td></tr><tr><td>江蘇揚子江國際化學工業園</td><td>Workshop & Office</td><td>3,212</td></tr><tr><td>東新路5號之土地</td><td>Door guard</td><td>72</td></tr><tr><td>及其上之在建工程</td><td>Pump room</td><td>544</td></tr><tr><td></td><td>Substation</td><td>351</td></tr><tr><td></td><td>Test Room</td><td>250</td></tr><tr><td></td><td>Total:</td><td><u>11,857</u></td></tr></table>	Buildings	GFA (sq.m.)	中國江蘇省	Warehouse	4,046	蘇州市張家港市	Package workshop	3,382	江蘇揚子江國際化學工業園	Workshop & Office	3,212	東新路5號之土地	Door guard	72	及其上之在建工程	Pump room	544		Substation	351		Test Room	250		Total:	<u>11,857</u>	As per our inspection, the property was currently under construction as at the date of valuation.	6,162,000
Buildings	GFA (sq.m.)																													
中國江蘇省	Warehouse	4,046																												
蘇州市張家港市	Package workshop	3,382																												
江蘇揚子江國際化學工業園	Workshop & Office	3,212																												
東新路5號之土地	Door guard	72																												
及其上之在建工程	Pump room	544																												
	Substation	351																												
	Test Room	250																												
	Total:	<u>11,857</u>																												
		The land use rights of the property have been granted for a term of 50 years expiring on May 9, 2060 for industrial use.																												

Notes:

- Pursuant to a State-owned Construction Land Use Rights Grant Contract (國有建設用地使用權出讓合同), No. 3205822010CR0033, entered into between Land Resources Bureau of Zhangjiagang City (張家港市國土資源局) (the “Grantor”) and Galaxy Lithium (Jiangsu) Co., Ltd. (銀河鋰業(江蘇)有限公司) (“GLJL” or the “Grantee”) dated April 8, 2010, the land use rights of the property have been granted to latter party for a term of 50 years at a consideration of RMB17,989,364 for industrial use. As advised by the Company, the land premium has been fully settled.
- Pursuant to a State-owned Land Use Certificate (國有土地使用證), Zhang Guo Yong (2010) Di No. 0380021, issued by the People’s Government of Zhangjiagang (張家港人民政府) dated April 29, 2010, the land use rights of the property with a site area of 53,380.9 square metres have been granted to GLJL.
- Pursuant to a Construction Land Use Planning Permit (建設用地規劃許可證), Di Zi No. 320582201022025, issued by Planning Bureau of Zhangjiagang City (張家港市規劃局) dated February 9, 2010, the land use of the property complies with planning requirements and the land use entity is GLJL.

APPENDIX V

PROPERTY VALUATION REPORT

- (4) Pursuant to a Construction Works Planning Permit (建設工程規劃許可證), Jian Zi No. 320582201032070, issued by Planning Bureau of Zhangjiagang City (張家港市規劃局) dated at May 31, 2010, the construction works of the property complies with planning requirements and the construction entity is GLJL.
- (5) Pursuant to a Permit of Construction Commencement (建設工程施工許可證), No.3205992010120100001A issued by Construction Administration Office of Jiangsu Province Zhangjiagang Free Trade Zone (江蘇省張家港保稅區建築業管理處) dated December 1, 2010, the commencement of the construction work of the property was permitted.
- (6) Pursuant to a Mortgage Agreement entered into between GLJL and Galaxy Lithium International Ltd. (“Galaxy HK”) dated September 10, 2010, GLJL agrees to mortgage certain collateral to Galaxy HK, and such collateral includes the above land use rights and CIP work. However, such mortgage has not been registered with the relevant authority.
- (7) As confirmed by the Company, the estimated construction cost of the whole development is approximately RMB59.28 million, while the construction cost incurred as at the date of valuation is approximately RMB23,033,486, which has been taken into account in the course of our valuation. As advised by the Company, the CIP works of the Property is expected to be completed by the end of March 2011.
- (8) The PRC legal opinion states, inter alia, that:
 - a. The Company is the legal owner of the property and the related construction project and the legal user of the land where the property is situated, whose rights on the property and the CIP works and the land parcels where the buildings and structures are situated are protected by the PRC Laws.
 - b. The CIP works has obtained all necessary approvals, certificates, permits or other licenses as required for the level of construction of the property currently being carried out under the PRC Laws. The planning and construction work of the CIP works is in compliance with the requirements as stipulated by all of the approvals, certificates, permits or other licenses as required by the PRC Laws.
 - c. The usage of the property under construction and the land use rights is in compliance with their approved usage.
 - d. No mortgage, distress or other third party rights that may encumber Company’s right to own, use and occupy the building was established except that according to the Mortgage Agreement GLJL entered into with Galaxy HK on September 10, 2010, GLJL agrees to provide certain collateral to Galaxy HK, including its land use rights, construction in progress, and buildings, as security for repayment of such amounts under the Shareholder Loan Agreement GLJL entered into with Galaxy HK as of September 10, 2010. In accordance with the Property Law of the PRC, mortgage interests over the land use right and construction in progress shall be created as of the date of registration. Since no mortgage interests over the land use right and construction in progress with respect to the property have been registered with the relevant authorities, the aforesaid mortgage under the Mortgage Agreement is not duly established, and unenforceable until the registration of the mortgage with relevant authorities has been duly accomplished. The unenforceability and non-establishment of the mortgage shall not impede GLJL’s right to own, use and occupy the property and the land where the property is situated. Although the mortgage interests have not duly established, in accordance with the Property Law of the PRC, the Mortgage Agreement itself is established and valid. GLJL has the contractual obligation under the Mortgage Agreement to cooperate with Galaxy HK to complete the mortgage registration process in accordance with the relevant laws and regulations.

APPENDIX V

PROPERTY VALUATION REPORT

Group III — Property interests rented and occupied by the Group in Australia

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at December 31, 2010 (AUD)
3.	Suite 2 on 2 nd Floor and 16 car park bays located at No. 16 Ord Street, West Perth, Western Australia, 6005	The property comprises an office unit and 16 car park bays in a 3-storey office building completed in about 1985. The property has a payable area of approximately 450 square metres. The property is subject to a sub-lease agreement for a term of 3 years commencing on April 1, 2010 and expiring on March 31, 2013 at an annual rent of A\$259,440 exclusive of GST and outgoings for office use.	The property was occupied by the Group for office use.	No Commercial Value

Notes:

- (1) Pursuant to a lease agreement and its extension agreement dated March 10, 2006 and January 25, 2008, entered into between Trustee for the Christian Brothers in Western Australia Inc. of care of Noble Management Pty Ltd. (“landlord”) and Agincourt Resources Limited (the former name of “Oxiana Agincourt Pty Ltd.”) (“Tenant”), the property with a lettable area of 719.1 square metres. was leased for a term of 2 years commencing on April 1, 2006 and expiring on March 31, 2008 and extended to March 31, 2010 at an annual rent of A\$330,786 exclusive of 12 car park bays rental of A\$250/bay/month and exclusive of all outgoings.
- (2) Pursuant to an Assignment of Lease dated July 30, 2008, entered into between Trustee for the Christian Brothers in Western Australia Inc. of care of Noble Management Pty Ltd. (“landlord”), Oxiana Agincourt Pty Ltd. (“Assignor”) and Beadell Resources Limited (“Assignee”), the Assignor agreed to assign all its estate and interest in the property and its benefit under the lease agreement mentioned above to the Assignee.
- (3) Pursuant to an Extension and Variation of Lease dated May 11, 2010, entered into between Trustee for the Christian Brothers in Western Australia Inc. of care of Noble Management Pty Ltd. (“landlord”) and Beadell Resources Limited (“Tenant”), the lease term of the property has been extended to March 31, 2013 at an annual rent of A\$316,414 with an option of lease term extension for 2 more years exclusive of 12 car park bays rental of A\$320/bay/month and exclusive of all outgoings.
- (4) Pursuant to a Sub-Lease Agreement, entered into between Beadell Resources Limited (sub-lessor) and Galaxy Resources Limited (“sub-lessee”), dated August 14, 2008, portion of the leased office captioned in Note 1 to Note 3 above with a floor area of approximately 450 square metres was leased to the sub-lessee for a term commencing on September 1, 2008 and expiring on March 31, 2010 at an annual rent of A\$460/sq.m. exclusive of GST and all outgoings. The rent is exclusive of 5 car park bays, which were leased at A\$250/bay per calendar month exclusive of GST.
- (5) Pursuant to an extension of sub-lease agreement entered into between Beadell Resources Limited, an independent third party (“sub-lessor”) and Galaxy Resources Limited (“sub-lessee”), dated May 28, 2010, the property with a payable area of 450 square metres was rented by the sub-lessee for a term of 3 years commencing on April 1, 2010 and expiring on March 31, 2013 at an annual rent of A\$259,440 exclusive of GST and all outgoings for office use. This annual rent can be apportioned as A\$198,000 for the office accommodation (A\$440/sq.m.) and A\$61,440 for 16 car park bays, which were leased at A\$320/bay per calendar month exclusive of GST.
- (6) Pursuant to a letter of confirmation issued by Richard Noble & Company (the same party as Noble Management Pty Ltd. — the “landlord”) to Galaxy Resources Limited (the “sub-lessee”) dated November 11, 2010, totally sixteen car bays at 16 Ord Street, West Perth have been leased to Galaxy Resources Limited at a rate of \$320 +GST per month per bay.
- (7) The property has no commercial value due to the lack of substantial profit rent. Hence there is no profit rental achievable.

APPENDIX V

PROPERTY VALUATION REPORT

Group IV — Property interests rented and occupied by the Group in the PRC

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at December 31, 2010 (AUD)
4.	8 Office Units (Nos. 2201 – 2208) on 22nd Floor, International Finance Centre, No. 20 Jingang Road, Free Trade Zone, Zhangjiagang City, Suzhou City, Jiangsu Province, The PRC 中國江蘇省 蘇州市張家港市 保稅區金港路20號 國際金融中心22樓之 8個辦公室(2201-2208室)	The property comprises eight office units (Nos. 2201 – 2208) in a 30-storey commercial building with 1-storey basement. The building was completed in about 2008. The property has a total gross floor area of approximately 471.56 square meters. The property was leased by the Group from Zhangjiagang Free Trade Zone Kangruide Business (張家港保稅區康瑞德商務有限公司), an independent third party, for a term of 1 year at an aggregated annual rent of RMB296,000 exclusive of management fee for office use.	The property was occupied by the Group for office use.	No Commercial Value

Notes:

- (1) Pursuant to a lease agreement entered into between Zhangjiagang Free Trade Zone Comrade Commercial Affairs Co., Ltd. (張家港保稅區康瑞德商務有限公司) (“Comrade”) and Galaxy Resources Co., Ltd (銀河資源有限公司) (“Galaxy Resources Limited”) dated December 14, 2009, four office units (Nos. 2201-2204) of the property were rented by the latter party for a term of 1 year commencing on December 15, 2009 and expiring on December 14, 2010 with an option of one-year extension at an annual rent of RMB152,000 exclusive of management fee for office use. According to the relevant title documents, the PRC legal opinion and a Confirmation Letter issued by Zhangjiagang Free Trade Zone Juneng Investment Co., Ltd. (“Juneng”) dated October 9, 2010, Juneng is the legal owner of office units 2201-2204 of the leased property.
- (2) Pursuant to a lease agreement entered into between Comrade and Galaxy Lithium (Jiangsu) Co., Ltd. (銀河鋰業(江蘇)有限公司) (“GLJL”) dated March 15, 2010, four office units (Nos. 2205-2208) of the property were rented by the latter party for a term of 1 year commencing on March 15, 2010 and expiring on March 14, 2011 with an option of one-year extension at an annual rent of RMB144,000 exclusive of management fee for office use. According to the relevant title documents, the PRC legal opinion and a Confirmation Letter issued by Juneng dated October 9, 2010, Juneng is the legal owner of office units 2205-2208 of the leased property.
- (3) Pursuant to a Four Parties Confirmation Letter, entered into among Galaxy Resources Limited, Comrade, Juneng and GLJL dated October 9, 2010 (the “Four Parties Confirmation Letter”), Juneng has agreed and authorized Comrade to lease out four office units (Nos. 2201-2204) of the property at International Finance Center under the name of Comrade, and Juneng has recognized the validity and enforceability of the Office Lease Contract entered into between Comrade and GLJL dated December 15, 2009.
- s(4) Pursuant to a Three Parties Confirmation Letter entered into among Comrade, Juneng and GLJL dated October 9, 2010 (the “Three Parties Confirmation Letter”), Juneng has agreed and authorized Comrade to lease out four office units (Nos. 2205-2208) of the property at International Finance Center under the name of Comrade, and Juneng has recognized the validity and enforceability of the Office Lease Contract entered into between Comrade and GLJL dated March 15, 2010.

APPENDIX V

PROPERTY VALUATION REPORT

(5) The PRC legal opinion states, inter alia, that:

- a. The State-owned Land Use Certificate and the Building Ownership Certificate obtained by Juneng are valid and legitimate; the Four Parties Confirmation Letter described in Note (3) above and the Three Parties Confirmation Letter described in Note (4) above are valid and enforceable under PRC laws; all Galaxy Resources Limited’s rights and obligations under the lease agreement as mentioned in Notes (1) & (2) above have been duly assigned to GLJL; Comrade is duly authorized by the legal owner of the building under the lease agreement and is entitled to lease such building; no mortgage, distress or other third party rights that may encumber GLJL’s right to use and occupy the building was established on the leased building or on the rights of the land where the building is situated; the execution and contents of the lease agreement is in compliance with PRC laws and regulations, the lease agreement is legal, valid, and enforceable, GLJL’s rights under the lease agreement is protected by the PRC Laws; GLJL’s occupation of the building for the usage of business office does not violate or affect the lease agreement and is in compliance with the approved usage for the land and the building.
- b. As lease agreements were not filed with the relevant real estate leasing registration center for record. According to the Supreme People’s Court’s interpretation on the Contract Law of the PRC, the absence of such record shall not affect the validity, legitimacy and GLJL’s rights under the lease agreement. However, the housing administrative authorities may order the lessor or lessee to make supplementary record procedures for lease and impose fines on them. No specific provisions concerning the amount of the fines are provided under the Contract Law, the Supreme People’s Court’s interpretation or local regulations and rules in Zhangjiagang City.

APPENDIX VI

INDEPENDENT TECHNICAL EXPERT REPORT



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[December 31, 2010]

The Directors

Galaxy Resources Limited
Level 2, 16 Ord Street
West Perth WA 6005
Australia

Dear Sirs,

INDEPENDENT TECHNICAL REVIEW OF THE ASSETS OF GALAXY RESOURCES

Snowden Mining Industry Consultants (Snowden) was engaged by Galaxy Resources Limited (“Galaxy”) to provide an Independent Technical Review (“ITR”) of the Mt. Cattlin Spodumene mine (“Mt Cattlin Mine”), located some 2 km north of the town of Ravensthorpe in Western Australia, as well as the Jiangsu Lithium Carbonate Plant (“Jiangsu Plant”) situated in the Yangtze River International Chemical Industrial Park based in the Zhangjiagang Free Trade Zone close to Shanghai in the Jiangsu Province of China.

The ITR contained in Appendix VI to this document is dated December 31, 2010.

Snowden has no prior association with Galaxy in regard to the mineral assets that are the subject of this report, other than as an independent consultant and Snowden has no interest in the outcome of the technical assessment.

Snowden is independent of Galaxy, its directors, senior management and advisors and have no economic or beneficial interest (present or contingent) in any of the assets being reported on. Snowden will not be remunerated with a fee dependent on the findings of the Competent Person’s Report. None of the individuals employed or contracted by Snowden are officers, employees or proposed officers of Galaxy or any group, holding or associated company of Galaxy.

APPENDIX VI

INDEPENDENT TECHNICAL EXPERT REPORT

Scope of Work

The findings in this report are based on information compiled and prepared for a Valuation Report done by Snowden during 2009 on the Mt. Cattlin Feasibility study, on additional information which became available subsequent to the Feasibility Report through E-mail or Facsimile messages or various telephone conversations. During site inspections, Snowden personnel held detailed discussions with site personnel at Mt Cattlin mine and the Jiangsu Plant.

Reporting Standard

Snowden conducted a review of Galaxy’s Mineral Resources prepared and Ore Reserves and verified that these estimates were prepared according to the standards of the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves also known as the JORC Code as published by Joint Ore Reserves Committee of The Australasian Institute of Mining and Metallurgy, Australian Institute of Geoscientists and Minerals Council of Australia. Mineral Resource and Ore Reserve definitions stated in the JORC Code are contained in the Glossary and Definitions section of the ITR. Snowden did not conduct independent Mineral Resource and Ore Reserve estimates but verified the assumptions and conclusions stated by the Competent Persons, and have in this document commented on the validity and reasonability thereof.

The Competent Persons (“CPs”) involved in the compilation of information that relates to Mineral Resources and Exploration Results are Mr. Robert Spiers, who is a full time employee of Hellman & Schofield and Mr Philip Tornatora who is a full time employee of Galaxy. The information in this report that relates to Mineral Ore Reserves is based on information compiled by Mr. Roselt Croeser who is a full time employee of Croeser Pty Ltd. All the CPs have sufficient experience which is relevant to the style of mineralization and type of deposit under consideration and to the activity undertaken 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’.

Snowden consents to this ITR being included, in full, in this document, in the form and context in which the technical assessment is provided, and not for any other purpose. Snowden provides this consent on the basis that the technical assessments expressed in the individual sections of this Report are considered with, and not independently of, the information set out in the complete Report and the Cover Letter.

Snowden has assessed the relevant assets by reviewing data which included the Mineral Resources, Ore Reserves, mining and processing assumptions, human resources requirements, environmental issues, logistics and the short term (two years) future plans and forecasts proposed by Galaxy relating to production, operating costs and capital expenditure.

Snowden’s findings from the review in brief are:

- Snowden has sighted (but has not independently verified) documentation which confirms that Galaxy has the right to participate actively in the exploration for and/or extraction of Natural Resources in the areas under review.
- The assumptions and methodology used to derive Galaxy’s Mineral Resources and Ore Reserves are reasonable and in agreement with the requirements of the JORC code.

APPENDIX VI

INDEPENDENT TECHNICAL EXPERT REPORT

- Snowden verified that Galaxy has a portfolio of Measured (17%), Indicated (61%) and Inferred (22%) Mineral Resources as defined by the JORC Code.
- In Snowden’s opinion, the information and assumptions provided by Galaxy with respect to the Mt Cattlin Spodumene mine and the Jiangsu Plant are reasonable and to Snowden’s knowledge, does not contain any significant error or misrepresentation.
- Snowden is satisfied that Galaxy has a suitable and competent management team and that none of the issues or risks identified is significantly different to what would be expected for assets of a similar nature.

Snowden is of the opinion that Galaxy is well placed to make a significant and valuable contribution to the world lithium battery industry.

Yours faithfully

Francois Grobler
Principal Consultant
Snowden Mining Industry Consultants Pty Ltd

Email: fgrobler@snowdengroup.com
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APPENDIX VI

INDEPENDENT TECHNICAL EXPERT REPORT

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INDEPENDENT TECHNICAL EXPERT REPORT

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1. INTRODUCTION

1.1 PURPOSE OF THE REPORT

Snowden Mining Industry Consultants (“Snowden”) was engaged in June 2010 by Galaxy Resources Ltd. (“Galaxy”) to provide independent technical consultancy services relating to the review of the Mt Cattlin Spodumene Mine (“Mt Cattlin Mine”) situated in Western Australia and Galaxy’s Lithium Carbonate Plant (“Jiangsu Plant”) being constructed in the Yangtze River International Chemical Industrial Park of the Zhangjiagang Free Trade Zone in the Jiangsu Province of China just northwest of Shanghai.

The consulting services provided will culminate in the production of an Independent Technical Report by Snowden, which will form part of this document.

1.2 CAPABILITY AND INDEPENDENCE

Snowden has provided consulting services to Galaxy on numerous occasions and Snowden’s consultants are familiar with the Bankable Feasibility Study (“BFS”) as well as the ongoing progress in construction and initial mining of Mt Cattlin Mine and processing plant. Snowden is also familiar with the feasibility study and construction of the Jiangsu Plant. Snowden’s consultants have visited the Mt Cattlin mine site on numerous occasions during 2010 and have also visited the Jiangsu Plant construction site in China during July and November 2010.

Snowden has no prior association with Galaxy in regard to the mineral assets that are the subject of this report, other than as an independent consultant and Snowden has no interest in the outcome of the technical assessment.

Snowden is independent of Galaxy, its directors, senior management and advisors and have no economic or beneficial interest (present or contingent) in any of the assets being reported on. Snowden will be remunerated on a time and materials basis which is not dependent on the findings of the Independent Technical Report. None of the individuals employed or contracted by Snowden are officers, employees or proposed officers of Galaxy or any group, holding or associated company of Galaxy.

1.3 SCOPE OF WORK

The findings in this report are based on information gathered prior to and during site inspections to the Mt Cattlin mine site and Jiangsu plant site by Snowden, as well as on information subsequently supplied through e-mail or telephone conversations. The main sources of information supplied to Snowden on which this independent assessment was made include the following:

- Ravensthorpe Spodumene Project Feasibility Study Volume 1 (and associated appendices and drawings) — January 2009 — prepared by Galaxy
- Ravensthorpe Spodumene Project — Project Development Plan — January 2010 — prepared by Galaxy

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- Jiangsu Lithium Carbonate Plant Project Definitive Feasibility Study — October 2009 — prepared by Hatch Associates Pty Ltd (“Hatch”)
- Jiangsu Lithium Carbonate Plant Project — Draft Project Development Plan — August 2010 — prepared by Galaxy and Hatch
- Mt Cattlin Interim Resource Estimates, Lithium/Tantalum Elements, Ravensthorpe, WA — May 2009 — prepared by Hellman & Schofield Pty. Ltd (“Hellman & Schofield”)
- Mt Cattlin Interim Resource Estimates, Lithium/Tantalum Elements, Ravensthorpe, WA — December 2009 — prepared by Hellman & Schofield
- 091209_0694_Galaxy_Valuation_Report.pdf (Draft) — December 2009 — produced by Snowden
- 091218_0694_Galaxy_Valuation_Report_MineOnly.pdf (Final) — December 2009 — prepared by Snowden
- Mt Cattlin Reserve Report, Croeser Pty Ltd — July 11, 2010;
- Mt Cattlin Reserve Report, Croeser Pty Ltd — September 2010; and
- Various presentations and web site reports obtained from Galaxy.

The Competent Persons involved in the compilation of information that relates to Mineral Resources and Exploration Results are Mr. Robert Spiers, who is a full time employee of Hellman & Schofield and Mr Philip Tornatora who is a full time employee of Galaxy. Mr. Spiers and Mr Tornatora have sufficient experience which is relevant to the style of mineralization and type of deposit under consideration and to the activity they are 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’.

The information in this report that relates to Mineral Ore Reserves is based on information compiled by Mr. Roselt Croeser who is a full time employee of Croeser Pty Ltd. Mr. Croeser has sufficient experience which is relevant to the style of mineralization 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’.

Snowden’s consultants have reviewed the Mineral Resources and Ore Reserves as well as the assumptions used to derive such figures, and have in this document commented on the validity and reasonability thereof.

1.4 WORK PROGRAM

Snowden’s consultants have reviewed and commented on the data, assumptions and conclusions made by Galaxy in motivating the viability of the Mt Cattlin Mine and downstream beneficiation at their Jiangsu Plant. Snowden has assessed the methods used for analysis and interpretation of data, as well reasonability of assumptions made on technical parameters, costs and forward looking estimates.

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1.5 PROJECT TEAM

Snowden’s project team consisted of the following members (see Table 1.1).

Table 1.1 Snowden Project team

<u>Role</u>	<u>Name</u>	<u>Qualifications</u>	<u>Responsible sections</u>
Project Manager and Principal Consultant	Francois Grobler	MSc(Eng), BSc(Hons) Geology, Mine Managers Certificate, Pr Sci Nat (RSA), MSAIMM, MGSSA, MAusIMM	Project Management, Overall document compilation
Executive Metallurgical Consultant	Leon Lorenzen	PhD (Metallurgical Engineering), MSc(Eng), BEng (Chemical Engineering), PrEng, CEng, FAusIMM, FSAIMM, FSAICHE, FICHEM, FSAAE	Mt Cattlin Processing Plant, Jiangsu Chemical Plant
Principal Metallurgical Consultant	David White	BEng (Chemical and Materials), MAusIMM, AMICHEM	Mt Cattlin Processing Plant, Environmental
Principal Mining Consultant	Allan Blair	MBA, BAppSc (Mining Engineering), BSc, Mine Managers Certificate, MAusIMM	Ore Reserves, Mt Cattlin Mine Planning
Geological Consultant	Kevin Lowe	MSc(Geology), Graduate Diploma in Engineering (Mining)	Data interpretation, variography, mineral resources
Principal Geological Consultant	Ivor Jones	MSc (Geology), FAusIMM (CPgeo)	Snowden internal review of resources section
Snowden Internal Reviewer and Principal Consultant	Trevor Bradley	LLM (Distinction) — CEPMLP, B(app) Sc.(Hons) —M.A.I.G.	Overall internal review

1.6 REPORT QUALIFYING STATEMENTS

This report has been prepared in accordance with the requirements of the relevant rules.

This report is also in compliance with the “Australasian Code for Reporting of Mineral Resources and Ore Reserves” (2004 edition) published by the Joint Ore Reserve Committee (“JORC”) of the Australasian Institute of Mining and Metallurgy, Australian Institute of Geoscientists and the Minerals Council of Australia (“the JORC Code”) for determining resources and reserves.

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This report is not a Valuation Report and does not express an opinion as to the value of mineral assets. Aspects reviewed in this report do include product prices in as far as it was included as part of the mining optimization study.

1.7 CONSENTS

The Competent Persons responsible for the compilation of information that relates to Mineral Resources and Exploration Results (Messrs. Spiers and Mr Tornatora), consent to the inclusion in this report of the matters based on their information in the form and context in which it appears.

The Competent Persons responsible for information in this report that relates to Mineral Ore Reserves (Mr. Roselt Croeser) consents to the inclusion in this report of the matters based on his information in the form and context in which it appears.

Snowden consents to this report being included, in full, in this document, in the form and context in which the technical assessment is provided, and not for any other purposes. Snowden provides its consent on the understanding that the technical assessments expressed in the individual sections of this report will be considered with, and not independently of, the information set out in the complete report.

2. OVERVIEW

2.1 BACKGROUND

Galaxy began with the construction of mining and plant facilities at their Mt Cattlin project site in November 2009 and commenced early mining activities in June 2010. Meanwhile, Galaxy has initiated the construction of their Jiangsu Lithium Carbonate Plant in China and anticipates cold commissioning in second quarter 2011.

Galaxy’s current objective is to become the second largest hard rock Lithium (spodumene) producer in the world (after Talison Lithium Limited (“Talison”), which is also based in WA), and the fourth largest Li_2CO_3 producer. Galaxy is finalizing the construction of a one million tonnes per annum (“Mtpa”) processing facility at their Mt Cattlin site which will produce 137,000 tonnes per annum (“tpa”) of 6.0% Li_2O Spodumene concentrate over an estimated 14 year mine life. The Jiangsu Plant has a designated plant capacity of 17,000 tpa of Li_2CO_3 with a purity level of at least 99.5%.

2.2 EXPLORATION LICENCES AND MINING PERMITS

As of December 2010, Galaxy has a portfolio of:

- ten granted exploration licences situated to the west and south-west of the Mt. Cattlin project area;
- seven granted prospecting licences, mostly situated north of Ravensthorpe; and
- six granted mining leases comprising five to the east and south-east of Ravensthorpe (including two in the Kundip area), and one (M74/244) which includes the current and anticipated Mt. Cattlin mining areas, plant facilities and beyond covering an area of 1,832 hectares.

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In addition to these, Galaxy has pending applications for a further four exploration and prospecting licences.

2.3 GEOLOGY

The Mt Cattlin project is located in the Phillips River Mineral Field, within the Ravensthorpe Terrane, which forms part of the Archaean Ravensthorpe greenstone belt. The mineralization of interest in the Mt. Cattlin project resides in pegmatites.

The pegmatite in the Mt. Cattlin project area contains a lithium (“Li”) bearing mineral called Spodumene as well as secondary tantalite. The pegmatite body, hosting the tantalite — spodumene mineralization occurs as a relatively flat sheet, varying in thickness from 1 to 20m.

The main pegmatite units drilled to date generally lie less than 30 m below the surface, and outcrop in some locations. However, deeper zones of lithium mineralised pegmatites over 130 m below the surface have also been intersected in the few deeper holes that have been drilled in some locations. The weathering profile is shallow, with fresh rock generally being encountered at depths of less than around 20 m.

2.4 EXPLORATION

Galaxy possesses a portfolio of several projects in Western Australia at various stages of exploration and development covering other commodities including base metals (copper-gold, nickel), gold, iron ore, rare earths and uranium. The company is however currently focused on the Mt Cattlin mine and beneficiation plant at Ravensthorpe in Western Australia, and downstream lithium carbonate production at Galaxy’s Jiangsu Plant in China.

2.5 MINERAL RESOURCES AND ORE RESERVES

Galaxy’s Mineral Resources and Ore Reserves are summarized in Table 2.1 and Table 2.2 respectively.

Table 2.1 Mt Cattlin Resource from Hellman & Schofield (December 2009)

<u>Resource</u>	<u>Tonnes</u>	<u>Li₂O (%)</u>	<u>Ta₂O₅ ppm</u>
Measured	2,672,000	1.17	150
Indicated	9,629,000	1.09	171
Inferred	3,575,000	1.00	145
TOTAL	<u>15,875,000</u>	1.08	161

Note: Li₂O cut off grade — 0.4% Li₂O

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The Mineral Resource Estimate was undertaken by Mr. Rob Spiers of Hellman & Schofield and Mr. Phil Tornatora of Galaxy.

Table 2.2 Reserve statement by Croeser (2010)

<u>Reserve</u>	<u>Tonnes</u>	<u>Li₂O%</u>	<u>Ta₂O₅ ppm</u>
Proved	2,683,000	1.08	135
Probable	8,684,000	1.04	151
TOTAL	<u>11,367,000</u>	1.05	147

Note: Li₂O lower cut off grade >= 0.4% Li₂O

The Ore Reserve Estimate was compiled by Mr. Roselt Croeser of Croeser Pty Ltd.

Snowden has reviewed the methodology followed to derive the Mineral Resources and Ore Reserves as stated above and has found them to be reasonable and appropriate.

2.6 MT CATTLIN SPODUMENE MINE

Galaxy’s Mt Cattlin Project is located approximately 2 km north of the town of Ravensthorpe in Western Australia. The project site is located in the Phillips River Mineral Field, which surrounds the township of Ravensthorpe, 450 km southeast of Perth, Western Australia.

The pegmatites upon which the Mt Cattlin project is based were first reported in 1843. The Ravensthorpe district has been the subject of extensive exploration and mining activity dating back to 1892 with the discovery of small quantities of gold in association with copper and iron pyrites on the eastern side of the Ravensthorpe Range.

The tenements on which the project is located have been owned by numerous companies since the 1960’s, including Western Mining Corporation, Pancontinental Mining Limited, Greenstone Resources NL, Haddington Resources Limited and Sons of Gwalia Limited. Galaxy acquired ML74/12 from the Administrators of Sons of Gwalia Limited in November 2006.

At the Mt. Cattlin project site, Galaxy is in the final stages of constructing a mine and processing facilities intended to mine and process around 12 million tonnes of ore over a 13 to 14 year period. The flat lying ore body allows mining to proceed at a relatively constant strip ratio once the ore is uncovered. Mining will be carried out using excavator and truck operations, delivering to a conventional crushing and Heavy Media Separation (“HMS”) gravity recovery circuit.

The plant will consist of a four-stage crushing circuit producing a -6mm product from Run of Mine (“ROM”) ore at a treatment rate of 1 million tonnes per annum.

Galaxy intends producing some 137,000 tonnes of spodumene concentrate @ 6.0% Li₂O, which will be shipped as bulk concentrate through Esperance to Galaxy’s lithium carbonate processing facility in Zhangjiagang, China.

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2.7 LITHIUM CARBONATE PROCESSING PLANT

Galaxy is constructing a wholly owned battery grade lithium carbonate plant at Zhangjiagang, a rapidly growing industrial port city located in the centre of the Yangtze River delta in the Jiangsu province, some 80 km northwest of the key central coastal city of Shanghai, China.

The main beneficial attributes of the location in China are a tighter supply chain and proximity to cement plants for residue disposal, and detergent plants for sales of sodium sulphate by-product. The plant will be operated by a subsidiary of Galaxy called Galaxy Lithium (Jiangsu) Co Ltd that is a wholly foreign-owned Chinese enterprise.

Production of lithium carbonate will take place via a well-proven process that is enhanced through process automation and careful selection of high grade reagents. Galaxy has also included a further step of purification which has the potential increase the quality of the product to greater than 99.9% Li_2CO_3 .

The plant is designed to produce 17,000tpa of lithium carbonate with a purity level of at least 99.5% that will be suitable for use in manufacturing battery cathode materials.

Galaxy has filed for a provisional patent on the Jiangsu Plant process called “Process for the production of Lithium Carbonate”.

2.8 LOGISTICS

Galaxy’s mining and processing works at Mt Cattlin will be serviced by currently existing infrastructure and facilities available within Western Australia generally, and within the vicinity of the project in particular. Albany and Esperance, the two nearest major centres of population, both have heavy industry support including construction, engineering and manufacturing services.

Transport of materials and equipment from Perth will be via a number of existing highways (Brookton, Albany and South Coast Highway), whilst product transport will be via the South Coast Highway to Esperance.

Spodumene produced at Mt Cattlin will be trucked in bulk to Esperance Port and stored in a nominated area within the port, from where it will then be shipped to China in bulk quantities between 12,000 tonnes to 25,000 tonnes per shipment. A five year fixed ocean freight contract has been signed with vessel owners, to ship a maximum of 25,000 tonnes +/-10% per shipment to the Zhangjiagang Port in China. A total of 137,000 tpa of spodumene will be shipped to China.

Spodumene will be unloaded in China at a private berth in Zhangjiagang and delivered by conveyors to Galaxy’s Lithium Carbonate Plant, approximately 500m away from the berth.

Galaxy’s finished product (Li_2CO_3) will be shipped in 25kg or 1 tonne bags on pallets from Zhangjiagang to two nominated warehouses in Tianjin (North China) and Changsha (South China) via barges, rail and trucks. Customers in the Central and Western China regions will receive product via trucks directly from the warehouse in the plant at Zhangjiagang.

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2.9 ENVIRONMENTAL

During the design and construction of the Mt Cattlin mine and processing facilities, Galaxy has taken account of the environmental issues and requirements of the Department of Minerals and Petroleum (“DMP”) in Western Australia.

Galaxy submitted a Licence to Operate to the Department of Environment and Conservation (“DEC”) on August 4, 2010, and received approval on the October 14, 2010. Galaxy also drew up a compliance report for their Mt Cattlin site which was submitted to the DEC as part of the Operating Licence Application. The report addresses two aspects identified by the Department of Environment and Conservation (“DEC”) with respect to the Tailings Storage Facility (TSF). The compliance report includes:

- an Operations Management Plan for the Tailings Storage Facility (“TSF”); and
- a certification of the integrity of the final (compacted clay) liner of the TSF.

A draft of the Operations Management Plan for the TSF has been sighted by Snowden.

Other obligations relating to environmental management involves the monitoring of groundwater and the health of vegetation, clearing in accordance with Clearing Permits, and reports related to the National Pollutant Inventory (NPI) and the National Greenhouse and Energy Reporting System (“NGERS”).

Galaxy submitted their Annual Environmental Report (“AER”) to the DMP in September 2010.

Snowden has sighted documentation related to the above and is satisfied that Galaxy is meeting its obligations.

In terms of the environmental status at the Jiangsu construction site, the environmental approval process in China commenced with an Environmental Registration which was submitted on August 10, 2009 and was approved on August 17, 2009.

This then allowed the project to continue with the preparation and submission of the Environmental Impact Assessment (EIA) Report. The final EIA report was submitted to the Jiangsu Province Environmental Protection Bureau for approval on September 25, 2009 and approval was obtained on November 17, 2009.

Upon completion of construction, an Environmental Pre-Acceptance clearance will have to be obtained. This can only be applied for after 6 months of operation.

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3. EXPLORATION LICENCES AND MINING LEASES

3.1 OVERVIEW

Galaxy is largely focused on the exploration and production of lithium and tantalum, with the most advanced project being the Mt Cattlin Spodumene Mine in Ravensthorpe, Western Australia. However, the company also holds a portfolio of several other projects in Western Australia at various stages of exploration and development covering other commodities including base metals (copper-gold, nickel), gold, iron ore, rare earths and uranium. This report is mainly focused on the Mt Cattlin Spodumene Mine and downstream beneficiation at Galaxy’s Jiangsu Plant in China; however the other tenements are briefly mentioned in this section as well.

3.2 LOCATION OF GALAXY’S TENEMENTS

Galaxy’s projects are located in the following areas (see Figure 3.1):

- Ravensthorpe Projects are focused on mining lithium/tantalum (Mt Cattlin Spodumene mine and processing plant), base metals, gold and iron ore;
- Ponton is focused on rare earths and uranium;
- Connolly is focused on base and precious metals; and
- Boxwood Hill is focused on base and precious metals.

The extent of development of each project varies from the advanced Mt Cattlin Spodumene Project, where construction is nearing completion and initial mining has commenced, to advanced drill targets (Bakers Hill/ West River) to greenfields targets based on interpretation of geological structures in what are believed by Galaxy to be prospective geological settings (Ponton, Connolly and Boxwood Hill).

Figure 3.1 Locations of Galaxy’s projects



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3.3 REGISTER OF EXPLORATION AND MINING PERMITS

The following tables summarize Galaxy’s granted Exploration Licences and Mining Leases (see Table 3.1) as well as those applied for (see Table 3.1) as on December 2010. Snowden is not aware of any legal claims or proceedings that may have an influence on Galaxy’s rights to explore or mine within the listed tenement areas. However, Snowden disclaims itself from providing a legal opinion on these matters since it is not qualified to do so.

Table 3.1 Galaxy’s granted exploration licences and mining leases — December 2010

Lease	Project	Region	Lease type	Current Area ⁽³⁾	Grant Date	Expiry Date
E70/2513	Boxwood Hill	Corackerup South	E Old	33 ⁽¹⁾	7/04/2010	6/04/2015
E70/2514	Boxwood Hill	Needilup	E Old	55 ⁽¹⁾	7/04/2010	6/04/2015
E74/287	Bakers Hill	Ucabs Option	E Old	8 ⁽¹⁾	18/12/2002	17/12/2011
E74/295	Bakers Hill	Holland	E Old	2 ⁽¹⁾	12/09/2003	11/09/2010
E74/299	Bakers Hill	West River	E Old	3 ⁽¹⁾	13/02/2008	12/02/2013
E74/334	Aerodrome	Cocanarup	E Old	1 ⁽¹⁾	17/05/2005	16/05/2010
E74/398	Aerodrome	Aerodrome	E New	15 ⁽¹⁾	8/04/2008	7/04/2013
E74/400	Floater	North Ravensthorpe	E New	3 ⁽¹⁾	14/03/2008	13/03/2013
E74/401	Sirdar	North Ravensthorpe	E New	4 ⁽¹⁾	14/03/2008	13/03/2013
E74/415	Bakers Hill	Bakers Hill	E New	19 ⁽¹⁾	10/03/2009	9/03/2014
L74/46	Mt Cattlin	North Ravensthorpe	L	9.34 ⁽²⁾	18/03/2010	17/03/2031
M74/133	West Kundip	Kundip	M	285 ⁽²⁾	29/10/2009	28/10/2030
M74/136	Mosaic	Mosaic	M	23.37 ⁽²⁾	26/11/2010	25/11/2031
M74/165	McMahon	Cordingup Creek	M	158 ⁽²⁾	26/11/2010	25/11/2031
M74/184	McMahon	Mt McMahon	M	116 ⁽²⁾	26/11/2010	25/11/2031
M74/238	West Kundip	West Kundip	M	288 ⁽²⁾	29/10/2009	28/10/2030
M74/244	Mt Cattlin	North Ravensthorpe	M	1832 ⁽²⁾	24/12/2009	23/12/2030
P74/278	Bakers Hill	Bakers Hill	P Old	59.05 ⁽²⁾	2/07/2008	1/07/2012
P74/307	Floater	North Ravensthorpe	P Old	66.63 ⁽²⁾	14/03/2008	13/03/2012
P74/308	Floater	North Ravensthorpe	P Old	23.62 ⁽²⁾	14/03/2008	13/03/2012
P74/309	Sirdar	North Ravensthorpe	P Old	92.20 ⁽²⁾	14/03/2008	13/03/2012
P74/310	Sirdar	North Ravensthorpe	P Old	19.60 ⁽²⁾	14/03/2008	13/03/2012
P74/334	McMahon	Mt Benson	P Old	11.736 ⁽²⁾	11/11/2010	10/11/2014
P74/336	Bakers Hill	Phillips River	P Old	136.32 ⁽²⁾	23/12/2009	22/12/2013
E69/1869	Shoemaker	Lake Nabberu	E Old	70 ⁽¹⁾	15/06/2006	14/06/2011
E69/1870	Shoemaker	Lake Teague	E Old	70 ⁽¹⁾	15/06/2006	14/06/2011
E69/1871	Shoemaker	Moran Bore	E Old	52 ⁽¹⁾	15/06/2006	14/06/2011

Notes: E Old — Old Exploration Licence (WA)

E New — E New — New Exploration Licence (WA)

P Old — P Old — Old Prospecting Licence (WA)

L — L — Miscellaneous Licence (WA)

M — Mining Lease (WA)

1 — Blocks

2 — Hectares

3 — Rounded to two decimals where relevant

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Table 3.2 Galaxy’s applications for exploration licences and mining leases — December 2010

Lease	Project	Region	Lease type	Current Area⁽²⁾	Application Date
E28/1317	Ponton	Moonyoora	E Old	70 ⁽¹⁾	13/01/2003
E28/1830	Ponton	Moonyoora	E New	70 ⁽¹⁾	14/02/2008
E69/1878	Connolly Basin	Connolly Basin	E Old	54 ⁽¹⁾	10/01/2003
E70/2493	Boxwood Hill	Corackerup	E Old	50 ⁽¹⁾	30/01/2002
E70/2547	Boxwood Hill	Coppermine Creek	E Old	5 ⁽¹⁾	7/10/2002

Notes: E Old — Old Exploration Licence (WA)

E New — E New — New Exploration Licence (WA)

1 — Blocks

2 — Rounded to two decimals where relevant

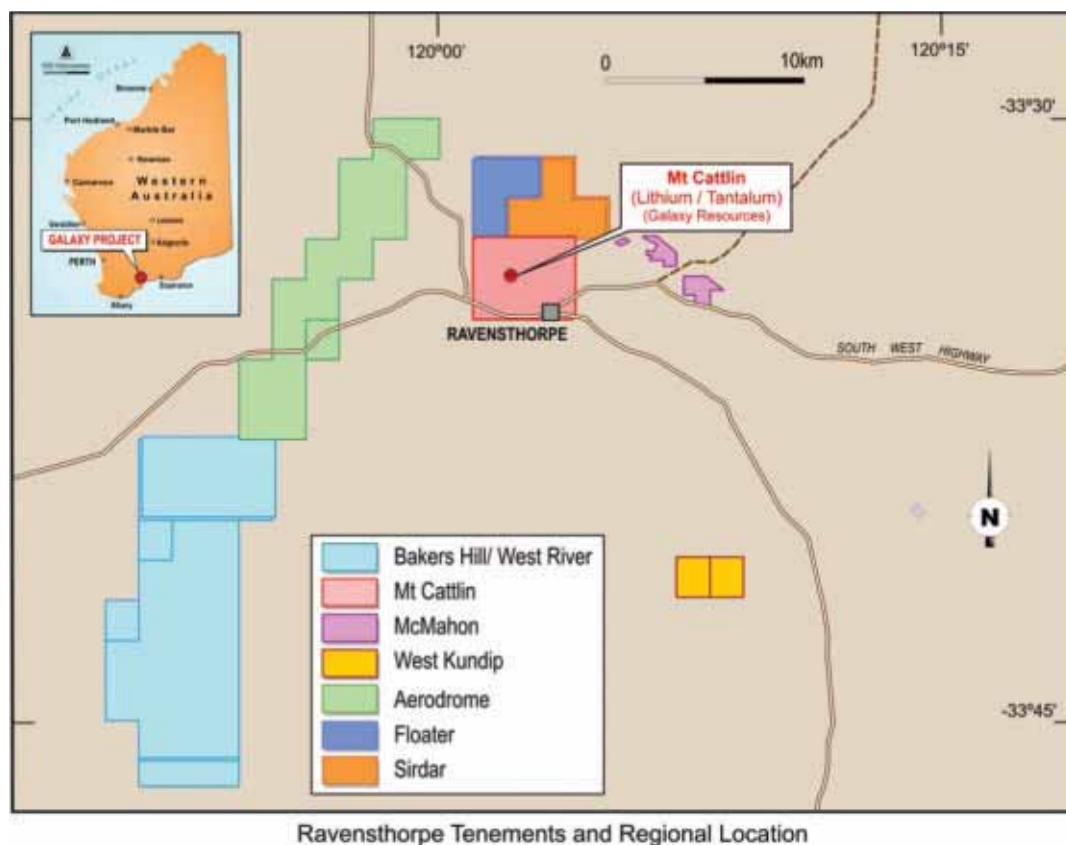
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3.4 MT CATTILIN AND SURROUNDING TENEMENTS

Galaxy’s Ravensthorpe projects are centred on the town of Ravensthorpe (see Figure 3.2) and cover an area that has been subjected to extensive exploration and mining in the past.

Figure 3.2 Ravensthorpe Tenements and Regional Location



3.4.1 Tenement history

The Cattlin Creek pegmatites have been the subject of several drilling, sampling and metallurgical test campaigns as well as feasibility studies dating back to the 1960s. During the period 1962-66 Western Mining Corporation (“WMC”) carried out an extensive drilling program and established a resource of “green” and “white” spodumene.

Extensive mineralogical and metallurgical test work was carried out as part of this program, culminating in WMC preparing an internal feasibility study on the mining and production of 10,000 to 15,000 tpa of spodumene from the deposit on Mining Lease M74/12. Since the 1960s the tenements have been owned by several companies, all of whom have viewed them as a prospective tantalite resource and conducted drilling and metallurgical test work accordingly.

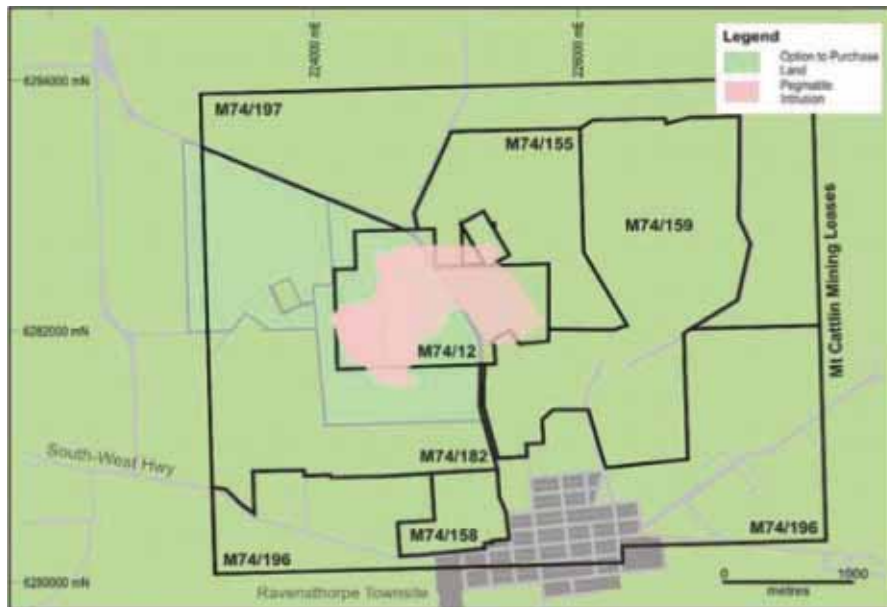
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Galaxy acquired ML74/12 (now contained within M74/244) from the administrators of Sons of Gwalia Limited in November 2006 and has conducted an extensive drilling program over the tenement. Resource calculations have been undertaken by Hellman & Schofield.

The main focus has been on the construction and development, and currently, the mining of the Mt Cattlin tenement which consisted of seven granted mining leases and eight applications for exploration permits during 2009 (see Figure 3.3).

Figure 3.3 Ravensthorpe Tenements and Private Land Holdings during 2009



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This package has since been combined into a single mining lease titled M74/244 (see Table 3.1) covering a total area of 1,832 hectares (see Figure 3.4).

Figure 3.4 Current Mt Cattlin tenement area

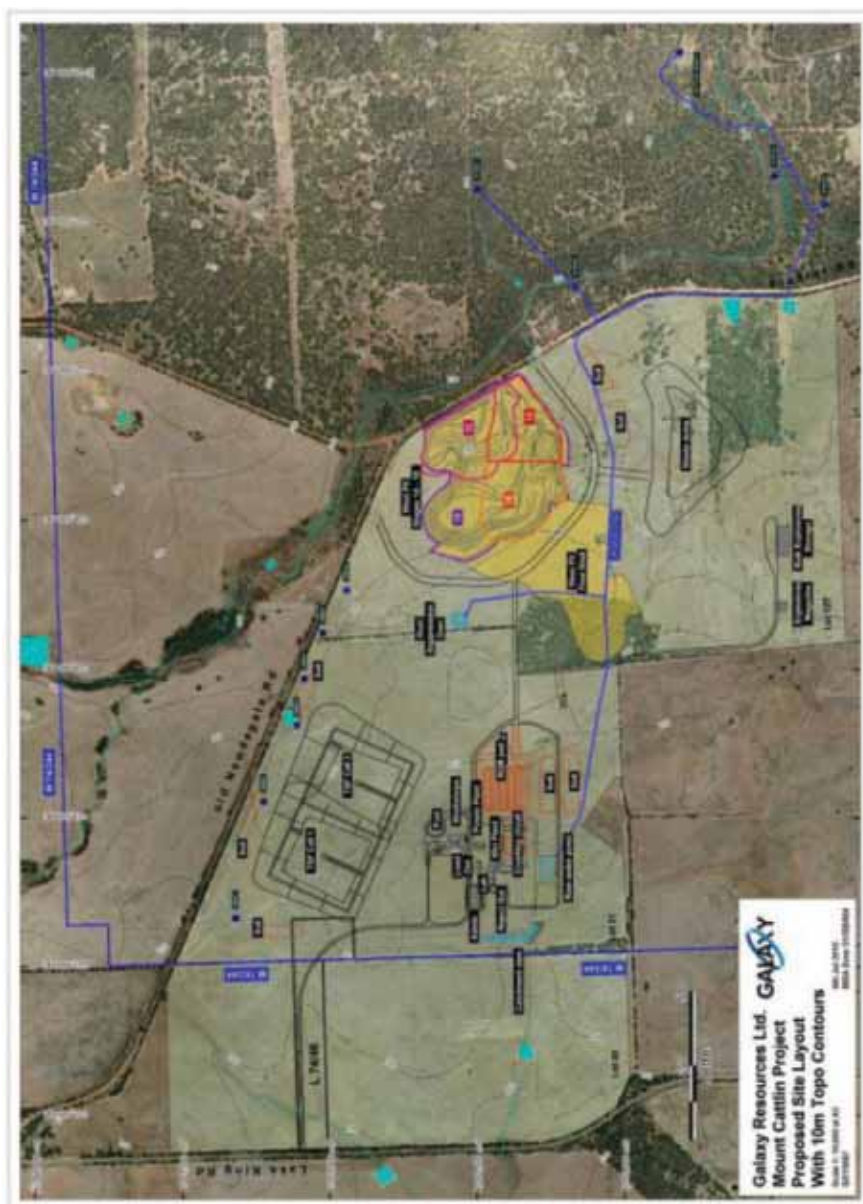


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The Mt Cattlin mine, plant and associated facilities can be seen in the top left corner of the M74/244 mining lease area in Figure 3.5.

Figure 3.5 Location of Mt Cattlin mine and facilities



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4. GEOLOGY

4.1 OVERVIEW

4.1.1 Regional geology

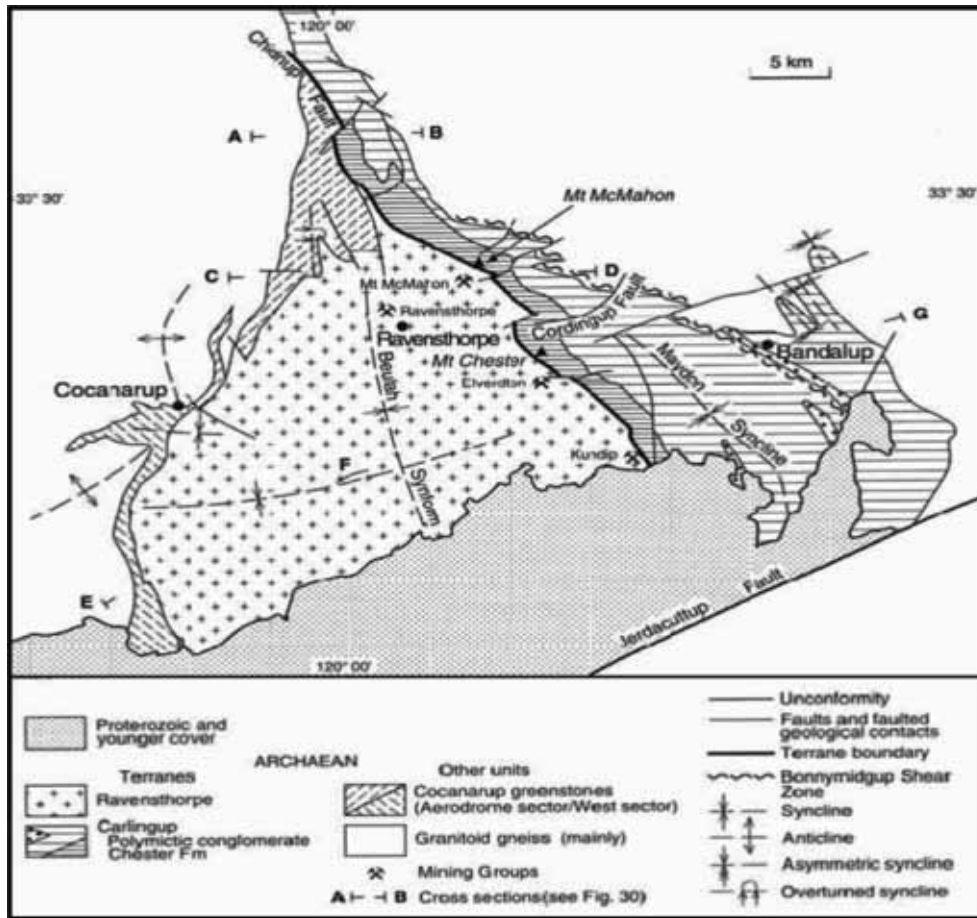
The Mt Cattlin project is located in the Phillips River Mineral Field, within the Ravensthorpe Terrane, which forms part of the Archaean Ravensthorpe greenstone belt.

The Ravensthorpe greenstone belt has been subdivided into three distinct tectonostratigraphic terranes by Witt (1998). The Carlingup Terrane (c. 2960 Ma) lies to the east and comprises metamorphosed mafic, ultramafic and sedimentary rocks with minor felsic volcanic rocks (Figure 4.1). The Ravensthorpe Terrane (c. 2990 to 2970 Ma), which hosts the Mt Cattlin deposit, forms the central portion of the belt and comprises a tonalitic complex, together with a volcanic association with predominantly andesitic volcanoclastic rocks (Witt, 1998). The Cocanarup greenstones to the west (Figure 4.1) consist mainly of metasedimentary rocks, with lesser ultramafic and mafic rocks. Witt (1998) interprets the terranes to represent fault-bounded accreted domains, with subsequent deformation producing the major south-plunging Beulah synform. Metamorphic grade indicated by metamorphic mineral assemblages varies from greenschist to amphibolite facies. The Ravensthorpe Terrane is predominantly a calc-alkaline complex, and has been subdivided into the Annabelle Volcanics and the Manyutup Tonalite, with both sequences showing similar chemical and age characteristics (Witt, 1998). The Annabelle Volcanics sequence is dominated by volcanoclastic rocks with minor lavas. The sequence comprises roughly 10% to 20% basalt, 50% to 70% andesite and 20% to 30% dacite (Witt, 1998). Figure 4.1 shows the major tectonostratigraphic terranes and structures in the Ravensthorpe Greenstone Belt (from Witt, 1998).

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Figure 4.1 Regional geology



4.1.2 Mt Cattlin geology

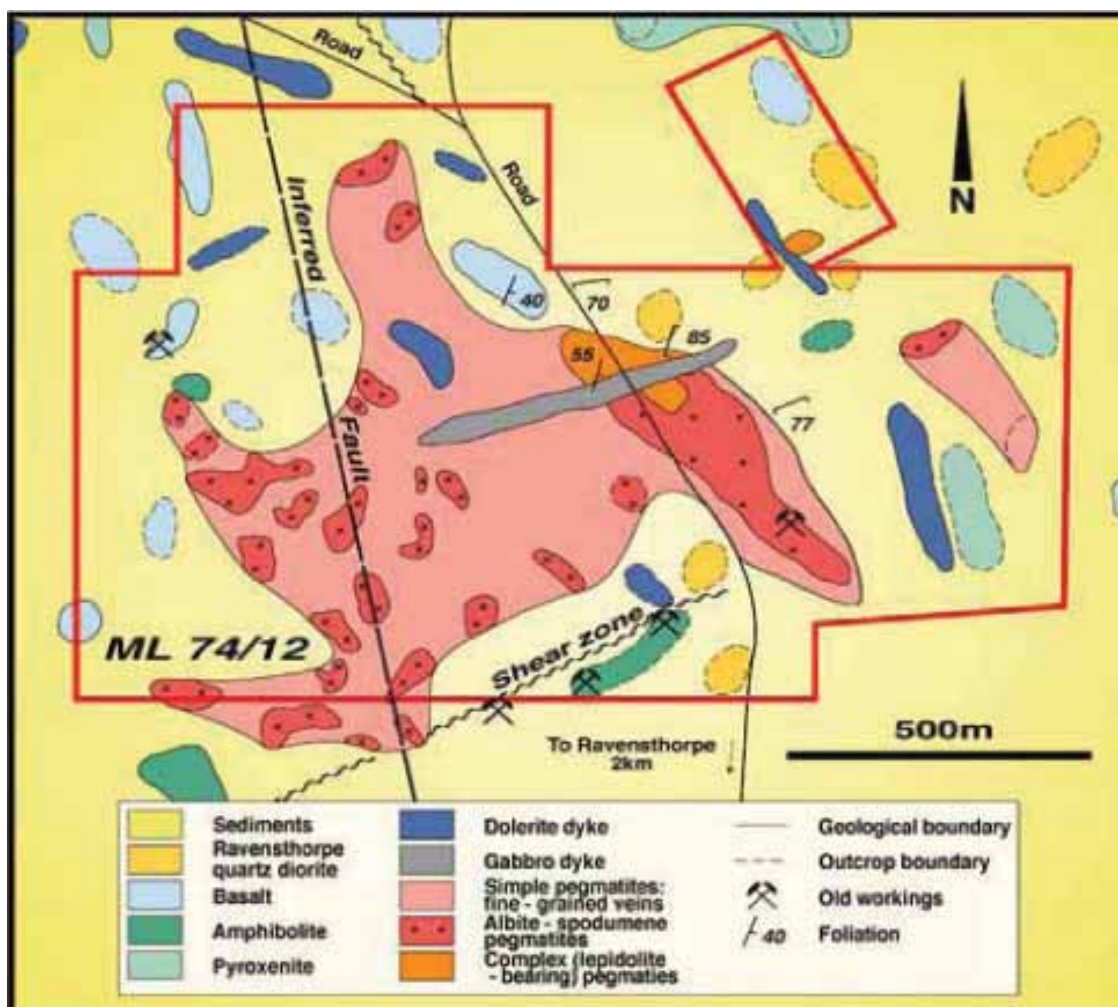
The Mt Cattlin deposit lies within the Ravensthorpe Terrane, with host rocks comprising both the Annabelle Volcanics to the west, and the Manyutup Tonalite to the east. The contact between these rock types extends through the project area. The Annabelle Volcanics at Mt Cattlin area consist of intermediate to mafic volcanic rocks, comprising both pyroclastic material and lavas. Several phases of the Manyutup Tonalite are recognized by Witt (1998) in the Ravensthorpe Terrane, but in the Mt Cattlin area it comprises mainly tonalite. A simplified geological map over the resource area is given in Figure 4.2.

The pegmatites which comprise the orebody occur as a series of subhorizontal dykes, hosted by both volcanic and intrusive rocks. Several dolerite/gabbro dykes trending roughly east-north-east and north-south cut all lithologies including the pegmatite dykes, and are interpreted to be Proterozoic in age. A north-north-west-trending, subvertical fault, evident on cross-sections and aeromagnetic data transgresses the western side of the currently-defined orebody, and offsets the pegmatite as well as the main east-north-east trending dolerite dyke. Displacement across this fault is oblique, with west block down and sinistral components.

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Figure 4.2 Simplified geological map of ML74/12



Source: From Haddington Resources, After Pancon Mapping

4.1.3 Mt Cattlin mineralization

Pegmatite dykes occur as a series of sub-horizontal to gently-dipping horizons. In places they occur as stacked horizons which overlap in section. Several different types of pegmatite have been recognized by previous workers such as Sullivan and Broomfield (1989), who subdivided the pegmatites into three categories based on mineralogical, structural and textural grounds:

- (1) Simple pegmatites
- (2) Complex lepidolite pegmatites
- (3) Albite-spodumene pegmatites

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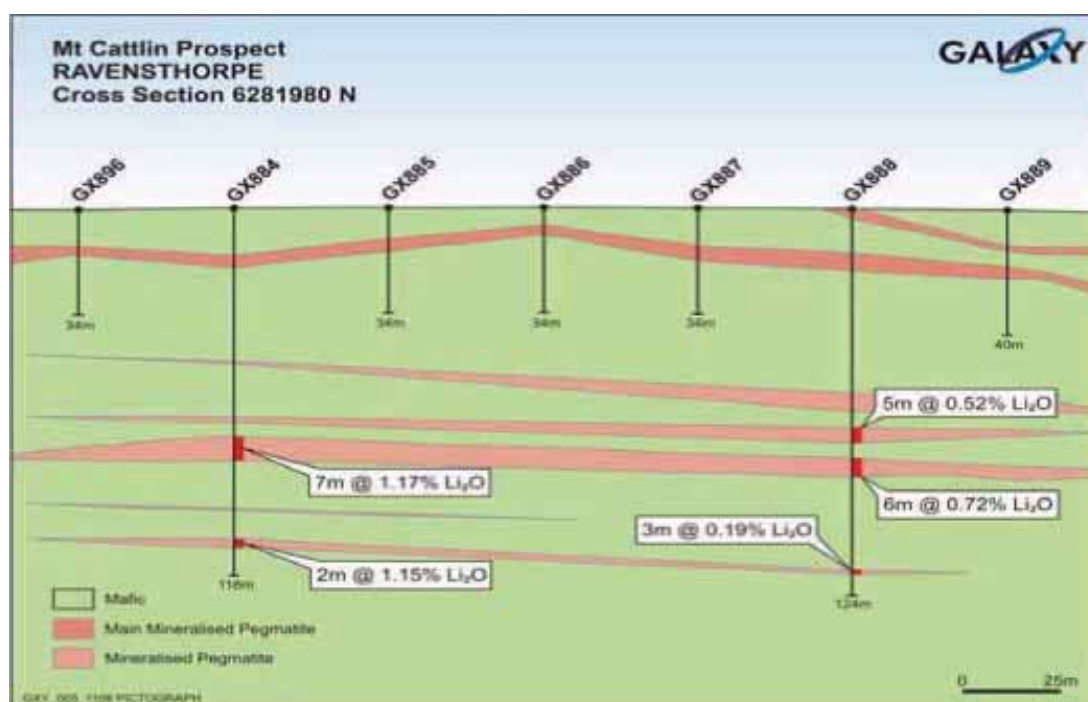
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The pegmatites are zoned vertically, and can be quite variable laterally, with a single pegmatite horizon showing characteristics of all three types at various locations. The pegmatites consist of a diverse mineralogy, with major minerals comprising quartz, albite (cleavandite), microcline, perthite, spodumene, muscovite and lepidolite. Minor minerals include tourmaline, schorlite, elbaite, beryl, microlite, columbite-tantalite, sphalerite, amblygonite-montebrazite, triphylite, apatite, spessartite and fluorite (Grubb, 1963).

Spodumene comprises the predominant lithium ore mineral, and several types of spodumene are recognized, including light green and white varieties. The pegmatites have a variable spodumene content, and exhibit zoning in a vertical sense (perpendicular to margins), with zones differentiated by mineralogy and grain size. The main zones recognized are shown in Figure 4.3 and include an aplitic rock comprising mainly quartz-albite-muscovite near contacts with country rocks, and zones of predominantly light green, and predominantly white spodumene. A dark green mineral occurs as an alteration product of the light green and white spodumene, in places associated with albite stringers or prehnite-rich veins. Economically significant grades of tantalum (present as columbite tantalite and microlite) also occur within the pegmatite.

The main pegmatite units drilled to date generally lie less than 30 m below the surface, and outcrop in some locations. However, deeper zones of lithium mineralized pegmatites over 130m below the surface have also been intersected in the few deeper holes that have been drilled in some locations (Figure 4.3). The weathering profile is shallow, with fresh rock generally being encountered at depths of less than around 20 m.

Figure 4.3 Cross section 6281980N, showing pegmatite horizons below the main pegmatite zone



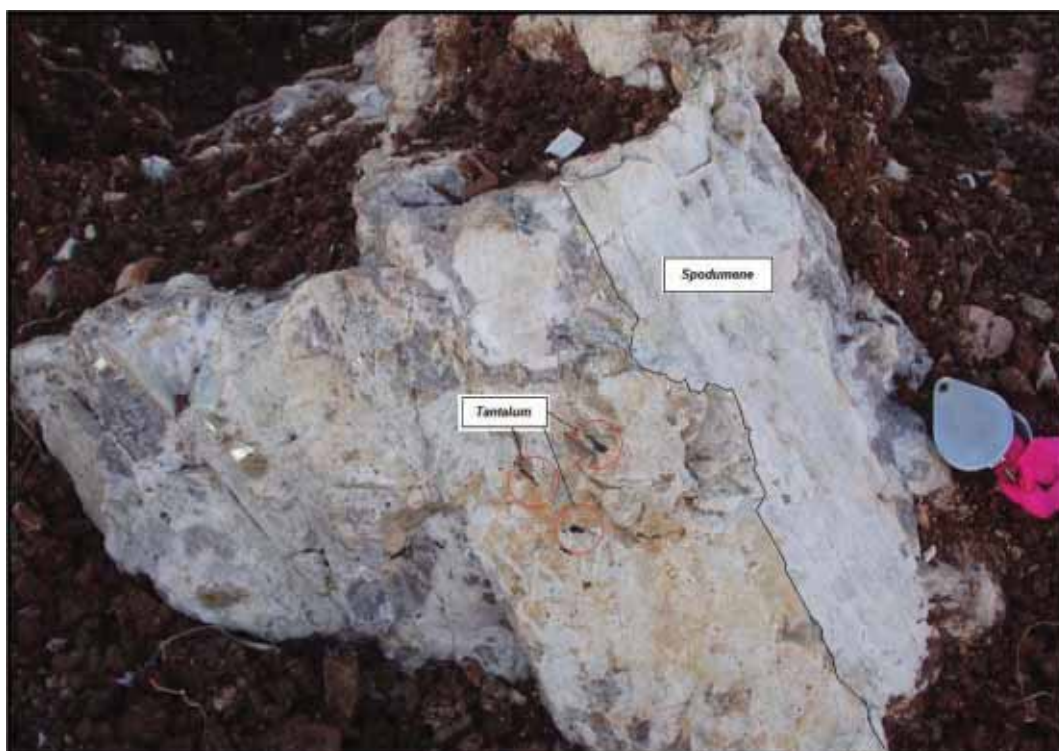
Source: Galaxy Resources

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The pegmatite bodies hosting the tantalite — spodumene mineralization occur as a relatively flat sheet, varying in thickness from 1 to 20 m. The depth to the top of the pegmatite varies from 24 to 60 m, with a general deepening to the northeast. The pegmatite, in most places, is enclosed within Archaean mafic volcanic, dolerites or tonalite units. Figure 4.4 shows a surface cut specimen of pegmatite, exhibiting tantalum (black crystal indicated in red circles) and spodumene crystals (white to tan crystal on eastern flank of sample, from the Ravensthorpe project area.

Figure 4.4 Surface cut specimen from the Ravensthorpe project area



Source: Hellman & Schofield

The pegmatite splits into two separate zones in the SW, and some inter-fingering between the pegmatite intrusion and the mafic country rock occurs elsewhere.

The pegmatite is cut by a later, barren dolerite dyke around 70-100 m thick which trends ENE through the ore body, dividing it approximately in half. Other late dolerite dykes which cut the orebody trend NE and a minor late dyke in the east of the ore-body trends NNW.

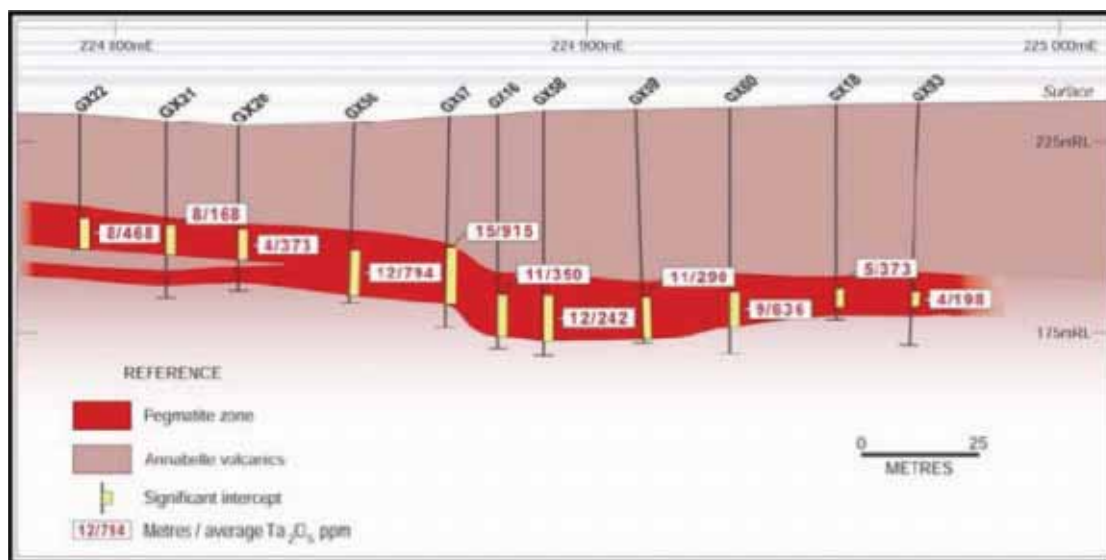
The pegmatite is weakly zoned mineralogically in places and where the full width of pegmatite is intersected in drill holes, an upper zone or marginal area of muscovite rich pegmatite with low tantalite values and high tin values is apparent. This zonation gives way to spodumene bearing zones, up to 12 m thick, and in some places a central zone comprising spodumene, lepidolite, pink tourmaline, microlite and tantalite occurs.

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The lower margin is generally thinner than the upper marginal zone and consists of spodumene, feldspar and muscovite. Elevated grades of tantalum are generally confined to the central zone (see Figure 4.5).

Figure 4.5 Mt Cattlin Pegmatite, northern portion of the Ravensthorpe project area.



Source: Hellman & Schofield

The red horizon in the figure above shows the host pegmatite essentially lying flat and undulating gently. Galaxy’s drilling undertaken during 2008/2009 has intersected additional deeper parallel/sub-parallel pegmatite horizons previously unrecognized, which have proved to be variably mineralized and might hold further significant mineralization potential.

5. EXPLORATION

5.1 EXPLORATION AT MT CATTLIN

Galaxy will continue conducting exploration and sampling at Mt Cattlin in conjunction with ongoing mining activities.

Snowden has been informed by Galaxy that further exploration at Mt Cattlin has the follow objectives:

- Extension drilling where mineralization is still open, such as portions of the NW zone.
- Deeper pegmatite horizons have been intersected in the few deeper holes drilled beneath the resource, and follow up work on these is required to determine their extent and grade.
- The proposed pit shells contain 1.79 mt at 0.96% Li₂O and 139 ppm Ta₂O₅ of Inferred Resources. Additional infill drilling is required to upgrade the resource category in these areas.

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- It is planned to trial geophysics to test the potential for detecting blind pegmatite horizons.
- Further work is required to follow up outcropping pegmatites on both the mining lease (M74/244) and adjacent exploration licences.
- Improved geological understanding resulting from the exposure of significant mineralization in the open pit will assist in targeting future exploration programs.

6. MINERAL RESOURCES

Snowden reviewed the Mineral Resource report completed for Galaxy by Hellman & Schofield during December 2009 (Mt Cattlin Resource Estimation Report, Lithium/Tantalum Elements, Ravensthorpe, WA — December 2009).

The Competent Persons involved in the compilation of information that relates to Mineral Resources and Exploration Results are Mr. Robert Spiers, who is a full time employee of Hellman & Schofield and Mr Philip Tornatora who is a full time employee of Galaxy. Mr. Spiers and Mr Tornatora have sufficient experience which is relevant to the style of mineralization and type of deposit under consideration and to the activity they are 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’.

It was not Snowden’s intention to reproduce the report produced by Hellman & Schofield in this document, although relevant information has been summarized in this section.

Galaxy completed a resource drilling program over the Mt Cattlin deposit during 2007/2008 during which drill testing was variably in filled to three primary pattern densities, 20mEx20mN in the north of the area, 40mEx40mN in the central and eastern portion of the area of interest and 40mEx80mN in the western and southern portions of the area of interest.

Hellman & Schofield used this drilling data and sectional interpretations of the geology which had been interpreted by Galaxy’s geologists as being representative of the mineralization and its relationship to the host geology. This data was used to construct a resource model of the $\text{Li}_2\text{O}/\text{Ta}_2\text{O}_5$ mineralization of the Mt Cattlin project which was summarized in Hellman & Schofield May 2009 report.

During November 2009, Snowden conducted a desk top review of the Mineral Resources declared by Galaxy, and supported by the May 2009 report from Hellman & Schofield, for the Mt Cattlin project.

6.1 MINERAL RESOURCES — DECEMBER 2009

During August 2010, Snowden was provided with a resource update prepared by Hellman & Schofield dated December 2009 (see Table 6.2).

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Table 6.1 Mt Cattlin Resource (from Hellman & Schofield December 2009)

<u>Resource</u>	<u>Tonnes</u>	<u>Li₂O (%)</u>	<u>Ta₂O₅ ppm</u>
Measured	2,672,000	1.17	150
Indicated	9,629,000	1.09	171
Inferred	3,575,000	1.00	145
TOTAL	<u>15,875,000</u>	1.08	161

Note: Li₂O cut off grade — 0.4% Li₂O

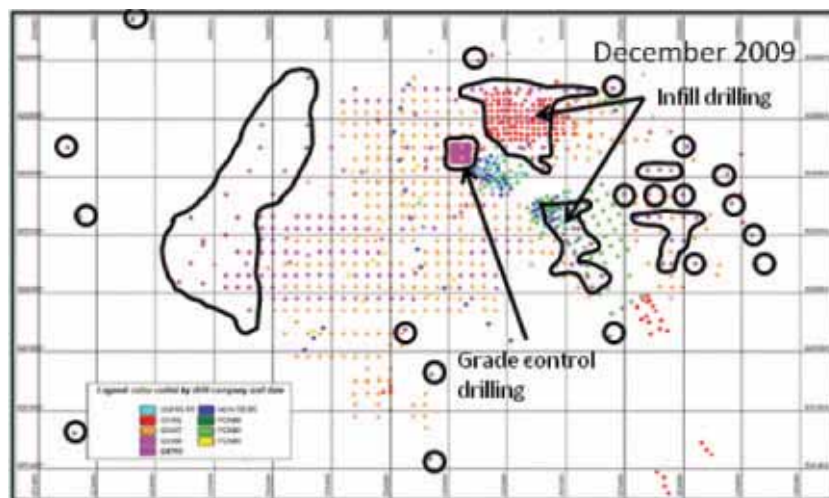
This report was based on additional information obtained during 2009, when Galaxy conducted an expanded resource drilling program over the Mt Cattlin deposit. Drill testing over the area has been primarily in-filled to 40mEx40mN, with the exception of 40mEx80mN in the far SW and SE of the resource. In addition a deep portion of the deposit in the NW has been drilled to 160mEx80mN and a portion in the NE has been drilled to 20mEx20mN.

Within the collar file datasets used by Hellman & Schofield in arriving at the estimation for Mt Cattlin are 885 holes for a total of 40,696.36 metres.

6.1.1 Additional drill holes

Since the completion of the May 2009 Resource Estimate, an additional 123 RC and 4 diamond holes have been drilled, sampled and assayed. This has provided an additional 2,929 samples which have been considered in the December 2009 Resource Estimate. The location of the latest drillholes is shown in black outlines in Figure 6.1. The drilling includes resource drilling on the outer margins of the project, infill drilling or redrilling where Li₂O assay information was missing and grade control drilling. Most of the drilling has targeted a drill spacing of 40 mE by 40 mN and the grade control drilling is spaced at 10 mE by 10 mN. Snowden understands that the grade control drilling has not been used in the Mineral Resource Estimation.

Figure 6.1 Drillhole collar location for the December 2009 resource estimate



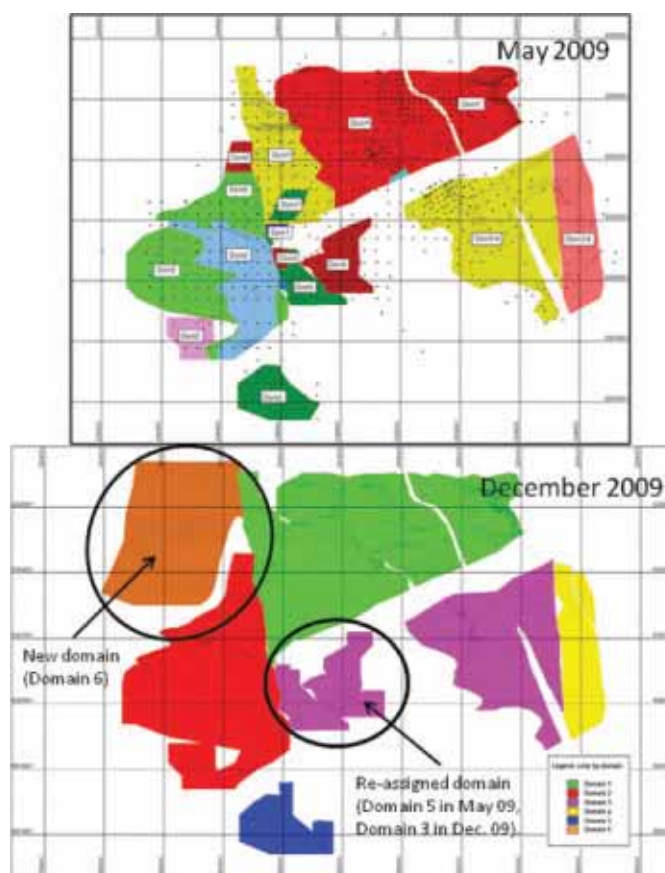
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6.1.2 Data domains

The drillhole data has been coded with the use of wireframes into different domains. Small changes to the interpretation have occurred between May and December 2009 with one completely new domain and the re-allocation of part of one part of a domain (domain 5) to another domain (domain 3). A comparison between the May and December 2009 wireframes, both completed by Galaxy, is shown in Figure 6.2. The December wireframes incorporate the latest geological interpretation of multiple overlapping pegmatite horizons.

Figure 6.2 Domains used in the May and December Resource Estimations



6.1.3 Variography

The variogram parameters used for the May 2009 Mineral Resource Estimation are different to those used in the December 2009. Changes to the domains and the inclusion of additional data, may change the experimental variogram for each domain and the December variogram model parameters reflect these changes.

6.1.4 Estimation

Li_2O , Ta_2O_5 and Nb_2O_5 have been estimated in May 2009 and December 2009 with the addition of SnO in the December calculation. The block model dimensions used in December is the same as for May at 20 mE by 20 mN by 2.5 mRL.

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The resource has been estimated by ordinary kriging (“OK”) methods using Hellman & Schofield’s own in-house software (MP³). The estimation parameters have not changed between the May 2009 and December 2009 Mineral Resource Estimate. The reported methodology, minimum and maximum quadrants and number of samples is the same for both estimates. The only difference in the estimate is the additional samples, slight differences in the data domains and variogram parameters used.

6.1.5 Classification

The December 2009 Mineral Resource Estimate has been classified by Hellman & Schofield as Measured, Indicated and Inferred.

Hellman & Schofield has indicated that the December Mineral Resource Report (2009) has been completed following the guidelines of the JORC (2004) Code.

The classification of the estimate into the resource categories of Measured, Indicated and Inferred is reported by Hellman & Schofield to be based on the following:

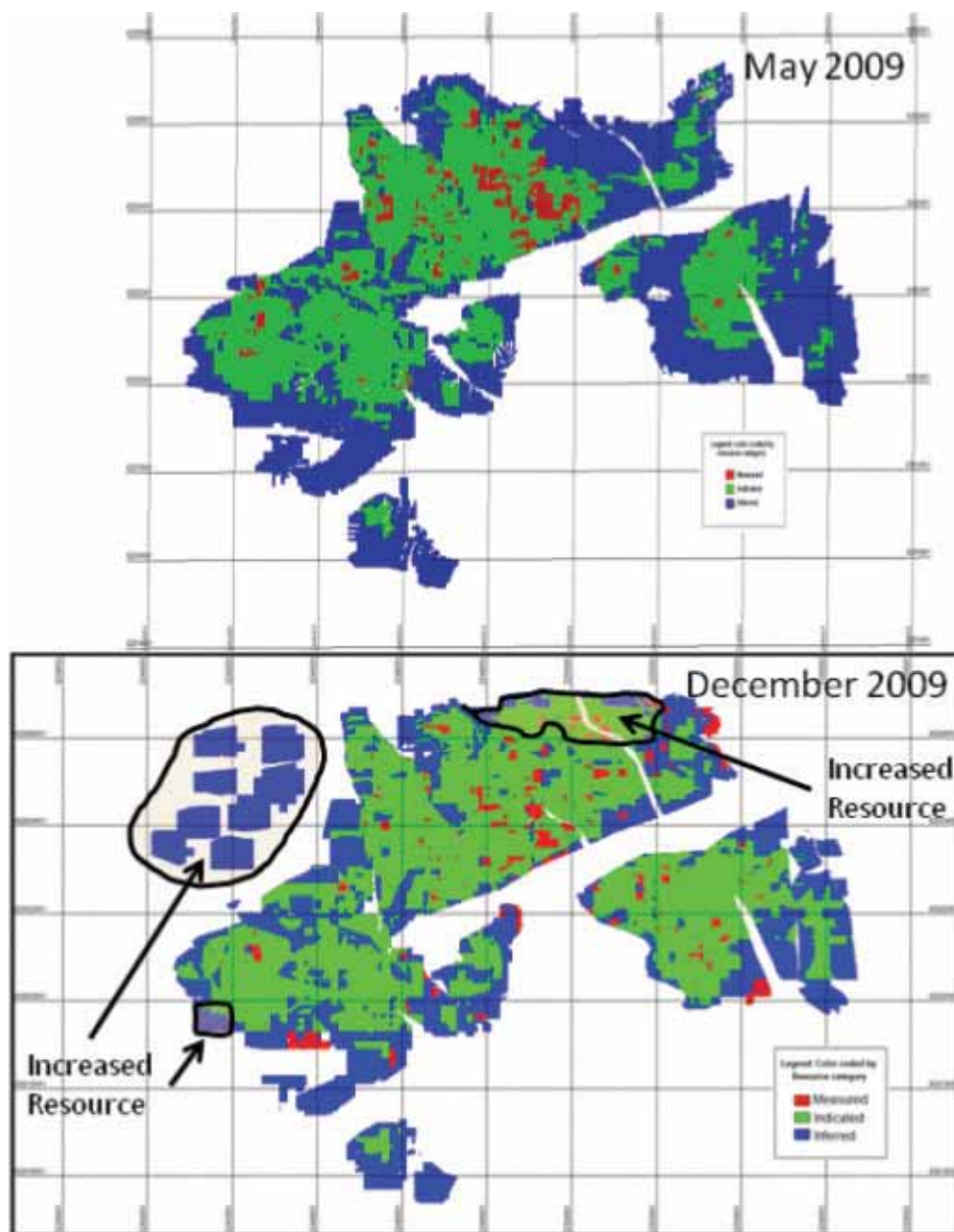
- Minimum number of samples found in the search neighbourhood
- Minimum number of spatial quadrants informed
- The distance to informing data

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A direct comparison between the May and December 2009 Mineral Resource classification is shown in Figure 6.3. The highlighted areas show where the major additions to the resource are located. These additions are consistent with the locations of additional drilling. The shape and size of the Indicated resource has increased in December 2009 in areas of additional drilling.

Figure 6.3 Comparison between May and December 2009 resource classifications



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6.1.6 Resource reporting

Snowden has compared the May 2009 and December 2009 Mineral Resource Estimates which is summarized in Table 6.2. The global tonnage has increased by 10% but the grade remains relatively unchanged at a 4,000 ppm Li₂O cut-off.

Table 6.2 Comparison between the May and December 2009 Mineral Resource Estimates

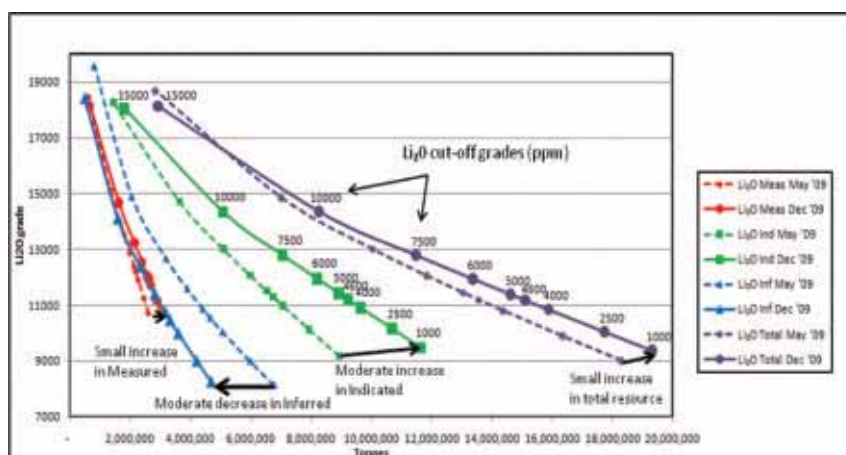
Li ₂ O ppm cutoff	Resource	May 2009 Resource		December 2009 Resource		Difference ((Dec-May)/May)		
		Tonnes	Li ₂ O ppm	Tonnes	Li ₂ O ppm	Tonnes	Tonnes (%)	Li ₂ O ppm
1000	Inferred	6,755,729	8155	4,662,374	8275	-2,093,000	-31%	1%
	Indicated	8,929,761	9184	11,636,931	9469	2,707,000	30%	3%
	Measured	2,595,955	10696	3,018,796	10688	423,000	16%	0%
	TOTAL	18,281,446	9018	19,318,102	9372	1,037,000	6%	4%
2500	Inferred	5,961,813	9012	4,182,382	9020	-1,779,000	-30%	0%
	Indicated	7,923,574	10136	10,687,061	10154	2,763,000	35%	0%
	Measured	2,444,259	11244	2,864,609	11162	420,000	17%	-1%
	TOTAL	16,329,645	9892	17,734,051	10049	1,404,000	9%	2%
4000	Inferred	5,044,413	10059	3,573,757	10005	-1,471,000	-29%	-1%
	Indicated	7,063,584	10974	9,628,958	10913	2,565,000	36%	-1%
	Measured	2,260,127	11893	2,672,447	11729	412,000	18%	-1%
	TOTAL	14,368,124	10797	15,875,162	10846	1,507,000	10%	0%
4600	Inferred	4,639,279	10561	3,296,102	10484	-1,343,000	-29%	-1%
	Indicated	6,738,511	11297	9,215,987	11210	2,477,000	37%	-1%
	Measured	2,175,151	12190	2,588,192	11970	413,000	19%	-2%
	TOTAL	13,552,941	11188	15,100,281	11182	1,547,000	11%	0%
5000	Inferred	4,391,599	10887	3,140,591	10766	-1,251,000	-28%	-1%
	Indicated	6,515,993	11519	8,918,711	11424	2,403,000	37%	-1%
	Measured	2,122,747	12373	2,557,136	12057	434,000	20%	-3%
	TOTAL	13,030,338	11445	14,616,438	11393	1,586,000	12%	0%
6000	Inferred	3,882,534	11595	2,796,121	11414	-1,086,000	-28%	-2%
	Indicated	5,963,313	12078	8,192,117	11952	2,229,000	37%	-1%
	Measured	1,985,820	12853	2,378,488	12546	393,000	20%	-2%
	TOTAL	11,831,667	12050	13,366,726	11945	1,535,000	13%	-1%
75000	Inferred	3,169,309	12693	2,314,488	12393	-855,000	-27%	-2%
	Indicated	5,074,265	13013	7,045,000	12794	1,971,000	39%	-2%
	Measured	1,789,202	13526	2,123,015	13244	334,000	19%	-2%
	TOTAL	10,032,776	13003	11,482,502	12796	1,450,000	14%	-2%
10000	Inferred	2,034,036	14900	1,570,106	14120	-464,000	-23%	-5%
	Indicated	3,621,038	14714	5,072,201	14338	1,451,000	40%	-3%
	Measured	1,347,909	15105	1,604,944	14678	257,000	19%	-3%
	TOTAL	7,002,983	14844	8,247,251	14363	1,244,000	18%	-3%
15000	Inferred	787,677	19580	480,172	18431	-308,000	-39%	-6%
	Indicated	1,427,859	18273	1,790,551	18045	363,000	25%	-1%
	Measured	603,873	18450	634,299	18160	30,000	5%	-2%
	TOTAL	2,819,408	18676	2,905,023	18134	86,000	3%	-3%

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The differences are compared graphically as grade tonnage curves between the global resource and the individual resource categories. It appears that much of the increase in Measured and Indicated resources has been at the expense of the Inferred category (Figure 6.4). The results are consistent with infill drilling and extensional drilling on the project margins.

Figure 6.4 Grade tonnage curves for May and December 2009 Mineral Resource Estimates



6.2 SNOWDEN’S OPINIONS ON THE MINERAL RESOURCE ESTIMATES

In Snowden’s opinion, the May and December 2009 Mineral Resource estimates have followed similar methodologies. Snowden is satisfied that expected industry practices have been used and have identified no major flaws in the estimation process following reviews of the May and December Mineral Resource Documents. The main difference between the May and December estimates is that more drillholes samples were available and used in the December estimate which directly contributed to the increase in the Measured and Indicated categories with a corresponding decrease in the Inferred category. Snowden therefore considers the December 2009 resource classification completed by Hellman & Schofield to be adequate and suitable for use in the generation of Ore Reserves and subsequent scheduling as part of the production profile used in the Galaxy’s mine plan and financial model.

7. ORE RESERVES

Snowden has based its assessment of the Ore Reserves upon consideration of:

- (1) Update of pit designs, mining schedule of Ore Reserves over LOM issued September 14, 2010.
- (2) Mining schedule of Ore Reserves over LOM issued July 2010.
- (3) Ore Reserve update issued March 2010.
- (4) Resource update January 2010.

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(5) Ore Reserve statement issued September 2009.

(6) Mt Cattlin Feasibility Study dated January 2009.

The information that was used by Snowden to assess the reasonability of the process followed and assumptions used by Galaxy to define Ore Reserves and other mining parameters have been summarized under the Bibliography section at the back of this document.

7.1 HISTORY OF GALAXY’S ORE RESERVE ESTIMATES

The mining reserve and mine plan for the project has been upgraded a number of times since the release of the DFS in January 2009 with the most recent update of the Ore Reserve, issued by Competent Persons in terms of the Australian JORC (2004) code and guidelines, on March 11, 2010. This resulted in a 23% increase in the reserve base over the original DFS. A reserve report was issued to support the revised Ore Reserve statement by Roselt Croeser, Croeser Pty Ltd, on July 11, 2010. This comprised a pit optimisation study and corresponding final limits pit design (files ‘des1c.dxf’ and ‘des1ctr.dxf’ from archive des1_28jan2010.zip’) that reflected the Ore Reserve upgrade.

A Life of Mine (LOM) schedule based on the March 11, 2009 Ore Reserve was subsequently issued July 22, 2010. This comprised a mining schedule, ore blending and stockpile management plan (‘schedule_v8_LOM_res_22Jul2010.xlsx’) based on the final limits pit design. To assess the potential project upside, a LOM schedule inclusive of all inferred material (diluted and recovered) was also issued July 22, 2010 (‘schedule_v8_LOM_19Jul2010.xlsx’).

Following review of pit designs and recent grade control drilling, Croeser updated the pit designs and released an update of the pit design, reserve inventory, ore reserve report and LOM schedules on September 14, 2010. While the scheduled reserve is close to the formal Ore Reserve issued March 11, 2010, adjustments to the design resulted in a significant reduction in waste movements. Material adjustments comprise:

- Redesign of the northwest pit area to exclude high stripping ratio areas
- Profiling of pit floors to ore contacts to improve ore recovery

A final LOM design and schedule dated September 14, 2010 was subsequently issued. This comprised a mining schedule, ore blending and stockpile management plan (‘schedule_v8_LOM_res_6Aug2010.xlsx’) based on the final limits pit design. To assess the potential project upside, a LOM schedule inclusive of all inferred material (diluted and recovered) was also issued July 22, 2010 (‘schedule_v8_LOM_5Aug2010.xlsx’). Croeser applied mining dilution of 10% at zero grade and mining recovery of 95% for the Ore Reserve while for the upside case mining dilution of 10% at zero grade and mining recovery of 95% was applied.

The final LOM annual production schedules presented a profile for ore/waste tonnages, stripping ratios, estimated actual head grade and feed grades over the life of mine period. Snowden has reviewed this schedule and design and can confirm that the analysis, design and scheduling work has been undertaken in an appropriate manner and represents a sound basis for mine planning, capital and operating cost estimation and cash flow analysis.

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A comparison of the March 2009 DFS ‘minable reserve’, September 2009 Ore Reserve and recently upgraded March 2010 and September 2010 Ore Reserve estimates are compared in Table 7.1 below.

Table 7.1 Comparison of mining reserve estimates

<u>Basis*</u>	<u>Date</u>	<u>Tonnes Mt</u>	<u>Grade Li₂O %</u>	<u>Grade Ta₂O₅ ppm</u>
DFS Minalbe Reserve	March 2009	5.654	1.10%	104
JORC Ore Reserve	September 2009	9.293	1.04%	138
JORC Ore Reserve	March 2010	11.367	1.05%	147
Preliminary Ore Reserve**	September 2010	11.421	1.05%	147

* Based on Measured and Indicated Mineral Resources translating to Proved plus Probable Ore Reserves.

** Represents a minor adjustment to the March 2010 Ore Reserve statement. A reserve report, designs and schedules have been issued by Croeser, September 14, 2010.

The DFS mine plan was based on a ‘minable reserve’ of 5.654 Mt at an average grade of 1.10% Li₂O and 104 ppm Ta₂O₅ reported at a cut-off grade of 0.458% Li₂O as at March 2009 and was subsequently updated to an Ore Reserve totalling 9.283 Mt at an average grade of 1.04% Li₂O and 138 ppm Ta₂O₅ reported at a cut-off grade of 0.4% Li₂O as at August 2009 (released September 11, 2009), stated as compliant with the Joint Ore Reserves Committee (JORC) code and guidelines. The recent 23% upgrade dated March 11, 2010 provided an Ore Reserve totalling 11.367 Mt at an average grade of 1.05% Li₂O and 147 ppm Ta₂O₅ reported at a cut-off grade of 0.4% Li₂O. This has subsequently been upgraded to an Ore Reserve totalling 11.421 Mt at an average grade of 1.05% Li₂O and 147 ppm Ta₂O₅ reported at a cut-off grade of 0.4% Li₂O based on additional grade control drilling and pit design work.

In Snowden’s review of the Ore Reserves and mining assumptions the focus was placed on the process followed to derive the Ore Reserves especially pertaining to those factors which are direct inputs into the financial model (cash flow).

All mining reserve estimates have been based on 10% mining dilution and 95% recovery which Snowden regards as appropriate considering the nature of the orebody.

The Ore Reserve is based on pit optimisations completed by Croeser (September 2010). Whittle 4X software was used to generate optimum pit shells which were then used as a basis for an ultimate limit pit design. The Ore Reserve is based on the Measured and Indicated Mineral Resources estimated from diamond- and reverse circulation drilling information and indicator kriging models prepared on this basis by Hellman and Schofield were used as the primary input to pit optimisation. An appropriate economic cut-off grade was used as calculated from the pit optimisation parameters.

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7.2 MINERAL RESOURCE ESTIMATE

The resource adopted for pit optimisation, design and delineation of the current reserve was updated in January 2010 by Hellman & Schofield and reported to the ASX January 20, 2010. The previous resource estimate was released in May 2009 and since then, additional drilling, modelling and evaluation has increased the project's total contained lithium oxide resource by 11% to 172,000 tonnes. The revised January 2010 resource is detailed in Table 7.2.

Table 7.2 December 2009 Mt Cattlin global Resource estimate

<u>Category</u>	<u>Tonnes</u>	<u>Li₂O (%)</u>	<u>Ta₂O₅ ppm</u>
Measured	2,672,000	1.17	150
Indicated	9,629,000	1.09	171
Inferred	3,575,000	1.00	145
TOTAL	<u>15,875,000</u>	1.08	161

Note: Li₂O cutoff grade >= 0.40% Li₂O. Figures in the above table may not sum due to rounding.

The January 2010 resource estimate has increased the total tonnes for all resource categories by 1.51 million tonnes. Lithium oxide grades have remained the same, while the tantalum pentoxide grade has increased by 5% compared to May 2009. Significantly, tonnes in the measured and indicated categories have increased by 2.98 million tonnes or 32% compared to 2009. The source of the increase in tonnage and contained lithium and tantalum has been largely due to infill drilling of mineralised zones, particularly the Western Mining Costean and North Ravensthorpe areas, plus some extension drilling at the margins of the resource.

7.3 ORE RESERVE ESTIMATE

The current March 2010 Ore Reserve is detailed in Table 7.3

Table 7.3 Reserve statement by Croeser (March 2010)

<u>Reserve</u>	<u>Tonnes</u>	<u>Li₂O%</u>	<u>Ta₂O₅ (ppm)</u>
Proved	2,683,000	1.08	135
Probable	8,684,000	1.04	151
TOTAL	<u>11,367,000</u>	1.05	147

Note: Li₂O lower cut off grade >= 0.4% Li₂O

The current March 2010 reserve estimate is based on optimization Shell 34 of the Croeser March 2010 optimization and design study with the ultimate limit pit design providing a strip ratio of 4.89:1 (compared to the previous 5.25:1). The optimization is based on the inclusion of Inferred Resources to yield a shell 34 inventory of 14.364 Mt at 1.00% Li₂O at strip ratio of 3.51 (compared to the previous 2.72). The increase in strip ratio on implementing the pit design relates to the exclusion of inferred and consideration of this material as waste,

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coupled with an increase in waste material and reduction in ore due to application of the practical pit design. The total pit tonnage contained within the ultimate pit amounts to 66.905 Mt including 55.538 Mt of waste and 11.367 Mt of ore for a strip ratio of 4.89:1. Reserves were calculated at a final lithium carbonate price (i.e. not spodumene price) of US\$6,000/t.

The update to reserve issued September 14, 2010, forms the basis for the currently proposed LOM schedule and has been signed off by Croeser as the Competent Person. Accordingly the pit reserve inventory is provided in Table 7.4.

Table 7.4 Mt Cattlin September 2010 Preliminary Reserve Estimate

<u>Reserve</u>	<u>Tonnes</u>	<u>Li₂O%</u>	<u>Ta₂O₅ (ppm)</u>
Proved	2,683,000	1.08	135
Probable	8,785,000	1.04	151
TOTAL	11,421,000	1.05	147

Note: Li₂O lower cut off grade >= 0.4% Li₂O

According to Croeser, the revised pit design contains total material amounting to 58.217 Mt including 55.538 Mt of waste and 11.421 Mt of ore for a strip ratio of 4.10:1. This represents a 16% reduction in waste stripping and a 0.5% increase in ore at the same grade.

Snowden has checked the September 2010 reserve inventory by examination of the supplied resource model, pit design and LOM schedules. Snowden has separately generated a waste model, combined this with the supplied resource model and interrogated the combined model with the revised design for comparison with the quantities stated in the September 14, Reserve Report and LOM schedules. This work confirmed the Ore Reserve category tonnages, but Snowden noted some variance as follows:

- 11% lower ore volumes but ore tonnage within 0.3% — Snowden has checked this with Croeser and established that the inferred material volume was erroneously included as ore in the LOM schedule, but the ore tonnages were correct. Snowden therefore judges this to have no material impact provided that material tonnage estimates in the LOM schedule are applied to calculation of costs.
- 1% lower total material movement by volume — Snowden has also checked this variance with Croeser and established that there has been additional allowance made by Croeser for ramp establishment.
- 3% lower waste tonnages — this variance is likely attributable to variance in waste model preparation and provisions for ramp establishment.

Following review of these issues with Croeser, Snowden is satisfied that there are no material variances and that the revised pit design, reporting and scheduling has been appropriately undertaken and can provide a firm basis for mine planning and cost estimation.

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7.4 TECHNICAL MINING ASSUMPTIONS

7.4.1 Mine Life and Project Schedule

Croeser has constructed a mining schedule using Galaxy’s current reserves and resources based on mining operations for 13 years (see Table 7.5). The main construction and commissioning of the project has been scheduled to occur over a 12 month period which is reflected in the first year having approximately 30% mine production capacity but no process production. The following year’s production is at nameplate capacity, with full production of 1 million tonnes of ore being achieved and sustained at that level for 10 years until Year 11, apart from a slight dip in Year 6. Production then ramps down in the final two years of the production. It is likely that the production dip in Year 6 to 745 Kt might be offset by proving up of additional inferred resource to reserves in the course of grade control and mining.

A second schedule has been generated which reflects the project upside from the inclusion of 100% of the inferred resource material, suitably diluted and recovered over 14 years (see Table 7.6). Snowden understands this is the schedule that Galaxy will be utilizing as their base case.

Table 7.5 Galaxy schedule for current 11.4 Mt Ore Reserve

	Unit	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Total
Mined Ore	kt	305	1012	1107	969	1222	914	745	979	980	1051	1047	833	256	0	11,421
Mined Grade	Li ₂ O%	0.92	0.99	1.10	1.12	1.14	1.02	1.14	1.19	1.15	0.99	0.90	0.79	1.10	0	1.05
Waste	kt	3,318	3,661	3,836	3,984	3,663	7,482	3,885	3,739	1,853	1,306	2,024	6,908	1,137	0	46,797
Total Material	kt	3,623	4,673	4,943	4,953	4,885	8,396	4,630	4,718	2,833	2,357	3,071	7,741	1,393	0	58,217
Strip Ratio	W:O	10.9	3.6	3.5	4.1	3.0	8.2	5.2	3.8	1.9	1.2	1.9	8.3	4.4	0	4.1
ROM Feed Target	kt	195	795	996	996	996	998	1,000	1,000	1,000	1,000	1,000	1,000	1,000	750	12,726
Processed Grade	Li ₂ O%	1.09	1.11	1.16	1.15	1.26	1.00	0.97	1.17	1.13	1.02	0.92	0.73	0.38	0	0.94
Spodumene Concentrate	kt	27	110	145	143	157	125	122	146	142	128	115	91	47	0	1,497

Table 7.6 Galaxy upside production forecast schedule 12.0 Mt including Inferred material

	Unit	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Total
Mined Ore	kt	293	994	1,079	968	1,210	1,068	844	1,064	1,022	1,072	1,041	1,037	346	0	12,040
Mined Grade	Li ₂ O%	0.96	1.03	1.15	1.17	1.20	1.04	1.20	1.25	1.19	1.04	0.96	0.86	1.18	0	1.1
Waste	kt	3,330	3,679	3,865	3,985	3,675	7,328	3,787	3,654	1,811	1,285	1,756	6,805	1,221	0	46,177
Total Material	kt	3,623	4,673	4,943	4,953	4,885	8,396	4,630	4,718	2,833	2,357	2,796	7,842	1,567	0	58,217
Strip Ratio	W:O	11.4	3.7	3.6	4.1	3.0	6.9	4.5	3.4	1.8	1.2	1.7	6.6	3.5	0	3.8
ROM Feed Target	kt	195	795	996	996	996	998	1,000	1,000	1,000	1,000	1,000	1,000	1,000	750	12,726
Processed Grade	Li ₂ O%	1.13	1.14	1.20	1.18	1.31	1.08	1.13	1.29	1.21	1.09	0.98	0.85	0.75	0.04	1.04
Spodumene Concentrate	kt	24	111	150	147	163	134	141	162	151	136	123	106	93	0	1,641

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Snowden notes that the schedules made key assumptions as follows:

- An annual mine production and processing target of 1 Mtpa which drives the overall mine production schedule.
- Commissioning ramp up in year 1 with an ore production target of 300,000 tpa, with full production achieved in year 2 of 1 Mtpa
- Stockpile levels varied between 0.1 Mt to 1.1 Mt to smooth process grades and provide some flexibility for mill feed grade and concentrate production. Proposed stockpile levels for the upside case are even higher, varying between 100,000 t to 2,000,000 t.

7.4.2 Waste to Ore Stripping Ratio

Overall stripping ratios based on Ore Reserves average 4.1:1 over the LOM and drop to 3.8:1 for the upside case assuming all inferred material converts to reserve. This represents a decrease in stripping ratio from 5.5 to 4.1 compared to the previous Ore Reserve but a slight increase from 2.7 to 3.8 once inferred material is included.

Actual stripping ratios encountered will likely vary somewhere between this range 3.8 – 4.1, depending upon the actual performance of the Ore Reserves on grade control and upon the extent of conversion of Inferred material to reserve.

7.4.3 Ore and Waste Density

The depth of weathering (see Table 7.7) has an influence on ore and waste density and was ascertained from a review of DFS geotechnical recommendations, detailed as below.

Table 7.7 Depth of weathering

<u>Material</u>	<u>Depth</u>
Highly Weathered	Surface to 8 m depth
Slightly Weathered	8 m to 10 m depth
Top of Fresh	10 m

Source: DFS, Appendix 4, by Dempers and Seymour (p2)

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Densities for the oxide, transition and fresh waste zones applied in the optimisation and mining studies are detailed in DFS mining report as summarized in Table 7.8.

Table 7.8 Ore and waste density — mining report

From	To	Waste Density	Ore Density
mRL	mRL	t/BCM	t/BCM
260	255	2.05	2.05
255	250	2.45	2.35
250	Base of model	2.85	2.65

Source: DFS, Appendix 25, Table 1.4, by Mineral Resources.

It is understood that densities will vary by lithology and weathering as detailed by Hellman & Schofield in the May 2009 resource report. Hellman & Schofield noted that there has been limited bulk density determination at Mt Cattlin as the drilling has been RC whereas diamond core or lump material is usually required. Early estimates were based on 5 density determinations on core. More recently, however, 269 readings were taken from 9 diamond drill-holes at 1 m intervals. The density estimates obtained are detailed below in Table 7.9.

Table 7.9 SG data for 2007/8 diamond drill holes

Regolith	Rock type	Min SG	Max SG	Ave SG	No. readings	Approx. depth range of geological unit
TPD		1.745	2.18	1.947	11	0 m to 3 m
SAP	ALL	1.771	2.662	2.132	26	3 m to 7 m
SAPR	ALL	2.12	3.018	2.675	20	7 m to 10 m
FR	FPEG	2.427	2.921	2.654	134	>10 m
FR	MB	2.627	3.086	2.867	39	>10 m
FR	MD/MG	2.841	2.953	2.832	21	>10 m
FR	DRT	2.76	2.941	2.803	12	>10 m

Source: Table 1, ‘Mt Cattlin, Summary points, Interim Resource Estimates, Lithium/Tantalum Elements, Ravensthorpe, WA’, Hellman & Schofield, May 2009. Note: Snowden note the ‘SG’ terminology denoting ‘specific gravity’ as used by Hellman & Schofield should more appropriately be termed ‘bulk density’ as the method of determination is designed to include pore spaces and cavities within the diamond core specimens.

More recently, Snowden has reviewed a report on density determination dated January 14, 2009 that confirms the estimates provided in Table 7.9. The report concludes that densities be applied based on an average depth model whereby:

- Soil/Weathered — 2.05 t/m³ — (0m to 7m)
- Fresh Pegmatite — 2.65 t/m³
- Fresh Waste — 2.85 t/m³

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Galaxy has also recommended future assignment of density values based on the development of a regolith (rock type) model.

The waste and ore model generated by Croeser in the course of reserve estimation has been developed assuming the densities contained within the supplied mineral resource model (mineralization only) and waste densities applied at the rate of 2.05 t/m³ for the oxidised zone above a base of oxidation surface supplied by Galaxy and 2.85 t/m³ in the fresh waste beneath. Snowden regard this is an appropriate method of estimation.

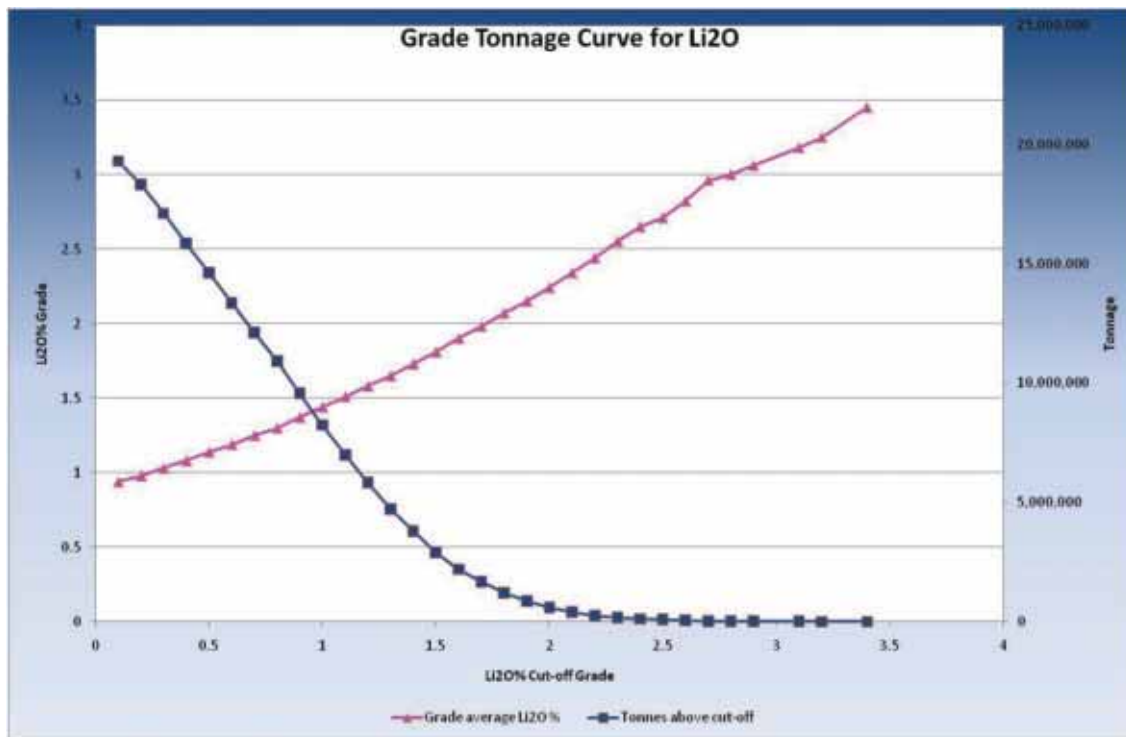
Snowden is not aware of any update of the density database as the result of the 2009 round of drilling.

7.4.4 Cut-off Grade

Estimates of cut-off grade and their application in the DFS (January 2009, p.61) as well as the final optimisation and design study (July 2010) and Ore Reserve statement (March 2010) have been reviewed by Snowden and found to be generally appropriate.

Snowden notes the sensitivity of tonnes above cut off grade to changes in cut off grade despite relatively flat nature of the grade tonnage curve (see Figure 7.1). Varying the cut-off grade with 0.30% to 0.40% can lead to a reduction in the tonnage inventory of the order of 10%. Changes in the grades for Li₂O and Ta₂O₅ are relatively less sensitive to cut-off grade but the impact of changes in Li₂O grade profile during mining upon the head grade and concentrator recovery needs further assessment.

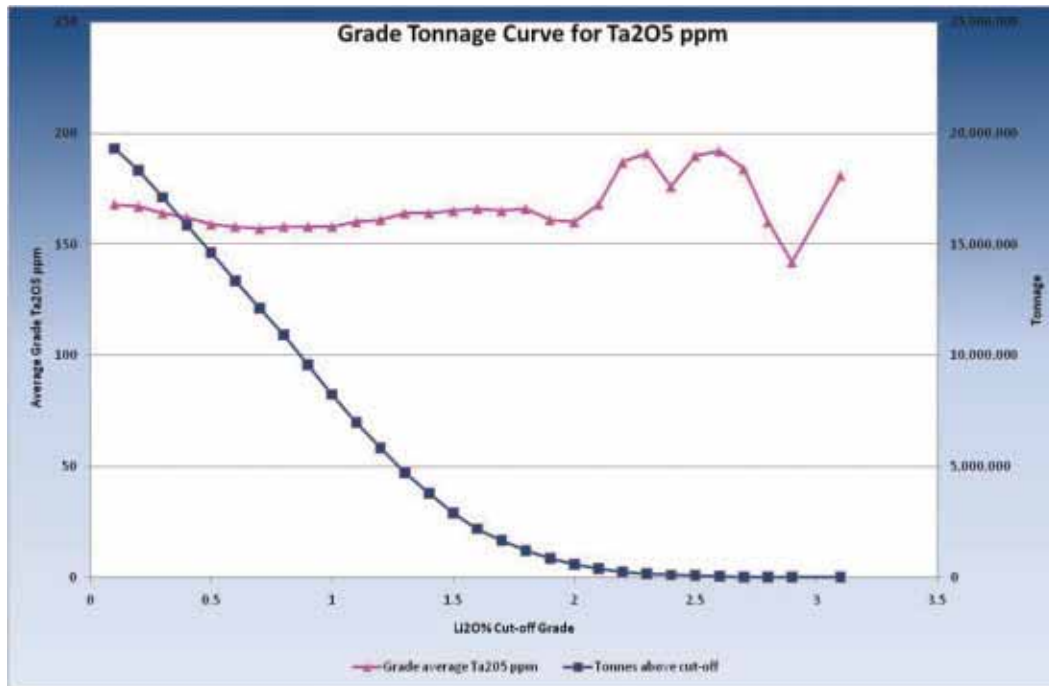
Figure 7.1 Mt Cattlin January 2010 global resource grade tonnage curve for Li₂O% at Li₂O% cut-off



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Figure 7.2 Mt Cattlin January 2010 global resource grade tonnage curve for Ta₂O₅ % at Li₂O % cutoff



Source: Croeser July 2010, Table 3.

The DFS calculated a Li₂O cut-off grade of 0.458% based upon various pit optimisation parameters.

This DFS approach was based on prices received for sale of concentrate net of freight. Snowden has checked and confirmed the DFS calculation based upon the marginal cut-off grade (COG) formula:

$$\text{COG} = (\text{Mining Dilution} * \text{Process Cost}) / (\text{Total Recovery} * (\text{Net Price} - \text{Selling Cost}))$$

The COG evaluation assumes that a 6% Li₂O concentrate is produced and the proportion of tantalum in concentrate remains constant such that revenue accrues for both the Li₂O and Ta₂O₅. The usual convention is that the COG is calculated based solely on revenue per unit grade for the particular product/element under consideration. On that basis the single element COG is slightly higher at 0.550% Li₂O. An equivalent grade for Li₂O is then calculated which combines both the Li₂O and Ta₂O₅ grades. The COG is then applied to the equivalent grade for Li₂O to estimate a resource inventory at a particular grade. In this case, the impact is similar but not quite as accurate as the ratio of Ta₂O₅ to Li₂O will vary slightly. Given the relatively flat grade curve for Ta₂O₅, for the range of COG being considered, Snowden’s view is that the effect is likely to be only minor.

Snowden has also reviewed the cost basis for the COG evaluation by comparison with the DFS cash flow model which included a number of changes. Comparison of the two approaches to estimation indicates that a COG range of 0.40% to 0.57% is applicable, depending on whether a transfer pricing or whole of project approach is adopted. Snowden therefore regard the adoption of 0.4% for the current Ore Reserve as appropriate provided that overall project viability is proven for the inventory defined.

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The most recent estimate of the COG determined by Croeser for the March 2010 reserve estimate has confirmed a COG of 0.40% Li_2O . This estimate has been based on a transfer pricing approach.

7.4.5 Production Rate

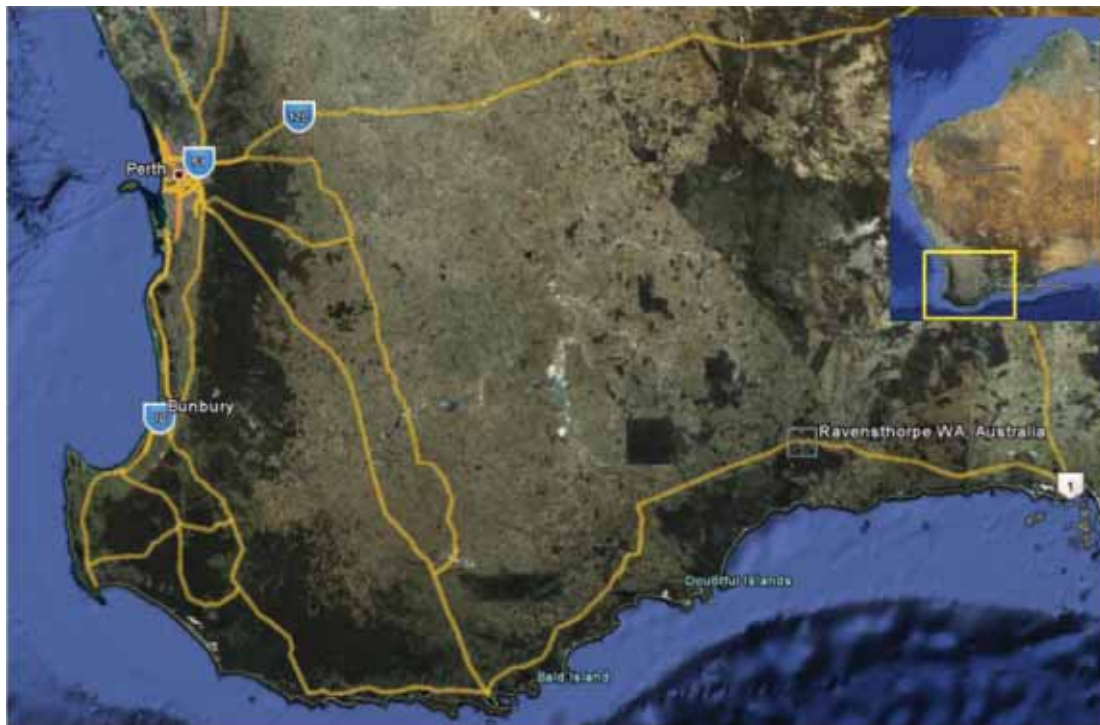
The production rate for mining has been set at 1.0 million tonnes of ore per annum, depleting the declared reserves within approximately 13 to 14 years.

8. MT CATTLIN SPODUMENE MINE

8.1 LOCATION

Galaxy’s Mt Cattlin Mine is located approximately 2 km north of the town of Ravensthorpe in Western Australia. The site is located in the Phillips River Mineral Field, which surrounds the township of Ravensthorpe, 450 km southeast of Perth, Western Australia. The regional centre of Albany is located 281 km to the west and the port of Esperance is 187 km to the east (see Figure 8.1).

Figure 8.1 Project location map (source: Google Earth)



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8.2 PROJECT HISTORY

The township of Ravensthorpe was surveyed in 1900 and gazetted in 1901 at which time 15 mines were operating. A total of 53 mines were listed as operating in 1903 by which time it was realised that most of the gold occurred with copper. The first government smelter was built in 1904 east of the town and a larger smelter was later erected on the Hopetoun road in 1906 which closed in 1918. The Phillips River Mineral Field was principally Western Australia’s main copper mining centre with 19,000 tonnes being produced. A total of 83,942 ounces of gold was produced from copper mines and some auriferous quartz reefs from 88,220 tonnes of ore.

The population of the field peaked in 1911 when the figure was in excess of 3000 persons.

The Cattlin Creek pegmatites have been the subject of several drilling, sampling and metallurgical test campaigns as well as feasibility studies dating back to the 1960s. During the period 1962-66 Western Mining Corporation (“WMC”) carried out an extensive drilling program and established a resource of “green” and “white” spodumene.

Extensive mineralogical and metallurgical test work was carried out as part of this program, culminating in WMC preparing an internal feasibility study on the mining and production of 10,000 to 15,000 tpa of spodumene from the deposit on Mining Lease M74/12. Since the 1960s the tenements have been owned by several companies, all of whom have viewed them as a prospective tantalite resource and conducted drilling and metallurgical test work accordingly. Major programs have been as follows:

- Pancontinental Mining Limited, July 1989, 101 RC holes.
- Pancontinental Mining Limited, 1990, additional 21 RC holes.
- Greenstone Resources NL, 1997, 3 diamond, 38 RC holes and soil sampling; also 23 by 44 gallon drums of freshly blasted mineralised material was sent to the Nagrom mineral processing facility (based in Kelmscott, WA) for crushing, screening and gravity separation testing.
- Haddington Resources Limited, 2001, 9 diamond holes for metallurgical test work, additional RC holes for in-fill and sterilisation.

Galaxy acquired ML74/12 from the Administrators of Sons of Gwalia Limited in November 2006.

8.3 MINING

8.3.1 Mining method

The mine is based on conventional open-pit mining and processing of an Ore Reserve of 11.5 million tonnes of ore over a 13 to 14 year period from the Cattlin Creek ore body. The relatively flat lying ore body allows mining to proceed at a reasonably constant strip ratio once the ore is uncovered. Mining will be carried out using excavator and truck combination, delivering to a conventional crushing and HMS gravity recovery circuit.

Contractors will be engaged for grade control drilling and earthmoving operations (drilling, blasting, load, haul and ancillary work) for the open-cut mining operation. The initial pit design encompasses existing measured and indicated resources and has been defined as the Dowling pit.

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8.3.2 Mine design

The revised ultimate limit pit design upon which the current March 2010 Ore Reserve is based is provided in Figure 8.2 and 8.3.

Figure 8.2 Final limit pit design looking to the North East

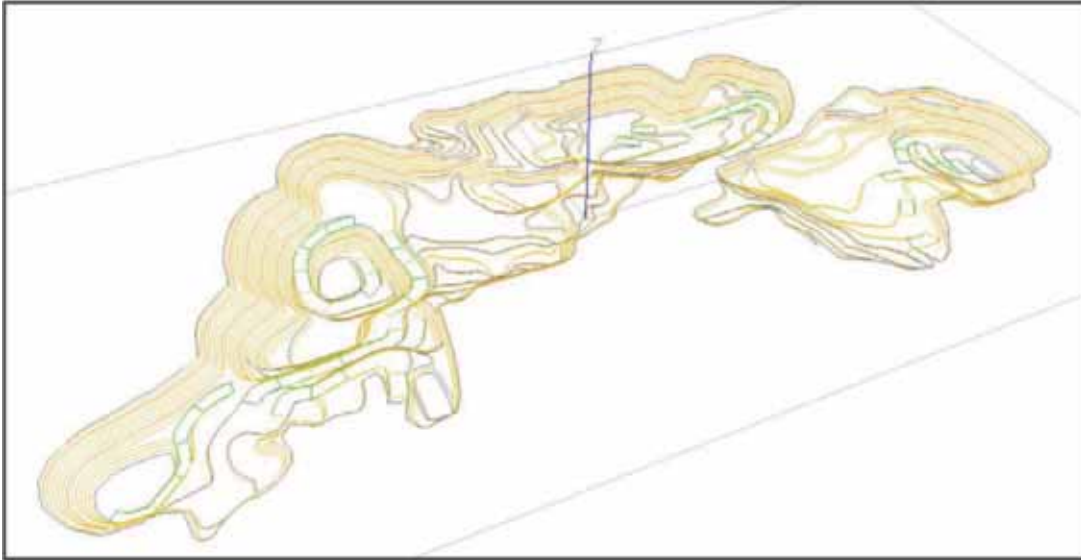
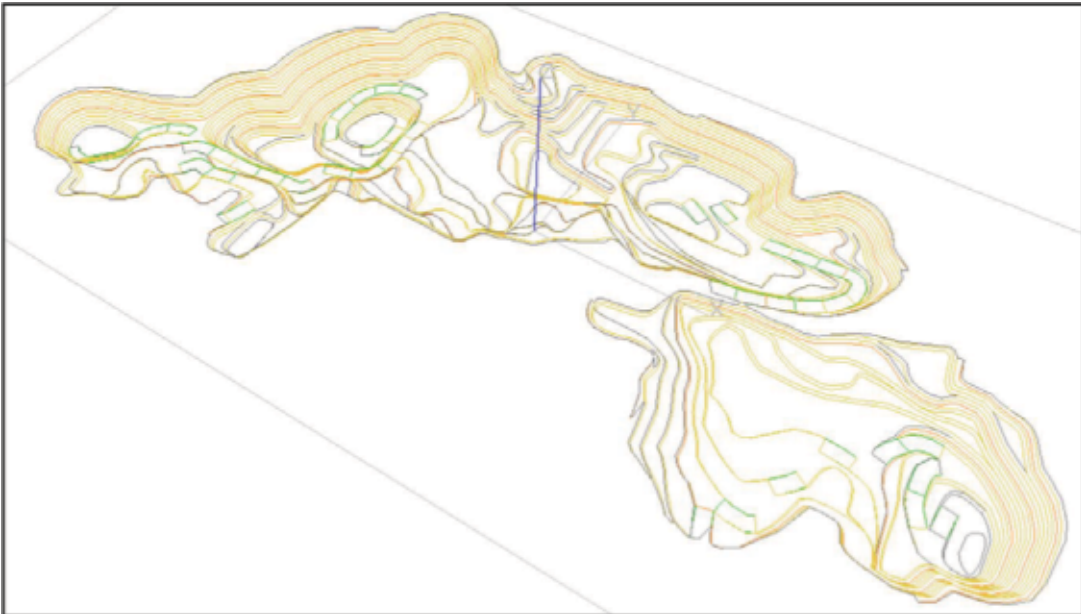


Figure 8.3 Final limit pit design looking to the North West

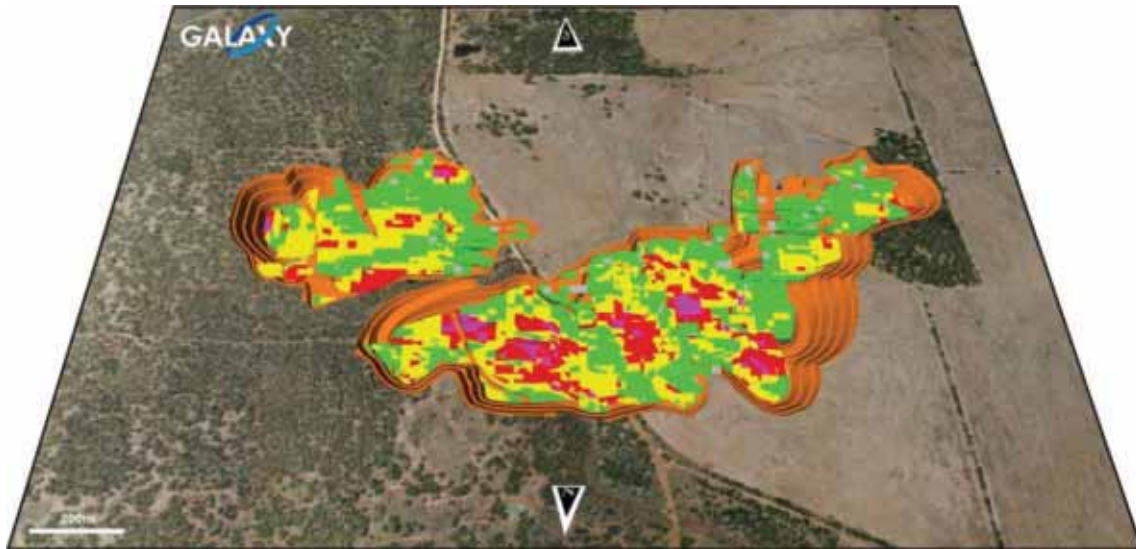


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A surface topographical view looking south is provided in Figure 8.4. This also shows some smaller satellite pits to the south that also form part of the reserve.

Figure 8.4 Proposed pit shells, with contained resource blocks colored by Li₂O grade overlain on airphoto.



8.3.3 Mining Progress

Galaxy commenced with pre-stripping of open pit areas in early 2010, and the first ore shots were mined during June 2010.

8.4 METALLURGICAL PROCESSING

8.4.1 Introduction

Snowden evaluated the metallurgy, and process engineering of the Mt Cattlin Project, focussing on the following areas:

- Lithium Grade and Recovery;
- Suitability of final flowsheet design;
- Predicted ramp-up in process plant performance;

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- Processing Facility Status, including:
 - Construction status of process plant, power station, borefield, and Tailings Storage Facility;
 - Operational readiness;
 - Capital Cost;
 - Operating Cost;
 - Environmental compliance status.

The documentation relied upon for these evaluations are the relevant sections of the:

- Galaxy Resources Limited, Ravensthorpe Spodumene Project, Definitive Feasibility Study, January 2009.
- Ravensthorpe Spodumene Project, Project Development Plan, Galaxy Resources Limited, January 2010.
- Operating Budget, Galaxy Group of Companies, January 2010 to December 2011, Galaxy Resources Limited.
- Review and Interpretation of Heavy Liquid Separation on Galaxy Resources Spodumene Samples. Mineral Processors (WA) Pty Ltd, Report No. J337 0902270 Rev A. February 23, 2009.
- Monthly Independent Engineering Reports, Snowden, February to August 2010

8.4.2 General process description

Galaxy’s Mt Cattlin processing plant is located to the west of the mine, approximately two kilometres north-west of the Ravensthorpe town site.

The plant consists of a four-stage crushing circuit producing a -6mm product from ROM ore at a treatment rate of 1 million tonnes per annum. The crushing plant runs on day shift only, providing feed to an ore bin which feeds the concentrator on a continuous 24 hour per day basis.

The concentrator consists of a reflux classifier for mica removal, and dual size stream, two stage Dense Media Separation (“DMS”) cyclones. The final spodumene concentrate will be stacked on a pad adjacent to the plant area, drained and hauled by road to Esperance for shipment in bulk. Coarse waste DMS plant float material will be conveyed to the Rejects Load Out Bin, and hauled by truck to mined out areas of the pit(s) as back-fill.

The DMS pre-screen undersize (-0.5mm) is treated by gravity separation using spiral classifiers and wet tables to recover a tantalite concentrate, which will either be stockpiled at site or contract dressed and sold, depending on price.

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8.4.3 Detailed Process Description

Ore from the mine is stockpiled on the Run of Mine (ROM) stockpile.

Ore is reclaimed from the ROM stockpile by Front End Loader and fed via the ROM Bin to the Primary Jaw Crusher. It is crushed to a nominal size of 80% passing 110mm.

Ore is then fed via conveyors and a feed bin to a Sizing Screen, with 50mm and 18mm apertures. Plus 50mm ore is fed to the Secondary Crusher. Ore between 18 and 50mm is fed to the Tertiary Crusher. Secondary and Tertiary Crusher Discharge is fed over the Sizing Screen again. Ore minus 18mm is fed via conveyor to the Fine Ore Bin.

The Fine Ore Bin has a nominal capacity of 2,500 tonnes. It provides a break between the crushing plant, which operates for 12 hours per day and the remainder of the plant, which operates continuously.

Ore from the Fine Ore Bin is fed over a 6.4mm aperture Wet Screen. Oversize is fed via conveyors and a Feed Bin to two Quaternary Crushers, operating in parallel. Crusher discharge returns to the Wet Screen.

Wet Screen undersize, nominally -6mm, is pumped to the Dense Media Separation (DMS) plant.

Fine material of less than 75µm is removed in de-sliming cyclones. The fines are transferred to the Tailings Thickener.

The plus 75µm ore is fed to a Reflux Classifier for Mica removal. The Mica containing stream is screened at 1.6mm, with the undersize recovered. The plus 1.6mm Mica slurry is pumped to the Tailings Thickener.

The Mica and fines free ore is screened at 0.5mm on the Fines Screen. The minus 0.5mm ore is fed to the Spiral plant for tantalite recovery. The plus 0.5mm ore is fed to the DMS plant.

DMS plant feed is split into 0.5 to 3mm and 3 to 6mm size fractions over the DMS Feed Preparation Screen. The two fractions are separately sent through two stages of Dense Medium Separation.

Each size fraction is added to a ferrosilicon slurry, then pumped through DMS Cyclones. Spodumene containing concentrate, or “Sinks”, then passes to a second stage of DMS Cyclones for product upgrading.

Ferrosilicon is recovered from both product and waste streams by screening and magnetic separation. It is then recycled to the DMS process. Fresh ferrosilicon is added as required, to make up for losses incurred in processing.

After separation from the ferrosilicon, the spodumene concentrate is stacked on a concrete pad adjacent to the plant area. After draining it is loaded into trucks and hauled by road to Esperance for shipment in bulk.

Coarse waste DMS plant float material is conveyed to the Rejects Load Out Bin. It is hauled by truck to mined out areas of the pit(s) as back-fill.

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The DMS pre-screen undersize (-0.5mm) is treated by spiral classifiers and Wet Tables to recover tantalite. Tantalite concentrates will either be stockpiled at site or sent for contract dressing in Perth, depending on price.

Tantalite circuit tailings, along with $-75\mu\text{m}$ slimes, Mica and plant spillage streams, are directed to the Tailings Thickener for process water recovery. Thickener underflow is pumped to the Tailings Storage Facility, approximately 500 meters north of the plant.

Power is provided by dedicated diesel generators, under a contract with Contract Power Australia. Raw water is sourced from bores located on the tenements.

Snowden notes that the proposed methods for concentrate production are conventional and are therefore of relatively low risk. There is flexibility in the design to ensure design throughput and grade is achieved.

8.4.4 Metallurgical Evaluation

8.4.5 Lithium Grade and Recovery

The design concentrate grade is 6% Li_2O at an overall lithium recovery of 75%.

Snowden notes that Galaxy have carried out bench scale and pilot plant test work during and subsequent to the feasibility study phases of the Mt Cattlin Project.

Snowden has reviewed the test work and is of the opinion that it supports the design grade and recovery.

8.4.6 Throughput Capacity

Starting in November 2010, plant throughput is predicted by Galaxy to ramp up to 71% of design 3 months after commissioning, remain at this level for 6 months, ramp up to 82% of design thereafter for 5 months, with design throughput of 85,000 tonnes per month being achieved in December 2011.

Whilst such predictions are unlikely to be met exactly, Snowden considers the general approach and timing of this ramp up acceptable for this style of plant.

8.4.7 Spodumene Recovery Ramp-up

Starting in November 2010, Galaxy predicts spodumene recovery to ramp up to 70% by the second month after commissioning, remain at this level for 5 months, with design recovery of 75% being achieved by May 2011.

Snowden considers the general approach and timing of the recovery ramp up acceptable for this style of plant.

8.4.8 Spodumene Grade

Galaxy intends that the specified spodumene grade of 6% Li_2O is met for the first shipment to external parties, due for the fourth quarter of 2010.

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Snowden is of the view that this can be met for the first shipment, by a combination of blending, and operating the plant with a focus on concentrate specification, rather than recovery, during the early months of the post-commissioning period.

Snowden is of the opinion that the DMS plant has the required flexibility to be able to produce the required product grade from a variety of head grades.

There may also be a requirement for more intensive product analysis during plant ramp-up.

8.4.9 Process Plant Capital Costs

The Capital Budget for the Process Plant was developed by Galaxy Resources and the EPCM Engineer, DMBJV in late 2009.

The approved budget for the Process Plant was A\$60,909,530, including contingency.

At the end of June 2010, the forecast final cost for the process plant was \$60,829,232, effectively fully committing the contingency.

Snowden considers that the budget is unlikely to be exceeded by more than 10% by the completion of plant construction.

8.4.10 Operating Costs

Galaxy has provided Snowden with the Mt Cattlin Budget Operating Costs from January 2010 to December 2011 (Table 8.1).

Table 8.1 Mt Cattlin budget Operating costs (A\$’000 2010/2011)

<u>Expense</u>	<u>Total 2010 (Jul to Dec)</u>	<u>Total 2011</u>
Administration	735	1,464
Mining	10,494	20,719
Processing	3,931	11,959
Laboratory	635	1,270
Environmental	62	175
Safety	141	283
Maintenance	459	933
Utilities	195	389
Transport	1,290	4,228
Total	<u>17,942</u>	<u>41,420</u>

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The breakdown of the operating costs has been presented in the above manner as, in Snowden’s view, this represents how costs are conventionally applied in the mining industry and this would be more relevant for investors than a breakdown by cost inputs.

Mt Cattlin operating costs for 2010 (July to December) and 2011 are estimated to be A\$61 / tonne treated, broken down as follows:

- Mining A\$32 / tonne treated
- Processing A\$16 / tonne treated
- Transport A\$6 / tonne treated
- Site administration and other A\$7 / tonne treated

Snowden considers the operating costs reasonable for this style of plant, completing ramp up to planned throughput of 1,000,000 tonnes per annum.

Once the ramp up to planned throughput is complete, Snowden would expect total operating costs at Mt Cattlin to be an average of A\$43-45 per tonne treated over the life of mine, comprising:

- Mining A\$20-21 / tonne treated
- Processing A\$14-15 / tonne treated
- Transport A\$5-6 / tonne treated
- Site administration and other A\$4 / tonne treated

Operating costs are lower per tonne treated at full capacity than during ramp-up due to the fixed cost component being spread over a higher production base.

8.4.11 Flowsheet Changes from DFS to Final Design

The final flowsheet design is essentially the same as the DFS, with some exceptions, which include:

- Crushing changed from 3 stage to 4 stage.
- Removal of attritioning between first and second stage DMS.
- A Hydrosizer for Mica removal has been added.
- Concentrate grade has changed from 5% to 6% Li₂O.
- Tailings thickener has been increased from 10m to 15m diameter.

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- Details of the Tantalite recovery have changed:
 - Low Intensity Magnetic Separation between the Spirals and Wilfley Tables has been removed.
 - Table Concentrate is simply drained in product bins, not filtered.
- The Semi enclosed shed for concentrator plant noise reduction has been removed.

Following review of documentation and discussions with senior Galaxy staff, Snowden has determined that these changes have come about as follows:

- Crushing was changed to 4 stages on the recommendation of the EPCM Engineer based on modelling by the Crusher equipment vendor.
- Interstage attrition testwork data determined that losses of spodumene mirrored Mica removal, so that there was no rationale for retaining this process.
- Subsequent testwork established that the addition of a Hydrosizer would have a positive effect on plant performance, by removing Mica platelets from DMS plant feed.
- A 6% Li₂O grade product was chosen, to allow sales to third parties, as it is a recognized and accepted sales grade.
- Pilot plant testwork confirmed that the recovery was achievable at a 6% Li₂O grade.
- The 15m diameter Tailings Thickener was chosen as a more conservative design, based on Vendor testwork.
- It was established by testwork that magnetic separation was of no benefit.
- Table concentrate is dewatered sufficiently by gravity drainage to allow for transport and off-site dressing.
- The higher noise producing Quaternary (4th stage) crushers remain in an enclosed building.

Snowden believes that the above changes are justified.

8.4.12 Construction Progress

8.4.13 Process Plant

As of early October 2010, the process plant construction was complete and commissioning was progressing satisfactorily.

The standard of process equipment and plant construction observed during Snowden’s site visits on seven occasions from March to October 2010 has been of an appropriate standard.

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Figure 8.6 Site Overview from ROM Pad (LHS) to Administration Building (RHS)



Figure 8.7 Crushed Ore Bin, with Recycled Product on Right



The Administration Building is in use by Operations staff. The Analytical Laboratory has been handed over to SGS, who are providing analytical services. The workshop building has been completed and handed over to operations.

Figure 8.8 View over Laboratory to Administration Building



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Figure 8.9 Workshop Building with Tailings Storage Facility in Background.



8.4.14 Power station and Borefield

The power station has been completed and commissioned and water has been received in the raw water pond on a continuous basis from the borefield.

Figure 8.10 View of Power Station Generators, with ferro-silicon storage shed behind.



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8.4.15 Tailings Storage Facility

The construction of the tailings storage facility (TSF) has been completed. All underdrainage is directed towards a sump in the northeast corner of the cell, near the highest part of the TSF wall. It is then pumped to the decant tower, from where it is returned to the Process Plant.

Figure 8.11 Inside of TSF, looking towards north-west corner.



8.4.16 Operations

The operations work force is in place, with additional staff only being recruited to replace resignations. The workforce is domiciled in Ravensthorpe and Hopetoun.

The Processing operations and maintenance workforces is 32, made up as follows:

- Processing Manager;
- Processing Superintendent;
- Maintenance Superintendent;
- 7 maintenance staff;
- 6 Day crew including crusher operators;
- 16 process plant operator/maintainers, including shift supervisors on 4 shifts of 4 staff.

Shared services include Site Administration and Safety support.

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The laboratory is operated by SGS and staffed independently.

Snowden considers that the manning is consistent with this style of operation.

Training has been carried out for operations and maintenance personnel. All personnel are on site and busy with their daily tasks. Equipment manufacturers are being invited to site to assist with initial operation and maintenance.

A substantial number of procedures in all areas have been written and loaded onto the Galaxy’s Intranet for ready reference. These include Operating, Maintenance and Safety procedures. Operating and maintenance checklists have been developed.

Sampling procedures are underway. A sample schedule has been developed. Analytical procedures were not sighted, but as discussed above the Analytical Laboratory is contracted out to SGS.

8.4.17 Commissioning

Based on observations made during the site visit by Snowden of October 5 and 6 as well as discussions with Galaxy representatives, Snowden is of the opinion that construction is essentially complete and commissioning is progressing satisfactorily (see figures 8.12 to 8.14)

Figure 8.12 Secondary Crushed Ore.



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Figure 8.13 First Product being recycled to Emergency Feed System



Figure 8.14 Final Product



8.5 MT CATTLIN ENVIRONMENTAL CONSIDERATIONS

During the design and construction of the Mt Cattlin mine and processing facilities, Galaxy has taken account of the environmental issues and requirements of the Department of Minerals and Petroleum (DMP) in Western Australia. An environmental risk assessment was undertaken on the project by Keith Lindbeck and Associates as part of the feasibility study.

The Mining Proposal and associated Project Management Plan provide a framework for managing the environmental impacts of mining activities to within nominated acceptable limits. The Mining Proposal provides for acceptable levels of environmental impact for the project and the associated control measures that have been developed to mitigate the impacts so as to achieve the following objectives:

- Good stewardship of natural resources, consistent with safe and efficient mining practice;

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- Minimal disturbance of land;
- Conservation of flora and fauna habitats;
- Protection of sites of cultural and spiritual significance;
- Confirmation of the success of impact control measures by means of monitoring and audits;
- Compliance with all statutory requirements;
- Rehabilitation to a stable land form and an acceptable post-disturbance land use and land capability; and
- Preservation of downstream water quality.

Achievement of these objectives, together with continuation of the consultative process with stakeholders and the expected economic return to the community, will ensure consistency with the objectives for the Mining Industry in Australia’s National Strategy for Ecologically Sustainable Development.

The environmental impacts arising from the development and operation of the Mt. Cattlin mine are mostly associated with land disturbance and waste disposal. The strategies for minimizing and managing the projects are described in the Mining Proposal and supporting documentation. The management of each environmental issue is broadly outlined in the following sections.

8.5.1 Land Disturbance

Land disturbance is the largest impact for the project. The total area of disturbance for all project components is estimated at 158 Ha, and will not exceed 94 Ha in the first 5 years of operation. The impact of disturbance will be limited to the loss of land capability and use of the areas occupied by the open pit void, waste rock dump, ore stockpiles, tailings dam and process plant. This will have a significant impact on that area of the project currently used for dry land agriculture and grazing. A surface material stripping plan will be developed for the major areas of disturbance which will require site supervision to provide operational control. Any material classified as suitable for growth media or subsoil (cover materials) use will be stripped and stockpiled in selected areas. These ‘topsoil’ stockpiles will be located away from watercourses. At the cessation of mining, the mine infrastructure will be removed and the TSF, waste dump, mine access tracks and other disturbed areas will be rehabilitated to achieve pre-mining land uses and land capability. The open pit void will be the only loss of land use.

8.5.2 Waste Rock

Galaxy’s mine plan endeavours to maximize the amount of waste returned to the open pit void. This will not be possible in the early years of mining so the waste rock stockpile will be constructed as a series of terraces to conform to the local topography and will store up to 8 Mt of waste rock from the open pit.

The construction sequence will involve the initial placement of waste rock at the base elevation of the stockpile, then in lifts and benches. The stockpile surfaces, including outer sloping faces will be constructed of

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near surface weathered material. The stockpile will be constructed with a set back of 5m between benches and a bench at each 10m interval of height. The outer faces of the stockpile will be constructed at an angle of 18 degrees to form an erosion resistant surface. Benches will be constructed with a 5% back slope to retain any stockpile runoff to assist revegetation of the benches. Potential surface runoff will be contained within the stockpile. Rehabilitation of the waste dump stockpile will include topsoil replacement, contour ripping and revegetation of the stockpile surfaces done progressively after the final slopes are contoured.

8.5.3 Tailings Storage Facility

During the compilation of their feasibility studies, Galaxy requested Australian Tailings Consultants (“ATC”) to conduct a Feasibility Study for the tailings storage facility (“TSF”) in February 2009. The original design had the TSF comprising an above ground storage facility, formed by a primary embankment on three sides and a natural hillside slope providing the fourth side. The total design storage capacity, based on a maximum crest level of 269mRL, is 2Mm³ and covers a surface area of approximately 17 Ha. Maximum embankment heights will be 13m for the starter embankment and 18m for the final crest height. Some of the key features of the TSF are:

- TSF is to be constructed in three stages. The starter embankment, Stage 1, will provide approximately 7 years of storage life and will be constructed to a level of 264mRL. The final embankment will require a further 5m lift and provide an additional 8 years of storage life. This lift will be achieved by two separate 2.5m lifts (stages 2 and 3) each providing approximately 4 years additional storage.
- Tailings in the form of slurry will be discharged sub-aerially around the storage. Tailings will be deposited in discrete layers from multi point discharges. The discharge points will be regularly moved to ensure there is an even development of the tailings beach. The length of time between successive depositions (i.e. drying time) on any one area will be maximized.
- Tailings discharge or spigotting is to be carried out such that the water pond is maintained around the decant tower. The pond is to be kept away from the containment embankments at all times.
- One decant structure has been incorporated into the design to remove surface water from the TSF which will be pumped from the decant for re-use in the plant.
- A rehabilitation strategy has been developed that allows for geotechnical stabilization of the tailings surface followed by re-vegetation.

Since the compilation of the design several changes had taken place to the mine plan, process design and site layout. Knight Piesold (KP) was subsequently asked to revise the design and provide an addendum to the design (Mt Cattlin Project — Tailings Storage Facility Permitting Design Addendum, — January 2010). The revised tailings storage facility will be in the same location. Snowden has summarized key changes to the design as follows:

- General arrangement changed from one large cell to two smaller cells to reduce active ponds and simplify operating requirements;
- Embankments constructed using modified centreline construction by the mining fleet. If tailings strengths are found to be sufficient during future operation upstream construction may be adopted;

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- Cell 1 operated for seven years prior to constructing Cell 2 to reduce catchment area;
- Underdrainage system modified so that no pipes perforate the embankment;
- Decant tower moved to central location to improve supernatant water management;
- Embankment stages modified to defer construction quantities;
- Process modified to use only flocculants and saline water producing benign tailings; and
- Increase in target permeability of soil liner from 1×10^{-9} m/s to 1×10^{-8} m/s (due to change in tailings characteristics).

As part of licensing requirements, it is expected that independent geotechnical and hydrological specialists will carry out annual audits of the tailings storage facility. The TSF will be operated in accordance with a TSF Management Plan to be developed prior to the commencement of operations.

As is normal with rehabilitation of TSF's, a period of about two years is required after final tailings disposal, for the tailings to dry out and enable heavy earthmoving equipment to access the tailings surface, especially around the decant.

8.5.4 Low Grade Ore Stockpiles

Temporary low grade stockpiles may be constructed at a location adjacent to the treatment plant. Stockpiled low grade may be treated in the plant prior to the plant closure. In the event that there is any material remaining at the end of operations, this will be rehabilitated in situ in a similar manner to the waste rock stockpile.

8.5.5 Land Contamination

Land contamination may potentially arise from trace metal enrichment, salinity (brackish groundwater), spillage of process reagents and petroleum hydrocarbons, disposal of waste materials, or acid mine drainage from sulphides in waste stockpile.

The primary objectives will be to avoid or manage the contamination of land by a strategy used during the project operation.

8.5.6 Water Resources

The project area lies in a catchment area with the drainage direction predominantly to the south and east into Cattlin Creek which passes through the site in a northwest/southeast direction. The creek does not flow permanently, however there is permanent standing saline water in areas where it intersects the water table. There are no current uses of this water due to its high salinity level.

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The water supply for the project will be drawn from limited dewatering of the pit, external bore water sources and return water from the TSF. Water will be pumped from the external sources via a pipeline to the process plant.

Impacts on water resources could potentially occur due to degradation by deleterious substances contained in mine run-off and seepage. The objective will be to maintain the current albeit saline water quality downstream of the project area.

A control strategy is in place for the protection of surface and groundwater resources.

8.5.7 Noise

The project is located two kilometres north of the Ravensthorpe township and control of noise to within guidelines is not considered to be an issue. It is anticipated that the activities most likely to generate noise, namely mining and ore crushing will as much as is possible be restricted to dayshift operation only.

8.5.8 Air Quality

Gaseous emissions will be limited to those from vehicle and equipment exhaust emissions and dust suppression methods will be employed such as watering of mine haul roads and other areas as appropriate and progressive rehabilitation of disturbed areas where possible.

8.5.9 Environmental Management

Galaxy’s Mining Proposal and associated Project Management Plan provide a framework for managing the environmental impacts of the mining activities to within nominated acceptable limits.

8.5.10 Native Title

Galaxy has completed negotiations with the South West Aboriginal Land and Sea Corporation representing the Wagyl Kaip and Southern Noongar People with respect to a Native Title Mining Agreement covering the tenements surrounding the project. It should be noted that the areas required for project development and operation are covered by granted tenements over which native title has been extinguished.

The mining agreement involves a range of provisions, including compensation during the life of the project and a commitment by the Company to employment and training initiatives for traditional owners.

8.5.11 Aboriginal Heritage

In order to fulfill its obligations under the Western Australian Aboriginal Heritage Act (1972) Galaxy commissioned Deep Woods Surveys of Albany to undertake an aboriginal heritage survey in conjunction with members of the Wagyl Kaip WC98_070 and Southern Noongar WC 96_109 native title claim groups (Appendix 20). As a result of a search of the DIA Aboriginal Heritage Sites Register prior to the site survey it was determined that there were no previously recorded heritage sites within the project area.

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During the field survey and consultations with the claimant representatives, no new ethnographic sites, as defined by Section 5 of the Western Australian Aboriginal Heritage Act (1972), were identified to be located within the project mining leases.

In contrast to this the archaeological survey identified a number of sites within the mining impact area requiring management.

8.5.12 Current environmental matters

Galaxy holds Works Approval W4533/2009/1 for the Ravensthorpe Spodumene Project. The requirements for compliance reporting were recently revised following consultation between Galaxy and the Department of Environment and Conservation (“DEC”).

An application for a Licence to Operate was submitted to the DEC on August 4, 2010 and granted on October 14, 2010.

Galaxy submitted a compliance report, drawn up for the Mt Cattlin site, together with the application for a Licence to Operate mentioned above. The report addresses two aspects identified by the DEC with respect to the TSF:

- an Operations Management Plan for the TSF; and
- a certification of the integrity of the final (compacted clay) liner of the TSF.

A draft of the Operations Management Plan for the TSF has been sighted by Snowden.

Galaxy submitted an Annual Environmental Report (“AER”) to the Department of Mines and Petroleum (“DMP”) on October 29, 2010.

An earlier set of requirements indicated the need for an air quality impact assessment and additional reporting covering matters associated with radiation. These requirements have been removed. Snowden has sighted the amended licence, which no longer contains these conditions.

Other obligations relating to environmental management are listed below, to emphasise the importance of compliance with environmental commitments, especially during the period of transition from construction to operations:

- Galaxy is continuously monitoring groundwater.
- Galaxy has been monitored the health of vegetation by photographic and other means since July 2010.
- Galaxy prepared a report on clearing in August 2010, to demonstrate compliance with Clearing Permits.

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- Galaxy prepared reports related to the National Pollutant Inventory (NPI) and the National Greenhouse and Energy Reporting System (NGERS) in August 2010.

Snowden has sighted documentation related to the above and is satisfied that Galaxy is meeting its obligations.

Snowden has reviewed the monthly construction reports and weekly reports up to September 2010. These indicate that there were no specific environmental management issues.

9. LITHIUM CARBONATE PROCESSING PLANT

9.1 INTRODUCTION

Galaxy is developing a wholly owned battery grade lithium carbonate plant in China. The main attributes of the location in China are a tighter supply chain, proximity to cement plants for residue disposal and detergent plants for sales of sodium sulphate by-product. The plant will be operated by a subsidiary of Galaxy called Galaxy Lithium (Jiangsu) Co Ltd, which is a wholly foreign-owned enterprise in China. Production will use a well-proven production process that is enhanced through process automation and careful selection of high grade reagents. The plant is designed to produce 17,000tpa of lithium carbonate that is suitable for use in manufacturing battery cathode materials.

Galaxy’s lithium carbonate plant is being established at Zhangjiagang (see Figure 9.1), a rapidly growing industrial port city located in the centre of the Yangtze River delta, some 80km northwest of the key central coastal city of Shanghai. The Yangtze is the largest river in China and of key importance to the Chinese economy.

Galaxy’s plant would be located in a highly developed and modern part of China. Galaxy’s strategy has been aimed at establishing itself on competitive terms within a nation which has demonstrated its ability to successfully produce high quality lithium carbonate from hard rock sources (spodumene) through the up and down cycles of the market.

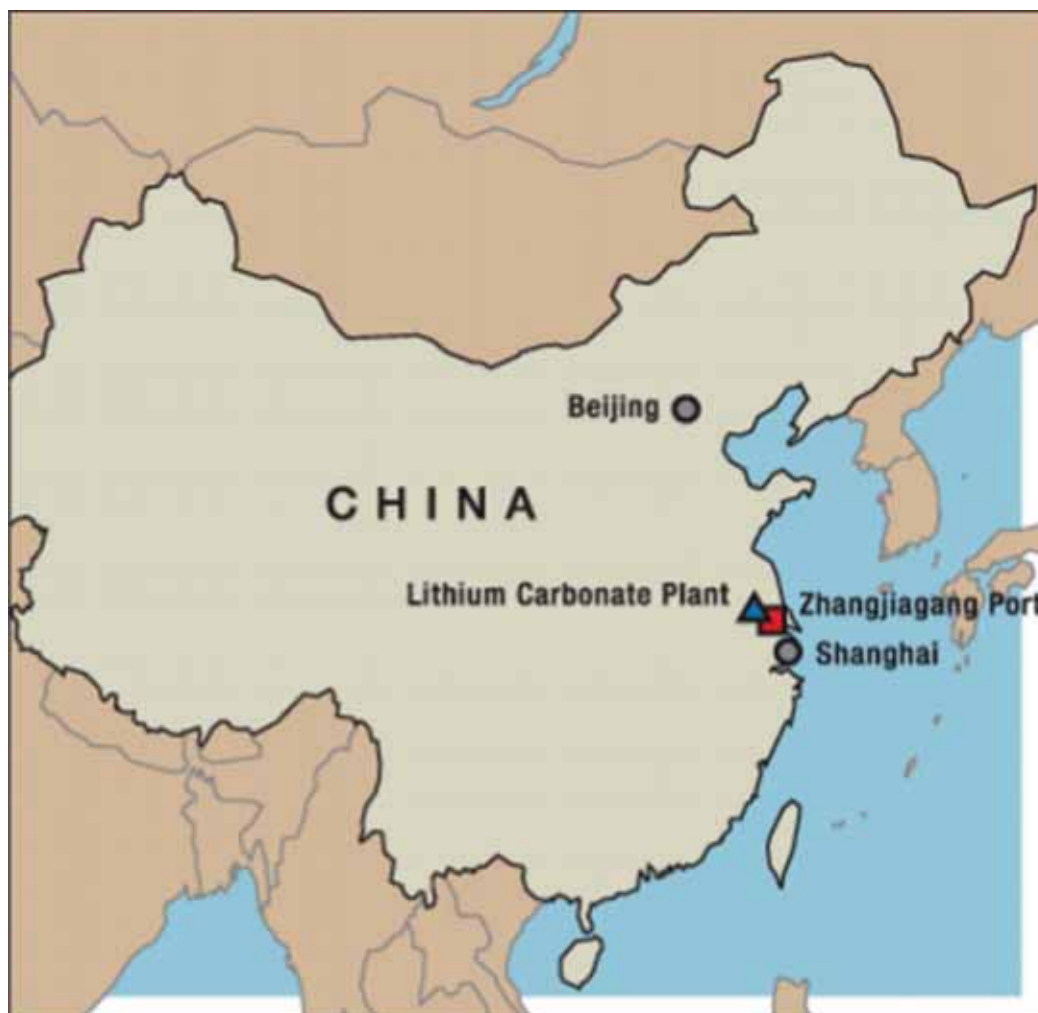
The following information was used by Snowden to assess the reasonableness of the process followed and assumptions used by Galaxy to design and provide performance assumptions for the Lithium Carbonate plant:

- Study Report for Jiangsu Lithium Carbonate Plant Project — Definitive Feasibility Study by HATCH dated October 2009 (Revisions A, B and C).
- Financial model spreadsheet from Galaxy entitled Lith Carb China 6% 0 75 FX DFS V1.xls
- Galaxy Lithium (Jiangsu) Co Ltd, Monthly Progress Status Reports by HATCH for the months of May to October 2010.
- Draft Project Development Plan for Jiangsu Lithium Carbonate Plant Project by HATCH dated November 2010.

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Figure 9.1 Location of Galaxy’s Lithium Carbonate Processing Plant



9.2 PLANT LOCATION

Galaxy’s Lithium Carbonate Plant (“the Jiangsu Plant”) will be located in the Yangtze River International Chemical Industrial Park of the Zhangjiagang Free Trade Zone in the Jiangsu Province of China, 80 km northwest of Shanghai. The Company’s spodumene feed will be shipped from Esperance and unloaded at the Zhangjiagang port at a wharf that is less than 500m from the Lithium Carbonate Plant. The chemical park has approximately 3,380 enterprises including 40 international companies such as Dow Chemical, Dow Corning, Chevron Phillips, Dupont, Unocal, Wacker, Ineos, Asahi Kasei, Sumitomo, Mitsui Chemical and Vopak.

All the necessary infrastructure is available in the Yangtze River International Chemical Industrial Park. Key utilities including water supply, sewage treatment, power supply, steam, telecommunications, industrial gas and fire-fighting facilities are available at the Company’s site. The location of the site that has been selected for the Jiangsu plant also provides access to supply of sulphuric acid, soda ash and caustic soda from neighboring producers.

9.3 PROCESS DESCRIPTION

The key process steps are:

- Ore Stockpile
- Calcinations
- Milling
- Sulphation
- Leaching
- Filtration
- Impurity removal
- Primary Lithium Carbonate crystallization
- Sodium Sulphate Crystallization and drying
- Bicarbonation
- Secondary Lithium Carbonate crystallization
- Drying an packaging

The detailed process flow diagram is presented in Figure 9.2. It consists of the following main unit operations:

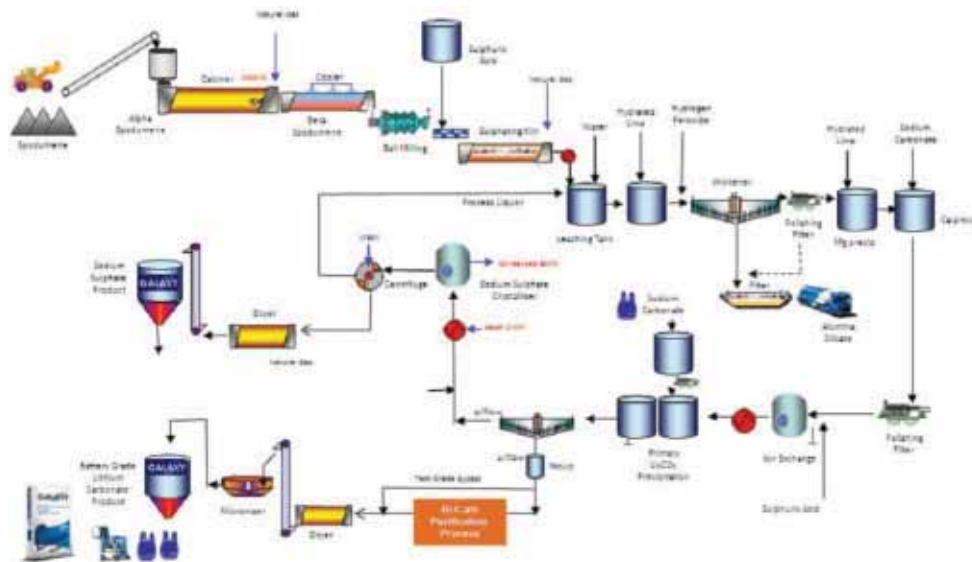
- Deccrepitation;
- Sulphating roasting;
- Leaching and Residue Removal;
- Precipitation of Impurities;
- Ion Exchange;
- Primary Lithium carbonate crystallization;

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- Lithium carbonate drying, micronising and packaging;
- Bicarbonate purification of a side stream of lithium carbonate to produce high purity lithium carbonate. This step is the subject of a provisional patent by Galaxy (see 11.1), which was reviewed by Snowden;
- Sodium Sulphate crystallization, drying and packaging;
- Sales of 1 tonne lots of lithium carbonate, in 25kg bags, through the port of Zhangjiagang to Japan, Korea and Europe;
- Sales of 1 tonne lots of lithium carbonate, in 25kg bags, within China.

Figure 9.2 Jiangsu Lithium Carbonate Plant — Flow Diagram



9.3.1 Area 10: Ore Stockpile and Reclaim

Spodumene concentrate will be shipped from Australia in maximum 25,000t shipments. It will be unloaded at a wharf located approximately 500 m from site and transported by belt conveyor to the site boundary by others. A spodumene concentrate stockpile with overhead conveyor complete with tripper will be established on site with a storage capacity of 37,500t. Spodumene concentrate is recovered from the stockpile by Front End Loader and fed into one of two loading hoppers.

9.3.2 Area 20: Calcination, Milling and Sulphation

Calcination (decrepitation) is an essential requirement for the subsequent hydrometallurgical processing of spodumene ore. In this step, the heat treatment of the ore results in a crystal phase change from alpha to beta-spodumene, making the lithium amenable to digestion by sulphuric acid during leaching.

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Calcination takes place within the Rotary Kiln, during which the alpha-spodumene is converted to beta-spodumene.

Off-gases from the kiln are cleaned in a cyclone and an electrostatic precipitator before discharging to the atmosphere via a stack. Particulates recovered from the off-gases are conveyed by a tubular drag chain conveyor to the Calcined Spodumene Storage Bin. Cooled beta-spodumene is conveyed from the Calciner Rotary Cooler discharge by an inclined screw conveyor to a rubber-lined Ball Mill. Ball Mill product is conveyed via a tubular drag chain conveyor to the Calcined Spodumene Storage Bin.

Milled beta-spodumene is drawn from this bin by a belt feeder complete with a weightometer and a bucket elevator to the Pug Mixer where it is thoroughly mixed with concentrated sulphuric acid. The mixed material from the pug mixer is fed directly into the Sulphating Kiln. The sulphating kiln liberates lithium from the spodumene ore.

Hot material exiting the sulphating kiln is cooled in the Pre-Leach Rotary Cooler. Off-gases from the sulphating kiln pass through a venturi scrubber to recover fines and remove acid mist. These are transferred to the Leach. The scrubber exhaust is discharged to atmosphere via the Calciner ESP Stack. Cooled product from the Pre-Leach Rotary Cooler is conveyed via an inclined screw conveyor to the Leach Slurry Feed Tank.

9.3.3 Area 30: Leaching and Impurity Removal

Lithium is extracted from the calcined concentrate as soluble lithium sulphate, along with some soluble impurities which are then removed to give a purified solution of lithium sulphate and sodium sulphate. The leach liquor is largely recycled solution from Area 60. Leaching takes place in a series of three leach tanks at ambient pressure. The calcined solids for leaching enter this circuit via the Leach Slurry Vortex Mixer, discharging to the Leach Slurry Feed Tank, where recycled liquor stored in the Leach Feed Liquor Tank is combined with solids from the Sulphated Spodumene Screw Conveyor. The leach feed liquor is cooled in the Leach Feed Liquor Cooler to maximize lithium solubility and extraction and is added to the solids in a ratio to maintain a slurry.

Discontinuous flows of lithium-containing solutions from the Sulphating Kiln Venturi Scrubber, the Secondary Filter, the Ion Exchange Columns, the Bleed Stream Treatment Tanks and the Sodium Carbonate Filter are combined in the Dilute Leach Feed Tank from which solution is fed at a steady rate to the Leach Slurry Feed Tank and forms part of the leaching solution.

Once leaching is largely complete, the leach slurry enters the Oxidation Tank, where hydrogen peroxide from the Hydrogen Peroxide Storage Tank is added to convert the soluble ferrous iron impurity to ferric iron, allowing its removal from the lithium sulphate solution by the addition of a slurry of hydrated lime in a series of two Neutralisation Tanks. Aluminum is also precipitated in this tank. The tanks will operate at a neutral pH.

The leach slurry is collected in the Leach Slurry Storage Tank and pumped to the Leached Solids Filters. These two vacuum belt filters operate with a primary filtration area followed by a three stage on-belt counter current wash using cold water as the wash liquor. Most of the residual soluble lithium sulphate washings from the leached solids filter cake are recovered in this manner and are recycled by pumping from the Leached Solids

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Filter Filtrate Receivers to the Leach Feed Liquor Storage tank. The damp filter cake is transferred to the Alumina Silicate Stockpile using conveyors.

The impure leach liquor, still containing unacceptable amounts of soluble calcium and magnesium, is pumped from the Leached Solids Filter Filtrate Receivers to the Leach Solution Tank for subsequent removal of any solids that pass through the belt filter using the duty/standby Polishing Filters. The on-line filter operates in filtration mode followed by a cleaning mode.

Diatomaceous earth (DE) is added as a body feed filtration aid to the leach solution before filtration from Body Feed Tank. The filter is pre-coated with a dilute DE from the Pre-coat Tank to minimize blinding of the Polishing Filter filter medium. At the end of the filtration cycle the filtration is switched to the standby filter and a cake discharge sequence is initiated on the loaded filter. The filter cake is dislodged using plant air and is collected in the Filter Sludge Bunker from where it is periodically removed to the filter residue Alumina Silicate Stockpile by a front end loader. The filter is then pre-coated and prepared for the next cycle. The polished leach liquor passes through the polishing filter to the Magnesium Removal Tank where the solution pH is raised using hydrated lime to precipitate magnesium hydroxide. This slurry overflows to the Calcium Removal Tank where a sodium carbonate solution is added to the dilute slurry to precipitate calcium carbonate. The sodium carbonate solution is added on a ratio control to the solution flow from the polishing filter.

This dilute slurry is filtered on the Secondary Filter operated in a duty/standby mode. In a similar fashion to the Polishing Filter, the Secondary Filter requires a DE pre-coat and body feed DE addition. The Body Feed Tank adds sufficient body feed continuously to the Calcium Removal Tank, while the filter is pre-coated with DE from the Pre-coat Tank. The Secondary Filter discharge cake is collected in the Filter Sludge Bunker from where it is periodically removed to the filter residue Alumina Silicate Stockpile by a front end loader.

The purified solution of lithium sulphate is collected in the pH Control Tank where the pH is adjusted to neutral using sulphuric acid from the Sulphuric Acid Storage Tank.

In the leach and purification tanks to this point of the circuit, provision has been made to by-pass any failed tank or a tank with a failed agitator. This is necessary since the tanks are rubber lined and are in a relatively arduous duty. The supply of reagents to the tanks reflects this flexibility.

The lithium sulphate leach liquor is further purified by pumping to Ion Exchange Columns No1 and No2 which operate in a lead-lag mode. These columns remove residual magnesium and calcium by ion exchange with sodium on the resin. Approximately half of the time both columns are in use in series, but when one is loaded with calcium and magnesium, as determined by assay, it is taken off line and regenerated. The purified leach liquor passes through the ion exchange (IX) columns to the Crystallization Feed Tank.

The spent IX column is regenerated by a sequence control of draining the column, washing with process water, backwashing, desorbing the calcium and magnesium with a hydrochloric acid solution, washing the column with process water and then regenerating the resin with sodium hydroxide before a final rinse. The sodium hydroxide is pumped from the Sodium Hydroxide Storage Tank to the Dilute Sodium Hydroxide Tank where it is diluted on flow ratio control with process water. The ion exchange regeneration solutions are sent to the Waste Water Tank for neutralisation and discharge from the site.

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9.3.4 Area 40: Lithium Carbonate Primary Crystallization

Lithium carbonate is crystallized from the crystallization feed liquor by the addition of a solution of sodium carbonate. The crystal is then recovered from the sodium sulphate solution by thickening and then centrifuging and washing the crystal.

The lithium carbonate crystalliser feed is passed through the Lithium Carbonate Crystalliser Feed Heat Exchanger to raise the liquor temperature.

Lithium carbonate crystallization then takes place in the two agitated crystallization tanks in series, Lithium Carbonate Primary Crystalliser and Lithium Carbonate Secondary Crystalliser by the addition of a sodium carbonate solution pumped from the Sodium Carbonate Storage Tank. Most crystallization occurs in the primary crystalliser.

The lithium carbonate slurry) from the Lithium Carbonate Secondary Crystalliser is pumped to the Lithium Carbonate Thickener where the carbonate crystals are allowed to settle. The thickener overflow drains to the Lithium Carbonate Thickener Overflow Tank where the pH is adjusted to neutral using sulphuric acid pumped from the Sulphuric Acid Storage Tank. The overflow tank is sparged with plant air to remove dissolved carbon dioxide.

The thickener underflow is pumped to the Lithium Carbonate Thickener Underflow Tank and from there to the two duty batch Lithium Carbonate Centrifuges. The centrifuge cake is washed with hot water to remove soluble sodium sulphate and other soluble salts from the damp centrifuge cake. A crystal wash ratio of 1.5t hot water/t crystal is used to remove most of the impurities associated with the lithium carbonate crystals. The centrifuge collects the centrate and washings separately.

The centrate is collected in the Lithium Carbonate Centrate Tank and is pumped to the Lithium Carbonate Thickener Overflow Tank before proceeding to Area 60 for sodium sulphate recovery. The Lithium Carbonate Wash Solution is recycled to Area 30.

The damp lithium carbonate crystals are discharged from the centrifuges to the Dewatered Lithium Carbonate Hopper and are then conveyed by the Dewatered Lithium Carbonate Screw Conveyor to the Crystal Storage Tank No 1 before additional purification in Area 50.

These crystals are able to bypass the Area 50 bicarbonate purification and can be pumped to the Purification Centrifuges for recovery and washing, then drying in the rotary Lithium Carbonate Dryer and storage in the Lithium Carbonate Storage Bins before bagging a lower quality product.

9.3.5 Area 50: Bicarbonate Purification

In order to produce a very high quality lithium carbonate product, the lithium carbonate from Area 40 is dissolved and recrystallized to free any impurities entrapped within the crystal. The dissolution is done using carbon dioxide gas.

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A slurry of lithium carbonate is pumped from Crystal Storage Tank No 2, where bagged lithium carbonate can also be recycled via the Bag Breaker, to the first of three agitated digester tanks operated in series. In the first digester the solids pulp density is adjusted with lithium carbonate recirculation liquor to ensure complete dissolution of the lithium carbonate. The lithium carbonate is dissolved using carbon dioxide to form soluble lithium bicarbonate, also freeing entrapped sodium sulphate and other impurities from the crystal.

The reaction is exothermic, so the digester temperature is controlled by cooling the recycled make-up liquor. Recycled carbon dioxide is sparged into the digesters using the Carbon Dioxide Blower. Make-up carbon dioxide is drawn from the Liquid Carbon Dioxide Storage Tank, vaporised in the Carbon Dioxide Vaporiser and passed through a Carbon Dioxide Receiver.

The lithium bicarbonate solution from the digesters is pumped through the Digester Filter to the first Purification Crystalliser Tank. The filter collects any insoluble components associated with the impure lithium carbonate, including some magnesium and calcium solids. The filter has provision for washing and air discharge to the Sludge Bin. The sludge will be added to the Alumina Silicate Stockpile.

There are four agitated Purification Crystalliser Tanks in series where the solution is heated using live steam to recrystallise the lithium carbonate by the removal of carbon dioxide.

The first Purification Crystalliser Tank is seeded with crystals recycled from the Purification Thickener underflow to enhance crystal growth and make subsequent crystal recovery easier.

The recrystallized lithium carbonate is pumped to the Purification Thickener where it is thickened to and the underflow is pumped to the Thickener Underflow Tank. The thickener overflow is collected in the Thickener Overflow Tank where it is pumped to the Thickener Overflow Heat Exchanger for cooling. This cooled liquor is subsequently recycled to the first Digester Tank for solubility control and a bleed is taken to make-up the sodium carbonate solution in the Sodium Carbonate Make-Up Tank.

The Thickener Underflow Tank contents are pumped to the Purification Centrifuges and the purified lithium carbonate is recovered as a centrifuge cake. Hot wash water is used to remove the majority of any remaining impurities associated with the lithium carbonate crystals. The centrifuge collects the centrate and washings together in the Purification Centrate Tank, and this is returned to the Thickener Overflow Tank. The washed centrifuged solids pass via the Dewatered Lithium Carbonate Hopper to the Dewatered Lithium Carbonate Screw Conveyor for conveying to the Area 40 Dryer.

The digester vent gases, comprised of a mixture of mainly carbon dioxide and water vapour are cooled in the Condenser and then compressed in the Carbon Dioxide Blowers for recycle to the digesters. A small quantity of this compressed gas is vented to prevent the accumulation of inert gases, such as nitrogen, which would have an adverse effect on the digester efficiency. The Dewatered Lithium Carbonate Screw Conveyor conveying the purified lithium carbonate crystals from the Purification Centrifuges discharges the crystals to the Lithium Carbonate Dryer Screw Feeder and from there to the natural gas heated rotary Lithium Carbonate Dryer. The moisture in the crystals is removed by drying.

The dry crystals are cooled in the Lithium Carbonate Dryer Screw Cooler and then conveyed by the Lithium Carbonate Tubular Drag Conveyor to Lithium Carbonate Storage Bin A or B. Dust generated within the

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bins is contained using the Lithium Carbonate Storage Bin Dust Collectors and the solids are kept dry by blanketing them with dry plant air.

Solids from the bins can be bagged in 1 tonne bulkabags or in 25 kg bags, but in general the solids will be micronized to approximately 4 microns before bagging. The lithium carbonate from the bins is conveyed to the Lithium Carbonate Micronizer Feed Bins. The Lithium Carbonate Micronizer Feed Screw Feeders convey the solids to the Lithium Carbonate Micronizers where filtered and dried air from the Lithium Carbonate Micronizer Air Compressors supplies the motive force for size reduction. The micronized solids are pneumatically conveyed to the Lithium Carbonate Micronizer Baghouse and the air is extracted using the Lithium Carbonate Micronizer Baghouse Fan.

These bags are then warehoused for QC and trucking. The warehouse has approximately six weeks storage capacity. Bags of lithium carbonate can also be recycled to the micronizer to meet quality specifications using the Lithium Product Bag Breaker as a means of reintroducing the solids to the micronising circuit. The unbagged material passes via the Lithium Product Hopper and a rotary valve to the Lithium Product Tubular Drag Conveyor, onto the Lithium Carbonate Tubular Drag Conveyor and from there to the Lithium Carbonate Storage Bins.

9.3.6 Area 60: Sodium Sulphate (Na_2SO_4) Crystallization

The sodium sulphate generated in Area 40 lithium carbonate crystallization is crystallized and recovered as a co-product in Area 60. The sodium sulphate co-product is anhydrous.

The spent lithium carbonate solution from Area 40 is piped to and stored in the Sodium Sulphate Solution Storage Tank. From there it is pumped to the Neutralization Tank where sodium hydroxide is added to adjust pH to neutral.

The sodium sulphate solution is then pumped into the evaporative Sodium Sulphate Crystalliser. The Sodium Sulphate Crystalliser Re-Compression Fans compress the steam boiled off in the vacuum crystalliser and this steam is then piped to the Sodium Sulphate Heat Exchanger to generate the heat to boil the crystalliser slurry contents. The load on the Sodium Sulphate Crystalliser Vacuum Pump is reduced by removing most of the water vapour to this pump with the Sodium Sulphate Crystalliser Condenser. Condensate from the Sodium Sulphate Heat Exchanger is pumped to the Hot Water Tank.

The sodium sulphate crystals in the crystalliser slurry are discharged from the crystalliser. The sodium sulphate crystals are washed with cold water on the centrifuge to remove impurities in the liquor associated with the crystals. Some of this wash solution is recycled as wash liquid for efficiency and the saturated wash solution is then recycled to the crystalliser feed via the Sodium Sulphate Wash Solution Tank.

The sodium sulphate centrate is collected in the Sodium Sulphate Spent Liquor Tank and most is recycled to the leach circuit by pumping it to the Leach Feed Liquor Storage Tank. A small quantity is bled from the system to remove accumulating chlorides, potassium and other salts.

The washed centrifuged sodium sulphate discharges to the Dewatered Sodium Sulphate Screw Conveyor and is conveyed via the Sodium Sulphate Product Dryer Screw Feeder to the rotary, natural gas fired Sodium

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Sulphate Product Dryer. The solids discharge from the dryer and then cooled in the Sodium Sulphate Product Dryer Screw Cooler before being conveyed by the Sodium Sulphate Product Dryer Tubular Drag Conveyor to the Sodium Sulphate Product Storage Bin. Plant air is used to blanket the solids and to keep them dry. Any dust generated in the bin is contained by the Sodium Sulphate Product Storage Bin Dust Collector. The stored solids are discharged from the bin via a rotary valve to trucks collecting this co-product.

A bleed stream of the sodium sulphate spent liquor, to control the build up of undesirable salts in the circuit, is treated in the Bleed Stream Treatment Tanks.

9.3.7 Area 70: Reagents

The key reagents for the sulphate process for lithium carbonate production are soda ash and sulphuric acid.

Galaxy signed a Letter of Intent (LOI) with its future neighbor, Two Lions (Zhangjiagang) Fine Chemicals Co., Ltd. to supply 38,000 tonnes of sulphuric acid per annum for 15 years. The supply arrangement also includes supply of sodium hydroxide and steam and access to modern automated bulk mineral unloading facilities.

Galaxy has also secured a supply of soda ash with the Jiangsu Huachang Chemical Co. Limited (Huachang). Huachang will supply 40,000 tonnes of soda ash (Na_2CO_3) per annum for 15 years.

The main reagents used in the process and stored in Area 70 are sulphuric acid, sodium hydroxide, sodium carbonate and hydrated lime. Sulphuric acid is received across the fence via pipeline from Two Lions Fine Chemicals Company. The acid is stored in the Sulphuric Acid Storage Tank and is pumped from this tank to the various process users.

Sodium hydroxide is trucked to the plant, stored in the Sodium Hydroxide Storage Tank and is pumped from this tank to the various process users. Sodium carbonate will be delivered in powder form by tanker trucks which will be pneumatically unloaded at site to the Sodium Carbonate Storage Bin. Dust is contained by the Sodium Carbonate Storage Bin Dust Collector.

The sodium carbonate is dissolved in batches and transferred to a tank for distribution of the solution to the process users. The Sodium Carbonate Screw Feeder conveys the sodium carbonate powder from the storage bin to the Sodium Carbonate Make-Up Tank. Lithium carbonate liquor from the Area 50 bleed, along with some hot or cold water is used to make up a solution of sodium carbonate. This is then filtered through the Sodium Carbonate Filter to remove insoluble compounds, and is transferred to the Sodium Carbonate Storage Tank for distribution of the solution to the process users.

Calcium hydroxide will be delivered in powder form by tanker trucks which will be pneumatically unloaded at site to the Calcium Hydroxide Storage Bin. Dust is contained by the Calcium Hydroxide Storage Bin Dust Collector. The calcium hydroxide is slurried in batches for distribution of the solution to the process users. The Calcium Hydroxide Screw Feeder conveys the calcium hydroxide from the storage bin to the agitated Calcium Hydroxide Slurry Make-Up Tank via the Calcium Hydroxide Slurry Make-Up Mixer. Cold water is added to the hydrated lime in the mixer to produce a slurry of calcium hydroxide in water at ambient temperature

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for distribution of the solution to the process users. Once the tank level decreases to approximately 40% of the volume a make-up sequence is initiated. This ensures that the calcium hydroxide slurry has “aged” and is more reactive than freshly made up slurries.

9.3.8 Area 80: Utilities

Water

Municipal water supply is supplied to the boundary of the site and is directed to the Process Water Tank. The Process Water Tank also accepts return water from heat exchangers and potentially a bleed of cooled hot water from condensate lines in order to reduce net water usage of the plant. Process water is distributed to the process users from this tank.

Condensate generated from heat exchangers is returned to a Hot Water Tank and is used for washing the lithium carbonate crystal in Area 40 and 50, as well as for sodium carbonate solution make-up. Water in excess to these requirements is cooled in the Hot Water Cooler and is used as process water, for Area 50 make-up water or for make up to the Cooling Tower. The Cooling Tower accepts return water from the process plant users and cools this. The cooled water is distributed to the process users from the cooling tower basin. The cooling water quality is maintained by the addition of a biocide, anti-scaling agent and corrosion inhibitor, supplied as a vendor package. There is also a blow-down stream to the Waste Water Tank.

The Waste Water Tank accepts the cooling tower blow-down, spillages from sump areas, the sulphating scrubber solution and the bleed from Area 60. The pH of the water in the Waste Water Tank is adjusted with sulphuric acid or sodium hydroxide to attain a neutral pH before discharge of the water to the municipal water treatment plant.

Natural Gas

Natural gas will be supplied by a pipeline to the plant boundary by others with metering established inside the property line close to the point of connection. Natural gas is distributed to the process users from the metering point.

Electricity

Electricity supply will be provided by the local electricity bureau via a 10kV feeder along Dongxin Road at the north of site. The project will establish an on-site high voltage substation to distribute this 10kV supply to six 10/0.4kV transformers located around the site near load centres.

Steam

Steam supply will be connected to the site boundary and metered by others. Steam is distributed to the process users from the metering point.

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Compressed Air

Compressed air will all be of instrument air quality (oil <0.01mg/m³ and particulates <0.01 micron). The compressed air pressure is 750kPa.

Ambient air is compressed by the Air Compressors, before passing to the Compressed Air Receiver. After filtering and drying, the air is distributed to the process users.

Data and Communications

Digital voice communications will be established by the connection of minimum 8 incoming lines and installation of a PABX, cabling and handsets in the management offices, laboratory, control room, warehouses and maintenance workshop.

Data communications, including email, will be via wide-band internet connections.

Sampling and Laboratory Testing

Provisions will be made for sampling at numerous locations and for the sampling of spodumene concentrate, products and co-products. A laboratory with appropriate testing and analytical equipment will be established on site to process and store these samples. Test results will be used for metallurgical accounting and for product QC.

Operation, Maintenance and Spares

Adequate stairs, access ways and platforms will be provided to enable the safe and convenient operation and maintenance of equipment. Provision of isolation points, and locations of valves and other operable devices will be in accordance with good practice and confirmed by HAZOP.

Though maintenance philosophies have not been finalised in detail, provision will be made for a maintenance building and equipment suitable for smaller scale on-site maintenance/repair of equipment such as pumps, agitators, etc.

A secure spares store will also be provided within the Maintenance Building.

9.3.9. Area 90: Alumina-Silicate Disposal

The damp filter cake from the Leached Solids Filters (30-FL-01/2) is stored on a stockpile and is loaded onto trucks for removal from site on a continuous basis. This stockpile will be covered, banded and fitted with a sump and pump.

The company is currently in negotiations with cement and geopolymer companies to collect the alumina-silicate waste for use in their products.

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9.3.10 DFS assumptions

Product Quality and Throughput Capacity

An Indicative Analysis of the product is presented in Table 9.1.

Table 9.1 Indicative Analysis of Product Quality

<u>Element</u>	<u>Symbol</u>	<u>Content</u>
Lithium	Li ₂ CO ₃	>99.5%
Sodium	Na	0.025%
Iron	Fe	0.001%
Copper	Cu	0.001%
Magnesium	Mg	0.01%
Aluminum	Al	0.005%
Lead	Pb	0.001%
Calcium	Ca	0.005%
Potassium	K	0.001%
Manganese	Mn	0.001%
Silica	Si	0.005%
Chloride	Cl	0.003%
Sulphate	SO ₄	0.08%
Moisture	H ₂ O	0.40%

The Jiangsu Plant will have a nominal design production rate of 17,000tpa of high quality lithium carbonate (Li₂CO₃ with a purity level of at least 99.5%), utilizing 137,000tpa of spodumene concentrate from the Mt Cattlin mine. These design rates are based on a 3 shift, 24 hours/day operation with a 2 week annual maintenance shut-down.

Target plant availability is 85% and target recovery rate for lithium is 85%, i.e. 85% of the lithium contained in the spodumene concentrate is to be recovered as packaged lithium product.

Snowden believes the quality (refer to Purification Test Report — Central South University) and throughput to be achievable with the proposed process design discussed.

Plant throughput is expected by Galaxy to commence at 5,000t of spodumene concentrate in the first month of production, increasing broadly linearly to designed throughput of 137,000tpa after 8 months.

While such predictions are unlikely to be met exactly, Snowden considers the general approach and timing of this assumed throughput ramp up profile to be acceptable for this style of plant.

Galaxy expects lithium carbonate recovery to commence at 60% in the first month of production, increasing to 70% in the second month, and 75% in the third to fifth months with design steady state recovery of 85% being achieved by the sixth month.

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Snowden considers the general approach and timing of the assumed recovery ramp up profile to be acceptable for this style of plant.

The Jiangsu Plant has been designed to produce lithium carbonate with grades of 99.9% and above. Galaxy intends to produce lithium carbonate with minimum grades of 99.5%. Galaxy expects to produce lithium carbonate predominantly with grades of less than 99.5% in the first two months of production. By the sixth month, Galaxy expects that at least 40% of total lithium carbonate produced will have grades of 99.5% or above. Within 10 months, Galaxy expects to be producing saleable quantities of material with grades of 99.9% and above. By early 2012, Galaxy expects to be producing at a rate of 17,000 tpa with purity levels of at least 99.5%.

Process Plant Capital Costs

The Capital Budget for the Jiangsu Plant is currently being developed by Galaxy and the EPCM Engineer, Hatch.

The proposed budget for the Jiangsu Plant as of December 1, 2010 is Chinese Yuan (CNY) 477 million, including contingency of CNY 15.8 million.

Snowden considers that the budget is realistic and unlikely to be exceeded by more than 10% by the completion of plant construction.

Operating Costs

Galaxy has provided Snowden with the document, “Doc GXY Operating Budget_Jiangsu 100609, January 2010 to December 2012. This includes Jiangsu Budget Operating Costs.

Total operating costs at the Jiangsu Plant are considered by Snowden to include processing (including reagents), laboratory, utilities, environmental, safety, maintenance, and transport costs, but excluding the internal transfer price of spodumene concentrate and the shipping cost of transporting spodumene concentrate from Esperance to the port of Zhangjiagang. For 2011, while the Jiangsu Plant is in ramp up stage, total operating costs at the Jiangsu Plant will amount to a total of RMB 17,845 per tonne of lithium carbonate. This will reduce to RMB 14,267 per tonne of lithium carbonate once the Jiangsu Plant reaches steady state. Shipping costs of spodumene concentrate from Esperance to the port of Zhangjiagang (which are additional to the operating costs at Jiangsu Plant) have been included in both cases.

Snowden considers the operating costs reasonable for this style of plant, completing ramp up to design throughput.

Flow sheet Changes from DFS to Proposed Final Design

The final flow sheet design is essentially the same as the DFS, with some exceptions, as noted below:

- Use of lime for neutralisation in the leach circuit
- Incorporation of additional impurity removal filtration steps

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- Incorporation of a Lithium Bicarbonate purification process route
- Addition of a stockpile conveyer and tripper
- Taking out the milled spodumene sizing screen
- Addition of a Pre-leach rotary cooler
- Taking out the leach solids thickener
- Taking out the alumina-silicate residue drying

Snowden considers these changes either add value to the final product, or are part of normal design development.

9.3.11 Statutory Approvals and Regulations

Galaxy has informed Snowden that the approvals process will not delay work on the project since Galaxy was granted permission from the Zhangjiagang authorities to commence bulk earthworks, road works, plant foundation piling, site utilities, concrete padding and some steel work construction of buildings while applications were still being processed.

Galaxy has successfully completed the registration procedures within the Zhangjiagang Free Trade Zone (Yangtze River International Chemical Industrial Park) to establish a Wholly Foreign Owned Enterprise. Galaxy has also successfully negotiated agreements for:

- Land Use Rights over approximately 53,300 m² of land within the Free Trade Zone
- Connection of electricity and natural gas supplies free of charge to the site boundary
- Steam and sulphuric acid supplies from Two Lions Fine Chemicals Company from a wharf located approximately 400 m from site.

The statutory approvals and regulations which need to be addressed by Galaxy Lithium (Jiangsu) Co Ltd, assisted by their EPCM contractors, Hatch during the various phases of the project are summarized in the sections to follow.

Business Establishment

- Business License
- Environmental Impact Assessment Report and Approval
- Safety Appraisal

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- Energy Appraisal
- Health (Hygiene) Appraisal
- Project Application Approval

At this stage the business license has been approved and all the above documents and processes are in various stages of progress.

The environmental approval process in China commenced with an Environmental Registration which was submitted on August 10, 2009 and was approved on August 17, 2009. This then allowed the project to continue with the preparation and submission of the Environmental Impact Assessment (EIA) Report, to be conducted (responsible for preparation, submission and gaining approval) by the Nanjing Environmental Science and Research Institute. During this process, Hatch has assisted in providing technical inputs and reviewing the EIA report prior to its submission to the Environmental Protection Bureau. The final EIA report was submitted to the Jiangsu Province Environmental Protection Bureau for approval on September 25, 2009 and approval was obtained on November 17, 2009.

Construction Permitting

- Construction Permit
- Preliminary Design Approval
- Concept Design Approval
- Third-party Design Check Certificate
- Drawing Approval from Construction Bureau
- Drawing Approval from Fire Bureau
- Project Planning Permit
- Tendering Registration
- Quality Station Registration

In parallel with the above list, land issues also need to be addressed during this stage. These include Land Planning Permit, Land Leasing Contract and Land Use Rights Certificate. All these are in progress and need to be completed before applying for the Project Planning Permit.

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Final Acceptance

After construction is complete, the following acceptances are required before the plant can be put into operation. They will only be applied for during the construction phase:

- Safety/Health Acceptance
- Environmental Pre-Acceptance (final Acceptance is applied for after 6 months of operation)
- Planning Bureau Acceptance
- Fire Bureau Acceptance
- Quality Station Acceptance
- Archive Office Acceptance
- Building Ownership Certificate

Snowden is of the opinion that the necessary processes are in place to ensure that all the above approvals are obtained in a timely fashion.

9.3.12 Construction progress

As of early December 2010, all site roads, except the weighbridge area, have been completed. Piling for all construction is about 60% complete.

Structural steel fabrication for the Lithium Products Warehouse, Lithium Packaging Building and Production Building is complete. The steel frames are currently being erected for these three buildings and should be completed by early December 2010 (see Figure 6, Figure 7 and Figure 8). Cladding of these structures will commence during December 2010.

Construction of the administration building has commenced and is progressing well (see Figure 9).

The current completion milestone dates are as follows:

- Start Hot Commissioning of Area 50 and production of Battery Grade Lithium Carbonate (Phase 1): 24 March 2011
- Start of Hot Commissioning of the remainder of the plant (Phase 2): 14 April 2011

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Figure 9.4 Steel Structure of the Lithium Product Warehouse



Figure 9.5 Steel Structure of Lithium Product Warehouse and Lithium Packaging Building



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Figure 9.6 Steel Structure of the Production Building



Figure 9.7 Construction of the Administration Building



The port authority is progressing well with the construction of the conveyer belt support structure from the port to the plant. This part of the project does not fall under the Management of Hatch, but of Galaxy China itself (see Figure 10).

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Figure 9.8 View of some of the conveyer work from the port



10. INFRASTRUCTURE AND LOGISTICS

10.1 BACKGROUND

The existing infrastructure and service facilities available and accessible to the Mt Cattlin Mine within WA will be sufficient to maintain ongoing operations of the mining and processing works. Albany and Esperance, the two nearest major centres of population, both have heavy industry support including construction, engineering and manufacturing services. It is envisaged that these resources will be utilized throughout the life of the mine including planned shutdown maintenance personnel and cranes as well as provide ready access for emergency breakdown repairs. The township of Ravensthorpe is also able to provide these services on a more limited scale following the construction of the Ravensthorpe Nickel Project. Other facilities within the town include a hospital, police station, primary and secondary schooling, a large recreation facility, hotel, motel and caravan park, in addition to a number of small business enterprises and a telecentre. A fully sealed airstrip capable of accepting commercial jets has been established south of the town on the Hopetoun road.

10.2 ROADS

Transport from Perth will be via either the Brookton Highway (450kms) or the Albany and South Coast Highways (690kms). Both these highways are not anticipated to present difficulties in carrying the materials and equipment for the project to site. Product transport will be via the South Coast Highway to Esperance, a distance of 187kms. A new access road from the Lake King Road has been developed to provide heavy vehicle access from the site for product transport.

10.3 SPODUMENE TRANSPORT FROM MT CATTLIN

Spodumene produced at Mt Cattlin mine site will be trucked in bulk by Esperance Freight Lines (EFL) to Esperance Port and stored in a nominated area within the port.

Shipments to China will be in bulk quantities between 12,000t to 25,000t per shipment. A five year fixed ocean freight contract is signed with Pacific Basin IHC (UK) Ltd, vessel owners, to ship a maximum of 25,000t +/-10% per shipment to the Zhangjiagang Port in China. A total of 137,000tpa of spodumene will be shipped to China.

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Inchcape Shipping Services Pty Ltd has been appointed as shippers agent at Esperance Port. Their responsibility includes coordinating the shipping activities with Mt Cattlin, vessel owners and Esperance Port.

10.4 SPODUMENE UNLOADING IN CHINA

Spodumene will be unloaded in China at a private berth owned by Two Lions Company in Zhangjiagang and delivered by conveyors to Galaxy’s lithium carbonate site, approx 500m away from the berth. An unloading and delivery contract has been signed with the Two Lions Logistics Company.

10.5 LITHIUM CARBONATE DELIVERIES TO CUSTOMERS

Galaxy’s finished product (Li_2CO_3) in 25kg bags or 1 tonne bags on pallets, will be shipped from Zhangjiagang to two nominated warehouses in Tianjin (North China) and Changsha (South China) via barges, rail and truck.

Customers in the Central and Western China regions will receive product via trucks directly from the warehouse at the plant at Zhangjiagang

Sinotrans, one of the largest logistics and warehousing services providers in China, has been appointed to manage the storage (warehouses in Tianjin and Changsha) and distribution of the product. A contract has been signed with this company fixing annual charges for transport and storage.

11. OTHER COMMENTS

11.1 PROCESS PATENT

During January 2010, Galaxy filed a provisional patent application for an invention that relates to the process of producing lithium carbonate.

More particularly, the process covered by the invention is intended to provide a high purity or battery grade lithium carbonate product. The process on which the invention is based may also provide a sodium sulphate product.

Known processes for the production of lithium carbonate from lithium containing ores or concentrates typically utilize the thermal treatment of an alpha-spodumene ore or concentrate. This thermal treatment can be referred as decrepitation and transforms the alpha-spodumene to beta-spodumene which is in turn able to be solubilised by acid.

However, the known processes for the production of lithium carbonate are relatively inefficient in the removal of impurities remaining in the pregnant leach solution, which results in a relatively impure lithium carbonate product. This is particularly problematic when attempting to produce a high quality or battery grade lithium carbonate product.

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The process/invention proposed by Galaxy has as one objective to overcome the above mentioned as well as a number of other problems associated with prior processes, or to at least provide a useful alternative thereto.

11.2 MANAGEMENT

Mr Iggy Tan, Managing Director of Galaxy, has over 25 years of experience in the mining and chemical industry as well as background in marketing and business development. Mr Tan has a strong senior management team supporting his efforts. Mr Terry Stark, the General Manager — Resources Division, is a mining engineer with experience throughout Australia in various commodities covering mine development and operation. He has been responsible for the construction of two new projects in recent years.

In China, Mr Mark Sun is the Managing Director — Chemical Division of the Jiangsu Chemical Plant. Mr Sun has extensive experience in the management of chemical and processing facilities in China with one of his most recent positions being as General Manager of a Vale Inco subsidiary producing nickel products in Dalian, China.

Snowden believes that Galaxy enjoys the support and expertise of a well equipped and competent team of professionals with the relevant experience to bring value to the Mt Cattlin mine and Jiangsu Plant.

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12. RISKS

12.1 POTENTIAL RISKS

Snowden has summarized key areas of risk which could impact on the viability of the mine and processing facilities (see Table 12.1).

Table 12.1 Galaxy technical risks

Risk	Comment
Resource & Reserve <i>Low-Medium risk</i>	Mineral Resources have been defined by a CP, according to the requirements of the JORC Code and classified into Measured (17%), Indicated (61%) and Inferred (22%) Mineral Resources. The classification is appropriate for the information levels and type of mineralization. Ore Reserves have been defined by a CP, according to the requirements of the JORC Code from Mineral Resources and technical assumptions were based on information obtained through a Scoping /Feasibility study.
Mining <i>Low risk</i>	The mine is based on low risk conventional open-pit mining and the relatively flat lying ore body allows mining to proceed at a reasonably constant strip ratio once the ore is uncovered. Mining will be carried out using excavator and truck combination, delivering to a conventional crushing and HMS gravity recovery circuit.
Processing (Mt Cattlin) <i>Low risk</i>	The proposed methods for concentrate production at Mt Cattlin are conventional and are therefore of relatively low risk. There is flexibility in the design to ensure design throughput and grade is achieved.
Chemical plant (Jiangsu) <i>Medium risk</i>	Quality — achieving a quality level of 99.5% to meet customer specifications contained in off-take agreements is a relatively low risk, however producing a high quality product of 99.9% and above is a moderate risk. It will also take some time to produce this higher quality (6-9 months from commissioning), during which time lower grade product with purity levels below 99.5% may be produced. This lower grade material is saleable, but at a lower price than higher grade material.
Equipment for Chemical plant (Jiangsu) <i>Medium-Low risk</i>	Quality — the quality of the equipment to be installed in the chemical plant at Jiangsu will be of high importance to ensure throughput and final product quality. The process plant has been designed to achieve product quality grade if quality equipment is installed. Regular quality control procedures and inspection of the manufacturing standards of equipment to be installed in chemical plant is very important to reduce the risk to the final product quality.
Infrastructure <i>Low risk</i>	Mt Cattlin — Infrastructure, roads and port facilities are available and have been secured by Galaxy for transport of their spodumene concentrate from the mine to the port at Esperance. Shipping agents have been appointed to facilitate and coordinating the shipping activities with Mt Cattlin, vessel owners and Esperance Port.
Tenement & Title <i>Low risk</i>	Snowden has not undertaken a title search or legal due diligence on the status of the tenements or regulatory approvals held by Galaxy but has sited correspondence between Galaxy and their tenement and title consultants (Hetherington Exploration & Mining Title Services Pty Ltd). Snowden had been advised by Galaxy that there are no material tenement issues relating to title to any of Galaxy’s assets.

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<u>Risk</u>	<u>Comment</u>
Social <i>Low risk</i>	One of the main social risks is related to the local Ravensthorpe community’s attitude to noise and dust created by the mining activities at Mt Cattlin. A similar risk exists at the Jiangsu plant where housing of small farmers exists across the access road.
Environmental <i>Low risk</i>	Snowden has sighted documentation related to confirmation of approval or applications for approval of various areas of environmental compliance and is satisfied that Galaxy is meeting its general environmental obligations.
Capital Cost (Mt Cattlin) <i>Low-Medium risk</i>	Snowden has been involved in the monitoring of the construction of the Mt Cattlin mine and processing plant and considers that the construction budget is unlikely to be exceeded by more than 10% by the completion of plant construction.
Operating cost (Mt Cattlin) <i>Low-Medium risk</i>	Snowden has reviewed budgeted operating cost for 2010 to 2011 and believes that the assumptions used are reasonable. The accuracy of the budget estimates to actual figures will only be able to be established after a reasonable period of operation has lapsed.

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14. GLOSSARY OF TERMS

<u>Term/Abbreviation</u>	<u>Explanation</u>
°	degree (angle)
° C	degrees Celsius
\$	Australian dollar currency
\$000	thousand dollars
\$US	United States of America dollar currency
\$/t	dollars per tonne
\$/t ore	Cost in dollars per tonne of ore
\$M	million dollars
%	percent
% v/v	Percentage volume per volume
% w/w solids	Percentage weight per weight solids
000s	thousands
4X	Whittle 4X Optimisation Software
a	annum
A	ampere
AC	Alternating current
AFP	Acid forming potential
AHD	Australian Height Datum
AI	Abrasion index — the mass lost by the impeller after impacting successive batches of rock
AMD	Acid Mine Drainage
AMG	Australian Map Grid (coordinates)
AMMTEC	AMMTEC Limited
ARV	Asset right-off value
Av	Average
Al ₂ O ₃	Aluminum Oxide
BCM	Bank cubic meter
CaO	Calcium Oxide
CoG	Cut-off Grade
Cut-off Grade	A grade of mineralization which is considered to have an economic value that supports the direct and indirect costs of production, excluding capital expenditure, interest and debt.
Cr ₂ O ₃	Chromite
Cs	Cesium
D ₅₀	Product 50% passing size
DC	Direct current
DCF	Discounted cash flow
DD	Diamond Drilling
Density	Mass per unit volume (t/m ³)
DEP	Department of Environmental Protection, Western Australia
DFS	Definitive Feasibility Study
DMP	Department of Minerals and Petroleum
DoW	Department of Water

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<u>Term/Abbreviation</u>	<u>Explanation</u>
dmt	Dry metric tonne
DTM	Digital terrain model
EBITDA	Earnings before interest, tax, depreciation, amortization
EGL	Effective grinding length
EPA	Environmental Protection Authority, Western Australia
ERMP	Environmental Review and Management Program
F ₈₀	Feed 80% passing size
Fe	Iron
Fe ₂ O ₃	Iron Oxide
FOT	Free on transport
FR	Fresh
g	gram
G	giga (denoting a factor of 10 ⁹)
Ga	Gallium
GPS	Global positioning system
GRL	Galaxy Resources Limited
gm/cc	Density, grams per cubic centimetre
GXY	Galaxy Resources Limited (ASX company Code: GXY)
h	hour
hpa	Hours per annum
H ₂ SO ₄	Hydrogen Sulphate
h/d	Hours per day
Ha	Hectare
HV	High voltage
IRR	Internal rate of return
lbs	pounds
lbspa	Pounds per annum
ISDN	International subscriber dialling network
JORC	Joint Ore Reserves Committee (Aus IMM)
k	Kilo or thousands
kg	Kilogram
kg/h	Kilograms per hour
kg/m ³	Kilogram per cubic meter
km	Kilometres
km/h	Kilometres per hour
kt/month	Thousands of tonnes per month
kPa	Kilopascals
Kt	Kilo tonnes
kW	Kilowatt
kWh	Kilowatt hour
kWh/t	Kilowatt hours per tonne
L	Litre
Li	Lithium
Li ₂ CO ₃	Lithium Carbonate
Li ₂ O	Lithium Oxide
L/s	Litre per second

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<u>Term/Abbreviation</u>	<u>Explanation</u>
LOM	Life of Mine
LPG	Liquid petroleum gas
m	Metres
MCC	Motor control centre
Ma	
MgO	Magnesium oxide
ML/d	Megalitres per day
mm	millimetres
MMU	Minimum Mining Unit
m/s	Meter per second
MPa	Mega Pascal
MPR	Department of Minerals & Petroleum Resources, Western Australia
m ²	Square metres
m ³	Cubic metres
m RL	Metres above Reduced Level
mS/m	milliSiemens per meter
MnO	Manganese Oxide
Mt	Million tonnes
Mtpa	Million tonnes per annum
Na ₂ CO ₃	Sodium Carbonate
Na ₂ SO ₂	Sodium Sulphate
NaOH	Sodium Hydroxide
Nagrom	Nagrom Minerals Processing facility, WA
Nb	Niobium
No.	Number
NPV	Net present value
OH	Open Hole
P ₂ O ₅	Phosphorous Pentoxide
P ₈₀	Product 80% passing size
pa	per annum
PLC	Programmable logic control
ppm	parts per million
Rb	Rubidium
RC	Reverse circulation (drilling)
RAB	Rotary Air Blast
Reserve	an inventory of mineralization that, after applying appropriate mining and economic factors, meets predetermined cut-off grade criteria and is therefore deemed to be economic to exploit under JORC guidelines.
Resource	an inventory of target mineralization, usually delineated by applying a grade that will provide a boundary to a volume of mineralization, which may be of economic interest under JORC
RL	Reduced level
ROM	Run of mine
s	Second
SAP	Saprolite

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<u>Term/Abbreviation</u>	<u>Explanation</u>
SAPR	Saprock
SG	Specific gravity (relative density — dimensionless)
SGS	SGS Laboratories
SO ₃	Sulphite
SiO ₂	Quartz
t	Tonnes
T ₈₀	Transfer 80% passing size
Ta ₂ O ₅	Tantalum Pentoxide
t/d	tonnes per day
t/h	tonnes per hour
TDS	total dissolved solids
TSF	Tailings storage facility
TiO ₂	Titanium Oxide
t/m ³	tonnes per cubic meter (density)
tpa	tonnes per annum
TPD	Transported surficial material
TSP	Total suspended particulate
UCS	Unconfined compressive strength
um	micrometers
V	Volt
v/v	Volume for volume
W	Watt (unit of power)
WACC	Weighted average cost of capital
Wi	Work index, expressed in kWh/t
Wt	Wet metric tonne
w/w	weight for weight
yrs	Years

APPENDIX VII

SUMMARY OF THE CONSTITUTION OF THE COMPANY AND AUSTRALIAN CORPORATIONS ACT

Set out below is a summary of certain provisions of the Constitution of the Company and the Corporations Act, the governing corporate law of the Company, in effect as of the date hereof.

GENERAL

The Company was registered in Western Australia, Australia on January 15, 1996. Prior to September 28, 2001, the Company was known as Galaxy Resources NL. The Company was listed on the ASX on February 6, 2007. The current version of the Constitution of the Company was adopted on [●].

The rights attaching to shares in the Issuer are detailed in the Constitution of the Company, the Corporations Act, ASX Listing Rules and the general law. Set out below is a summary of some material provisions of the Constitution of the Company concerning the Company’s share capital. A copy of the Constitution of the Company is available on request. The summary is not exhaustive, nor does it constitute a definitive statement of the rights and liabilities of shareholders.

DIRECTORS

Power to allot and issue shares

The issue of shares are under the control of the Directors who may issue all or any of the same to such persons at such times and on such terms and conditions and having attached to them such preferred, deferred or other special rights or such restrictions, as the Directors think fit, subject to any special rights previously conferred on the holders of any existing shares or class of shares, the Corporations Act and the ASX Listing Rules.

Power to dispose of the assets of the Company or any of its subsidiaries

The Corporations Act contains no specific restrictions on the powers of directors to dispose of the assets of a company. As a matter of general law, in the exercise of those powers, the directors must discharge their duties of care to act in good faith, for a proper purpose and in the best interests of the company.

The Company cannot give a financial benefit to a related party of the Company without shareholder approval, unless one of the exceptions specified in Part 2E of the Corporations Act applies. A related party is a director or a person or entity related to a director, or controlled by the related party.

Under ASX Listing Rule 11.1, if the Company proposes to make a significant change to the nature or scale of its activities, the Company must comply with the requirements of the ASX, which are likely to include shareholder approval, and may require the Company to reapply with the requirements for admission to the official list of the ASX.

Under ASX Listing Rule 10.1, the Company cannot acquire a “substantial asset” from, or dispose of a “substantial asset” to certain parties, including a director, a subsidiary of or an entity related to the Company, or an entity holding 10% or more of the Company’s issued voting securities, without shareholder approval. For this purpose, a “substantial asset” is an asset valued at, or the value of the consideration exchanged for the asset is, 5% or more of the equity interests of the Company.

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Compensation for loss of office

With the approval of the Company in general meeting, the Directors may;

- upon a Director ceasing to hold office; or
- at any time after a Director ceases to hold office; or

whether by retirement or otherwise, pay to:

- the former Director; or
- any of the legal personal representatives or dependants of the former Director in the case of death;

a lump sum in respect of past services of the director of an amount not exceeding the amount either permitted by the Corporations Act or the ASX Listing Rules.

Loans to directors

Loans by the Company to a director of more than A\$5,000 a year require shareholder approval.

Financial assistance to purchase shares in the Company

Financial assistance for the acquisition of a company’s own shares is generally prohibited, except with shareholder approval or where an exception applies. The principal exception is where the assistance does not materially prejudice:

- the interests of the company or its shareholders; or
- the company’s ability to pay its creditors.

Disclosure of interests in contracts with the Company or its subsidiaries

Subject to the Corporations Act and the ASX Listing Rules, any Director may hold office or a place of profit in any other company, body corporate, trust or entity in which the Company may have an interest. Subject to appropriate disclosure under the Corporations Act and the ASX Listing Rules, a Director may also act in any professional capacity for the Company (except as auditor) or any other company in which the Company may be interested as vendor, shareholder or otherwise.

Each Director must disclose that Director’s interests to the Company and the Directors must ensure to record any such declaration in the minutes of the relevant meeting. The Company must advise ASX without delay of any material contract involving the Director’s interests in accordance with the ASX Listing Rules.

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Remuneration

As at the Latest Practicable Date subject to the ASX Listing Rules, the directors (other than a “Managing Director” or an executive director whether by employment or consultancy) may be paid as remuneration for their services, an aggregate sum to be determined from time to time by the Company in general meeting. The maximum amount of A\$[●] was approved by a resolution of the shareholders of the Company on [●].

Subject to the Corporations Act and to the provisions of any contract between the Company and a Managing Director or executive officer, the remuneration of the Managing Director or of an executive director may from time to time be fixed by the directors and may be by way of salary or commission or participation in profits or by all these modes but may not be by a commission on or a percentage of operating revenue.

Retirement, appointment and removal

In accordance with the Corporations Act, while the Company has a financial year ending [●], the annual general meeting of the Company will be held in [●] of each year.

Notices of intention to propose a person for election as a director (and the candidate’s consent to be elected) may be lodged with the Company at any time during the period commencing immediately after the previous annual general meeting and ending 30 calendar days prior to the annual general meeting at which the candidate seeks election.

Written notice of each annual general meeting will be given to all of the Company’s shareholders (including those who are Hong Kong residents) at least 28 days prior to the annual general meeting. The notice of meeting will contain particulars of the proposed election of directors, including details of each candidate that has been nominated for election.

At each annual general meeting of the Company any director who has held office for three years or more (except the Managing Director), must retire from office.

The Directors to retire at any annual general meeting must be those who have been longest in office since their last election, but, as between persons who became directors on the same day, those to retire must (unless they otherwise agree among themselves) be determined by lot. A retiring Director is eligible for re-election.

Borrowing powers

The Directors may exercise all the powers of the Company to borrow or raise money, to charge any property or business of the Company or all or any of its uncalled capital and to issue debentures or give any other security for a debt, liability or obligation of the Company or of any other person.

ALTERATIONS TO CONSTITUTIONAL DOCUMENTS

The Constitution of the Company may only be altered by special resolution.

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SUMMARY OF THE CONSTITUTION OF THE COMPANY AND AUSTRALIAN CORPORATIONS ACT

VARIATION OF RIGHTS OF EXISTING CLASSES OF SHARES

The Company may vary or cancel rights attached to shares in a class of shares by:

- written consent of shareholders with at least 75% of votes in that class; or
- by special resolution passed at a meeting of shareholders holding shares in that class.

SPECIAL RESOLUTIONS — MAJORITY REQUIRED

The Corporations Act provides that a resolution is a special resolution when it has been passed by a majority of not less than 75% of the votes cast by members entitled to vote on the resolution.

VOTING RIGHTS — GENERALLY AND ON A POLL

At a meeting of shareholders, every person present who is a Shareholder or a proxy, attorney or representative of a Shareholder has:

- on a show of hands, one vote; and
- on a poll, one vote in respect of each fully paid share held. A shareholder holding partly paid shares shall have such number of votes being equivalent to the proportion paid up on those shares, but fractions of votes will be disregarded.

REQUIREMENTS FOR ANNUAL GENERAL MEETINGS

In accordance with the Corporations Act, the Company must hold an annual general meeting at least once every calendar year, and within the period of five months after the end of the financial year, at such time and place as determined by the Directors.

ACCOUNTS AND AUDIT

An Australian public company that is listed on the ASX, such as the Company, must prepare half yearly and annual financial statements which must be audited. The annual financial statements and the auditor’s report must also be presented at the Annual General Meeting of shareholders.

NOTICE OF MEETING AND BUSINESS TO BE CONDUCTED THEREAT

At least 28 days notice must be given to the Shareholders of a general meeting.

A general meeting of the Company may be convened by:

- the Directors, at any time they think fit; and

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- Shareholder(s) holding at least 5% per cent of the total votes (the Shareholder(s) must pay the expenses of calling and holding the meeting, except where the Shareholder(s) request the Directors to convene the meeting in accordance with the next paragraph).

The Directors may also convene a general meeting on the request of:

- no less than 100 Shareholders entitled to vote at the general meeting; or
- Shareholder(s) entitled to at least 5% of the total voting rights of all Shareholders.

If the Directors do not convene a general meeting within 21 days of being requisitioned to do so, the Shareholder(s) representing more than 50% of the votes of all the Shareholders who requested the meeting may convene a meeting. The meeting must then be held within three months of the request being given to the Company. The Company must repay the requisitioning Shareholders any reasonable expenses incurred by them by reason of the failure of the Directors to convene a meeting. The Company may recover the amount of expenses from the Directors.

TRANSFER OF SHARES

A transfer of Shares must be made in accordance with the Corporations Act, the Constitution and the operating rules of the relevant clearing and settlement facility. A Shareholder may not, however, dispose of any restricted securities during the escrow period pertaining to them except as permitted by ASX or the ASX Listing Rules.

Except where required by law, the operating rules of the relevant clearing and settlement facility or the Constitution, there is no restriction on the transfer of shares. The Directors may decline to register a transfer or may request that a holding lock if the relevant rules permit them to do so.

POWER OF COMPANY TO PURCHASE ITS OWN SHARES

Subject to the Corporations Act and the ASX Listing Rules, the Company may purchase its own shares on any terms and at any time.

POWER FOR ANY SUBSIDIARY TO OWN SHARES IN THE COMPANY

The Corporations Act does not permit a company to hold shares in its parent company.

DIVIDENDS AND OTHER METHODS OF DISTRIBUTION

Under the Corporations Act, the Company will not be permitted to pay a dividend unless:

- its assets exceed its liabilities immediately before the dividend is declared, and the excess is sufficient to pay the dividend; and

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- the payment of the dividend is fair and reasonable to the Shareholders as a whole; and
- the payment of the dividend does not materially prejudice the Company’s ability to pay its creditors.

The Directors may determine that a dividend is payable and fix the amount and time for payment, and authorize the payment or crediting by the Company to shareholders.

The Directors, when resolving to pay a dividend, may direct payment of the dividend wholly or partly by distribution of cash, the issue of shares or other securities or the transfer of assets. The Company incurs a debt when the time fixed for payment of the dividend arrives.

PROXIES

Subject to any rights or restrictions for the time being attached to any class or classes of shares, each Shareholder is entitled to vote may vote in person or by proxy, attorney or representative of a body corporate.

CALLS ON SHARES AND FORFEITURE OF SHARES

The Directors may make calls on a shareholder in respect of unpaid money on that shareholder’s shares, if the money is not by the terms of issue of those shares made payable at fixed times. The director’s may make the call payable by instalments, and can also revoke or postpone the call. Interest is payable if the sum called in respect of a share is not paid by the date appointed for payment.

INSPECTION OF REGISTER OF MEMBERS

The Company must keep a register of its members. The register may be kept in hard copy, or on computer.

QUORUM FOR MEETINGS AND SEPARATE CLASS MEETINGS

At a general meeting, five shareholders present, whether in person or by proxy, attorney or representative, will constitute a quorum. If within fifteen minutes after the time appointed a quorum is not present, the meeting is either dissolved or adjourned.

RIGHTS OF MINORITIES IN RELATION TO FRAUD OR OPPRESSION THEREOF

A Shareholder may apply for a Court order where the conduct of the Company’s affairs is, among other things, oppressive to, unfairly prejudicial to, or unfairly discriminatory against, a shareholder or shareholders. The orders that may be sought include winding up, amendment to the Constitution, orders regulating the conduct of the Company’s affairs, orders for the purchase of shares, orders that the Company institute, defend or discontinue specified proceedings, and other similar orders.

PROCEDURES ON LIQUIDATION

Subject to the Corporations Act, the ASX Listing Rules, and any rights attaching to classes of shares, on winding up, the liquidators of the Company may divide by sanction of special resolution among the Shareholders the whole or any part of the property of the Company, and may decide how to distribute the property of the Company between Shareholders or different classes of shareholders.

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OTHER MATERIAL PROVISIONS AND ISSUES

The Constitution of the Company, was adopted by a special resolution dated [●]. The following is a summary of other key issues arising from the Corporations Act, the ASX Listing Rules and the Constitution of the Company.

Share capital

The issued share capital of the Company as at the Latest Practicable Date is [214,236,091] Shares. The Shares have no nominal or par value (such concept no longer exists under Australian law) and are recorded in the accounts of the Company at their issue price.

In addition, the Company has on issue a number of options over Shares. Details of the number and type of these options are set out in [●].

The Company does not have an authorized share capital, as such term is understood in Hong Kong, that sets the limit to the number of shares a company can issue. There is generally no limit in the Corporations Act on the power of the Directors to issue shares. However, subject to certain exceptions (including those in respect of pro rata issues and issues under employee schemes):

- Rule 7.1 of the ASX Listing Rules prohibits a company which is listed on the ASX from issuing shares or options representing more than 15% of its issued capital in any twelve month period without shareholder approval. Such shareholder approval requires an ordinary resolution passed by a simple majority; and
- Chapter 6 of the Corporations Act forbids the acquisition of a “relevant interest” in voting shares in the Company (whether by transfer or issue) if, as a result, the “voting power” of the acquirer (or any other person) would increase from 20% or below to more than 20%.

There is no similar statutory requirement under Australian law, as is found under Hong Kong law, providing that Shareholders have a right to be offered any Shares in the Company which are being newly issued for cash before the same can be offered to new Shareholders. Consequently, there is no requirement for shareholders in general meetings to provide a waiver to this obligation.

Subject to the ASX Listing Rules, the Company, in accordance with the Corporations Act, may by ordinary resolution convert all or any of its shares into a larger or smaller number of shares.

Subject to the Corporations Act, the Company may reduce its share capital in any way.

The Directors are not required to hold any Shares in the Company.

Save as disclosed in this document:

- no Share of the Company has been issued or is now proposed to be issued, fully or partly paid, either for cash or for a consideration other than cash;

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- no Share of the Company is subject to an option granted or created by the Company or is agreed conditionally or unconditionally to be put under an option granted or created by the Company;
- no commission, discount, brokerage or other special term has been granted by the Company or is now proposed in connection with the issue or sale of any part of the share capital of the Company;
- no founder, management or deferred shares have been issued by the Company; and
- no amount or benefit has been paid or is to be paid or given to any promoter of the Company.

Objects

The Company does not have an objects clause in its Constitution because an Australian company, unlike companies incorporated under the laws of Hong Kong, is not required to have an objects clause. Pursuant to section 124 of the Corporations Act, the Company has the legal capacity and powers of an individual and all powers of a body corporate.

Unmarketable parcels

In certain circumstances the Company may sell unmarketable parcels of shares held by Shareholders (i.e. those that have a value of less than A\$500) (“Unmarketable Parcels”). This is consistent with, and subject to, the ASX Listing Rules and the Corporations Act.

The Constitution provides that, if required by the ASX Listing Rules, the power of the Company to sell Unmarketable Parcels may be invoked only once in any 12 month period.

The Company cannot require a Shareholder to sell an Unmarketable Parcel. All Shareholders holding an Unmarketable Parcel will be given an opportunity to request that it retain its Unmarketable Parcel. The ASX Listing Rules also contain a number of safeguards that protect the holders of Unmarketable Parcels including:

- the Company may only seek to sell any Unmarketable Parcels once in any 12 month period;
- the Company must notify the relevant Shareholder of its intention to sell the Unmarketable Parcel;
- the Shareholder must be given at least a six week notice period from the date that the notice is sent in which to tell the Company that it wishes to retain its Unmarketable Parcel, and if the Shareholder does so inform the Company, the Unmarketable Parcel will not be sold;
- the sale of the Unmarketable Parcel must stop following the announcement of any takeover bid for the Company but may be started again after the close of offers made under the takeover bid;
- only the Unmarketable Parcels held by Shareholders who do not respond in writing to the Company during the notice period or who expressly state that they want their Unmarketable Parcel sold, may be sold by the Company; and
- the Company must pay the costs of the sale (although it would not be liable for the income tax and capital gains tax consequences associated with the sale and these remain the responsibility of the relevant Shareholder).

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Indemnity

To the extent permitted by the Corporations Act and general law, the Company may indemnify any person who is or has been a director, officer or senior manager of the Company or a subsidiary of the Company, against any liability incurred by that person in that capacity, including legal costs.

The Company or a related body corporate must not indemnify a person against any of the following liabilities incurred as an officer or auditor of the Company:

- a liability owed to the Company or a related body corporate;
- a liability for a pecuniary penalty order under the Corporations Act or a compensation order under the Corporations Act; or
- a liability that is owed to someone other than the Company and did not arise out of conduct in good faith.

Restrictions on Directors’ voting

Except as permitted by the Corporations Act and subject to the ASX Listing Rules, a Director who has a material personal interest in a matter that is being considered at a meeting of the Directors must not vote on or in relation to the matter or be counted in the quorum or be present at the meeting when such matter is being considered.

Number of Directors

The number of Directors must be such number not less than three and not more than ten as the Company may determine in general meeting. All Directors shall be natural persons. At least two Directors must be persons who ordinarily reside within Australia.

A Director is not required to hold any share in the Company.

Disclosure of shareholding

It is an important policy objective of the Corporations Act that market participants, security holders and directors of a listed company be able to identify the controllers of substantial blocks of voting shares, and to know the associates of the holders of those securities. In fulfilling this objective, there are a number of requirements for the disclosure of control over shares listed companies which operate as an adjunct to the control of takeovers of companies.

The Corporations Act requires any person (known as a “substantial holder”) who has or whose associates (as that term is defined in the Corporations Act) have a relevant interest in shares or interests with 5% or more of the votes in a company listed on the ASX to disclose that fact and certain related information to the company and to the ASX.

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These substantial holders must keep their disclosure up to date by reporting each change of 1% or more in their holding and by making further disclosure whenever their holding falls below the 5% threshold. The information must be given even if the situation changes by the time the information is to be given.

The Corporations Act defines “relevant interest” very broadly. A person has a “relevant interest” in a share if the person:

- (a) holds the share (ie is the registered holder);
- (b) has the power to vote in respect of the share;
- (c) has the power to dispose of the share;
- (d) has more than 20% voting power over or controls a body corporate or managed investment scheme that has a relevant interest in the share; or
- (e) has an agreement or understanding with respect to the share with a person who has a relevant interest in the share and that agreement would, if performed, give the first person a relevant interest in the share.

The person with a substantial holding is required to give the notice in the prescribed form within two business days after becoming aware of the information in relation to their substantial holding. If a takeover bid is made and the person becomes aware of the information during the bid period, then the person must give the notice by 9.30am on the next trading day of ASX after becoming aware. If a substantial holder fails to give notice to the relevant company, it is guilty of an offence and may be prevented from exercising its voting power or directing the sale of the shares.

The relevant forms for notification of an initial substantial holding, change in substantial holding or cessation of substantial holding (ASIC Forms 603, 604 and 605 respectively) can be found on the ASIC website, www.asic.gov.au.

As this is a complex area, Shareholders should seek independent legal advice in respect of their particular circumstances.

Classes of shares

A company may have only one class of Shares unless the ASX approves the terms of an additional class. The Company has only one class of Shares.

Reductions of capital

An ordinary resolution of shareholders is required for an equal reduction of capital. A reduction of capital is an equal reduction of capital if:

- it relates only to Shares; and
- it applies to each holder of Shares in proportion to the number of Shares he/she holds; and
- the terms of the reduction are the same for each holder of Shares.

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Any other reduction of capital is a selective reduction. A special resolution of shareholders is required for a selective reduction of capital.

Redeemable shares

A company can only issue preference shares if the rights attached to the preference shares are set out in its constitution, or have been otherwise approved by a special resolution of shareholders. A company may only redeem redeemable preference shares on the terms on which they were issued. A company may only redeem redeemable preference shares if the shares are fully paid-up and out of profits or the proceeds of a new issue of shares made for the purpose of redemption.

Share repurchases

Share repurchases must be authorized by the Company in a general meeting or by a special resolution, subject to limited exceptions. An exception applies where the proposed repurchase would not exceed 10% of the smallest number, at any time during the previous 12 months, of voting shares in the Company. Further details are set out in “Appendix VIII — Statutory and General Information” of this document.

Statutory derivative actions

A shareholder or an officer of the Company may bring proceedings on behalf of the Company where leave is granted by the Court. The Court must grant leave if it is satisfied that:

- it is probable that the Company will not itself bring the proceedings; and
- the applicant is acting in good faith; and
- it is in the best interests of the Company that the applicant be granted leave; and
- there is a serious question to be tried; and
- at least 14 days written notice has been given to the Company of the intention to apply for leave, or it is appropriate to grant leave.

Inspection of books and records

On application by a shareholder, the Court may make an order:

- authorizing the applicant to inspect books of the Company; or
- authorizing another person to inspect books of the Company on the applicant’s behalf.

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Reconstructions

There are statutory provisions which facilitate reconstructions and amalgamations approved by:

- a majority in number of the members present and voting; and
- 75% of the votes cast on the resolution.

The transaction must also be approved by order of the Court. While a dissenting shareholder would have the right to express to the Court his/her view that the transaction should not be approved, the Court will generally approve the transaction where it has been approved by the requisite majorities of shareholders and it complies with the Corporations Act.

Winding up

A company may be wound up either by an order of the Court or by a special resolution of its members.

Stamp duty on transfers

Except in limited circumstances, no Australian stamp duty is payable on transfers of shares in a listed company that is registered in Western Australia, Australia.

Rights attaching to preference shares

The Company currently has no preference shares on issue. The holders of preference shares in a company listed on the ASX have the same rights as shareholders holding Shares as regards receiving notice, reports and audited accounts, and attending general meetings of the Company. A preference shareholder shall have the right to vote in each of the following, but in no other circumstances:

- during a period during which a dividend (or part of a dividend) in respect of the share is in arrears;
- on a proposal to reduce the Company’s share capital;
- on a resolution to approve the terms of a buy-back agreement;
- on a proposal that affects rights attached to the share;
- on a proposal to wind up the Company;
- on a proposal for the disposal of the whole of the Company’s property, business and undertaking;
- during the winding up of the Company.

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Takeover regulation

The Company is incorporated in Australia where it has its head office and place of central management. Chapter 6 of the Corporations Act contains provisions that are similar or analogous to certain provisions of the Hong Kong Code on Takeovers and Mergers.

The takeovers provisions of the Corporations Act apply to dealings in the Shares. The Corporations Act forbids the acquisition of a “relevant interest” (broadly speaking, the power, directly or indirectly to vote or dispose of the share) in the voting shares in a company incorporated in Australia and listed on the ASX (or if unlisted, a company which has more than 50 shareholders) if, as a result, the “voting power” of the acquirer (or any other person) would increase from 20% or below to more than 20%. Similarly, such an acquisition is forbidden if any person who already has more than 20% but less than 90%, of the voting power increases their voting power in the target company. However, it is not mandatory for a person who already exceeds these thresholds to make a takeover bid for all shares in the target company.

There are several exceptions which allow acquisitions of a relevant interest which would otherwise be prohibited from taking place. These exceptions include acquisitions:

- under a formal takeover offer in which all shareholders can participate;
- with the approval of the shareholders given at a general meeting of the target company; and
- in 3% increments every six months (provided that the acquirer has had voting power of at least 19% in the target company for at least six months).

A person who has made a takeover bid where at the end of the offer period that person (and its associates) have a relevant interest in 90% of the issued shares and acquired 75% (by number) of the shares the person offered to acquire under the bid, may compulsorily acquire any remaining shares it does not hold at the same price offered under the bid. The bidder will be required to notify the holders of shares the subject of the compulsory acquisition of the compulsory acquisition within one month after the end of the offer period. Even if a takeover bid has not been made, a person who otherwise lawfully acquires a relevant interest in 90% of the issued shares is able to acquire the remaining shares for fair value (confirmed by an independent expert), within six months after the person first acquires an interest in 90% of the issued shares.

There have not been any public takeover bids in respect of the Company’s issued Shares during the current or previous financial year.

Under the Australian Foreign Acquisition and Takeovers Act, a non-Australian foreign person or entity cannot acquire a substantial interest in 15% or more, or two or more foreign entities or persons cannot acquire an aggregate substantial interest in 40% or more, of the Company’s issued Shares, without first obtaining approval from the Foreign Investment Review Board.

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Tax

Any discussion of taxation and related matters contained in this document is of a general nature only and is not a comprehensive description of all the tax considerations that may be relevant to a decision to purchase Shares and, in particular, does not address tax considerations for shareholders in their jurisdictions of residence.

Australian dividend withholding tax

Shareholders that are not resident in Australia may nonetheless be subject to Australian dividend withholding tax on dividends paid in relation to their Shares. The general rate of dividend withholding tax is 30% of the gross dividend. However, where the shareholder is resident in a country that has a double tax agreement with Australia, the double tax agreement may cap the rate of dividend withholding tax often to a rate of 15% of the gross dividend. Australia has double tax agreements with its major trading partners, including the PRC, the United States and Japan. For a list of the countries which have double tax agreements with Australia, refer to the website of the Australian Taxation Office, www.ato.gov.au. Notwithstanding that the PRC has a double tax agreement with Australia, the Australian Taxation Office’s view is that the operation of that double tax agreement does not extend to the Hong Kong Special Administrative Region. As withholding tax is a final tax, no other Australian tax is generally payable on the dividend.

Dividends paid to a non-resident of Australia will also not be subject to Australian dividend withholding tax to the extent that they are declared by the Company to be “conduit foreign income”. In very broad terms, conduit foreign income is dividends sourced from income of the Company earned outside Australia that is not subject to Australian tax.

However, dividends paid to a non-resident of Australia will however not be subject to Australian dividend withholding tax to the extent that the dividends have been fully franked. The concept of franking reflects that the underlying profits from which the dividends have been sourced have been subject to Australian corporate income tax.

The Company has received an opinion from its Australian legal advisors confirming that the statements in the section headed “Australian dividend withholding tax” fairly present or fairly summarize the relevant Australian law to the extent appropriate in the context in which they appear and are not misleading or deceptive in any material respect.

Australian capital gains tax

Shareholders that are non-residents of Australia who hold their Shares on capital account will only be subject to Australian tax on any capital gain on the disposal of their Shares (or another taxable event in respect of their Shares) if the non-resident shareholder has an “indirect Australian real property interest” at the time of the disposal (or other capital gains tax event). An “indirect Australian real property interest” generally exists where a non-resident of Australia (together with associates) holds a 10% or more interest in a company and more than 50% of the value of the company’s assets is attributable to “taxable Australian real property” (real property situated in Australia and mining, quarrying or prospecting rights in Australia). As the Company has “taxable Australia real property”, in particular mining or prospecting rights, Shareholders who have an associate inclusive interest of 10% (measured throughout a 12 month period during the two years preceding the sale of those Shares)

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are recommended to seek consult their tax advisor as to whether any capital gain on such a disposal would be subject to Australian tax. Shareholders who hold their shares on revenue account or as trading stock should seek their own independent taxation advice as to the taxation implications of disposal of their Shares.

General

Any person wishing to have a detailed summary of Australian company law or advice on the differences between it and the laws of any other jurisdiction is recommended to seek independent legal advice.

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STATUTORY AND GENERAL INFORMATION

1. FURTHER INFORMATION ABOUT THE COMPANY

The Company was incorporated in Australia on January 15, 1996 as Galaxy Resources NL and is registered in Western Australia. The Company changed its name to Galaxy Resources Ltd on September 28, 2001. The Company has established a place of business in Hong Kong at Suite 901, Hong Kong Club Building, 2A Chater Road, Central, Hong Kong and has been registered as a non-Hong Kong company under Part XI of the Companies Ordinance as of 29 November 2010. Mr. Anthony Peter Tse has been appointed as its agent for the acceptance of service of process in Hong Kong. As the Company is incorporated in Australia, its corporate structure and constitution are subject to the relevant Australian laws. A summary of certain relevant parts of the Company’s constitution and certain relevant aspects of the Corporations Act are set out in “Appendix VII — Summary of the Constitution of the Company and Australian Corporations Act” of this document.

The Company’s registered office and principal executive offices are located at Level 2, 16 Ord Street, West Perth, Western Australia 6005, Australia.

SUBSIDIARIES

Below are brief particulars of the subsidiaries of the Company

(a) Galaxy Lithium Australia Ltd ACN 130 182 099 (GLAL)

Established	March 14, 2008
Place of incorporation	Western Australia, Australia
Type of entity	Public company, limited by shares
General nature of business	Operating company and owner of assets for Mt Cattlin Project
Equity interest	100% GXY
Issued and paid up shares	1 ordinary share

(b) Galaxy Lithium International Ltd (GLIL)

Established	July 23, 2009
Place of incorporation	Hong Kong
Type of entity	Limited
General nature of business	Investment company
Equity interest	100% GLAL
Authorized number of shares	350,000,000
Issued and paid up shares	194,365,400 shares of HK\$1.00 each

(c) Galaxy Lithium (Jiangsu) Co., Ltd (GLJL)

Established	February 10, 2010
Place of incorporation	Jiangsu, PRC
Type of entity	Enterprise with foreign investment
General nature of business	Operating company and owner of assets for the Jiangsu Plant
Equity interest	100% GLIL
Issued and paid up shares	Paid in capital of US\$35,000,000. Total registered capital is US\$35,000,000.

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(d) Galaxy Lithium Holdings B.V. (GLHBV)

Established	January 27, 2011
Place of incorporation	Amsterdam, Netherlands
Type of entity	Private limited liability company
General nature of business	Investment company
Equity interest	100% GLIL
Authorized capital amounts	EUR 100,000
Issued and paid up shares	200 shares of EUR 100 each

(e) Galaxy Lithium (Canada) Inc. (GLCA)

Established	January 18, 2011
Place of incorporation	Quebec, Canada
Type of entity	[Limited]
General nature of business	Investment company
Equity interest	100% GLHBV
Authorized capital amounts	Unlimited
Issued and paid up shares	100 shares of C\$1 each

(f) Galaxy Lithium (US) Inc (GLUS)

Established	January 21, 2011
Place of incorporation	Delaware, the United States
Type of entity	[Limited]
General nature of business	Investment company
Equity interest	100% GLHBV
Authorized capital amounts	US\$10
Issued and paid up shares	100 shares of US\$0.01 each

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2. PURCHASE BY THE COMPANY OF ITS OWN SECURITIES

Australian provisions

This section sets out information concerning the purchase by the Company of its own securities on the ASX.

Section 257A of the Corporations Act provides that a company may buy-backs its own shares if:

- the buy-back does not materially prejudice the company’s ability to pay its creditors; and
- the company follows the procedures summarized below.

Under the Corporations Act there are five types of buy-back. These are:

- minimum holding buy-backs;
- employee share scheme buy-backs;
- on-market buy-backs;
- equal access scheme buy-backs; and
- selective buy-backs.

The Australian requirements applicable to each of these types of buy-back are as follows:

Minimum holding buy-backs

A minimum holding buy-back is a buy-back of all of a holder’s shares if the shares are less than a marketable parcel within the meaning of the rules of the relevant financial market. Under the ASX Listing Rules and Operating Rules a marketable parcel of shares is a parcel of not less than A\$500 based on the most recent closing price.

Minimum holding buy-backs do not require approval by the shareholders in general meeting. The company is required however to inform ASIC of the number of shares acquired and cancelled.

Employee share scheme buy-backs

An “employee share scheme buy-back” is defined in the Corporations Act to mean a buy-back under a scheme that:

- has as its purpose the acquisition of shares in a company by, or on behalf of:
 - employees of the company, or of a related body corporate; or

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- directors of the company, or a related body corporate, who hold a salaried employment or office in the company or in a related body corporate; and
- has been approved by the company in general meeting.

One of the purposes of the employee share scheme buy-back provisions is to allow shares held by departing employees to be bought back on the cessation of employment.

An employee share scheme buy-back needs the prior approval of the company’s shareholders by ordinary resolution in general meeting if the buy-back will cause the company to exceed the 10/12 limit (described below).

At least fourteen days notice of the proposed buy-back must be given to ASIC.

An ASX-listed company which proposes to conduct an employee share scheme buy-back is required to comply with the lodgment requirements in ASX Listing Rule 3.8A. These requirements include the lodging of appendices 3C to 3F during the course of the buy-back:

- Appendix 3C is the announcement of the buy-back and importantly includes details of the number of shares proposed to be bought back and the price to be offered for the shares. Additionally, the company is required to provide any other information material to a shareholder’s decision whether to accept the offer (for example, details of any proposed takeover bid);
- Appendix 3E is a daily buy-back notice and is required to be given to ASX on the first business day after any shares have been acquired under the buy-back;
- at the conclusion of the buy-back an Appendix 3F (Final share buy-back notice) is required to be lodged detailing the number of shares bought back and the total consideration paid for those shares;
- if any changes are made to the information previously lodged with ASX in relation the buy back, this must be lodged with the ASX using an Appendix 3D.

On-market buy-backs

A buy-back is an on-market buy-back if it results from an offer made by an Australian listed corporation on a prescribed financial market (such as the ASX) in the ordinary course of trading.

An on-market buy-back needs the prior approval of the company’s shareholders by ordinary resolution in general meeting if the buy-back will cause the company to exceed the 10/12 limit (described below).

The company must notify ASIC at least 14 days prior to the proposed buy-back.

There is a restriction under the ASX Listing Rules on the price that the broker may pay for shares in an on-market buy-back. Under ASX Listing Rule 7.33 a company may only buy-back shares under an on-market buy-back at a price which is not more than 5% above the average of the market price for securities in that class. The average is calculated over the last five days on which sales in the shares were recorded before the day on which the purchase under the buy-back was made.

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As with the employee share scheme buy-back, an on market buy-back is required to comply with the lodgment requirements in ASX Listing Rule 3.8A, as described above.

Equal access scheme buy-backs

To be an “equal access” scheme buy-back, the Corporations Act requires the scheme to satisfy all the following conditions:

- the offers under the scheme relate only to ordinary shares;
- the offers are to be made to every person who holds ordinary shares to buy-back the same percentage of their ordinary shares;
- all of those persons have a reasonable opportunity to accept the offers made to them;
- buy-back agreements are not entered into until a specified time for acceptances of offers has closed; and
- the terms of all the offers are the same.

With an equal access scheme buy-back, the company must include with the offers to shareholders to buy-back shares, a statement setting out all information known to the company that is material to the decision whether to accept the offer.

At least fourteen days notice of the proposed buy-back must be given to ASIC. Further, the company must lodge with ASIC, before the buy-back agreement is entered into, a document setting out the terms of the offer and any document that is to accompany it.

An equal access scheme buy-back needs the prior approval of the company’s shareholders by ordinary resolution in general meeting if the buy-back will cause the company to exceed the 10/12 limit (described below).

Before the notice of the meeting is sent to shareholders, the company must lodge with ASIC a copy of the notice of meeting and any documents relating to the buy-back that will accompany the notice of meeting sent to shareholders.

As with the employee share scheme buy-back, an equal access share buy-back scheme is required to comply with the lodgment requirements in ASX Listing Rule 3.8A, as described above.

There is also a specific timetable for the conduct of an equal access scheme buy-back in Appendix 7A (item 9) of the ASX Listing Rules, covering such things as setting the record date and the minimum closing period for acceptances (at least 15 Business Days after the record date).

Selective buy-backs

Any buy-back that is not one of the above recognized types will be a selective buy-back.

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A selective buy-back is always required to be approved in advance by shareholders in a general meeting. The notice of meeting must be accompanied by a statement setting out all information known to the company that is material to a shareholder’s decision on how to vote on the resolution other than information which the company has previously disclosed to its shareholders, and which it would be unreasonable to require the company to disclose again.

A selective buy-back agreement must be approved either by:

- a special resolution passed at a general meeting of the company, with no votes being cast in favor of the resolution by any person whose shares are proposed to be bought back, or by their associates; or
- a resolution agreed to by all ordinary shareholders at a general meeting.

As with the employee share scheme buy-back, a selective buy-back is required to comply with the lodgment requirements in ASX Listing Rule 3.8A (as described above), although there is no requirement to lodge any Appendix 3E daily buy-back notices with the ASX.

At least fourteen days notice of the proposed buy-back must be given to ASIC. Further, the company must lodge with ASIC, before the buy-back agreement is entered into, a document setting out the terms of the offer and any document that is to accompany it.

Before the notice of meeting is sent to shareholders, the company must lodge with ASIC a copy of the notice of meeting and any documents relating to the buy-back that will accompany the notice of meeting sent to shareholders.

10/12 Limit

As noted above, shareholder approval is required in the case of a selective buy back, or in the case of any other type of buy-back that will cause our Company to exceed the 10/12 limit. The 10/12 limit is a materiality threshold set by the Corporations Act. A proposed buy-back would exceed the 10/12 limit if the number of votes attaching to:

- all the voting shares in the company that have been bought back during the last 12 months; and
- the voting shares that will be bought back if the proposed buy-back is made,

would exceed 10% of the smallest number, at anytime during the last 12 months, of votes attached to voting shares of the company.

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3. FURTHER INFORMATION ABOUT THE BUSINESS

Summary of material contracts

The following contracts (not being contracts entered into in the ordinary course of business) have been entered by the Group within the two years preceding the date of this document and are or may be material:

- (1) A tenement sale agreement dated June 30, 2009 between GXY and General Mining under which General Mining agreed to sell to GXY a 50% interest in specified mining tenements.
- (2) A joint venture agreement dated June 30, 2009 between GXY and General Mining under which the parties agreed to associate in an unincorporated joint venture for the exploration, evaluation and exploitation of mineral deposits discovered on specified mining tenements.
- (3) A share subscription and debt facility agreement dated August 21, 2009 between GXY and Creat Group under which Creat Group agreed to provide a debt facility available in US Dollars and RMB up to an equivalent amount of A\$130 million to GLAL, guaranteed by GXY and subject to other security obligations, and GXY agreed to issue Shares to Creat Group and any nominee at a subscription price of A\$0.88 per Share in an amount equal to 19.99% of GXY’s expanded Share capital (the “Creat Shares”). The issue of shares was conditional on funds being available to enable GXY to undertake the first drawdown of the debt facility. Under the agreement, Creat Group has the right to appoint a nominee for the Board.
- (4) A loan facility agreement (undated) between GLAL and Creat Group as financier under which Creat Group agreed to make a A\$130 million multicurrency amortizing term loan facility available to GLAL subject to terms and conditions.
- (5) A tenement sale agreement dated August 25, 2009 between GXY and Traka Resources Ltd under which Traka Resources Ltd agreed to sell to GXY an 80% interest in specified mining tenements.
- (6) A joint venture agreement dated August 25, 2009 between GXY and Traka Resources Ltd under which the parties agreed to associate in an unincorporated joint venture for the exploration, evaluation and exploitation of mineral deposits discovered on specified mining tenements.
- (7) A strategic alliance agreement dated October 14, 2009 between GXY and General Mining under which the parties agreed to pursue exploration for lithium on tenements held by General Mining in Mongolia and Kazakhstan.
- (8) An EPCM contract dated October 16, 2009 between GXY and the DMB Joint Venture under which the DMB Joint Venture agreed to provide engineering, procurement, construction management and commissioning services to GXY for a 1 Mtpa spodumene processing plant at Ravensthorpe in Western Australia.
- (9) A variation agreement relating to share subscription and debt facility agreement dated November 16, 2009 between GXY and Creat Group under which the parties agreed to amend the completion

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timeline date for the placement of the Creat Shares from 60 days from the execution of the share subscription and debt facility agreement referred to in 3. above to March 31, 2010 or earlier.

- (10) A first party charge over cash deposits dated November 23, 2009 between GLAL as borrower and RZB as lender under which GLAL agreed to charge in favor of RZB the amounts held in a specified account as security for the proper and punctual payment of the secured amounts under the term loan facility agreement referred to in 12. below.
- (11) A security over deposits with another bank or financial institution dated November 23, 2009 between GXY as depositor and Hong Kong and Shanghai Banking Corporation Ltd (“HSBC”) under which GXY agreed to mortgage to HSBC all its present and future right, title and interest in A\$25 million held in a specified account to secure the due and punctual payment of the amount owing and was given in consideration of HSBC providing or continuing advances or financial accommodation from time to time, or both.
- (12) A term loan facility agreement dated November 24, 2009 between GLAL as borrower and RZB as lender under which RZB agreed to provide a loan facility in the amount up to US\$20 million to GLAL for the purpose of financing the lithium project.
- (13) An EPCM Services Agreement contract dated December 8, 2009 between GXY and Hatch under which Hatch agreed to provide to GXY project management, engineering, procurement and construction management services for development of a lithium carbonate processing plant in Jiangsu Province, China.
- (14) An amendment dated February 1, 2010 to the term loan facility entered into between GLAL as borrower and RZB as lender under which the parties agreed to adjust the final maturity date to April 30, 2010 of the term loan facility referred to in 12. above.
- (15) A nomination letter dated February 10, 2010 between GXY, Creat Group and CRHL under which CRHL confirmed as the nominee subscriber of the Creat Shares under the share subscription and debt facility agreement referred to in 3. above and to amend the share subscription and debt facility agreement to change the completion timing for the issue, change the conditions precedent and agree to use best endeavors to enter an escrow agreement in respect of funds equal to the subscription amount for the second tranche of the subscription of the Creat Shares, and make further agreements to finalize revised terms for the debt facility.
- (16) A side deed dated April 12, 2010 between GXY, Creat Group and CRHL under which the parties agreed to vary the nomination letter referred to in 16. above, mainly by varying the various deadlines in the nomination letter to allow Creat Group to fulfill its obligations to fund the acquisition of the Creat Shares.
- (17) An amendment dated April 14, 2010 to the term loan facility entered into between GLAL as borrower and RZB as lender under which the parties agreed to adjust the final maturity date to August 31, 2010 of the term loan facility referred to in 12. above.
- (18) A side letter to the nomination letter dated April 20, 2010 among GXY, Creat Group and CRHL under which the parties agreed to vary the nomination letter referred to in 16. above, as varied by the

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side deed referred to in 17. above, and the side deed application for shares pursuant to the share subscription and debt facility agreement dated April 27, 2010 signed by CRHL under which CRHL applied for the issue of 29,492,907 Shares at an issue price of A\$0.88 per Share for a total payment of A\$25,953,758.

- (19) A power supply agreement dated June 11, 2010 among GLAL as principal, Contract Power Australia Pty Ltd as operator and Contract Power Holdings Pty Ltd as owner under which Contract Power Holdings Pty Ltd agreed to design, procure, construct, install and commission a Power Station, Contract Power Australia Pty Ltd agreed to operate the power station and GLAL agreed to purchase power from Contract Power Australia Pty Ltd and to grant a license to Contract Power Australia Pty Ltd to use the site for a power station.
- (20) A mining services contract dated July 13, 2010 between GLAL as principal and Orionstone as contractor under which Orionstone agreed to provide mine site development work, mine pit production mining and crusher ore feeding and to operate the processing plant located at the Mt Cattlin Project.
- (21) A guarantee and indemnity dated August 13, 2010 among GXY, GLAL, GLIL as guarantors and Creat Group as beneficiary under which GXY, GLAL and GLIL agreed to give a guarantee and indemnity to Creat Group in consideration for the Creat Group guaranteeing to BOC (for consideration of a fee of 10% per annum on the greater of US\$14 million and the aggregate face value of each letter of credit issued by BOC) certain obligations of GLJL under letters of credit issued on behalf of GLJL by BOC. [This has been discharged.]
- (22) A shareholder loan agreement dated August 31, 2010 between GLIL as lender and GLJL as borrower under which GLIL agreed to loan to GLJL the amount of US\$10 million to be used for the construction, development and operation of the Jiangsu Plant.
- (23) A mortgage agreement dated September 10, 2010 between GLIL as creditor and GLJL under which GLJL granted to GLIL a first priority mortgage over the land use rights of the land described in the land use rights certificate No. Guo Yong (2010) Di 0380021 Hao, the construction in progress, the buildings, plant, improvements, premises, structures, fixtures and facilities, certain machinery and equipment and other movables and, inter alia, any cash or other proceeds from the rental, sale or other disposition of the above to secure the repayment and discharge in full of all amounts payable by GLJL to GLIL in respect of principal, interest, fees and other amounts or charges and otherwise under or in connection with the shareholder loan agreement referred to in 22. above.
- (24) A pledge of account receivables dated September 10, 2010 between GLIL as pledgee and GLJL as pledgor under which GLJL agreed to pledge by way of first priority pledge to GLIL all of its monetary right, title, claim, and interest, present and future, actual or contingent, in connection with any sales contract and other agreements entered into by GLJL with respect to all lithium carbonate, lithium hydroxide and other metals, minerals and concentrate produced by GLJL, including, inter alia, all proceeds and all cash and other property at any time receivable or distributable as security under the shareholder loan agreement referred to in 22. above.
- (25) An equity pledge agreement dated September 10, 2010 among GLIL as pledgor, GLJL and BOC, Sydney Branch as security trustee under which GLIL agreed to pledge, inter alia, all of its rights, title

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and interest in, and to the equity interests and rights arising from, the US\$15 million contributed to the registered capital of GLJL and any registered capital contributed or acquired by GLIL, including such pledged equity interest, all investment certificates issued to GLIL in respect of such pledged equity interest and all monies, dividends, interest and benefits in respect of or arising out of such pledged equity interest including, without limitation, those under the articles of association of GLJL by way of first priority security in favor of BOC, Sydney Branch, as continuing security for the payment and discharge of all the payment obligations of GLIL as security under the shareholder loan agreement referred to in 22. above.

- (26) An assignment regarding GLJL dated September 10, 2010 between GLIL as borrower and BOC, Sydney Branch as security trustee under which GLIL agreed to assign, mortgage, charge and transfer to BOC, Sydney Branch by way of first fixed legal security all right, title, interest and benefit of GLIL in, under and to the shareholder loan to be paid directly by GLJL to GLIL in the amount of US\$10 million and, inter alia, any other amounts secured by the project securities as security under the syndicated facility agreement referred to in 27. below.
- (27) A syndicated facility agreement dated September 10, 2010 among GLAL and GLIL as borrowers, GXY as guarantor, GLJL as obligor, CDB and RZB as lenders, BOC, Sydney Branch as agent, security trustee and account bank and BOC, Zhangjiagang Sub-Branch as account bank under which CDB agreed to loan to GLAL and GLIL the amount of US\$60 million for the purpose of funding developing the Mt Cattlin Project and RZB agreed to loan to GLAL and GLIL the amount of US\$45 million for the purpose of developing the Jiangsu Plant subject to terms and conditions.
- (28) A security trust deed dated September 10, 2010 among BOC, Sydney Branch as security trustee and agent, CDB and RZB as lenders, GLAL and GLIL as borrowers, and GLJL and GXY as obligors under which GLAL, GLIL, GLJL and GXY agreed to grant security documents in favor of the BOC, Sydney Branch pursuant to the syndicated facility agreement referred to in 27. above.
- (29) A deed of guarantee and indemnity dated September 10, 2010 between GXY as guarantor and BOC as security trustee under which GXY unconditionally and irrevocably guaranteed to BOC, under the syndicated facility agreement referred to in 27. above, the punctual payment to the financiers by the obligors of all of the money that an obligor is or may become actually or contingently liable to pay to or for as and when it becomes due and the due performance by the obligors of the obligations and liabilities of an obligor to the financiers under or by reason in accordance with the terms of any agreement in writing to do so.
- (30) An account bank agreement dated September 10, 2010 between GLAL and GLIL as borrowers, GXY as guarantor, BOC, Sydney Branch as security trustee, agent and account bank under which GLA, GLIL and GXY agreed to establish and maintain specified accounts with BOC, Sydney Branch pursuant to the syndicated facility agreement referred to in 27. above.
- (31) A deed of charge over project accounts dated September 10, 2010 among GLAL, GLIL and GXY as chargors, and BOC, Sydney Branch as security trustee and account bank under which GLAL, GLIL and GXY agreed to charge to BOC, Sydney Branch the amounts held in specified project accounts held at the account bank as security under the syndicated facility agreement referred to in 27. above.
- (32) An equitable mortgage of shares dated September 10, 2010 between GLAL as mortgagor and BOC, Sydney Branch as security trustee under which GLAL agreed to mortgage, pursuant to the syndicated

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facility agreement referred to in 27. above, to BOC, Sydney Branch by way of equitable mortgage 194,365,400 fully paid shares in GLIL as well as by equitable and by legal mortgage certain rights and interests specified therein.

- (33) An equitable mortgage of shares dated September 10, 2010 between GXY as mortgagor and BOC, Sydney Branch as security trustee under which GXY agreed to mortgage, pursuant to the syndicated facility agreement referred to in 27. above, to BOC, Sydney Branch by way of equitable mortgage 1 fully paid share in GLAL as well as by equitable mortgage certain rights and interests specified therein.
- (34) A fixed and floating charge dated September 10, 2010 between GLAL as chargor and BOC, Sydney Branch as security trustee under which GLAL agreed to charge to BOC, Sydney Branch as security, under the syndicated facility agreement referred to in 27. above, all rights, property and undertaking of whatever kind and wherever situated, whether present or future and whether legal or equitable, including capital, whether called or uncalled and paid or unpaid.
- (35) A fixed and floating charge dated September 10, 2010 between GXY as chargor and BOC, Sydney Branch as security trustee under which GXY agreed to charge to BOC, Sydney Branch as security, under the syndicated facility agreement referred to in 27. above, all rights, property and undertaking of whatever kind and wherever situated, whether present or future and whether legal or equitable, including capital whether called or uncalled and paid or unpaid.
- (36) A fixed and floating charge dated September 10, 2010 between GLIL as chargor and BOC, Sydney Branch as security trustee under which GLIL agreed to charge and mortgage to the BOC, Sydney Branch as security, under the syndicated facility agreement referred to in 27. above, all rights, property and undertaking of whatever kind and wherever situated, whether present or future and whether legal or equitable, including capital whether called or uncalled and paid or unpaid.
- (37) A mining mortgage dated September 10, 2010 between GLAL as mortgagor and BOC, Sydney Branch as security trustee under which GLAL agreed to mortgage to BOC, Sydney Branch, as security, under the syndicated facility agreement referred to in 27. above, the right, title and interest in, inter alia, the mining tenements, the mineral rights and the buildings, improvements, machinery and appliances in or upon the tenements held or acquired by GLAL.
- (38) A tripartite agreement dated September 10, 2010 among GLAL as principal, Orionstone as contractor and BOC, Sydney Branch as security trustee under which GLAL agreed to grant security, under the syndicated facility agreement referred to in 27. above, in favor of BOC, Sydney Branch over all of its right, title and interest in the contract.
- (39) A tripartite agreement dated September 10, 2010 among GXY as principal, the DMB Joint Venture as contractor and BOC, Sydney Branch as security trustee under which GXY agreed to grant security, under the syndicated facility agreement referred to in 27. above, in favor of BOC, Sydney Branch over all of its right, title and interest in the contract referred to in 8 above.

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- (40) An equity bridge loan facility agreement dated September 10, 2010 among GXY as borrower, GLAL, GLIL and RZB as lender under which RZB agreed to make available to GXY an equity bridge loan facility in the amount up to US\$50 million subject to terms and conditions.
- (41) A deed of charge over equity account dated September 10, 2010 among GXY as chargor, RZB as chargee and BOC, Sydney Branch as account bank under which GXY agreed to charge to RZB the amounts held in a specified equity account at BOC, Sydney Branch as security for the obligations of GXY under the equity bridge loan facility agreement referred to in 40. above.
- (42) A release dated September 29, 2010 under which GXY, GLAL, GLIL and GLIL confirmed the release and discharge of Creat Group from the obligations under the share subscription and debt facility agreement referred to in 3. above and the loan facility agreement referred to in 4. above.
- (43) A convertible bond subscription agreement dated November 4, 2010 between GXY as issuer and the Bondholders as investors under which the Bondholders agreed to subscribe for convertible bonds in the principal amount of A\$63 million convertible into common shares of GXY or redeemable for cash, which would mature on the maturity date, as therein defined, and GXY agreed to pay interest on the principal amount, as such amount may be reduced, at an interest rate, as therein defined.
- (44) An undertaking side letter executed as a deed poll dated November 4, 2010 from GXY, GLAL and GLIL in favor of RZB and CDB under which GXY, GLAL and GLIL promised to make a prepayment in the amount of US\$25 million towards the syndicated facility agreement referred to in 27. above in prescribed circumstances.
- (45) A side letter dated November 4, 2010 among GLAL and GLIL, as borrowers, and BOC, Sydney Branch, under which BOC, Sydney Branch agreed that the undertaking side letter referred to in 44. above is a “transaction document” for purposes of the syndicated facility agreement referred to in 27. above, as that term is therein defined.
- (46) A subscription agreement dated November 4, 2010 between GXY and Fengli Group under which GXY agreed to allot and issue to Fengli up to 21,582,733 shares by way of a placement at a price of A\$1.39 per share pursuant to the convertible bond subscription agreement referred to in 43. above.
- (47) A trust deed dated November 19, 2010 between GXY as issuer and Citicorp International Ltd as trustee under which GXY agreed to pay, pursuant to the convertible bond subscription agreement referred to in 43. above, the principal amount of the bonds due and the interest on the principal amount of the bonds outstanding subject to terms and conditions.
- (48) A paying, transfer and conversion agency agreement among GXY as issuer, Citicorp International Ltd as trustee, Citibank, N.A., London Branch, as principal paying, transfer and conversion agent, and Citigroup Global Markets Deutschland AG as registrar, dated November 19, 2010 under which, pursuant to the subscription agreement referred to in 43. above, GXY appointed Citibank, N.A., London Branch as its agent for making payments in respect of the bonds and in relation to any conversion of the bonds and GXY appointed Citibank, N.A., London Branch and Citigroup Global Markets Deutschland AG as its agents in relation to any transfer of the bonds. Citibank, N.A., London Branch and Citigroup Global Markets Deutschland AG agreed to the appointments and to perform the obligations as therein described.

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- (49) A lithium project farm-in and joint venture agreement among GLCA and Lithium One Inc. dated February 9, 2011 under which GLCA agreed to acquire up to 70% of the James Bay Project from Lithium One Inc..

4. DISCLOSURE OF INTERESTS

Particulars of service agreements

Except as disclosed above, none of the Directors have entered or proposed to enter into a service agreement with the Company other than agreement expiring or determinable by the Company within one year without payment of compensation beyond statutory requirements.

Directors’ remuneration

Remuneration and benefits in kind of a total of approximately A\$4,381,345 were paid and granted by the Company to the Directors in respect of the financial year ended December 31, 2009 (being a six month period).

Under the arrangements presently in force, it is estimated that for the year ending December 31, 2010, the Directors will be entitled to receive aggregate remuneration of approximately A\$[890,000], excluding discretionary bonuses and share-based compensation payable to executive Directors. See also the section headed “Directors and Senior Management — Directors’ remuneration” of this document.

Except as disclosed in this document, no Director in the promotion of the Company has been paid in cash or shares or otherwise by any person either to induce them to become, or to qualify them as a Director, or otherwise for services rendered by them in connection with the promotion or formation of the Company.

Agency fees or commissions received

Except as disclosed in this document, no commissions, discounts, brokerages or other special terms have been granted to any directors, proposed directors, promoters or experts (as named in this document) in connection with the issue or sale of any capital of any member of the Group within the two years ended on the date of this document.

Disclaimers

Save as disclosed in this document:

- none of the Directors or experts referred to under the heading “Consents of experts” in this Appendix has any direct or indirect interest in the promotion of the Company, or in any assets which have within the two years immediately preceding the date of this document been acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group;

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- none of the Directors or experts referred to under the heading “Consents of experts” in this Appendix is materially interested in any contract or arrangement subsisting at the date of this document which is significant in relation to the business of the Group taken as a whole;
- none of the Directors has any existing or proposed service contracts with any member of the Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation));
- so far as is known to the Directors, none of the Directors, their respective associates or any shareholders of the Company who own more than 5% of the issued share capital of the Company have any interest in any of the five largest customers or the five largest suppliers of the Group.

5. OTHER INFORMATION

ESOP

Non Compliance

The ESOP does not comply with Chapter 17 of the relevant rules.

Purpose

The purpose of the ESOP is to help attract and retain the best available personnel, to provide additional incentive to employees and consultants, to achieve the long term objectives of the Company and to promote the success of the Group’s business.

Commencement date

The ESOP commenced with effect from April 2, 2009.

Who may participate

Eligible participants of the ESOP are full or part-time employees or consultants (or their nominees) of the Company or an Associated Body Corporate who are invited to participate by the Board. An Associated Body Corporate is defined as (1) a related body corporate as defined under section 50 of the Corporations Act; or (2) a body corporate that has voting power in the Company of not less than 20%; and (3) a body corporate in which the Company has voting power of not less than 20% (collectively, “Participants”).

No effect on contract of employment

The Company’s right to terminate or vary the terms of employment or engagement of any Participant shall not be prejudiced in any way by the Company or any Participant participating in the ESOP.

Limitation on number of Options issued

The total number of Options that may be issued under the ESOP, when aggregated with the number of shares that may be issued under all other options and the number of shares issued under employee incentive schemes in the previous five years, may not exceed five percent of the total number of issued shares in that share class at the time the Option is offered.

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Option entitlements

The Board may, at its discretion, determine the extent to which Participants may participate in the ESOP and the Company may issue options to such Participants.

Terms of the offer of Options

Each Option carries the right in favor of an option holder to subscribe for one Share. No money will be payable for the issue of the Options. The Options expire on the later of (“Expiry Date”):

- the date which is five years from the date of satisfaction of all vesting condition attaching to the Option; or
- where there is no vesting condition, the date which is five years from the date of issue of the Option.

Exercise Price

Shares allotted to the option holders on the exercise of options shall be issued at the “Exercise Price”. The Exercise Price shall be as determined by the Board (in its discretion) on or before the date of grant of the options provided that in no event shall the Exercise Price be less than 80% of the average closing sale price of the Shares on the ASX over the five trading days immediately preceding the date of the announcement of the issue of the options by the Board.

Performance criteria

The Board may in its absolute discretion, impose performance criteria on the vesting of options by an option holder. Performance criteria must be specified in the offer of options and state that the relevant options cannot be exercised unless the performance criteria are satisfied.

Exercise of Options

The exercise period in relation to an Option under the ESOP (“Exercise Period”) refers to the period commencing on the date after which the Option has vested and ending on the Expiry Date, or such other period as the Board resolves.

An option holder may at any time during the Exercise Period exercise outstanding Options in whole or in part, provided that, unless otherwise permitted under the ESOP, the option holder wishing to exercise the Options is a Participant at the time of exercise.

Shares allotted shall rank from the date of allotment equally with existing shares of the Company in all respects. The Company must make an application to have the shares allotted pursuant to the ESOP listed for official quotation on the ASX.

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Options are personal to grantee

An option holder may not sell, transfer or otherwise dispose of, or make a declaration of trust in respect of, an Option except: (a) to a nominee of the option holder; or (b) during a takeover period, as defined under section 624 of the Corporations Act, in which case the Options may only be transferred by the option holder to the bidder or its nominees in accordance with the Corporations Act.

No participation in new issues

There are no participating rights or entitlements inherent in the Options and option holders will not be entitled to participate in new issues of capital offered to Shareholders during the currency of the Options. However, the Company will ensure that the record date for determining entitlements to any such issue will be at least six Business Days after the issue is announced. Option holders shall be afforded the opportunity to exercise all Options which they are entitled to exercise under the ESOP rules prior to the date for determining entitlements to participate in any such issue.

Bonus issues

If the Company makes an issue of Shares to the holders of Shares in the Company by way of capitalization of profits or reserves (“Bonus Issue”), each option holder holding any Options which have not expired at the time of the record date for determining entitlements to the Bonus Issue shall be entitled to have issued to him upon exercise of any of those Options the number of Shares which would have been issued under the Bonus Issue (“Bonus Shares”) to a person registered as holding the same number of Shares as that number of Shares to which the option holder may subscribe for, pursuant to the exercise of those Options immediately before the record date determining entitlements under the Bonus Issue (in addition to the Shares which he or she is otherwise entitled to have issued to him or her upon such exercise). The Bonus Shares will be paid by the Company out of profits or reserves (as the case may be) in the same manner as was applied in relation to the Bonus Issue and upon issue rank pari passu in all respects with the other Shares issued upon exercise of the Options.

Effect of alterations to share capital

If the Company varies its share capital through a further issue of shares or other securities or through a reconstruction, the number of options held by each options holder and the exercise price of each option are varied in a manner determined by the Board that complies with the ASX Listing Rules.

Lapse of Option

In general, unvested Options shall lapse automatically and not be exercisable (to the extent not already exercised) on the earlier of (1) the Expiry Date; (2) the making by the Board of a determination that the option holder has acted fraudulently, dishonestly or in breach of the option holder’s obligations to the Company or an Associated Body Corporate and the Option is on that account to be forfeited; or (3) the Participant ceasing to be employed or engaged by the Company or an Associated Body Corporate by virtue of the Participant’s death, the Participant’s permanent illness or permanent physical or mental incapacity (as certified by a medical practitioner who is approved in writing by the Board) or the Participant being retrenched or made redundant by the Company or an Associated Body Corporate (other than as a direct result of the disposal or sale of the Company or Associated Body Corporate).

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Termination of ESOP

The ESOP may be suspended or terminated at any time by the Board, but such termination shall not affect the rights of holders of Options issued prior to termination.

Governing law

The ESOP is governed by the laws of Western Australia, Australia.

Estate duty

The Directors have been advised that no material liability for estate duty is likely to fall on the Company or any of its subsidiaries in Hong Kong or any other relevant jurisdiction in which one or more of the companies comprising the Group are incorporated.

Litigation

Except as disclosed in this document, no member of the Group is engaged in any litigation or claim of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened against any member of the Group.

Qualifications of experts

The following are the qualifications of the experts who have given an opinion or advice which is contained in this document.

<u>Name</u>	<u>Qualification</u>
KPMG	Certified Public Accountants (Hong Kong) Chartered Accountants (Australia)
Zhong Lun Law Firm	PRC Lawyers
Mallesons Stephen Jaques	Australian Lawyers
Snowden Mining Industry Consultants Pty Ltd	Technical Expert
Roskill Information Services Ltd	Industry Expert
Frost & Sullivan Singapore Pte Ltd	Industry Expert
American Appraisal China Ltd	Property Valuers

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Consents of experts

Each of the experts set out above has given and has not withdrawn their respective written consent to the issue of this document with the experts’ statements included in the form and context in which they are included.

Bilingual document

The English language and the Chinese language versions of this document are being published separately, in reliance upon the exemption provided by section 4 of the Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

Miscellaneous

Except as disclosed in this document:

- Within two years preceding the date of this document, no share or loan capital of the Company or any of its subsidiaries has been issued, agreed to be issued or is proposed to be issued fully or partly paid either for cash or for a consideration otherwise than in cash.
- Our Directors confirm that there has been no interruption in the business of the Group which may have or has had a significant effect on the financial position of the Group in the past 12 months preceding the date of this document, except as disclosed in this document.
- The Group has no founder shares, management shares or deferred shares.
- Since September 30, 2010, there has been no material adverse change in the financial or trading position of the Group.
- No share or loan capital of the Company or any of its subsidiaries is under an option or is agreed conditionally or unconditionally to be put under option.