Galaxy Resources Limited

ABN 11 071 976 442

Condensed Consolidated Interim Financial Report

For the Quarter and Half Year Ended June 30, 2012

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Review of Operations

Galaxy Resources Limited – Review of Operations

Significant Events

- Merger with Lithium One Inc successfully completed to create a global lithium company
- First lithium carbonate produced at Jiangsu Plant in China
- Jiangsu achieves battery grade lithium carbonate across all grade specifications
- Expect operational cashflows to be positive in Q1 2013
- Galaxy commences lithium carbonate product sales to technical grade customers during the period
- Temporary halt to Mt Cattlin operations due to 12 months of spodumene stock build up ahead of Jiangsu plant
- Halt at Mt Cattlin will save $4 million per month of cash burn
- Ramp-up revenues at Jiangsu will not be affected
- $32.25 million raised through Placement and Share Purchase Plan
- Galaxy welcomed global lithium product price increases
- Company cash position (unaudited) $17.4 million at end-June
- Galaxy has undertakings for additional working capital facilities from several PRC banks for A$45 million during the Jiangsu ramp-up

About Galaxy

Galaxy Resources Ltd ("Galaxy") is an Australian-based global lithium company with lithium production facilities, hard rock mines and brine assets in Australia, China, Canada and Argentina. The Company is an integrated lithium mining, chemicals and battery company listed on the Australian Securities Exchange (Code: GXY) and is a member of the S&P/ASX 300 Index.

Galaxy wholly owns the Mt Cattlin project near Ravensthorpe in Western Australia where it mines lithium pegmatite ore and processes it on site to produce a spodumene concentrate and tantalum by-product. At full capacity, Galaxy will process 137,000 tpa of spodumene concentrate which will feed the Company's wholly-owned Jiangsu Lithium Carbonate Plant in China's Jiangsu province. The Jiangsu Plant has commenced production and will produce 17,000 tpa of battery grade lithium carbonate, the largest producer in the Asia Pacific region and the fourth largest in the world.

Galaxy is also advancing plans to develop the Sal de Vida (70%) lithium and potash brine project in Argentina situated in the lithium triangle (where Chile, Argentina and Bolivia meet) which is currently the source of 60% of global lithium production. Sal de Vida has excellent promise as a future low cost brine mine and lithium carbonate processing facility. The Company completed a feasibility study for a proposed lithium-ion battery plant, to produce 620,000 battery packs per annum for the electric bike (e-bike) market. The Company also owns the James Bay (100%) Lithium Pegmatite Project in Quebec, Canada.

Lithium compounds are used in the manufacture of ceramics, glass, electronics and are an essential cathode material for long life lithium-ion batteries used to power e-bikes and hybrid and electric vehicles. Galaxy is bullish about the global lithium demand outlook and is positioning itself to achieve its goal of being involved in every step of the lithium supply chain.

Corporate Division

Merger with Lithium One Completed

Galaxy successfully completed its merger with Canada's Lithium One Inc in July 2012. Lithium One shares have subsequently been delisted from the TSX and the transfer of Galaxy shares to eligible Lithium One shareholders completed.

Through the merger, Galaxy now has access to a global lithium resource base with assets in four continents. The merger has been strategic to Galaxy's goal of building its lithium resource footprint and furthering its downstream development opportunities. It also represents a significant step for Galaxy in realising its overall vision of becoming a vertically integrated global lithium company.

Post-merger, Galaxy's asset portfolio now includes the Sal de Vida lithium and potash brine project (70%) in Argentina and the James Bay lithium pegmatite project in Quebec (100%).

As mentioned above the flagship Sal de Vida brine project is located in the lithium triangle. Lithium is found in the brine (salty water) below the dry lake beds (called salars) at high altitude. The existing Sal de Vida team will continue to make progress on a project Definitive Feasibility Study (DFS) for Sal de Vida.

Galaxy now owns 100% of the James Bay lithium pegmatite project in Quebec, having previously owned 20% under a farm-in arrangement with Lithium One. James Bay is an extensive high-grade spodumene pegmatite deposit that occurs at surface and has a NI 43-101 compliant resource of 22.2 Mt at 1.28% Li2O. Following the merger, Galaxy's global partners are now represented within the top three major lithium battery producing countries in the world, China, Japan and Korea ("Lithium Battery Producing Triangle"). Its partners include the top 13 cathode producers in China, Mitsubishi Corporation (Japan), Korean Resources Corporation (Korea), LG International (Korea) and GS Caltex (Korea).

Together with its processing assets in China, Galaxy now has ample resources to continue to grow its lithium business and drive the long term value of the Company. Galaxy's proven expertise across project development and lithium mining, processing and marketing will allow it to fast track development of Sal de Vida.

Jiangsu Cash Flow Positive in Q1 2013

During the period, Galaxy sold lithium carbonate product from the Jiangsu Plant to technical grade customers. Sales of battery grade lithium carbonate will commence when samples are qualified under long term offtake arrangements. Increased sales of the final lithium carbonate product will boost revenue flows and the expectation is that positive operational cash flows will be achieved during the first quarter of 2013. The Company has undertakings for working capital facilities from several PRC banks to the total of $45 million for the Jiangsu ramp-up. The Group's cash position (unaudited) at the end of June 2012 was $17.4 million.

Share Purchase Plan Completed

Galaxy successfully raised $2.25 million via a Share Purchase Plan ("SPP"), which was launched in conjunction with the $30 million Placement to support the Company's merger with Lithium One. The Galaxy Board acknowledged the support of its shareholders in the Share Purchase Plan.

James Bay - Canada (100%)

DFS Manager, Genivar Inc, completed all of the remaining Spring/Summer environmental surveys at the mine site required for submission of the Environmental Impact Statement. The Notice of Project, which was submitted to the MDDEP (Ministry of Sustainable Development and Environment Protection) in February 2012 has now been assessed and as a result the MDDEP has issued its directives for the level of environmental assessment to be undertaken for the James Bay and Matagami processing plant sites.

Genivar also completed the consultation process with the Eastmain Cree Community in preparation for a social impact study. Further meetings were held with Eastmain Council members and the Cree Grand Council resulted in a Pre-Development Agreement ("PDA") being finalised.

SGS Laboratories at Lakefield, Ontario conducted an initial pilot scale test on the 16 tonne bulk sample prepared earlier in the year, duplicating the Mt Cattlin flowsheet. This has shown that a 6% spodumene concentrate can be produced using the Mt Cattlin flowsheet, but results are awaited for lithium recovery.

Sal de Vida - Argentina (70%)

Galaxy assumed responsibility for the management of former Lithium One staff in Argentina. The process of integrating the two companies got underway with the implementation of an IT and communication strategy. Other activities being undertaken during the period include the preparation of an Environmental Impact Statement (EIS) to be submitted to the Catamarca and Salta provincial governments in late July. A three day workshop was held in Buenos Aires in early May to establish the process flowsheets for the lithium carbonate and potassium chloride plants following which early stage engineering design was commenced by Taging in Buenos Aires and Hatch in Brisbane. Drilling of the first pump testing bores began with a total of three test bores to be drilled initially.

Mt Cattlin - Operations

Production at Mt Cattlin was strong during the period with the processing plant reaching design capability, resulting in record spodumene concentrate production. Productive open pit mining accumulated over a month's supply of run of mine broken ore stocks stockpiled on the ROM pad ready for processing at period-end.

A strong focus on safety being an integral part of daily activities resulted in no Lost time Injuries (LTIs) for the site.

Mining operations continued to progress well, with total material movement of 472,386 BCMs of waste mined and 201,862 tonnes @ 1.22% Li2O of ore recorded for the June Quarter.

Ore was again recovered from the main high grade pegmatite ore zone at Mt Cattlin. This wide (up to 25 metres thick plus), flat lying, ore zone continues to provide the operation with an abundant supply of ore for future processing requirements. With a large portion of the main ore zone now exposed, waste mining concentrated on progressing the cut back in the northern and eastern sections of the 5 year open pit. Run of mine ore stocks remained high at the end of the period, with over a month's supply of feed on the ROM ready for processing, further enhancing the operations ongoing flexibility.

The production performance of the wet plant and concentrator again improved during the period, with ore throughput of 218,856 tonnes. Spodumene concentrate production was much improved compared with the previous period as the processing plant reached design capability. Production totalled 26,967 dry tonnes, due to recent modifications in the wet concentrator plant and more consistent ore feed to the processing plant. The processing plant reached design capacity during the period and record quarterly spodumene concentrate production to date was achieved. At the end of the period the Company had over 30,000 dry tonnes of spodumene stockpiled, ready for shipment to the Jiangsu Plant in China.

Mt Cattlin Production Statistics	June 2012 Quarter	2012 YTD
Ore Mined (Tonnes)	201,710	419,628
Grade (Li_2O %)	1.22	1.21
Waste Mined (BCM)	472,443	841,254
Ore Treated (Tonnes)	218,856	409,898
Grade (Li_2O %)	1.22	1.22
Spodumene Produced (dry Tonnes)	26,967	48,664

Temporary Halt to Mt Cattlin Operations

Subsequent to the period, Galaxy advised that it would be temporarily halting operations at its Mt Cattlin project in Western Australia.

Recently improved spodumene production rates at the Mt Cattlin mine and processing plant, coupled with the Jiangsu Plant being in ramp-up phase, has resulted in a build-up of internal spodumene inventory levels to approximately 12 months' supply of feedstock for the Jiangsu Plant.

The temporary halt to operations at Mt Cattlin will allow for reduction of spodumene stocks to more manageable levels. In addition, the temporary halt, commencing end-July 2012, will result in a reduction in group cash outlays of approximately $4 million per month. Ramp-up revenues at Jiangsu will not be affected by the pause in operations at Mt Cattlin.

Galaxy believes a pause in operations at Mt Cattlin is the best and most financially prudent way to address this imbalance and difference in start-up profiles of the Mt Cattlin and Jiangsu operations.

Now that the Company is producing final lithium carbonate at Jiangsu, it is not planning to sell any more of its spodumene concentrate to third party competitors, preferring to command a price premium by converting all of its spodumene to lithium carbonate at Jiangsu and to maintain Mt Cattlin production as a fully-integrated feedstock for Jiangsu, consistent with the Company's strategy.

Mt Cattlin - Exploration
Results were received for the infill drilling east of the mine. The results were in line with expectations and are currently being incorporated into the Mount Cattlin geological model.

Jiangsu Production Ramping-up
In April, Galaxy announced it had produced first lithium carbonate product at the Jiangsu Plant, which proved the success of the Plant's design and processes. Galaxy's focus now is maintaining plant stability, achieving continuous operation and product quality. A twelve-month ramp-up period is expected to achieve the 17,000 tpa design capacity.

In May, Galaxy announced the sale of the first batch of lithium carbonate product from the Jiangsu Plant, marking the first revenue stream.

Subsequent to the period, Galaxy announced that the lithium carbonate product from the Jiangsu had achieved battery grade quality across all specifications – meeting all the prescribed tolerances for impurities required by battery cathode makers.

The calciner (front end of the plant) feed rate is currently operating at 15 tonnes/hour compared with a design instantaneous rate of 18 tonnes/hour, or 83% of instantaneous design capacity. The calcination and sulphation kilns are performing to expectation, with scope to further increase the feed rate over the next few weeks.

The leach section of the Jiangsu Plant is operating according to design, recording strong rates of impurity removal (slag, iron, calcium and magnesium). The slag filtration and washing units appear to have sufficient capacity. The ion-exchange plant has successfully reduced calcium levels in the lithium sulphate mother liquor to meet battery grade specifications.

The purification plant has been fully operational and is successfully producing the low impurity final product required by the battery industry. The Jiangsu team is working to get improved back end stability and increasing recovery as part of the ramp-up plan.

Safety
No Lost Time Injuries (LTIs) were recorded

Business Readiness
In January 2012, Galaxy announced it would commence a feasibility study to assess the potential to expand into lithium hydroxide production at the Jiangsu Lithium Carbonate Project. Galaxy believes the Jiangsu Plant has extra front-end capacity including calcination and sulphation kiln, leaching and slag filtration.
During the period, Galaxy progressed a feasibility study to assess the potential to expand Galaxy to produce 5,000 tpa of battery grade lithium hydroxide, in addition to the current design of 17,000 tpa of lithium carbonate. This would take total capacity of the Jiangsu project to 22,000 tpa of lithium products. A lithium hydroxide circuit would include construction of a lithium hydroxide production plant on available land next to its existing lithium carbonate facility.

The demand for battery grade lithium hydroxide has been growing strongly and there is limited production capacity around the world. A battery grade lithium hydroxide plant would expand Galaxy's product mix significantly and, at a relatively minimal cost by making use of existing infrastructure, allow the Company to tap into growth in both markets, thereby extending Galaxy's battery sector customer base.

Battery Division

The Company continued to work on building, factory layouts and equipment designs of the revised output forecasts for its proposed Lithium-Ion Battery Project in China's Jiangsu Province. An Environmental Impact Assessment Report (EIAR) submitted by the Company on revised output and revised method of waste treatment was accepted and approved by the Environment Protection Board (EPB) of China. The Company also submitted and received approval for Safety Impact Assessment Report (SIAR) from the Jiangsu Safety Board.

With the recent completion of the Lithium One acquisition, the Board has decided to focus more on building out the resource base - as such, the Company is contemplating joint-venturing or divesting the Battery Project. The Company has begun discussions with a number of potential JV partners. To date, the Project has made significant progress on the design for a Lithium-Ion Battery Plant which has capacity to produce 620,000 e-bike battery packs per annum, with relevant environmental and safety regulatory applications already accepted and approved.

Directors' Report

Your Directors submit their report incorporating the entities that it controlled during the quarter and half-year ("Consolidated Entity") ended June 30, 2012 for Galaxy Resources Limited ("Company" or "Galaxy").

Directors

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

Craig Leslie Readhead
Ignatius Kim Seng Tan
Robert James Wanless
Yuewen Zheng (May Chen – Alternate Director)
Xiaojian Ren
Anthony Peter Tse
Charles Bernard Francis Whitfield
Shaoqing Wu (Zhimin Shi – Alternate Director)
Kai Cheong Kwan
David Michael Spratt

Principal Activities

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

Operating and Financial Review

The Consolidated Entity's loss after tax was $27,253,248 for the quarter ended June 30, 2012 and $49,646,665 for the half-year ended June 30, 2012.

Review of Operations

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

Events Subsequent to Reporting Date

- In March 2012, Galaxy announced it entered into an agreement to effect a merger of Galaxy and Canadian company Lithium One Inc. This transaction was completed on July 4, 2012, where the plan of arrangement was successfully completed and Lithium One common shares were de-listed from the TSX-V. A total of 141,154,957 Galaxy shares were issued. Also issued were Convertible Notes which have a combined value of C$5 million ($4.8m). On exercise, each Convertible Note is convertible at C$0.612 ($0.588) into one Fully Paid Ordinary Share and 0.5 Options. Estimated total consideration of $80.5m is yet to be allocated to the assets and liabilities acquired, however the majority of consideration will be allocated to Lithium One's interests in the Sal de Vida exploration project, together with the recognition of the issue of the Convertible Notes as interest bearing liabilities and cash acquired of approximately C$6.4m ($6.1m).
- In July 2012, it was announced that Mt Cattlin operations were to be temporarily halted to allow for re-balance of internal spodumene stockpiles.

Lead Auditor's Independence Declaration

In accordance with section 307C of the Corporations Act 2001, the directors received the attached independence declaration set out on page 10 and forms part of the directors' report for the quarter and half-year ended June 30, 2012.

Signed in accordance with a resolution of the Directors
Dated at Perth this 14th day of August 2012.
On behalf of the Directors

I KS Tan
Managing Director

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

To: the directors of Galaxy Resources Limited

I declare that, to the best of my knowledge and belief, in relation to the review for the second quarter and half-year ended 30 June 2012 there have been:

(i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the review; and

(ii) no contraventions of any applicable code of professional conduct in relation to the review.

KPMG

KPMG

Trevor Hart
Partner
Perth
14 August 2012

FINANCIAL REPORT
Condensed Consolidated Statements of Comprehensive Income

	Note	Three months ended		Six months ended	
		June 30, 2012	**June 30, 2011**	**June 30, 2012**	**June 30, 2011**
		$'000	**$'000**	**$'000**	**$'000**
Revenue from product sales		5,688	-	5,688	-
Mine operating expenses		(15,680)	(5,624)	(24,955)	(5,624)
Impairment loss on plant and equipment		-	(42,034)	-	(42,034)
Loss on sale of assets		(4)	-	(37)	-
Administrative expenses		(6,064)	(6,142)	(9,818)	(15,149)
Exploration expenses		-	(23)	-	(23)
Share-based payments	11	(12,196)	(380)	(14,884)	(8,940)
Depreciation and amortisation		(1,963)	(836)	(3,880)	(899)
Results from operating activities		**(30,219)**	**(55,039)**	**(47,886)**	**(72,669)**
Finance income		140	3,431	230	5,057
Finance costs		2,825	(17,418)	(1,991)	(23,978)
Net finance costs		**2,965**	**(13,987)**	**(1,761)**	**(18,921)**
Loss before income tax		**(27,254)**	**(69,026)**	**(49,647)**	**(91,590)**
Income tax benefit		-	-	-	-
Loss for the period		**(27,254)**	**(69,026)**	**(49,647)**	**(91,590)**
Other comprehensive income for the period					
Foreign currency translation differences – foreign operations		1,407	(820)	467	(1,209)
Net changes in available-for-sale financial assets		-	150	-	150
Total comprehensive income for the period attributed to shareholders		**(25,847)**	**(69,696)**	**(49,180)**	**(92,649)**
Basic and diluted loss per share (cents per share)		(7.74)c	(27.70)c	(14.67)c	(38.82)c
Loss per share for loss from continuing operations attributable to the ordinary equity holders of the company		(7.74)c	(27.70)c	(14.67)c	(38.82)c

The accompanying notes form part of these condensed consolidated interim financial statements.

Condensed Consolidated Interim Statement of Financial Position

	Note	As at June 30, 2012 $'000	As at December 31, 2011 $'000
NON-CURRENT ASSETS			
Property, plant and equipment	2	**208,475**	185,277
Lease prepayment	3	**1,381**	2,782
Exploration and evaluation assets	4	**8,514**	7,425
Available-for-sale financial assets		**205**	205
Other receivables and prepayments		**3,771**	3,768
TOTAL NON-CURRENT ASSETS		**222,346**	**199,457**
CURRENT ASSETS			
Other receivables and prepayments		**15,451**	10,729
Inventories		**16,690**	13,518
Cash and cash equivalents		**17,356**	17,997
TOTAL CURRENT ASSETS		**49,497**	**42,244**
TOTAL ASSETS		**271,843**	**241,701**
NON-CURRENT LIABILITIES			
Provisions		**1,232**	1,232
Interest bearing liabilities	5	**116,276**	95,853
TOTAL NON-CURRENT LIABILITIES		**117,508**	**97,085**
CURRENT LIABILITIES			
Trade and other payables		**17,360**	26,980
Provisions		**538**	406
Interest bearing liabilities	5	**27,071**	3,715
TOTAL CURRENT LIABILITIES		**44,969**	**31,101**
TOTAL LIABILITIES		**162,477**	**128,186**
NET ASSETS		**109,366**	**113,515**
EQUITY			
Contributed equity	6	**301,604**	271,457
Reserves		**36,064**	20,713
Accumulated losses		**(228,302)**	(178,655)
TOTAL EQUITY		**109,366**	**113,515**

Subsequent events (notes 1e, 5d, 7)
The accompanying notes form part of these condensed consolidated interim financial statements.

Approved on behalf of the board:
Managing Director – "*Iggy Tan*"

Chief Financial Officer – "*John Sobolewski*"

Condensed Consolidated Statements of Changes in Equity

	Share capital $'000	Equity-settled payments reserve $'000	Foreign currency translation reserve $'000	Fair value reserve $'000	Accumulated losses $'000	Total equity $'000
Balance at January 1, 2011	**128,419**	**13,894**	**(3,603)**	**150**	**(47,426)**	**91,434**
Total comprehensive income for the period	-	-	(1,209)	150	(91,590)	(92,649)
Issue of shares, net of transaction costs	142,869	-	-	-	-	142,869
Exercise of share options	150	-	-	-	-	150
Transfer of reserve upon exercise of share options	19	(19)	-	-	-	-
Share-based payment transactions	-	8,939	-	-	-	8,939
Balance at June 30, 2011	**271,457**	**22,814**	**(4,812)**	**300**	**(139,016)**	**150,743**
Balance at January 1, 2012	**271,457**	**22,123**	**(1,410)**	**-**	**(178,655)**	**113,515**
Total comprehensive income for the period	-	-	467	-	(49,647)	(49,180)
Issue of shares, net of transaction costs	30,147	-	-	-	-	30,147
Share-based payment transactions	-	14,884	-	-	-	14,884
Balance at June 30, 2012	**301,604**	**37,007**	**(943)**	**-**	**(228,302)**	**109,366**

The accompanying notes form part of these condensed consolidated interim financial statements.

Condensed Consolidated Cash Flow Statements

	Three months ended		Six months ended	
	June 30, 2012	**June 30, 2011**	**June 30, 2012**	**June 30, 2011**
	$'000	**$'000**	**$'000**	**$'000**
Operating activities				
Receipts from customers	5,688	-	5,688	-
Payments to suppliers and contractors	(24,498)	(13,463)	(41,358)	(24,098)
Net cash used in operating activities	**(18,810)**	**(13,463)**	**(35,670)**	**(24,098)**
Investing activities				
Interest received	116	667	222	966
Acquisition of property, plant and equipment	(22,311)	(23,976)	(36,319)	(43,190)
Payments for exploration and evaluation assets	(172)	(3,437)	(1,170)	(4,346)
Outflow for security deposits / performance bonds	-	(41)	5	(367)
Net cash used in investing activities	**(22,367)**	**(26,787)**	**(37,262)**	**(46,937)**
Financing activities				
Net proceeds from issue of shares	30,147	113,047	30,147	143,019
Bank charges and interest paid	(2,771)	(4,354)	(2,771)	(5,084)
Proceeds from borrowings	18,549	5,038	43,675	34,538
Repayments of borrowings	-	(98,391)	-	(106,590)
Deposit restricted for loan repayment	-	45,169	-	45,826
Net cash generated from financing activities	**45,925**	**60,509**	**71,051**	**111,709**
Net increase / (decrease) in cash and cash equivalents	**4,748**	**20,259**	**(1,881)**	**40,674**
Cash and cash equivalents at the beginning of the period	10,886	47,481	17,997	27,510
Effect of foreign exchange rate changes	1,722	(1,240)	1,240	(1,684)
Cash and cash equivalents at the end of the period	**17,356**	**66,500**	**17,356**	**66,500**

The accompanying notes form part of these condensed consolidated interim financial statements.

Notes to the Condensed Consolidated Interim Financial Statements
For the quarter and half-year ended to June 30, 2012

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES
Galaxy Resources Limited (the "Company") is a company domiciled in Australia. The condensed consolidated interim financial statements of the Company as at and for the quarter and half-year ended June 30, 2012 comprises the Company and its subsidiaries (together referred to as the "Group"). The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied unless otherwise stated.

a. Statement of Compliance

These condensed consolidated interim financial statements have been prepared in accordance with AASB 134: Interim Financial Reporting, IAS 34: Interim Financial Reporting and the Corporations Act 2001. In addition to these requirements, certain additional information has been included in the interim financial report for the half-year ended June 30, 2012. They do not include all of the information required for full financial statements and should be read in conjunction with the consolidated financial statements of the Group as at and for the year ended December 31, 2011.

These condensed consolidated interim financial statements were approved by the Board of Directors on August 14, 2012.

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

b. Accounting policies

The accounting policies applied by the Group in the condensed consolidated interim financial statements are the same as those applied by the Group in its consolidated financial report as at and for the year ended December 31, 2011.

c. Functional and Presentation Currency

The condensed consolidated financial statements are presented in Australian dollars, which is the Company's functional currency. The functional currency of each of the Group's entities is measured using the currency of the primary economic environment in which that entity operates.

d. Use of estimates and judgements

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

Except as described below in preparing these consolidated interim financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended December 31, 2011.

Site Restoration Liability

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

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

e. Financial Position

Galaxy is currently in the process of the commissioning and ramp-up of the Jiangsu Plant. During July 2012, Galaxy announced the temporary cessation of mining and processing activities at its Mt Cattlin operations to allow the utilisation of existing spodumene stocks and preserve cash.

Notes to the Condensed Consolidated Interim Financial Statements
For the quarter and half-year ended to June 30, 2012

e. Financial Position (continued)
Over the coming twelve months, Galaxy intends to utilise equity contributions together with loans from China Construction Bank, Shanghai Pudong Development Bank Co, Industrial and Commercial Bank of China, and Agricultural Bank of China to fund its activities.

During June 2011, Galaxy entered into unsecured finance agreements with China Construction Bank Limited for facilities totalling RMB 379.6 million, approximately $59.2 million of which $26.4 million is repayable before June 30, 2013 with the first $9.4 million due in September 2012. Galaxy is in the process of renegotiating the payment of this repayment with the bank and expects negotiations to be successful.

In March 2012, Galaxy entered into a further unsecured funding facility with Shanghai Pudong Development Bank Co., Ltd for RMB 84 million, approximately $13.1 million which is repayable in three years from the date of drawdown.

In April 2012, Galaxy entered into a further unsecured funding facility with the Industrial and Commercial Bank of China for RMB 182 million, approximately $28.4 million which is repayable in five years from the date of drawdown.

As at June 30, 2012, Galaxy had undrawn facilities in China of approximately RMB 143 million ($22 million).

In July 2012, as a result of the merger with Lithium One Inc (refer Note 7), Galaxy issued CAD5 million ($4.8m) Convertible Notes (Lithium One Notes). The Notes are unsecured and bear interest at the rate of 8% per annum. The Notes mature on 29 October 2012 and, unless converted to fully paid ordinary shares in Galaxy at the conversion price of CAD$0.612 ($0.588) per share, are repayable in cash. Galaxy will begin discussions with the noteholders with the intention that they be exercised or renegotiated.

In April 2012 Galaxy completed a $28.9 million capital raising through the issue of 37.5 million shares at $0.77 per share to sophisticated and institutional investors. A further $1.1 million was subject to shareholder approval, and issued, $500k in June 2012 and $600k in July 2012.

In May 2012 Galaxy issued 2.9 million shares at $0.77 per share to raise a total of $2.2 million (before costs) via a Share Purchase Plan.

Based on present forecasts, the directors of Galaxy consider that Galaxy has sufficient undrawn facilities and the renegotiation of current drawn facilities or new facilities, together with access to funding through potential additional equity raisings, if required, to meet China Construction Bank Limited loan repayments, redeem the Lithium One Notes, and complete the commissioning and ramp up of the Jiangsu Plant and continue as a going concern.

Notes to the Condensed Consolidated Interim Financial Statements

For the quarter and half-year ended to June 30, 2012

2. PROPERTY, PLANT & EQUIPMENT

Cost	**June 30, 2012 $'000**	**December 31, 2011 $'000**
Land		
Balance at beginning of the period	**1,172**	1,172
Additions	**240**	-
Balance at end of the period	**1,412**	**1,172**
Plant & equipment		
Balance at beginning of the period	**122,727**	840
Additions	**443**	2,255
Disposals	**(9)**	-
Transfer from assets under construction	**986**	119,632
Balance at end of the period	**124,147**	**122,727**
Assets under construction		
Balance at beginning of the period	**90,394**	126,177
Additions	**26,370**	83,849
Transfer to plant and equipment	**(986)**	(119,632)
Balance at end of the period	**115,778**	**90,394**
Development expenditure		
Balance at beginning of the period	**17,708**	17,378
Additions	**-**	330
Balance at end of the period	**17,708**	**17,708**
Total		
Balance at beginning of the period	**232,001**	145,567
Additions	**27,053**	86,434
Disposals	**(9)**	-
Balance at end of the period	**259,045**	**232,001**
Accumulated depreciation and impairment losses		
Land		
Balance at beginning and end of the period	**-**	-
Plant and equipment		
Balance at beginning of the period	**38,005**	169
Depreciation	**3,540**	4,178
Disposals	**(2)**	-
Impairment loss	**-**	33,658
Balance at end of the period	**41,543**	**38,005**
Assets under construction		
Balance at beginning and end of the period	**-**	-
Development expenditure		
Balance at beginning of the period	**8,719**	-
Amortisation	**308**	342
Impairment loss	**-**	8,377
Balance at end of the period	**9,027**	8,719
Total		
Balance at beginning of the period	**46,724**	169
Depreciation/Amortisation	**3,846**	4,520
Impairment loss	**-**	42,035
Balance at end of the period	**50,570**	**46,724**
Carrying amounts		
Land	**1,412**	1,172
Plant and equipment	**82,604**	84,722
Assets under construction	**115,778**	90,394
Development expenditure	**8,681**	8,989
Total property, plant and equipment	**208,475**	**185,277**

Notes to the Condensed Consolidated Interim Financial Statements

For the quarter and half-year ended to June 30, 2012

3. LEASE PREPAYMENT

	June 30, 2012	December 31, 2011
Cost	**$'000**	**$'000**
Balance at beginning of the period	2,873	2,873
Subsidy received (i)	(1,372)	-
Balance at end of the period	1,501	2,873
Accumulated amortisation		
Balance at beginning of the period	91	37
Amortisation	29	54
Balance at end of the period	120	91
Carrying amounts	1,381	2,782

Lease prepayment represented a lump sum prepayment made in April 2010 for a land use right in the People's Republic of China with the lease term of 50 years. Lease prepayment is amortised on a straight-line basis over the period of the lease term.
(i) A subsidy was granted by the local Treasury in Zhangjiagang, Jiangsu, China against the land payment by Galaxy.

4. EXPLORATION AND EVALUATION EXPENDITURE

	June 30, 2012	December 31, 2011
	$'000	**$'000**
Balance at the beginning of the period	7,425	2,243
Acquisitions	-	2,900
Additions	1,089	2,282
Balance at end of the period	**8,514**	**7,425**

5. INTEREST BEARING LIABILITIES

	June 30, 2012	December 31, 2011
	$'000	**$'000**
Current		
Unsecured bank loan (b)	27,071	3,715
Balance at end of the period	27,071	3,715
Non Current		
Unsecured bank loan (a)	51,359	29,785
Convertible Bonds (c)	64,917	66,068
Balance at end of the period	116,276	95,853

a) The non-current facility with China Construction Bank (CCB) is an unsecured RMB fixed asset facility of 136m RMB ($21.2m) with a term of 3 years and 129.6m RMB ($20.2m) with a term of 5 years. The current interest rates are 6.4% and 6.9% respectively. At June 30, 2012, the facilities were fully drawn down ($41.4m).

   In April 2012, Galaxy entered into a RMB 182 million ($28.4m) unsecured funding facility with Industrial and Commercial Bank of China. The facility has a term of 5 years and a floating interest rate (currently 6.90% per annum). At June 30, 2012, 80.6m RMB ($12.6m) was drawn down.

b) The current Facility with China Construction Bank (CCB) is an unsecured RMB working capital facility with a term of 1 year. The current interest rate is 6.56%. At June 30, 2012, 106m RMB ($16.5m) was drawdown of an approved 114m RMB ($17.8m).

   In March 2012, Galaxy entered into a RMB 84 million ($13.1m) unsecured working capital facility with Shanghai Pudong Development Bank. The facility has a term of three years and a floating interest rate (currently 6.65% per annum), payable quarterly. At June 30, 2012, 51m RMB ($8.0m) was drawn down.

Notes to the Condensed Consolidated Interim Financial Statements

For the quarter and half-year ended to June 30, 2012

5. INTEREST BEARING LIABILITIES (CONTINUED)

c) On November 4, 2010 the Group entered into a Convertible Bond subscription Agreement to issue up to $61.5 million, 8% convertible bonds ("Bonds") maturing in November 2015. The Bonds are unsecured.

Interest is payable semi annually in arrears. Each Bond is convertible into fully paid ordinary shares of the Company at the reset price of $1.16. Subject to certain restrictions, a Bondholder is entitled to convert at any time until maturity date in November 2015. The 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 (provided no adjustment shall be made for any initial public offering of shares on another stock exchange prior to June 30, 2011 if the offer price is greater than or equal to $1.16 or other anti dilution adjustment events). No adjustments to conversion price are to be made where dilution events occur as a result of issues to employees or Directors of the Company.

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 convertible bonds are recognised at fair value through profit or loss.

On November 19, 2010, the Company issued the first tranche of the bonds being $32 million receiving $29.69 million in net proceeds. On January 17, 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 the bonds being $19 million.

d) In July 2012, as a result of the merger with Lithium One Inc (refer Note 7), Galaxy issued CAD5 million (A$4.8m) Convertible Notes. The Notes are unsecured and bear interest at the rate of 8% per annum. The Notes mature on 29 October 2012 and, unless converted to fully paid ordinary shares in Galaxy at the conversion price of CAD$0.612 ($0.588) per share, are repayable in cash. Galaxy will begin discussions with the noteholders with the intention that they be exercised or renegotiated.

6. CONTRIBUTED EQUITY

	June 30, 2012		June 30, 2011	
	Number	**$'000**	Number	$'000
Share Capital				
Ordinary shares - Fully paid	364,425,203	301,604	323,327,000	271,457
Movement in ordinary share capital				
Balance at the beginning of the period	**323,327,000**	271,457	192,403,358	128,419
Issued for cash (i)	**41,098,203**	31,645	130,673,642	150,000
Share options exercised - equity settled share-based transactions	-	-	250,000	150
Transfer from equity-settled payment reserve upon exercise/cancellation of share options	-	-	-	19
Transaction costs	-	(1,498)	-	(7,131)
Balance at the end of the period	**364,425,203**	301,604	323,327,000	271,457

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

(i) 35,602,087 shares issued on April 23, 2012, at $0.77 per share.
1,929,706 shares issued on April 24, 2012, at $0.77 per share.
2,917,059 shares issued via a share purcahse plan on May 2, 2012, at $0.77 per share.
649,351 shares issued on June 15, 2012, at $0.77 per share.

(ii) Refer to Note 7 for shares issued subsequent to balance date.

Notes to the Condensed Consolidated Interim Financial Statements
For the quarter and half-year ended to June 30, 2012

7. EVENTS SUBSEQUENT TO REPORTING DATE

- In March 2012, Galaxy announced it entered into an agreement to effect a merger of Galaxy and Canadian company Lithium One Inc. This transaction was completed on July 4, 2012, where the plan of arrangement was successfully completed and Lithium One common shares were de-listed from the TSX-V. A total of 141,154,957 Galaxy shares were issued. Also issued were Convertible Notes which have a combined value of C$5 million ($4.8m). On exercise, each Convertible Note is convertible at C$0.612 ($0.588) into one Fully Paid Ordinary Share and 0.5 Options. Estimated total consideration of $80.5m is yet to be allocated to the assets and liabilities acquired, however the majority of consideration will be allocated to Lithium One's interests in the Sal de Vida exploration project, together with the recognition of the issue of the Convertible Notes as interest bearing liabilities and cash acquired of approximately C$6.4m ($6.1m).
- In July 2012, it was announced that Mt Cattlin operations were to be temporarily halted to allow for re-balance of internal spodumene stockpiles.

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

8. SEGMENT INFORMATION

Reportable Segments	**Australia**		**China**		**Total**	
	6 months to June 30, 2012	6 months to June 30, 2011	6 months to June 30, 2012	6 months to June 30, 2011	6 months to June 30, 2012	6 months to June 30, 2011
	$'000	$'000	$'000	$'000	$'000	$'000
External revenues	5,688	-	-	-	5,688	-
Loss before tax	(47,400)	(89,993)	(2,247)	(1,597)	(49,647)	(91,590)
	As at June 30, 2012	As at December 31, 2011	As at June 30, 2012	As at December 31, 2011	As at June 30, 2012	As at December 31, 2011
	$'000	$'000	$'000	$'000	$'000	$'000
Assets	132,442	124,759	139,401	116,942	271,843	241,701

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

9. LOSS PER SHARE

	6 months to June 30, 2012	6 months to June 30, 2011
	Cents	Cents
Basic loss per share		
Basic and diluted loss per share (cents per share)	**(14.67)**	(38.82)
Weighted average number of shares used as the denominator		
Weighted average number of ordinary shares outstanding during the period used in calculation of basic earnings per share	**338,421,359**	235,940,871

10. COMMITMENTS

Mining Tenement Leases

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

	June 30, 2012	December 31, 2011
	$'000	$'000
Within one year	613	613
	613	613

Notes to the Condensed Consolidated Interim Financial Statements

For the quarter and half-year ended to June 30, 2012

10. COMMITMENTS (CONTINUED)

Mining Tenement Leases (continued)

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

	June 30, 2012	December 31, 2011
Construction Contract Commitments	**$'000**	$'000
Contracted for	10,627	23,890
	10,627	23,890

11. SHARE-BASED PAYMENT EXPENSE

Class K, L and M options were previously granted to employees and directors subject to a service condition (12-18 months of service), a market condition (10 day VWAP share price being greater than $2.00) and a non-market condition to successfully list on the Hong Kong Stock Exchange (HKSE listing).

On 23 May 2012, Galaxy shareholders approved a modification of these options by removing the HKSE listing condition. Given the service condition has been met for the class K options and there is no further performance condition they are deemed to have vested. Accordingly, the remainder of the fair value of these options ($11.2m) was expensed during the quarter ended June 30, 2012. The expenses associated with the options for which the service condition has not been met (class L and M) keep being recognised on the duration of the service condition.

Directors' Declaration

In the opinion of the Directors of Galaxy Resources Limited:

1. the financial statements and notes set out on pages 11 to 21 are in accordance with the Corporations Act 2001, including:

    a. complying with Accounting Standards AASB 134: Interim Financial Reporting, International Financial Reporting Standard IAS 34: Interim Financial Reporting and the Corporations Regulations 2001; and

    b. giving a true and fair view of the consolidated entity's financial position as at June 30, 2012 and of its performance for the quarter and half year ended on that date; and

2. there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

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

Signed in accordance with a resolution of the Directors
Dated at Perth this 14th day of August 2012.
On behalf of the Directors

I KS Tan
Managing Director

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

Report on the financial report

We have reviewed the accompanying second quarter and half-year financial report of Galaxy Resources Limited, which comprises the condensed consolidated interim statement of financial position as at 30 June 2012, condensed consolidated statement of comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated cash flow statements for the second quarter and half-year ended on that date, notes 1 to 11 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the Group comprising the company and the entities it controlled at the half-year's end or from time to time during the half-year.

Directors' responsibility for the second quarter and half-year financial report

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

Auditor's responsibility

Our responsibility is to express a conclusion on the second quarter and half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the second quarter and half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's financial position as at 30 June 2012 and its performance for the second quarter and half-year ended on that date; and complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of Galaxy Resources Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

Conclusion

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

(a) giving a true and fair view of the Group's financial position as at 30 June 2012 and of its performance for the second quarter and half-year ended on that date; and

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

KPMG

KPMG

Trevor Hart
Partner

Perth

14 August 2012

Corporate Directory

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

Company Secretary
Andrew Leslie Meloncelli

Executive Management
Terry Stark (Managing Director, Resources Division – Australia)
Allen Qian (Managing Director, Chemical Divison – China)
Anand Sheth (General Manager – Marketing and Business Development)
John Sobolewski (Chief Financial Officer)

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