



# GALAXY

# 2012

## ANNUAL REPORT

Year End December 31, 2012





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Galaxy Resources Ltd (ASX: GXY)  
("Galaxy" or "the Company")  
is a producer of lithium products.  
Galaxy has assets in four continents;  
Asia, North America, South America, and Australia.

**Sal de Vida, Argentina**

# Chairman's Letter

## Dear fellow shareholders,

2012 has been a year of significant activity and achievement for Galaxy, but it has also been a year marked by significant challenges. I am proud of the way Galaxy has handled these challenges and grown stronger from the experience.

Growth in the lithium industry continued in 2012, particularly in Asian markets, with the lithium battery segment accounting for most of the demand increase. Battery grade lithium carbonate prices in our main market China rose and M&A interest in the lithium sector continued. Volatility in global equity markets throughout 2012 continued to pressure local markets in Australia. We believe the market will turn around in time and will keep pushing forward with our development plans to drive shareholder value.

In the last year, Galaxy has recorded a number of key achievements, including the successful merger with Lithium One Inc, the official opening of the Jiangsu Lithium Carbonate Plant in China, and the first battery grade production and sales from the Jiangsu Plant.

The final quarter of the year was dominated by the tragic and unfortunate events at the Jiangsu Plant, where a pipe rupture during a routine maintenance procedure resulted in two fatalities and a number of injuries. The Company was deeply saddened by this incident and has done everything to assist the 11 affected workers and their families. Our commitment to safety remains our key priority across all of our operations and we have conducted repairs and safety checks that meet and exceed world standard safety requirements.

I'm pleased to report that, at the time of writing, the Jiangsu Plant had re-commenced production of battery grade lithium carbonate. Prior to the Jiangsu incident, Galaxy made significant progress in production and quality improvement, achieving battery grade product, which in most cases, bettered rival products around the globe. Early customer qualification testing yielded positive results and we're looking forward to further production hikes and increased sales in 2013.

We remain comfortable with the merger with Lithium One Inc, completed in July 2012. We continue to believe Sal de Vida is a world class resource with superior quality and production potential, and a project we are keen to see become a flagship asset. We are finalising a Definitive Feasibility Study on Sal de Vida and will focus attention on its development in 2013.

We acknowledge we have had to source substantial capital in 2012 to carry out our activities. While 2013 will also be an active year for the Company, we believe revenues from Jiangsu will help offset our capital requirements to an extent.

I'd like to acknowledge the hard work and determination of Managing Director Iggy Tan and his management team, which not only led the Company across its significant milestones in 2012 but whose leadership skills were most evident in managing the Company and staff through the time of the accident at Jiangsu. The Galaxy Board has remained very committed on your behalf to the continued development of the Company. I'd also like to thank our management, staff and contractors for their contribution.

Finally, I'd like to thank new and existing shareholders to the Company and express our gratitude for your continued commitment to and confidence in the Company. I am excited about Galaxy's prospects and look forward to bringing you news of our progress in 2013.



Yours sincerely,

A handwritten signature in dark ink, which appears to read "Craig Readhead".

Craig Readhead  
Chairman



# Global Lithium Company

Galaxy successfully completed a C\$112 million merger with Canada's Lithium One Inc. in July 2012, creating a global lithium company. The merger helped achieve Galaxy's strategy to increase its lithium resource footprint and further its downstream development opportunities.

The merged entity now has a portfolio of production and development assets located in four continents, comprising hard rock and brine resource projects and processing facilities. These include the Sal de Vida lithium brine and potash project in Argentina (70%), James Bay hard rock lithium project in Quebec (100%), the Jiangsu Lithium Carbonate Plant in China (100%) and the Mt Cattlin mine and processing plant in Australia (100%).

The merger also fulfilled Galaxy's long term strategy of building a portfolio with both hard rock and lithium brine assets. Sal de Vida has brought brine assets into Galaxy's portfolio.

Galaxy spent a number of years looking for a high quality, undeveloped lithium brine project with the aim of adding extra lithium resources and lithium carbonate capabilities to its asset portfolio in anticipation of growing lithium demand.

Galaxy believes Sal de Vida's brine chemistry and production profile make it a world class asset, and one Galaxy sees becoming its flagship project.



To support the merger, Galaxy raised A\$30 million via an equity raising, plus A\$2.25 million via a Share Purchase Plan. The funds strengthened the merged entity's balance sheet and enabled Galaxy to progress its development plans.

The merged company has a combined resource base of 1.2 Mt of lithium carbonate equivalent (LCE) in hard rock projects and 7.2 Mt of LCE in brine projects, with potential production capacity of 42,000 tpa of lithium carbonate once Sal de Vida is brought on line (based on the Lithium One PEA and 100% of total output).



# Operational Review

## JIANGSU LITHIUM CARBONATE PLANT (100%)

### PLANT COMPLETED

Galaxy successfully completed the construction, commissioning and start-up of the Jiangsu Plant in early 2012. The construction and commissioning phase involved 2 million man hours and was achieved without a single Lost Time Injury (LTI).

Mechanical completion of the Jiangsu Plant was achieved in December 2011 and cold commissioning concluded in February 2012. Hot commissioning was commenced in line with schedule. The calcination kiln was ignited in late January for the refractory 'dry out' process. The kiln reached operating temperature (1,080 degrees Celsius), and has been successfully producing beta spodumene since mid-March 2012.

The remainder of the Plant - including the sodium sulphate plant, utilities, and leach area - was brought online successfully. The sulphuric acid addition was established end-March, with the sulphation kiln producing sulphated beta spodumene which, in turn, was fed through the Plant.

Galaxy announced it had produced first lithium carbonate product at the Jiangsu Plant in April 2012, a milestone which proved the success of the Plant's design and processes.

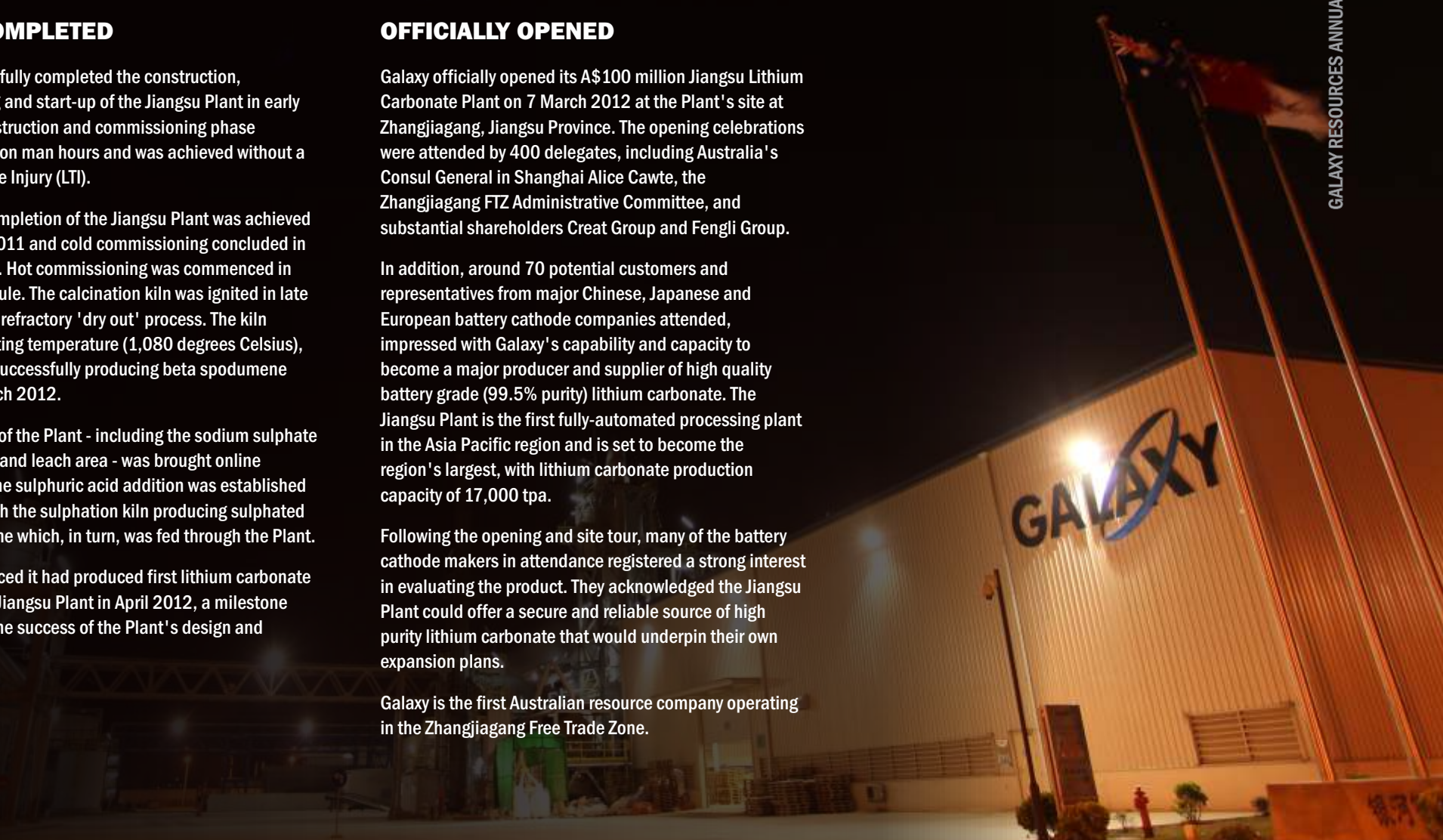
### OFFICIALLY OPENED

Galaxy officially opened its A\$100 million Jiangsu Lithium Carbonate Plant on 7 March 2012 at the Plant's site at Zhangjiagang, Jiangsu Province. The opening celebrations were attended by 400 delegates, including Australia's Consul General in Shanghai Alice Cawte, the Zhangjiagang FTZ Administrative Committee, and substantial shareholders Creat Group and Fengli Group.

In addition, around 70 potential customers and representatives from major Chinese, Japanese and European battery cathode companies attended, impressed with Galaxy's capability and capacity to become a major producer and supplier of high quality battery grade (99.5% purity) lithium carbonate. The Jiangsu Plant is the first fully-automated processing plant in the Asia Pacific region and is set to become the region's largest, with lithium carbonate production capacity of 17,000 tpa.

Following the opening and site tour, many of the battery cathode makers in attendance registered a strong interest in evaluating the product. They acknowledged the Jiangsu Plant could offer a secure and reliable source of high purity lithium carbonate that would underpin their own expansion plans.

Galaxy is the first Australian resource company operating in the Zhangjiagang Free Trade Zone.



# Operational Review

## JIANGSU LITHIUM CARBONATE PLANT (100%)

### JIANGSU PRODUCTION & SALES

The ramp-up of the Jiangsu Plant's operations to full capacity progressed throughout 2012. Galaxy reported first lithium carbonate production at the Jiangsu Plant in April 2012. By the end of the year, total lithium carbonate production amounted to 1454 tonnes.

Sales of lithium carbonate from the Jiangsu plant commenced in May 2012. Total sales of battery and technical grade product for the year was 1329 tonnes, with Galaxy securing over 25 customers for its product during that time. Galaxy will continue to increase production in 2013, targeting Jiangsu's full capacity of 17,000 tpa.

Galaxy continued to sell product to both battery and technical grade customers. Technical grade sales continued as customers completed the battery grade product qualification process. Samples of battery grade product were delivered to all battery cathode material producers including Galaxy's existing clients under offtake framework agreements (13 major battery cathode producers in China and Mitsubishi Corporation of Japan) for qualification testing and confirmation.

|                   | 2012<br>YTD |
|-------------------|-------------|
| Production Tonnes | 1454        |
| Battery Grade     | 290         |
| Technical Grade   | 1164        |

\* From 1 Jan to 21 Nov 2012, plant shutdown 21 Nov 2012

Galaxy has now secured more than 25 regular customers. Customers include major glass ceramic, and lithium-ion battery cathode materials manufacturers in the PRC. In addition, battery grade samples have been sent to a number of Japanese customers for product qualification and testing.

Battery grade lithium carbonate commands a price premium over more common technical and industrial grade material. The achievement of battery grade product has been an important milestone in the ramp-up of the Jiangsu Plant and towards the Company's strategy of becoming a dominant player in the lithium-ion battery input market.

Furthermore, feedback from other potential customers that have commenced the initial testing and evaluation of battery grade samples has been very encouraging, with some progressing to the second phase of pilot plant trials.

The Company is in the final stages of negotiating annual supply contracts with various major cathode makers.

Customers have indicated satisfaction with Galaxy's lithium carbonate quality as one of the best in the market, with excellent packaging, performance, reliable supply and sales support.

Jiangsu completed the first round of an external audit for ISO9001/ISO14001/OHSAS18001 management system by BSI in 2012. The final acceptance audit will be carried out in April 2013. Completion of the certification process is expected in the first half of 2013.







# Operational Review

## JIANGSU LITHIUM CARBONATE PLANT (100%)

### PRODUCT QUALITY

Galaxy also made significant inroads in improving the quality of its lithium carbonate product in 2012.

In July, Galaxy achieved battery grade quality across all specifications, which meant as well as adhering to the 99.5% purity criteria, the production met the strict prescribed tolerances for impurities required by customers. Battery grade lithium carbonate must meet stringent specifications, with allowances for only certain levels of impurities such as calcium, magnesium, iron, sulphate and sodium. Galaxy was extremely pleased to have achieved battery grade quality so early in the ramp-up of the Plant. Statistical analysis also shows that the distribution ranges of major impurity levels have become narrower in comparison with the performance of previous quality, implying better product consistency and quality predictability.

At the front end of the Plant, the calcination kiln utilisation rate (amount of time on line) reached 92% during October/November 2012. Temporary lifters were installed in the calciner to provide better spodumene pre-heating and heat transfer within the kiln. These modifications successfully reduced kiln off gas temperatures, thereby allowing increased kiln feed rates and kiln stability. These lifters have now been replaced by permanent units during the recent shutdown. The hot end refractory section has also been replaced.

The focus during the year was to improve the stability, on line rate and utilisation of the back end of the Plant.

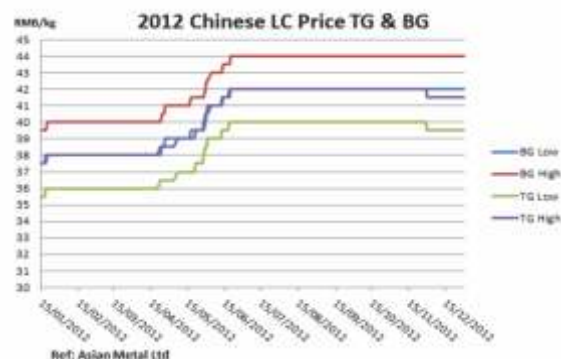
During October 2012, the utilisation rate of the lithium carbonate precipitation plant and dryer reached 73% on line time. Again, this was an excellent result for the particular stage of the ramp-up.

Recent further adjustments and improvements to the Jiangsu Plant have allowed the Jiangsu team to produce a higher specification battery grade lithium carbonate of 99.9% purity. Lithium carbonate of minimum 99.9% purity, registered by Galaxy as EV Grade®, is used specifically in the manufacture of electrolyte solution for lithium-ion batteries and commands a substantial price premium to that of 99.5% product.



| Batch ID            | LC %  | ppm  |     |     |      |     |     |     |     |     |     |     |     |     |                 |
|---------------------|-------|------|-----|-----|------|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----------------|
|                     |       | Na   | K   | Ca  | Mg   | Si  | Fe  | Cu  | Pb  | Ni  | Mn  | Zn  | Al  | Cl  | SO <sub>4</sub> |
| 6120914004          | 99.70 | 20   | 5   | 43  | 5    | 10  | 5   | 1   | 1   | 1   | 1   | 1   | 5   | 11  | 300             |
| 6120914005          | 99.70 | 20   | 5   | 43  | 5    | 10  | 4   | 2   | 1   | 1   | 1   | 1   | 5   | 6   | 240             |
| 6120915001          | 99.62 | 20   | 5   | 28  | 5    | 10  | 3   | 1   | 1   | 1   | 1   | 1   | 5   | 10  | 320             |
| 6120915004          | 99.63 | 20   | 5   | 31  | 5    | 10  | 4   | 1   | 1   | 1   | 1   | 1   | 5   | 10  | 310             |
| Battery Grade Specs | ≥99.5 | <250 | <10 | <50 | <100 | <50 | <20 | <10 | <10 | <30 | <10 | <10 | <50 | <50 | <800            |





2012 Chinese battery and technical grade lithium carbonate prices



## PRODUCT PRICES

Lithium carbonate prices were robust during the year. According to Asia Metal Pty Ltd, prices for battery grade lithium carbonate in China increased by 13% during the year to US\$6,680-US\$7,000/t (inclusive of VAT).

In May 2012, global lithium producer Rockwood Lithium lifted global lithium salts prices by US\$1,000 per metric tonne. This included lithium carbonate and hydroxide, other salt products. It was the second time Rockwood hiked lithium salts prices in as many years after announcing a 20% increase in prices in June 2011.

In Q4 2012, technical grade lithium carbonate prices dropped marginally by around 1.25% to US\$6,300/t-US\$6,600/t. This was due to increased supply from Chinese brine manufacturers. However, technical grade prices have risen in early 2013 on supply constraints and are almost on parity with battery grade prices.

## LITHIUM HYDROXIDE EXPANSION FEASIBILITY STUDY COMMENCED

Galaxy commenced a feasibility study to assess the potential to expand into lithium hydroxide production at the Jiangsu Plant. The study is investigating the potential for 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 the existing Jiangsu Plant.

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.

# Operational Review

## JIANGSU LITHIUM CARBONATE PLANT (100%)

### JIANGSU PLANT INCIDENT

The Jiangsu Plant was shut down in late November following a blockage in the vertical crystallizer section and subsequent pipe rupture. The incident occurred during the commencement of a previously-announced, scheduled three week maintenance shutdown.

The Company was hugely saddened to report that two workers passed away from complications relating to injuries sustained in the incident. A further nine workers were also injured. The Company has done everything it possibly can to assist the 11 workers and their families affected by the incident and had offered its deepest sympathies to the families and colleagues of the affected employees.

Dual investigations were immediately conducted into the incident by China's Suzhou Safety Bureau and Galaxy. Galaxy's internal investigation concluded that on shutdown of the Plant, an abnormal and unexpected blockage in the vertical crystallizer section held up a mass of sodium sulphate liquid, the force of which, on subsequent unforeseen release, caused the fibre glass pipe work at the U-bend section to rupture on impact. Due to the highly abnormal nature of the incident, the risk of this type of incident was not identified by the Plant designers in their design documentation or safety studies.

The Safety Bureau's independent investigation concurred with the root cause analysis of the incident as described above. The Safety Bureau agreed with the Company's proposed repairs, replacing the ruptured U-bend section with stainless steel (2507) material with additional load support in light of the impact and consequences of the incident.

Galaxy was able to recommence operations in February 2013 after repairs and stringent safety checks were conducted across the entire Plant. China's Zhangjiagang Safety Bureau cleared the site for recommencement of operations after inspecting and approving Galaxy's repairs to the affected area. Safety continues to be a paramount priority at Jiangsu and, in addition, a complete Hazard and Operability (HAZOP) review has been conducted across the Jiangsu operation by Risk Management Solutions to ensure complete and ongoing safety of the Plant.

In addition to the refurbishment of the damaged sections of the sodium sulphate production system, Galaxy also utilised the shutdown period to carry out improvements to several other systems such as lithium carbonate precipitation, sodium sulphate pneumatic conveyance, venturi scrubber.

The Jiangsu Plant has returned to stable operation in early 2013 with no re-start issues and with other shutdown activities at Jiangsu carried out according to schedule, including the kiln dry out process.

### DEUTSCHE BANK FINANCE FACILITY

Deutsche Bank and Galaxy agreed on a A\$20 million (before costs) financing arrangement, announced 13 December 2012 comprising equity placement and call option transactions. The funding was arranged due to the delay of ECE's cash injection (subsequently withdrawn) and the impact of the Jiangsu incident on near term cash flow. The A\$10 million (gross) first tranche (Tranche 1) was settled on 17 December 2012. Galaxy received A\$10 million (gross) under the two-tranche financing arrangement with Deutsche Bank. The second tranche (Tranche 2) was received 28 February 2013.



## Mt Cattlin (100%)

### HALT TO MT CATTLIN OPERATIONS

The Galaxy Board reached a decision in March 2013 to halt production at Mt Cattlin, extending a temporary halt to operations announced in July 2012. Galaxy initially paused operations after improved spodumene production led to a 12 month build-up of feedstock for the Jiangsu Plant. With the Plant still in ramp-up phase, the temporary halt allowed for a reduction of spodumene stocks and ~A\$4 million/month in cash outlays.

In March 2013, Galaxy signed a three year spodumene feedstock contract with Talison Lithium to supply the Jiangsu Plant. The agreement with Talison, to commence July 2013, will provide Galaxy with spodumene feedstock for the Jiangsu Plant at a more economical rate than the cost of continuing production at Mt Cattlin.

Galaxy will purchase the Talison feedstock in US dollars, representing cost benefits to Galaxy. Mt Cattlin was developed as a feedstock provider for Jiangsu but the high Australian dollar has pressured costs of production. Talison's recently-expanded capacity at its Greenbushes operations resulted in the first significant external supply of spodumene becoming available on the international market. Talison's threefold head grade (versus Mt Cattlin) means its costs of production are less than Galaxy's.

Mt Cattlin will remain ready to restart in the event Galaxy needs to resume internal production, and to retain security of supply.

| Mt Cattlin Production Statistics | 2012 YTD |
|----------------------------------|----------|
| Ore Mined (Tonnes)               | 454,912  |
| Grade (Li <sub>2</sub> O%)       | 1.22     |
| Waste Mined (BCM)                | 925,505  |
| Ore Treated (Tonnes)             | 453,004  |
| Grade (Li <sub>2</sub> O%)       | 1.23     |
| Spodumene Produced (Dry Tonnes)  | 54,047   |

Mt Cattlin remains an important asset for Galaxy and a stable source of feedstock for the Jiangsu Plant. Regrettably, the suspension has resulted in the positions of 37 local Galaxy staff being made redundant. Galaxy is providing support and assistance packages to affected staff.

### EXPLORATION

Infill and extension RC drilling was undertaken over January and February 2012 totalling 40 holes for 3,258m. Three deep-drill holes targeting extensions of the North West deposit were partly funded by a Co-Funded Drilling Grant under the WA Exploration Incentive Scheme (EIS). Mineralised intercepts were narrower and of lower-than-expected grade. 37 holes were drilled in the south east of the deposit aimed at upgrading existing inferred resources. All sampling was completed in February 2012.

### SAFETY

A continued strong focus on safety resulted in no Lost Time Injuries (LTIs) for the Mt Cattlin site.

Resource March 2011, 0.4% Li<sub>2</sub>O cutoff, depleted for Dec 2011 EOM surface

| Category     | Tonnes     | Li <sub>2</sub> O%<br>ppm | Ta <sub>2</sub> O <sub>5</sub><br>ppm | Nb <sub>2</sub> O <sub>5</sub><br>ppm | Li <sub>2</sub> O%<br>metal | Ta <sub>2</sub> O <sub>5</sub> ppm<br>pounds |
|--------------|------------|---------------------------|---------------------------------------|---------------------------------------|-----------------------------|----------------------------------------------|
| Measured     | 2,899,810  | 1.19                      | 147                                   | 93                                    | 34,398                      | 942,157                                      |
| Indicated    | 9,905,598  | 1.06                      | 168                                   | 85                                    | 105,220                     | 3,664,746                                    |
| Inferred     | 4,349,812  | 1.07                      | 132                                   | 91                                    | 46,669                      | 1,268,790                                    |
| TOTAL        | 17,155,220 | 1.09                      | 155                                   | 88                                    | 186,287                     | 5,875,702                                    |
| TOTAL<br>M&I | 12,805,408 | 1.09                      | 163                                   | 87                                    | 139,618                     | 4,606,903                                    |

Reserve September 2010, 0.4% Li<sub>2</sub>O cutoff, depleted for Dec 2011 EOM surface

| Reserves | Tonnes     | Li <sub>2</sub> O% | Ta <sub>2</sub> O <sub>5</sub> (ppm) |
|----------|------------|--------------------|--------------------------------------|
| Proved   | 2,803,000  | 1.09               | 136                                  |
| Probable | 7,933,000  | 1.03               | 150                                  |
| Total    | 10,737,000 | 1.04               | 146                                  |

The information in this report that relates to Mineral Resources and Exploration Results is based on information compiled by Mr Robert Spiers who is a full time employee of Hellman and Schofield Pty Ltd and Dr Mike Grigson who is a full time employee of Arc Minerals. Mr Spiers and Dr Grigson have sufficient experience which is relevant to the style of mineralisation 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'. Mr Spiers and Dr Grigson consent to the inclusion in the report of the matters based on their information in the form and context in which it appears. The information in this report that relates to Mineral Ore Resources 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 mineralisation 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'. Mr Croeser consents to the inclusion in the report of the matters based on their information in the form and context in which it appears.

### PRODUCTION

54,047 dry tonnes of spodumene was produced in 2012, with 638 tonnes of tantalum concentrate sold and shipped to Global Advanced Metals (GAM).

# Operational Review

## PONTON PROJECT (100%)

The Company submitted a report on potential access routes to the prospective area to the WA Department of Mines and Petroleum (DMP) as part of the application process for the grant of the Ponton Rare Earth Project (Ponton Project) tenement. The report addressed possible disturbances to vegetation along pre-existing tracks due to the Ponton Project ELA being situated on a Class A nature reserve.

The Company is continuing its discussions with the WA Government for the grant of the Ponton Project tenement.







# Operational Review

## SAL DE VIDA (70%)

### DFS PROCESS

Galaxy made progress on a A\$13 million Definitive Feasibility Study ("DFS") on the Sal de Vida lithium and potash brine project ("Sal de Vida") project in 2012 and is expected to have completed the study by end-Q1 2013.

The DFS is assessing Sal de Vida's potential production profile of 25,000 tpa of battery grade lithium carbonate and 107,000 tpa of potash (KCI) by-product for the fertiliser industry. At these production levels, and in addition to the 17,000 tpa design capacity of Jiangsu, Galaxy would produce 42,000 tonnes of lithium carbonate per annum from 2017 onwards.

Galaxy funded the study after acquiring a 70% stake in the highly prospective project following its merger with Lithium One Inc. earlier in 2012. Sal de Vida is situated in the renowned 'lithium triangle' at the meeting point of Argentina, Chile and Bolivia. It is located adjacent to FMC Lithium's El Fenix lithium operation in the Salar del Hombre Muerto, which has been in operation for the last 15 years.

Argentinean engineering firm TAGING S.A., which specialises in Argentinian mining projects with extensive experience in lithium brine projects, is completing the DFS. International engineering company Hatch Ltd is providing specialist process input for Galaxy during the DFS process.



Mr Iain Scarr (GM Development) and Mr Daniel Chavez Diaz (GM Operations)

### DEVELOPMENT STRATEGY

The Company outlined the development strategy for Sal de Vida in August 2012. Galaxy's plans for Sal de Vida include development of evaporation ponds and a battery grade lithium carbonate plant. The Company's preference is to advance Sal de Vida's development to be prepared ahead of anticipated spikes in demand for lithium carbonate, as demand for lithium-ion batteries for electronics, electric vehicles and battery storage grows.

The 4-5 year lead time on mine development on lithium projects means Galaxy wants to advance the development of Sal de Vida now to be positioned and ready for the anticipated demand growth for lithium products. This timeframe would allow Galaxy to fully benefit from the potential demand and lock in long term offtake contracts.

The development of Sal de Vida will give Galaxy a presence in four continents - Australia, Asia, North America and South America, and see it establish itself as a global miner and producer of lithium products.

In addition, Galaxy has representation in the world's top three lithium battery producing countries - China, Japan and Korea. Galaxy's global partners include the top 13 cathode producers in China, Mitsubishi Corporation (Japan), Korean Resources Corporation (Korea), LG International (Korea) and GS Caltex (Korea).



## KEY LITHIUM APPOINTMENTS

Galaxy appointed a number of lithium experts to bolster the existing Sal de Vida project team. Most notable was the appointment of lithium industry veteran Dr Vijay Mehta as Senior Technical Advisor. Dr Mehta has 45+ years of experience in brine based lithium processing technology, including 30 years at FMC Lithium, where he developed the lithium plant at FMC's Hombre Muerto Salar project, which adjoins Sal de Vida.

Other key Technical Team appointments included Jerome Lukes – Senior Technical Engineer, David Butts – Pond Operation & Design, Dr Greg Sheehan – Process Operation and Design, Dr Jingyuan Liu – GM Business Readiness. Key Project Management appointments included Iain Scarr – General Manager Development, Terry Stark - Project Director, Ernest Burga - Engineering Project Manager.

In October 2012, Galaxy appointed Daniel Chavez Diaz as Sal de Vida Site Director. Mr Chavez Diaz is a chemical engineer and highly experienced management executive who spent 20 years working for FMC. From 2007-2012, Mr Chavez Diaz was President of FMC subsidiary Minera del Altiplano S.A., and was responsible for overseeing FMC's lithium production facilities in Argentina. He was also GM of FMC's Fenix lithium operation in the Hombre Muerto Salar.

In early 2013, Galaxy appointed consultant Mr Joe Lowry to the Company's sales and marketing team. Mr Lowry spent 23 years with FMC and, prior to joining Galaxy, was FMC's Global Sales & Business Development Director, responsible for sales of approximately US\$240 million worldwide. Previously, Mr Lowry was FMC's Managing Director, Asia Pacific, significantly growing FMC's lithium product sales across Japan, China and Korea. Mr Lowry was also the Venture Manager for FMC's first manufacturing plant (butyllithium) in China.

## ENVIRONMENTAL IMPACT STATEMENT

The Sal de Vida Environmental Impact Reports (EIRs) were submitted in 2012 and are under review in both Salta and Catamarca provinces. Approval of the reports will come with the permits for construction. The Company is working towards and anticipates approvals by Q2 2013.

Part of the approvals will be the DIAs or conditions of approval, which will lay out the conditions for building and operating the lithium carbonate extraction wells, evaporation and processing facility. There continues to be full support from the Catamarca and Salta Provincial Governments for the development of Sal de Vida.

## ENGINEERING PROCESS

The engineering and feasibility study is on track for completion in Q1 2013. The process flow diagrams (PFDs) have been completed, and piping and instrumentation diagrams, technical specifications and requests for quotes are being finalised. The longest lead time item in the development of Sal de Vida will be the evaporation ponds. Covering 12 square kilometres, the ponds will take 15 months to build, fill and concentrate to the first available 2.1% Li plant design feed.

## WELL FIELDS

The long term pumping test drawdown and recovery trials were completed in 2012, demonstrating that either of the two initial well fields, covering 5% of the measured and indicated resource area, are capable of providing brine sufficient to feed a planned 25,000 tpa lithium carbonate plant for decades. Other development areas are available, including potentially one in a new mining licence (Mina) in the north basin zone, shown to contain higher grade brine in a large salt body.

The two tests targeted for the initial production yielded a maximum drawdown at the pumped wells of 5 metres and 23 metres with no occurrence of hydraulic boundaries in either area. Daily lithium concentrations ranged from 750 mg/l– 867 mg/l, with a mean of 840 mg/l. The pumping tests are being used to validate the hydrological model, and is already helping develop the well field drilling program. The hydrology consultants have reported already that there are no barriers to pumping the quality and amounts of brine required for Sal de Vida.



Monitoring Work at Sal de Vida





# Operational Review

## SAL DE VIDA (70%)

### PROCESS TESTING TRIALS

The process test facility work on site continues to provide reliable sizing and cost data, proof of the design and insight into the optimal design and operating conditions for high purity lithium carbonate and technical grade potash production.

Drawing on insight and design fundamentals from Jerome Lukes, Dr Jingyuan Liu and Dr Vijay Mehta, Galaxy's Argentina-based team is refining flow sheets, backed up by Jiangsu laboratory test work.

Key milestones include integration of the lithium end-liquor recycling, initiating continuous crystallization and product filtration operations, optimization of the solvent extraction (SX) operating conditions, small scale and pilot scale ion exchange (IX) experiments and bicarbonate (BiC) purification tests at Jiangsu.

Results of the test work indicate that with stable conditions and operations, the Sal de Vida brine can be used to produce high purity lithium carbonate product. It is evident the initial purification steps can meet the specifications required to move to the ion exchange (IX) circuit and bicarbonate (BiC) purification and thence to precipitation of high purity lithium carbonate.

| Phase II Resource Category | Brine Volume (m3)     | Average Li (mg/l) | In situ Li (Tonnes) | Li <sub>2</sub> CO <sub>3</sub> Equivalent (Tonnes) | Average K (mg/l) | In situ K (Tonnes) | KCl Equivalent (Tonnes) |
|----------------------------|-----------------------|-------------------|---------------------|-----------------------------------------------------|------------------|--------------------|-------------------------|
| Measured                   | 7.2 x 10 <sup>8</sup> | 787               | 565,000             | 3,005,000                                           | 8,695            | 6,241,000          | 11,902,000              |
| Indicated                  | 2.6 x 10 <sup>8</sup> | 768               | 197,000             | 1,048,000                                           | 8,534            | 2,186,000          | 4,169,000               |
| M & I                      | 9.8 x 10 <sup>8</sup> | 782               | 762,000             | 4,053,000                                           | 8,653            | 8,427,000          | 16,071,000              |
| Inferred                   | 8.3 x 10 <sup>8</sup> | 718               | 597,000             | 3,180,000                                           | 8,051            | 6,692,000          | 12,762,000              |

Sal de Vida Project Resource Estimate, March 2012 (Rosko & Jaacks) Cutoff grade: 500 mg/L lithium

The information in this report that relates to Mineral Resources for the Sal de Vida lithium project is based on work completed by Mr. Michael Rosko, who is a Member of a Recognised Overseas Professional Organisation. Mr. Rosko is a full time employee of E. L. Montgomery and Associates and has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2004 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Mr. Rosko consents to the inclusion in this report of the matters based on his information in the form and context in which it appears.



Pilot Plant at Sal de Vida



**Sal de Vida  
& Salta Office, Argentina**



# Operational Review

## JAMES BAY (100%)

### DFS PROGRESS

The Definitive Feasibility Study (DFS) at the James Bay Pegmatite Project (James Bay) in Quebec was progressed in the early part of 2012. 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.

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 that flowsheet, but results are awaited regarding lithium recovery.

Further work on the DFS was halted mid-year following the Company's merger with Lithium One Inc. to allow Galaxy to prioritise the development of the Sal de Vida lithium brine and potash project in Argentina.

| Resource Category | Quantity (Tonnes) | Grade Li <sub>2</sub> O |
|-------------------|-------------------|-------------------------|
| Indicated         | 11,750,000        | 1.30                    |
| Inferred          | 10,470,000        | 1.20                    |

Reported at a cut-off grade of 0.75 percent Li<sub>2</sub>O inside conceptual pit shells optimized using Lithium Carbonate price of US\$6,000 per tonne containing 40.4% Li<sub>2</sub>O, metallurgical and process recovery of seventy percent, overall mining and processing costs of US\$64 per tonne milled and overall pit slope of forty-five degrees. All figures rounded to reflect the relative accuracy of the estimates. Mineral resources are not mineral reserves and do not have demonstrated economic viability.

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



## Jiangsu Lithium Carbonate Plant







# Lithium Market Outlook

19.

GALAXY RESOURCES ANNUAL REPORT 2012

## 2012 LITHIUM MARKET GROWTH

Global lithium production in 2012 is internally estimated to have increased 5% to 10% over the previous year. The main source of demand came from the lithium battery segment. Lithium major SQM reported an increase of 12% in volume and 38.8% increase in revenues. Talison's production increased by 5%, however, FMC's production was similar to the previous year mainly caused by the weather and technical issues associated with its expansion program.

The main growth in demand was from China (est 15%) and Korea (+20%) at the expense of Japan where the demand reduced by 15% vs 2011. Chinese imports of lithium carbonate increased by 65% whereas exports reduced by 45% year-on-year. According to lithium market watcher, Asia Metal Pty Ltd, Chinese exports of cathode materials like lithium cobalt oxide (LCO) are growing at up to 50% year-on-year and were forecast to reach 7,000 tonnes in 2012 compared to 4,530 tonnes in 2011. The production of LCO is gradually shifting from Japan into China due to the lower cost of manufacturing in that country.

## LITHIUM OUTLOOK

The lithium battery sector continues to be consumer driven and, in the last few years, has experienced consistent growth of around 20-25% per annum. The utilisation of lithium-ion batteries continues to grow and, significantly, the size of lithium-ion batteries is also increasing to fit larger electric vehicles and energy storage units. For example, the amount of lithium carbonate in one electric car is in the region of 3,000 times more than that of a laptop lithium-ion battery.

While lithium carbonate prices are already increasing, Galaxy forecasts exponential growth (a 'hockey stick' growth profile) in lithium demand in the next five years, driven by the lithium-ion battery sector. The lithium battery industry today is worth US\$11 billion and expected to grow to US\$43 billion by 2020. Consequently, lithium carbonate feedstock demand is also expected to increase 2-3 times by the end of the current decade.

In 2013, Galaxy sees some upwards price pressure on lithium carbonate due to disruptions in South America due to abnormal weather events. At the Salar del Hombre Muerto in Argentina, 110 mm of rain fell in the first 45 days of the year. Another producer has experienced supply disruptions due to abnormally heavy snowfall last year.

# Galaxy's Customer Offering

## PRODUCT OFFERING

At its Jiangsu Lithium Carbonate Plant in China, Galaxy produces three grades of lithium carbonate including:  
EV Grade® - 99.9%  
Battery Grade - 99.5%  
Technical Grade - 99.0%

## IDEAL CUSTOMER LOCATION

The US\$100 million Jiangsu Plant is the largest-capacity battery grade lithium carbonate plant in the Asia Pacific region. It has a design capacity of 17,000 tonnes per annum and is one of the most technologically advanced plants of its kind in the world.

The Plant is located in the Yangtze River International Chemical Industrial Park of the Zhangjiagang Free Trade Zone in the Jiangsu Province of China, northwest of Shanghai.

## CONSISTENT PRODUCT QUALITY

Galaxy's state-of-the-art Jiangsu Plant has proved it can produce a consistent quality of product and is currently, we believe, the best in the market place. It is a fully automated plant, which is key to our consistent and stable production and quality. Galaxy has recently achieved commercial production of 99.9% EV Grade® quality product, which is used specifically in the manufacture of electrolyte solution for lithium-ion batteries.

## SECURITY OF SUPPLY

### FOR FUTURE GROWTH

Galaxy is offering reliable lithium carbonate supply that will meet your company's growth needs in the coming years. There is no alternative new capacity in China today that meets our quality standards. Whether we source our spodumene feedstock from our own mine or decide to purchase from other suppliers, there is always a guarantee that we will be able to produce the product you want in a reliable fashion.

## SIZE OF THE OPERATION

### AND LOWER COST OF PRODUCTION

The size of our Jiangsu operation and its location gives us a distinct cost advantage. Jiangsu's large capacity and small workforce due to automation allows Galaxy to produce at the lower end of the cost profile. The location of the Jiangsu Plant on the Yantze River allows spodumene feedstock to be unloaded cheaply without transportation inland. Whilst the operation has to meet tight environmental and safety standards, it ensures the sustainability of the industry.

## COMPETITIVE PRICING

The Company continues to and will be able to provide the market with very competitive pricing for its lithium carbonate products. A number of competitive advantages ensure our prices will be favoured by our customers and the market.

## NARROW FOCUS –

### LITHIUM BATTERY INDUSTRY

Galaxy is focused on providing quality products for the lithium battery sector. Whilst other producers have wide range of lithium products, Galaxy is focused on purely the lithium battery industry. We understand the battery industry requirements and focus our efforts in this important growth market.

Our team comprises lithium industry professionals who come from the lithium battery industry and understand that sector's requirements.

## WORLD CLASS PACKAGING

Galaxy has a world class automated packaging system to ensure that our final lithium carbonate products are packaged and presented perfectly and transported directly to your operations.



Galaxy Resources Limited  
Annual Financial Report 2012

## DIRECTORS' REPORT

Your Directors submit their report for the year ended 31 December 2012 for Galaxy Resources Limited ("Company" or "Galaxy") and the consolidated entity incorporating the entities that it controlled during the financial year ("Group").

### DIRECTORS

The names and details 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.

#### Names, Qualifications, Independence Status, Special Responsibilities and Other Directorships

**Craig Leslie Readhead B Juris, LLB, FAICD**  
(Chairman, Non-Independent 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 30 years' experience in the mining industry. Mr Readhead acts as a Director of a number of ASX listed companies.

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 Supreme Court of Western Australia in 1977. He is a Fellow of the Australian Institute of Company Directors (FAICD). He was the President of Australian Mining and Petroleum Law Association Ltd.

**Special Responsibilities:** Chairman and Member of the Remuneration and Nomination Committee and Member of Audit and Risk Management Committees.

**Directors Interests:** 4,543,388 fully paid ordinary shares and 3,250,000 options.

**Current Directorships:** Beadell Resources Ltd, General Mining Corporation Ltd and Heron Resources Ltd.

**Past Directorships (last 3 years):** Frankland River Olive Company Limited, India Resources Ltd and Mt. Gibson Iron Ltd.

**Ignatius (Iggy) Kim-Seng Tan BSc, MBA, GAICD (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. Mr Tan is highly experienced in the general management of operations as well as commissioning and start up of projects. 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 joining the Company, Mr Tan was the Managing Director of Nickelore Ltd, an ASX-listed nickel company, between July 12, 2007 and September 30, 2009. Mr Tan received his Bachelor of Science from University of Western Australia in 1984, his Master of Business Administration from the University of Southern Cross in 1999, and his Graduate Diploma from the Australian Institute of Company Directors in 2010.

**Special Responsibilities:** Nil.

**Directors Interests:** 312,500 fully paid ordinary shares and 10,500,000 options.

**Current Directorships:** Nil.

**Past Directorships (last 3 years):** Nil.

**Anthony Peter Tse (Executive Director)**

Mt 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. Mr Tse has 20 years of corporate experience in numerous high-growth industries such as technology, internet/mobile, media & entertainment, and resource & commodities – primarily in senior management, capital markets and M&A roles across Greater China and Asia Pacific in general. His previous management roles include various positions in News Corporation's STAR TV, the Deputy General Manager of TOM Online, Director of Corporate Development at Hutchison Whampoa's TOM Group, President of China Entertainment Television (a joint venture between TOM and Time Warner), and CEO of CSN Corp. He also holds the position of Senior Advisor to the Endemol Group, Advisor to Exicon, Plukka, and Music Matters, as well as being a Fellow of the Hong Kong Institute of Directors (HKIoD) and a member of the Hong Kong Mining Investment Professionals Association (HKMIPA).



## DIRECTORS' REPORT (CONTINUED)

### DIRECTORS (CONTINUED)

Special Responsibilities: Nil.

Directors Interests: Nil fully paid ordinary shares and 1,000,000 options.

Current Directorships: Nil.

Past Directorships (last 3 years): Nil.

Charles Bernard Francis Whitfield BEc, MBA (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 the Structured Equity Transaction Division, from October 1, 2000 to May 31, 2006.

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.

Special Responsibilities: Nil.

Directors Interests: 1,161 fully paid ordinary shares and 1,000,000 options.

Current Directorships: Nil.

Past Directorships (last 3 years): Nil.

Robert (Bob) James Wanless (Independent 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.

Special Responsibilities: Member of Audit, Remuneration and Nomination and Risk Management Committees.

Directors Interests: 1,948,493 fully paid ordinary shares and 2,750,000 options.

Current Directorships: General Mining Corporation Ltd.

Past Directorships (last 3 years): Nil.

Yuewen Zheng BEc, MBA, PhD (Non-Independent Non-Executive Director)

Dr Zheng has been a Director since January 7, 2010. He has seven 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 had been a director of CRHL since 2008 until July 10, 2012. Dr Zheng resigned from the board of Beijing Creat Investment Holdings Limited on August 1, 2012.

Dr Zheng has been a director of Beijing Keruicheng Mining Investment Co. Ltd since 2006. He was nominated as a director of Beijing Keruicheng Jinchuan Mining Investment Co. Ltd since 2007, which was renamed as Zhong Run Hong Cheng on February 17, 2011. On November 1 of that year, Zhong Run Hong Cheng changed its name again as Beijing Creat Investment Holdings Limited.

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 Hong Kong Stock Exchange. Since June 16, 2004, Dr Zheng has also been chairman of Shanghai RAAS Blood Products Co., Ltd, a company listed on the Shenzhen Stock Exchange specialising in the research, manufacture and sale of plasma derived medical products.

## DIRECTORS' REPORT (CONTINUED)

### DIRECTORS (CONTINUED)

Dr Zheng received his Doctor of Philosophy in Finance from Dongbei University of Finance and Economics in the PRC in 1999 after receiving his Master of Business Administration from Asia International Open University (Macau) earlier that year 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.

**Special Responsibilities:** Chairman and Member of the Risk Management Committee and Member of Audit and Remuneration and Nomination Committees.

**Directors Interests:** 37,584,912 fully paid ordinary shares and 1,500,000 options.

**Current Directorships:** Nil.

**Past Directorships (last 3 years):** Creat Resources Holdings Limited.

### Xiaojian Ren MBA (Non-Independent Non-Executive Director)

Mr Ren has eight 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 had been a director of CRHL since 2008 until July 10, 2012. Mr Ren has been a director of Beijing Keruicheng Mining Investment Co., Ltd since 2006 and resigned from the board on July 5, 2011.

He was nominated as a director of Beijing Keruicheng Jinchuan Mining Investment Co., Ltd since 2007, which was renamed as Zhong Run Hong Cheng on Feb 17, 2011. On November 1, of that year, Zhong Run Hong Cheng changed its name again as Beijing Creat Investment Holdings Limited.

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. He has also been a director of Peking University Third Hospital (Shangdi Outpatient Department) since September 1, 2008.

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.

**Special Responsibilities:** Nil.

**Directors Interests:** 37,584,912 fully paid ordinary shares and 1,000,000 options.

**Current Directorships:** Nil.

**Past Directorships (last 3 years):** Creat Resources Holdings Limited.

### Shaoqing Wu BE (Non-Independent Non-Executive Director)

Mr Wu was appointed as Non-executive Director on February 24, 2011. He has 18 years' experience in the steel raw materials trading and processing, overseas 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.

**Special Responsibilities:** Nil.

**Directors Interests:** Nil fully paid ordinary shares and nil options.

**Current Directorships:** Nil.

**Past Directorships (last 3 years):** Nil.



## DIRECTORS' REPORT (CONTINUED)

### DIRECTORS (CONTINUED)

#### 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 worked for Merrill Lynch & Co. Inc. (Merrill Lynch) for over 10 years during the period from 1982 to 1993. His last position with Merrill Lynch was president for its Asia Pacific region. Mr Kwan was appointed as Independent Non-executive Director on October 13, 2010. In addition to the above mentioned positions, Mr Kwan acts as a Director for a number of companies listed on the Stock Exchange of Hong Kong.

**Special Responsibilities:** Chairman and Member of the Audit Committee and Member of Remuneration and Nomination and Risk Management Committees.

**Directors Interests:** Nil fully paid ordinary shares and 1,000,000 options.

**Current Directorships:** Goldplay New Energy Holdings Ltd, China Properties Group Ltd, SPG Land (Holdings) Ltd, Win Hanverky Holdings Ltd, Henderson Sunlight Asset Management Limited and Hutchison Harbour Ring Ltd.

**Past Directorships (last 3 years):** Soundwill Holdings Ltd and Hutchison Telecommunications International Ltd.

#### David Michael (Mike) Spratt BSc (Hons). FAIMM, FAICD (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.

Following the successful takeover of Brockman Resources Limited by Wah Nam International, Brockman Resources was delisted. Subsequently Wah Nam Limited changed its name to Brockman Mining Limited which is dual listed in Hong Kong and on the ASX. Mr Spratt was appointed on August 22, 2012 as an independent, non-executive director of Brockman.

Mr Spratt's professional experience includes general management of large scale iron ore operations in the Pilbara region of Western Australia, general management of gold and base metal operations, and chief operating officer/regional vice president of two globally focused engineering and construction companies.

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.

**Special Responsibilities:** Member of the Audit, Risk Management and Remuneration and Nomination Committees.

**Directors Interests:** Nil fully paid ordinary shares and 1,000,000 options.

**Current Directorships:** Brockman Mining Limited and Kasbah Resources Ltd.

**Past Directorships (last 3 years):** Brockman Resources Limited.

Mr Zhimin (Richard) Shi is an Alternate Director for Mr Shaoqing Wu and Ms May Chen is an Alternate Director for Dr Yuewen Zheng during the entire period.

## DIRECTORS' REPORT (CONTINUED)

### COMPANY SECRETARIES

Andrew Leslie Meloncelli BCom, CA, FCSA, F.Fin (Company Secretary)

Mr Meloncelli joined the Company on November 23, 2009 and has been the Company Secretary since then. He has more than ten years experience in the mining industry. He has over seven years' experience working as a company secretary for resources companies listed on AIM, ASX and TSX in the areas of corporate compliance / governance, finance, investor relations, prospectus fundraisings, systems implementation and taxation.

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.

Mr Meloncelli also acts as a Director and Company Secretary for a number of wholly owned subsidiaries in the Group.

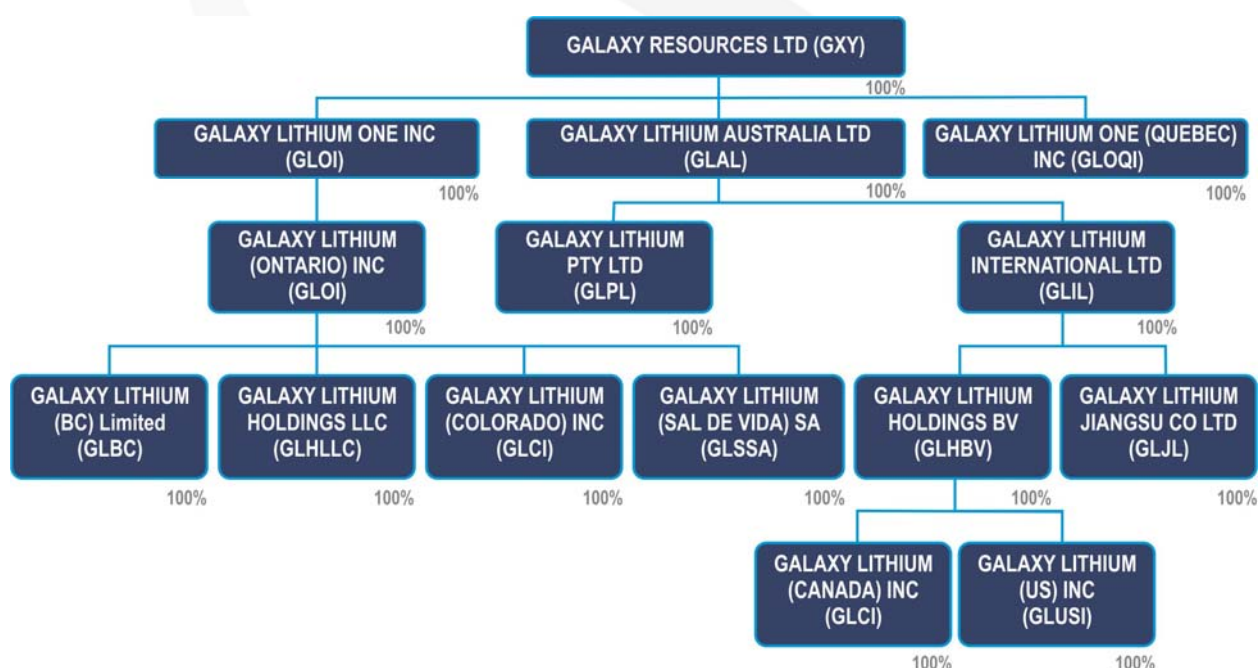
Ms Wai Yee Ella Wong was Company Secretary – Hong Kong for the period January 1, 2012 to April 16, 2012.

### CORPORATE INFORMATION

#### Corporate Structure

Galaxy Resources Limited is a company limited by shares that is incorporated and domiciled in Australia. It is the ultimate parent entity and has prepared a consolidated financial report incorporating the entities that it controlled during the financial year.

The structure of the Group as at date of this report was as follows:





## DIRECTORS' REPORT (CONTINUED)

## CORPORATE INFORMATION (CONTINUED)

The number of directors' meetings (including committees of directors) and number of meetings attended by each of the directors of the Company during the year are:

| Name            | Board Meetings |    | Audit Committee Meetings |      | Remuneration and Nomination Committee Meetings |      | Risk Management Committee Meetings (d) |   |
|-----------------|----------------|----|--------------------------|------|------------------------------------------------|------|----------------------------------------|---|
|                 | A              | B  | A                        | B    | A                                              | B    | A                                      | B |
| C L Readhead    | 13             | 13 | 4                        | 4    | 1                                              | 1    | -                                      | - |
| I K S Tan       | 13             | 13 | 4(c)                     | 4(c) | 1(c)                                           | 1(c) | -                                      | - |
| A P Tse         | 13             | 12 | -                        | -    | -                                              | -    | -                                      | - |
| C B F Whitfield | 13             | 12 | -                        | -    | -                                              | -    | -                                      | - |
| R J Wanless     | 13             | 13 | 4                        | 4    | 1                                              | 1    | -                                      | - |
| Y Zheng         | 13             | 0  | 4                        | 0    | 1                                              | 0    | -                                      | - |
| X Ren           | 13             | 11 | -                        | -    | -                                              | -    | -                                      | - |
| S Wu            | 13             | 0  | -                        | -    | -                                              | -    | -                                      | - |
| K C Kwan        | 13             | 13 | 4                        | 3    | 1                                              | 1    | -                                      | - |
| D M Spratt      | 13             | 13 | 4                        | 3    | 1                                              | 1    | -                                      | - |
| R Shi (a)       | 13             | 10 | -                        | -    | -                                              | -    | -                                      | - |
| M Chen (b)      | 13             | 12 | 4                        | 4    | 1                                              | 1    | -                                      | - |

(a) Alternate Director for S Wu.

(c) By invitation.

(b) Alternate Director for Y Zheng.

(d) Risk Management matters were discussed at various Board Meetings throughout the year.

**A** – Number of meetings held during the time the director held office during the year. **B** – Number of meetings attended.

## CORPORATE GOVERNANCE STATEMENT

## The Board and Corporate Governance

The Company's Board is committed to protecting and enhancing shareholder value and conducting the Company's business ethically and in accordance with high standards of corporate governance.

The Company's Corporate Governance policies were originally adopted on 30 July 2010 and have been periodically reviewed and updated since that time.

A description of the Company's main corporate governance practices is set out below. Copies of the relevant corporate governance policies are available in the corporate governance section of the Company's website at [www.galaxylithium.com](http://www.galaxylithium.com).

## The Role of the Board and the Board Charter

The Board operates in accordance with the broad principles set out in the Company's Board Charter, a copy of which is available from the Company's website. The Board is responsible for guiding and monitoring the performance of the Company on behalf of shareholders by whom they are elected and to whom they are accountable. Day to day management of the Company's affairs and the implementation of corporate strategies and policy initiatives are delegated by the Board to the Managing Director and senior executives, as set out in the Board Charter.

The Board Charter sets out the following overall powers and responsibilities of the Board:

- charting the direction, strategies and financial objectives of the Company and ensuring appropriate resources are available;
- monitoring the implementation of those policies and strategies and the achievement of those financial objectives and performance against the strategic plan and budgets; and

## DIRECTORS' REPORT (CONTINUED)

### CORPORATE GOVERNANCE (CONTINUED)

- monitoring compliance with control and accountability systems, significant disclosures to the market regulatory requirements and ethical standards.

Specific powers and responsibilities reserved to the Board in the Board Charter include:

- appointing, removing and monitoring the performance of the Managing Director and Company Secretary, determining their terms and conditions of employment and ratifying other key executive appointments and planning for executive succession;
- reviewing and ratifying systems of risk management and internal control and compliance, codes of conduct and legal compliance;
- reviewing and ratifying financial and other reporting;
- reviewing and ratifying major capital expenditure, capital management and acquisitions and divestitures; and
- approving the issue of any shares, options or other securities in the Company.

#### Managing Director

The Managing Director is responsible for running the affairs of the Company under delegated authority from the Board and implementing the policies and strategy set by the Board. In carrying out his responsibilities, the Managing Director must:

- report directly to the Board;
- provide prompt and full information to the Board regarding the conduct of the business of the Company;
- comply with the reasonable directions of the Board; and
- have regard to the requirements of the ASX Listing Rules and expectations of stakeholders and the wider investment community.

#### Directors Code of Conduct

The Board has adopted a Directors Code of Conduct which establishes a protocol under which each Director is required to disclose certain interests and advise the Board in circumstances where a potential conflict of interest may arise. The Directors Code of Conduct also sets out the procedures to be followed where the Chairman determines that a Director's interest in a matter may be sufficiently material or may result in a conflict of interest occurring.

#### Board Composition

As at the date of this report the Company has ten Directors: seven Non-Executive Directors including the Chairman, and three Executive Directors.

Board composition size and structure will be reviewed annually to ensure that the Non-Executive Directors between them bring the range of skills, knowledge and experience necessary to direct the Company. The skills, knowledge and experience which the Board considers to be particularly relevant include qualifications and experience in the areas of mining, engineering and project management, accounting and finance, commodities, mergers and acquisitions and law.

All Directors, other than the Managing Director, are required to retire and may stand for re-election by shareholders, at the third Annual General Meeting (AGM) following their election or most recent re-election.

Details of the skills, experience and expertise relevant to the position of Director held by each Director in office as at the date of the Annual Report, and the periods of office held by each director, are set out on page 1-4.

#### Chairman

The Chairman is appointed by the directors and is responsible for chairing Board meetings and Company meetings, providing leadership to the Board and the Company, ensuring there are procedures and processes in place to evaluate the Board and its committees and individual directors and that such evaluations are conducted, and facilitating effective discussion at Board Meetings.

Mr Readhead is the current Chairman of the Company, and is considered not independent. However, with consideration to his relevant experience and skills, it is considered appropriate for Mr Readhead to continue as chairperson.

#### Director Independence

The ASX Governance Principles state that an independent director is a non-executive director who is not a member of management and who is free of any business or other relationship that could materially interfere with – or could reasonably be perceived to materially interfere with – the independent exercise of their judgment. The Board determines the independence of Directors.



## DIRECTORS' REPORT (CONTINUED)

### CORPORATE GOVERNANCE (CONTINUED)

The Board considers that of the Non-Executive Directors, Messrs Kwan, Spratt and Wanless are independent.

Due to the fact the Board is only a board of ten, of which seven Directors are not independent, the Board does not have a majority of independent directors and therefore the Company does not comply with ASX Governance Principle 2.1. The Board will continue to assess its size and composition with a view to ensuring compliance with Corporate Governance Principles and Recommendations.

If any Director has a material personal interest in a matter, the Director will not be permitted to vote on the matter.

#### Directors' Access to Independent Advice

The Company recognises that, from time to time, a Director may need to obtain his or her own expert advice in order to discharge that Director's duties. The Directors must ensure, to the extent possible, that any advice obtained is independent of the Company. Any reasonable expenses incurred in obtaining that advice will be met by the Company.

#### Board Meetings

The Board meets at least eight times each year, and full Board meetings are usually held every 6 weeks. From time to time meetings are convened outside the scheduled dates to consider issues of importance. Board members are encouraged to visit the Group's operations at least once per year.

Directors' attendance at Board and Committee meetings is detailed on page 6.

#### Board Committees

The Company's Board has established an Audit Committee, Remuneration and Nomination and a Risk Management Committee.

#### Audit Committee (AC)

The names of AC Members during the financial period are as below. Members were in office for the entire period unless otherwise stated.

Kai Cheong Kwan (Chairman)  
Craig Leslie Readhead  
Robert James Wanless  
David Michael Spratt  
Yuewen Zheng

Mr Meloncelli is the Secretary to the Committee. It has a formal charter and meets generally two times during a financial year. A copy of the Charter is located on the Company's website. Committee members' attendance at AC meetings is detailed on page 6.

The AC's overall role is to assist the Board in fulfilling its responsibilities for the Company's financial reporting and audit, internal control and financial risks.

The AC's specific responsibilities include (but are not limited to):

- Evaluating the effectiveness of the Company's internal control measures, and gaining an understanding of whether internal control measures are adequate;
- Recommendations made by external auditors have been implemented;
- Understanding the current areas of greatest financial risk for the Company and management's response to minimising those risks;
- Reviewing significant accounting and reporting issues; and
- Reviewing annual financial reports, and meeting with management and external auditors to discuss the reports and the results of the audit.

The Managing Director, Chief Financial Officer and the External Auditors usually attend AC meetings.

#### Remuneration and Nomination Committee (RNC)

The names of RNC Members during the financial period. Members were in office for the entire period unless otherwise stated.

Craig Leslie Readhead (Chairman)  
Kai Cheong Kwan  
Robert James Wanless

## DIRECTORS' REPORT (CONTINUED)

### CORPORATE GOVERNANCE (CONTINUED)

David Michael Spratt  
Yuewen Zheng

Mr Meloncelli is the Secretary to the Committee. It has a formal charter and meets generally at least once during a financial year. A copy of the Charter is located on the Company's website. Committee members' attendance at RNC meetings is detailed on page 6.

The RNC's specific responsibilities include (but are not limited to):

- Reviewing and recommending to the Board the size, composition and membership of the Board;
- Developing and facilitating the process for Board and Director evaluation;
- Making recommendations to the Board on remuneration of Directors and Senior Executives; and
- Reviewing the Managing Director's performance, at least annually.

Details of the structure of Non-Executive Directors' remuneration and Executive Director's and Senior Executives' Remuneration is set out in the Directors Report.

#### Risk Management Committee (RMC)

The names of RMC Members during the financial period are as below. Members were in office for the entire period unless otherwise stated.

Yuewen Zheng (Chairman)  
David Michael Spratt (Deputy Chairman)  
Kai Cheong Kwan  
Robert James Wanless  
Craig Leslie Readhead

Mr Meloncelli is the Secretary to the Committee. It has a formal charter. A copy of the Charter is located on the Company's website. Committee members' attendance at RMC meetings is detailed on page 6.

The RMC is responsible for the identification of significant areas of business risk, implementing procedures to manage such risks and developing policies regarding the establishment and maintenance of appropriate ethical standards to:

- Ensure compliance in legal statutory and ethical matters;
- Monitor the business environment;
- Identify business risk areas; and
- Identify business opportunities.

The Board has reviewed the following:

- The Company's ongoing risk management program effectively identifies all areas of potential risk;
- Adequate policies and procedures have been designed and implemented to manage identified risks;
- A regular program of audits is undertaken to test the adequacy of and compliance with prescribed policies; and
- Proper remedial action is undertaken to redress areas of weakness.

The Company has in place specific policies and programs addressing certain strategic, financial, operational and compliance risks. Comprehensive reports addressing each of these areas are provided regularly to management and the Board. In addition, the Company has in place a crisis and emergency management system designed to address emergencies at any of the Company's operating sites.

#### Corporate Reporting

The Managing Director and Chief Financial Officer have made the following certifications to the Board with respect to the 31 December 2012 financial statements:

- That the Group's financial report is complete and presents a true and fair view, in all material respects, of the financial condition and operational results of the Group and is in accordance with relevant accounting standards; and
- That the above statement is founded on a sound system of risk management and internal compliance and control and which implements the policies adopted by the Board and the Company's risk management and internal control is operating efficiently and effectively in all material respects.



## DIRECTORS' REPORT (CONTINUED)

### CORPORATE GOVERNANCE (CONTINUED)

#### Securities Trading Policy

The Company has a policy imposing restraints on Directors and Senior Executives dealing in the Company's securities. The policy is aimed at minimising the risk of Directors and Senior Executives contravening insider trading laws, ensuring the Company is able to meet its reporting obligations under the ASX Listing Rules and increasing transparency with respect to trading in the Company's securities by Directors and Senior Executives. A copy of this policy adopted is located on the Company's website.

#### Financial Reporting

Consistent with ASX Governance Principle 4.1, the Company's financial report preparation and approval process for the year ended 31 December 2012 involved both the Managing Director and the Chief Financial Officer providing detailed representations to the Board covering:

- compliance with the Company's accounting policies and relevant accounting standards;
- the accuracy of the financial statements and that they provide a true and fair view;
- integrity and objectivity of the financial statements; and
- effectiveness of the system of internal control.

#### Indemnities

The Company has entered into good faith, protection and access deeds with all Directors, Alternate Directors, Company Secretary and Chief Financial Officer. These deeds provide access to documentation, indemnification against liability from conduct of the Company's business and subsidiaries, and Directors' and officers' liability insurance.

#### Directors and Senior Executives Performance Evaluation and Remuneration

The Board annually self assess its collective performance and that of senior executives, and the performance of individual Directors and of Board committees. This occurred during the year in accordance with the process. The assessment is undertaken using discussions and, where applicable, advice from external consultants.

The Company's policy and procedure for selection and appointment of new directors and its Remuneration Policy are available on the Company's website.

#### Continuous Disclosure and Shareholder Communications

The Company has an ASX Corporate Compliance Policy, Continuous Disclosure Policy and a Shareholder Communications Policy relating to Continuous Disclosure and Shareholder Communications matters. The policies cover the following matters:

- guidelines for Identifying price sensitive information requiring disclosure;
- prior vetting of ASX announcements and Media Releases;
- media enquiries/analyst briefings; and
- shareholder communications in order to promote effective communication with shareholders and encouraging participation at the Company's Annual General Meeting.

The Company Secretary has primary responsibility for ensuring that the ASX disclosure requirements are met.

Copies of each of these policies are located on the Company's website.

Shareholders may elect to receive company reports by mail or by email.

#### Auditors

The external auditor attends the annual general meeting and is available to answer shareholder questions about the conduct of the audit and the preparation and content of the auditor's report.

#### Ethical Standards and Conduct

The Company has a Corporate Code of Conduct providing a framework of principles for conducting business and dealing with stakeholders. Employees are required to perform and act with integrity, fairness and in accordance with the law and to avoid real or apparent conflicts of interest. In addition, the Company has also established a Board Code of Conduct for Directors, which establishes guidelines for their conduct in carrying out their duties. Copies of both Codes of Conduct are located on the Company's website.

#### Diversity

The Company has established a Diversity Policy. The Company recognises the need to set diversity measures in each of its operating locations taking into account the differing diversity issues within the geographic location in which it operates.

## DIRECTORS' REPORT (CONTINUED)

### CORPORATE GOVERNANCE (CONTINUED)

This policy includes requirements for the Board to establish measurable objectives for achieving gender diversity and for the Board to assess annually both the objectives and progress in achieving them.

Copy of the Diversity policy is available on the Company's website.

The Company provides the following statistics on gender diversity as at 31 December 2012:

1. proportion of women employees in whole organisation: 19.8%
2. proportion of women in management positions: 16.7%
3. proportion of women in senior management positions: 0%
4. proportion of women on the Board: 0% (including Alternate Directors: 8.3%).

### Corporate Governance Principles and Recommendations

The Company has complied with each of the eight Corporate Governance Principles and Recommendations as published by ASX Corporate Governance Council, other than where indicated in the table below.

| Principle No. | Best Practice Principle                             | Commentary                                                                                                                                                                                                                                                                                                                            | Galaxy's mechanism for dealing with non compliance                                                                                                                                                                                                                                                                                                                                                             |
|---------------|-----------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1             | Lay solid foundations for management and oversight. | Galaxy complies with this principle.                                                                                                                                                                                                                                                                                                  | Not applicable.                                                                                                                                                                                                                                                                                                                                                                                                |
| 2             | Structure the board to add value.                   | 2.1. Messrs Kwan, Spratt and Wanless (Three of Ten Directors) are considered independent. Therefore, a majority of the board is not considered independent.<br>2.2. The Chairman is not considered independent.                                                                                                                       | The Board is currently undertaking a review of the size and structure of the Board addressing the following matters: <ul style="list-style-type: none"> <li>- Number of Directors; and</li> <li>- Balance of Independent and Non Independent Directors.</li> </ul> At such time the Board will be restructured to be appropriate at and be consistent with the Business Activities of the Consolidated Entity. |
| 3             | Promote ethical and responsible decision-making.    | Galaxy complies with this principle.                                                                                                                                                                                                                                                                                                  | Not applicable.                                                                                                                                                                                                                                                                                                                                                                                                |
| 4             | Safeguard integrity in financial reporting.         | Galaxy complies with this principle.                                                                                                                                                                                                                                                                                                  | Not applicable                                                                                                                                                                                                                                                                                                                                                                                                 |
| 5             | Make timely and balanced disclosure.                | Galaxy complies with this principle.                                                                                                                                                                                                                                                                                                  | Not applicable                                                                                                                                                                                                                                                                                                                                                                                                 |
| 6             | Respect the rights of shareholders.                 | Galaxy complies with this principle.                                                                                                                                                                                                                                                                                                  | Not applicable.                                                                                                                                                                                                                                                                                                                                                                                                |
| 7             | Recognise and manage risk.                          | Galaxy complies with this principle.                                                                                                                                                                                                                                                                                                  | Not applicable.                                                                                                                                                                                                                                                                                                                                                                                                |
| 8             | Remunerate fairly and responsibly.                  | Galaxy substantially complies with this Principle.<br>8.2. The Chairman is not independent. However, with consideration to his relevant experience and skills, it is appropriate for Mr Readhead to continue as Chairman.<br>8.3. Non-Executive Directors have received performance options to provide incentive to grow the Company. | The Board considers that the issue of performance options to Non-Executive Directors appropriate as it aligns the interests of the Non-Executive Directors with Shareholders.                                                                                                                                                                                                                                  |



## DIRECTORS' REPORT (CONTINUED)

### OPERATING AND FINANCIAL REVIEW

#### Principal Activities

The principal activities of the entities within the Group are:

- Production of Lithium Carbonate; and
- Exploration for minerals.

There has been no significant change in principal activities during the year ended 31 December 2012.

#### Dividends

No dividends have been paid by the Company during the year ended 31 December 2012, nor have the Directors recommended that any dividends be paid.

#### Operating Results for the Period

The Group's loss was \$127,894,316 after tax for the year to 31 December 2012 (31 December 2011: \$131,921,415).

#### Review of Operations

The Review of Operations is included separately in this Annual Report.

#### Significant Changes in State Of Affairs

The state of affairs of the Company was not affected by any significant changes during the year except for the temporary closure of Mt Cattlin and the Lithium One merger.

#### Events Subsequent To Reporting Date

- On February 6, 2013, the Company had recommenced operations at the Jiangsu Lithium Carbonate Plant.
- On February 28, 2013, the Company issued 23,998,080 fully paid ordinary shares at \$0.4167 per share.
- On March 19, 2013, the Company signed a Spodumene Supply Agreement with Talison Lithium Limited to provide stock feed to Jiangsu Lithium Carbonate Plant. As a result of the signing of the Agreement, the positions of 37 staff at Mt Cattlin have been made redundant and Mt Cattlin operations were suspended until further notice.
- The Group has drawn new and existing bank facilities of RMB 72 million (\$11.1 million) since year end.

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.

#### Likely Developments and Expected Results of Operations

The Company and Group intends to continue production at the Jiangsu Lithium Carbonate Plant and to seek investment opportunities in the resources industry. For further information refer to the Operational Review within the Annual Report.

Further information on likely developments in the operations of the Company and Group and expected results of operations have not been included in this report because the directors believe it would be likely to result in unreasonable prejudice to the Group.

#### REMUNERATION REPORT - AUDITED

The remuneration report is set out under the following main headings:

- A Principles of compensation
- B Details of remuneration
- C Service agreements
- D Share-based compensation

The information provided in this remuneration report has been audited as required by section 308(3C) of the Corporations Act 2001.

The information provided within this remuneration report includes remuneration disclosures that are required under section 300A of the Corporations Act.

## DIRECTORS' REPORT (CONTINUED)

### REMUNERATION REPORT – AUDITED (CONTINUED)

#### A Principles of compensation - audited

Remuneration is referred to as compensation throughout this report.

Key management personnel have authority and responsibility for planning, directing and controlling the activities of the Company and the Group, including directors of the Company and other executives. Key management personnel comprise the directors of the Company and senior executives for the Group.

Compensation levels for key management personnel and secretaries of the Group are competitively set to attract and retain appropriately qualified and experienced directors and executives. The remuneration committee obtains independent advice on the appropriateness of compensation packages of the Group given trends in comparative companies both locally and internationally, and the objectives of the Group's compensation strategy.

The compensation structures explained below are designed to attract suitably qualified candidates, reward the achievement of strategic objectives, and achieve the broader outcome of creation of value for shareholders. The compensation structures take into account:

- the capability and experience of the key management personnel
- the key management personnel's ability to control the relevant segment/s' performance
- the Group's performance including:
  - the Group's earnings
  - the growth in share price and delivering constant returns on shareholder wealth
  - the amount of incentives within each key management person's compensation.
  - the achievement of various corporate goals

Compensation packages include a mix of fixed and variable compensation, and short-term and long-term performance-based incentives that are assessed on a 12 month ended 30 June basis.

In addition to their salaries, the Group also provides non-cash benefits to its key management personnel, and contributes to post-employment superannuation plans on their behalf.

#### Fixed compensation

Fixed compensation consists of base compensation (which is calculated on a total cost basis and includes any FBT charges related to employee benefits including motor vehicles), as well as employer contributions to superannuation funds.

Compensation levels are reviewed annually by the Remuneration and Nomination Committee through a process that considers individual, segment and overall performance of the Group. In addition, external consultants provide analysis and advice to ensure the directors' and senior executives' compensation is competitive in the market place. A senior executive's compensation is also reviewed on promotion.

#### Performance linked compensation

Performance linked compensation includes both short-term and long-term incentives, and is designed to reward key management personnel for meeting or exceeding their organisational goals. The short-term incentive (STI) is an 'at risk' bonus provided in the form of cash, while the long-term incentive (LTI) is provided as options over ordinary shares of the Company under the rules of the Executive Share Option Plan.

#### Short-term incentive bonus

Each year the Remuneration and Nomination Committee sets the key performance indicators (KPIs) for the Managing Director, Senior Executives and staff. The KPIs generally include measures relating to the Group, the relevant segment, and the individual and include financial, people, customer, strategy and risk measures. The measures are chosen as they directly align the individual's reward to the KPIs of the Group and to its strategy and performance.

## DIRECTORS' REPORT (CONTINUED)

### REMUNERATION REPORT – AUDITED (CONTINUED)

The short term bonus was considered against Company goals that included for the 30 June 2012 year;

1. Jiangsu Project & producing /selling the budgeted 1,850 tonnes of product (10%);
2. Complete Jiangsu Project within revised Schedule & Budget (10%);
3. Complete Mt Cattlin ramp up to 100% of design output (1 week) (10%);
4. Complete acquisition of one blue sky project by 30 June 2012 (10%);
5. Achieve better than industry average for safety performance (Metalliferous LTIFR is 3.0) (10%);
6. Increase Company share price to achieve 10 day VWAP above A\$1.10 (10%); and
7. Board Discretion (40%).

At the end of the 12 months ended 30 June the Remuneration and Nomination Committee assesses the actual performance of the Group, the relevant segment and individual against the KPIs set at the start of the 12 months ended 30 June. It was determined that 3 out of 6 Company goals were achieved and 0% was applied by Board Discretion, resulting in key management personnel receiving 30% of the full bonus entitlement. The goals not achieved were 1, 3 and 6. All permanent employees of Galaxy Resources Limited and its controlled subsidiaries were eligible to participate in the Short Term Bonus.

The basis for the calculation of the bonus was the annual base salary and superannuation for Australia-based and the annual gross salary for China based employees as at 1st July 2011 and it was paid in November 2012. The Managing Director Short Term Bonus was 9%, Senior Management was 6% and other staff 3%. The performance evaluation in respect of the year ended 30 June 2012 has taken place in accordance with this process.

The short term bonus for the 30 June 2013 year will solely be 100% Board Discretion.

Remuneration and Nomination Committee recommends the cash incentive to be paid to the individuals for approval by the Board. The method of assessment was chosen as it provides the Committee with an objective assessment of the individual's performance.

#### Long-term incentive

Options and Performance Rights are issued under the Galaxy Resources Limited Employee Equity Incentive Plan which was adopted at the 23 May 2012 Annual General Meeting and provides for Senior Management and Staff to receive options and performance rights over ordinary shares for no consideration as determined by the board.

For the period from 1 January 2012 to 31 December 2012 the Company did not have a policy that prohibits those that are granted share-based payments as part of their remuneration from entering into other arrangements that limit their exposure to losses that would result from share price decreases. Subsequent to 30 June 2011, legislative changes to the Corporations Act make it illegal for key management personnel to hedge their remuneration.

At the Annual General Meeting held on 23 May 2012, the shareholders approved a change to amend the option vesting terms to remove the Stock Exchange of Hong Kong Listing vesting criteria for certain options. The market price of the ordinary shares on 23 May 2012 was \$0.60. Other than this, there were no changes in the terms of those options and there was no change in the fair value of the options.

#### Short-term and long-term incentive structure

The Remuneration and Nomination Committee considers that the market based factors and the achievement of corporate goals as the primary factors for the compensation structure are generating the desired outcomes in meeting these goals. In the current year the 6 corporate goals for the year ended 30 June 2012 and various vesting conditions of LTI are achieving this.

The Group continues through a development phase. Accordingly, performance is not appropriate to be measured by revenue and profit, but by more appropriate factors. These 6 corporate goals above and vesting conditions were chosen because they are the ones that will ultimately drive shareholder wealth.



## DIRECTORS' REPORT (CONTINUED)

### REMUNERATION REPORT – AUDITED (CONTINUED)

#### Consequences of performance on shareholder wealth

The Remuneration and Nomination Committee have observed the following in respect of the current financial year and the previous four financial years.

|                                                          | 31 December<br>2012 | 31 December<br>2011 | 31 December<br>2010 | 31 December<br>2009 | 30 June<br>2009 |
|----------------------------------------------------------|---------------------|---------------------|---------------------|---------------------|-----------------|
| Comprehensive loss attributable to owners of the company | (131,303,457)       | (129,878,719)       | (33,036,118)        | (12,321,992)        | (3,758,550)     |
| Increase/(decrease) in share price                       | (\$0.31)            | (\$0.745)           | \$0.17              | \$0.65              | \$0.07          |

The overall level of key management personnel compensation takes into account the performance of the Group over a number of years.

#### Other benefits

The Managing Director currently receives non-cash benefits as a motor vehicle and the Group pays fringe benefit tax on these benefits.

#### Non-executive directors

Total compensation for all non-executive directors, last voted upon by shareholders at the 22 December 2010 General Meeting, is not to exceed \$800,000 per annum and is set based on advice from external advisors with reference to fees paid to other non-executive directors of comparable companies. Directors' base fees are presently up to \$70,000 per annum.

The Chairperson receives \$120,000 per annum. Directors' fees cover all main board activities and memberships of committees.

#### B Details of remuneration

|                                                                                              | 12 months to<br>31 December 2012<br>\$ | 12 months to<br>31 December 2011<br>\$ |
|----------------------------------------------------------------------------------------------|----------------------------------------|----------------------------------------|
| Total remuneration received, or due and receivable, by key management personnel of the Group | <b>13,862,989</b>                      | 9,583,562                              |

The details of remuneration of the key management personnel and specified executives of the Group are set out in the following tables. The key management personnel of Galaxy Resources Limited as at 31 December 2012 are the following:

- Craig Readhead (Chairman)
- Ignatius Tan (Managing Director)
- Anthony Tse (Executive Director)
- Charles Whitfield (Executive Director)
- Robert Wanless (Non-Executive Director)
- Yuewen Zheng (Non-Executive Director)
- Xiaojian Ren (Non-Executive Director)
- Kai Cheong Kwan (Non-Executive Director)
- Michael Spratt (Non-Executive Director)
- Shaoqing Wu (Non-Executive Director)
- John Sobolewski (Chief Financial Officer)
- Terry Stark (General Manager Operations)
- Anand Sheth (General Manager Marketing & Business Development)
- Jingyuan Liu (General Manager Development)
- Andrew Meloncelli (Company Secretary)

DIRECTORS' REPORT (CONTINUED)  
REMUNERATION REPORT – AUDITED (CONTINUED)

B Details of remuneration (continued)

| <u>31 December 2012</u>           | <u>Short – term benefits</u> |               |                | <u>Post-employment benefits</u> | <u>Share-based payment *</u> |                   | <u>Proportion of remuneration performance related</u> | <u>Value of options as proportion of remuneration</u> |
|-----------------------------------|------------------------------|---------------|----------------|---------------------------------|------------------------------|-------------------|-------------------------------------------------------|-------------------------------------------------------|
| Name                              | Cash Salary & Fees           | Other         | Bonus **       | Superannuation                  |                              | Total             | %                                                     | %                                                     |
|                                   | \$                           | \$            | \$             | \$                              | \$                           | \$                |                                                       |                                                       |
| <b>Executives</b>                 |                              |               |                |                                 |                              |                   |                                                       |                                                       |
| I KS Tan                          | 554,268                      | 21,432        | 53,308         | 54,682                          | 3,114,423                    | 3,798,113         | 83%                                                   | 82%                                                   |
| JA Sobolewski                     | 266,526                      | -             | 17,089         | 25,525                          | 519,070                      | 828,210           | 65%                                                   | 63%                                                   |
| TA Stark                          | 351,798                      | -             | 22,556         | 33,692                          | 519,070                      | 927,116           | 58%                                                   | 56%                                                   |
| AM Sheth                          | 319,770                      | -             | 20,503         | 30,625                          | 519,070                      | 889,968           | 61%                                                   | 58%                                                   |
| PM Tornatora (resigned 10 Feb 12) | 46,521                       | -             | -              | 3,166                           | 259,535                      | 309,222           | 84%                                                   | 84%                                                   |
| AL Meloncelli                     | 234,498                      | -             | 15,035         | 22,458                          | 519,070                      | 791,061           | 68%                                                   | 66%                                                   |
| J Liu                             | 260,525                      | -             | 15,696         | 23,445                          | 259,535                      | 559,201           | 49%                                                   | 46%                                                   |
| AP Tse                            | 348,550                      | -             | 20,503         | -                               | 519,070                      | 888,123           | 61%                                                   | 58%                                                   |
| CBF Whitfield                     | 348,550                      | -             | 20,503         | -                               | 519,070                      | 888,123           | 61%                                                   | 58%                                                   |
| <b>Non – Executive Directors</b>  |                              |               |                |                                 |                              |                   |                                                       |                                                       |
| C L Readhead                      | 120,000                      | -             | -              | -                               | 778,606                      | 898,606           | 87%                                                   | 87%                                                   |
| R J Wanless                       | 70,000                       | -             | -              | 6,300                           | 519,070                      | 595,370           | 87%                                                   | 87%                                                   |
| K C Kwan                          | 70,000                       | -             | -              | -                               | 519,070                      | 589,070           | 88%                                                   | 88%                                                   |
| X Ren                             | 70,000                       | -             | -              | -                               | 519,070                      | 589,070           | 88%                                                   | 88%                                                   |
| Y Zheng                           | 70,000                       | -             | -              | -                               | 778,606                      | 848,606           | 92%                                                   | 92%                                                   |
| M Spratt                          | 70,000                       | -             | -              | 6,300                           | 158,415                      | 234,715           | 67%                                                   | 67%                                                   |
| S Wu                              | 70,000                       | -             | -              | -                               | 158,415                      | 228,415           | 69%                                                   | 69%                                                   |
|                                   | <b>3,271,006</b>             | <b>21,432</b> | <b>185,193</b> | <b>206,193</b>                  | <b>10,179,165</b>            | <b>13,862,989</b> |                                                       |                                                       |

\* Options issued in previous periods and have a vesting condition of a share price of \$2, based on a 10 day Volume Weighted Average Price.

\*\* No amount of bonus was forfeited. These amounts represent the full amount of bonus which vested.

DIRECTORS' REPORT (CONTINUED)  
REMUNERATION REPORT – AUDITED (CONTINUED)

B Details of remuneration (continued)

| <u>31 December 2011</u>               | <u>Short – term benefits</u> |               |                | <u>Post-employment benefits</u> | <u>Share-based payment</u> |                  | <u>Proportion of remuneration performance related</u> | <u>Value of options as proportion of remuneration</u> |
|---------------------------------------|------------------------------|---------------|----------------|---------------------------------|----------------------------|------------------|-------------------------------------------------------|-------------------------------------------------------|
| Name                                  | Cash Salary & Fees           | Other         | Bonus          | Superannuation                  |                            | Total            | %                                                     | %                                                     |
|                                       | \$                           | \$            | \$             | \$                              | \$                         | \$               |                                                       |                                                       |
| <b>Executives</b>                     |                              |               |                |                                 |                            |                  |                                                       |                                                       |
| I KS Tan                              | 532,299                      | 21,432        | 127,530        | 59,298                          | 2,158,757                  | <b>2,899,316</b> | 79%                                                   | 75%                                                   |
| JA Sobolewski                         | 255,476                      | -             | 40,875         | 26,672                          | 152,368                    | <b>475,391</b>   | 41%                                                   | 32%                                                   |
| TA Stark                              | 337,221                      | -             | 53,955         | 35,206                          | 152,368                    | <b>578,750</b>   | 36%                                                   | 26%                                                   |
| AM Sheth                              | 307,857                      | -             | 49,050         | 32,003                          | 152,368                    | <b>541,278</b>   | 37%                                                   | 28%                                                   |
| PM Tornatora                          | 255,476                      | -             | 20,438         | 24,832                          | 76,184                     | <b>376,930</b>   | 26%                                                   | 20%                                                   |
| AL Meloncelli                         | 224,798                      | -             | 35,970         | 23,469                          | 661,850                    | <b>946,087</b>   | 74%                                                   | 70%                                                   |
| DJ Coutts (resigned 16 Sep 11)        | 197,239                      | -             | 29,148         | 20,150                          | (203,539)**                | <b>42,998</b>    | -                                                     | -                                                     |
| J Liu (appointed 6 Sep 11)            | 209,360                      | -             | 14,715         | 19,297                          | 76,184                     | <b>319,556</b>   | 28%                                                   | 24%                                                   |
| AP Tse                                | 253,557                      | -             | 49,050         | -                               | 203,532                    | <b>506,139</b>   | 50%                                                   | 40%                                                   |
| CBF Whitfield                         | 253,557                      | -             | 49,050         | -                               | 203,532                    | <b>506,139</b>   | 50%                                                   | 40%                                                   |
| <b>Non – Executive Directors</b>      |                              |               |                |                                 |                            |                  |                                                       |                                                       |
| C L Readhead                          | 120,000                      | -             | -              | -                               | 539,689                    | <b>659,689</b>   | 82%                                                   | 82%                                                   |
| R J Wanless                           | 70,000                       | -             | -              | 6,300                           | 438,063                    | <b>514,363</b>   | 85%                                                   | 85%                                                   |
| K C Kwan                              | 70,000                       | -             | -              | -                               | 203,252                    | <b>273,252</b>   | 74%                                                   | 74%                                                   |
| I J Polovineo (resigned 16 Sep 11)    | 50,864                       | -             | -              | -                               | (203,539)**                | <b>(152,675)</b> | -                                                     | -                                                     |
| X Ren                                 | 70,000                       | -             | -              | -                               | 203,252                    | <b>273,252</b>   | 74%                                                   | 74%                                                   |
| Y Zheng                               | 70,000                       | -             | -              | -                               | 304,879                    | <b>374,879</b>   | 81%                                                   | 81%                                                   |
| M Spratt (appointed 11 February 2011) | 62,083                       | 64,000*       | -              | 5,588                           | 128,586                    | <b>260,257</b>   | 49%                                                   | 49%                                                   |
| S Wu (appointed 25 February 2011)     | 59,375                       | -             | -              | -                               | 128,586                    | <b>187,961</b>   | 68%                                                   | 68%                                                   |
|                                       | <b>3,399,162</b>             | <b>85,432</b> | <b>469,781</b> | <b>252,815</b>                  | <b>5,376,372</b>           | <b>9,583,562</b> |                                                       |                                                       |

\*Consulting fees.

\*\*Options previously expensed were forfeited on resignation.



## DIRECTORS' REPORT (CONTINUED)

### REMUNERATION REPORT – AUDITED (CONTINUED)

#### C Service Agreements

##### IKS Tan (Managing Director)

Term of Agreement – Mr Tan's Employment Agreement is for an unlimited tenure.

#### **Agreement**

Under the terms of the agreement, Mr Tan is entitled to a Salary of \$565,136 from 1 July 2012 (\$543,400 January to June 2012) per annum plus 9% superannuation. Mr Tan is also provided with a vehicle for which lease payments are made by the Company, to the value of \$1,786 per month. This is reviewed by the Remuneration and Nomination Committee annually.

#### **Termination**

Termination of the contract can occur by either party giving three months notice in writing. Should the contract be terminated by the Company without three months notice, payment in-lieu of the remaining notice period is payable.

Other executives have unlimited tenure contracts with the Company on a fixed annual salary plus 9% superannuation. Each executive must give one to three months notice to terminate the contract. No other termination benefits are payable.

#### D Share-based compensation

Aside from share options, no share based remuneration compensation plan existed during the year. The terms and conditions of each grant of options affecting remuneration in the previous, current or future reporting periods are as follows:

| Grant date       | Date exercisable (Class) | Expiry date          | Exercise Price | Value per option at grant date |
|------------------|--------------------------|----------------------|----------------|--------------------------------|
| 27 November 2008 | a                        | 24 November 2011     | \$0.80         | \$0.16                         |
| 27 November 2008 | b                        | 24 November 2011     | \$1.00         | \$0.14                         |
| 27 November 2008 | c                        | 24 November 2011     | \$1.20         | \$0.12                         |
| 2 April 2009     | d                        | 5 years from vesting | \$0.60         | \$0.07                         |
| 17 April 2009    | d                        | 5 years from vesting | \$0.60         | \$0.08                         |
| 2 April 2009     | e                        | 5 years from vesting | \$0.60         | \$0.03                         |
| 17 April 2009    | e                        | 5 years from vesting | \$0.60         | \$0.03                         |
| 17 April 2009    | f                        | 5 years from vesting | \$0.45         | \$0.27                         |
| 14 October 2009  | g                        | 5 years from vesting | \$0.60         | \$1.38                         |
| 23 November 2009 | g                        | 5 years from vesting | \$0.90         | \$0.87                         |
| 14 October 2009  | d                        | 5 years from vesting | \$0.60         | \$1.07                         |
| 10 March 2010    | e                        | 5 years from vesting | \$1.11         | \$1.00                         |
| 10 March 2010    | h                        | 5 years from vesting | \$1.11         | \$1.00                         |
| 10 March 2010    | i                        | 5 years from vesting | \$1.11         | \$1.03                         |
| 4 June 2010      | j                        | 5 years from vesting | \$0.96         | \$0.77                         |
| 22 December 2010 | k                        | 5 years from vesting | \$1.16         | \$0.94                         |
| 24 March 2011    | l                        | 3 years from vesting | \$1.16         | \$0.52                         |
| 16 May 2011      | k                        | 5 years from vesting | \$1.16         | \$0.29                         |
| 13 February 2012 | h                        | 5 years from vesting | \$1.16         | \$0.44                         |
| 13 February 2012 | m                        | 3 years from vesting | \$1.16         | \$0.15                         |

- On completion of securing of all necessary debt/equity funding for development of Mt Cattlin.
- On achievement of commercial production of lithium/tantalum concentrate at nameplate rate specified in Bankable Feasibility Study.
- On achievement of positive earnings before interest and tax from production of lithium carbonate/concentrate.
- On completion of the Company securing all necessary debt and equity funding for the development of the Mt Cattlin Project.
- 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.

## DIRECTORS' REPORT (CONTINUED)

### REMUNERATION REPORT – AUDITED (CONTINUED)

#### D Share-based compensation (continued)

- f. Immediately.
- g. On completion of the Company securing all necessary debt and equity funding for the development of the Jiangsu Lithium Carbonate Project.
- h. On achievement of commercial production of lithium carbonate at the nameplate capacity specified in the final plant design at the Company's Jiangsu Project for 3 consecutive months.
- i. On completion of 18 months employment (earliest vesting date of 22 July 2011).
- j. On completion of 18 months service from date of grant and increase shareholder returns by 68% measured by a 5 day Volume Weighted Average Price (VWAP) share price being greater than \$2.00 per share.
- k. On the latest to occur of completion of 12 months service from 13 October 2010 and Company's share price being greater than A\$2.00 based on a 10 day VWAP.
- l. On the latest to occur of completion of 18 months service from 24 February 2011 and Company's share price being greater than A\$2.00 based on a 10 day VWAP.
- m. On the latest to occur of completion of 18 months service from 30 November 2011 and Company's share price being greater than A\$2.00 based on a 10 day VWAP.

The above performance conditions were chosen as they were linked to significant Company objectives and are aligned to shareholder wealth objectives. Success against these performance conditions is assessed on a periodic basis by the Remuneration and Nomination committee.

#### Analysis of movements in options - audited

Details on options over ordinary shares in the company that were granted as compensation to each key management person during the reporting period and details of options vested during the reporting period are as follows:

| Name                                         | Number of options granted In year | Fair value \$ | Granted in year \$ | Number of options vested In year | Number of options lapsed in year | Lapsed in year (c) \$ |
|----------------------------------------------|-----------------------------------|---------------|--------------------|----------------------------------|----------------------------------|-----------------------|
| <b>Directors of Galaxy Resources Limited</b> |                                   |               |                    |                                  |                                  |                       |
|                                              | None                              |               |                    |                                  |                                  |                       |
| <b>Other Key Management Personnel</b>        |                                   |               |                    |                                  |                                  |                       |
|                                              | None                              |               |                    |                                  |                                  |                       |

#### Shares issued on exercise of remuneration options

Details of ordinary shares in the Company provided as a result of the exercise of remuneration options to each director of Galaxy Resources Limited and other key management personnel of the Group are set out below.

| Name                                         | Date of exercise of options | Amount paid per share | Number of ordinary shares issued on exercise of options |                               |
|----------------------------------------------|-----------------------------|-----------------------|---------------------------------------------------------|-------------------------------|
|                                              |                             |                       | December 31, 2012                                       | Value of options exercised \$ |
| <b>Directors of Galaxy Resources Limited</b> |                             |                       |                                                         |                               |
|                                              | None                        |                       |                                                         |                               |
| <b>Other Key Management Personnel</b>        |                             |                       |                                                         |                               |
|                                              | None                        |                       |                                                         |                               |

The value of options exercised during the year is calculated as the market price of shares of the Company as at close of trading on the date the options were exercised after deducting the price paid to exercise the option.

# DIRECTORS' REPORT (CONTINUED)

## REMUNERATION REPORT – AUDITED (CONTINUED)

### D Share-based compensation (continued)

#### Analysis of options and rights over equity instruments granted as compensation – audited

Details of vesting profiles of the options granted as remuneration to each key management person of the Group and each of the Group executives are listed below.

| <b>Executives</b> | <b>Options granted</b> |                  | <b>% vested<br/>in year</b> | <b>% forfeited<br/>in year (A)</b> | <b>Financial years in<br/>which grant vests</b> |
|-------------------|------------------------|------------------|-----------------------------|------------------------------------|-------------------------------------------------|
| <b>Directors</b>  | <b>Number</b>          | <b>Date</b>      |                             |                                    |                                                 |
| C L Readhead      | 250,000                | 17 April 2009    | -                           | -                                  | 27 November 2009                                |
|                   | 500,000                | 17 April 2009    | -                           | -                                  | (B)                                             |
|                   | 500,000                | 23 November 2009 | -                           | -                                  | 27 November 2009                                |
|                   | 500,000                | 4 June 2010      | -                           | -                                  | (B)                                             |
|                   | 1,500,000              | 22 December 2010 | -                           | -                                  | (B)                                             |
| R J Wanless       | 250,000                | 17 April 2009    | -                           | -                                  | 27 November 2009                                |
|                   | 500,000                | 17 April 2009    | -                           | -                                  | (B)                                             |
|                   | 500,000                | 23 November 2009 | -                           | -                                  | 27 November 2009                                |
|                   | 500,000                | 4 June 2010      | -                           | -                                  | (B)                                             |
|                   | 1,000,000              | 22 December 2010 | -                           | -                                  | (B)                                             |
| Y Zheng           | 1,500,000              | 22 December 2010 | -                           | -                                  | (B)                                             |
| X Ren             | 1,000,000              | 22 December 2010 | -                           | -                                  | (B)                                             |
| S Wu              | 1,000,000 (C)          | 16 May 2011      | -                           | -                                  | (B)                                             |
| K C Kwan          | 1,000,000              | 22 December 2010 | -                           | -                                  | (B)                                             |
| D M Spratt        | 1,000,000              | 16 May 2011      | -                           | -                                  | (B)                                             |
| <b>Executives</b> |                        |                  |                             |                                    |                                                 |
| I KS Tan          | 1,000,000              | 17 April 2009    | -                           | -                                  | 27 November 2009                                |
|                   | 1,500,000              | 17 April 2009    | -                           | -                                  | (B)                                             |
|                   | 2,000,000              | 4 June 2010      | -                           | -                                  | (B)                                             |
|                   | 6,000,000              | 22 December 2010 | -                           | -                                  | (B)                                             |
| JA Sobolewski     | 450,000                | 17 April 2009    | -                           | -                                  | 27 November 2009                                |
|                   | 750,000                | 17 April 2009    | -                           | -                                  | (B)                                             |
|                   | 1,000,000              | 22 December 2010 | -                           | -                                  | (B)                                             |
| TA Stark          | 750,000                | 17 April 2009    | -                           | -                                  | 18 April 2009                                   |
|                   | 500,000                | 17 April 2009    | -                           | -                                  | 27 November 2009                                |
|                   | 750,000                | 17 April 2009    | -                           | -                                  | (B)                                             |
|                   | 800,000                | 23 November 2009 | -                           | -                                  | 27 November 2009                                |
|                   | 1,000,000              | 22 December 2010 | -                           | -                                  | (B)                                             |
| AM Sheth          | 600,000                | 17 April 2009    | -                           | -                                  | 27 November 2009                                |
|                   | 750,000                | 17 April 2009    | -                           | -                                  | (B)                                             |
|                   | 1,000,000              | 22 December 2010 | -                           | -                                  | (B)                                             |
| PM Tornatora      | 400,000                | 17 April 2009    | -                           | -                                  | (B)                                             |
|                   | 500,000                | 22 December 2010 | -                           | -                                  | (B)                                             |
| AL Meloncelli     | 1,000,000              | 10 March 2010    | -                           | -                                  | 23 July 2011                                    |
|                   | 1,000,000              | 22 December 2010 | -                           | -                                  | (B)                                             |
| J Liu             | 200,000                | 10 March 2010    | -                           | -                                  | (B)                                             |
|                   | 200,000                | 10 March 2010    | -                           | -                                  | 23 July 2011                                    |
|                   | 500,000                | 22 December 2010 | -                           | -                                  | (B)                                             |
| AP Tse            | 1,000,000              | 22 December 2010 | -                           | -                                  | (B)                                             |
| CBF Whitfield     | 1,000,000              | 22 December 2010 | -                           | -                                  | (B)                                             |

(A) The % forfeited in the year represents the reduction from the maximum number of options available to vest due to resignation of the individual.

(B) Not yet vested.

(C) Options were issued to Fengli Group of which S Wu is a representative, and he is not the beneficial owner.



## DIRECTORS' REPORT

### Insurance of Officers

During the year, Galaxy Resources Limited incurred premiums to insure the directors, secretary and/or officers of the Company.

The liability insured is the indemnification of the Company against any legal liability to third parties arising out of any Directors or Officers duties in their capacity as a Director or Officer other than indemnification not permitted by law.

No liability has arisen under this indemnity as at the date of this report.

The Company has not otherwise, during or since the financial year, indemnified or agreed to indemnify an officer or auditor of the Company or of any related body corporate, against a liability incurred as such by an officer or auditor.

### Environmental Regulation and Performance

The Consolidated Entity holds various environmental licenses and authorities, issued under both Australian and Peoples Republic of China (PRC) law, to regulate its mining, exploration and chemicals activities in Australia and PRC. These licenses include conditions and regulation in relation to specifying limits on discharges into the environment, rehabilitation of areas disturbed during the course of mining and exploration activities, and the storage of hazardous substances.

There have been no material breaches of the Group's licenses and all mining, exploration and chemicals activities have been undertaken in compliance with the relevant environmental regulations.

### Proceedings On Behalf Of the Company

There are no proceedings on behalf of the Company under section 237 of the Corporations Act 2001 in the year ended 31 December 2012 or at the date of this report.

### Non-audit Services

During the year KPMG, the Group's auditor, has performed certain other services in addition to their statutory duties.

The board has considered the non-audit services provided during the year by the auditor and is satisfied that the provision of those non-audit services during the year by the auditor is compatible with, and did not compromise, the auditor independence requirements of the Corporations Act 2001 for the following reasons:

- all non-audit services were subject to the corporate governance procedures adopted by the Group and have been reviewed by the audit committee to ensure they do not impact the integrity and objectivity of the auditor; and
- the non-audit services provided do not undermine the general principles relating to auditor independence as set out in *APES 110 Code of Ethics for Professional Accountants*, as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision making capacity for the Group, acting as an advocate for the Group or jointly sharing risks and rewards.

Details of amounts paid to KPMG can be found in note 7.

### 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 22 and forms part of the directors' report for the year ended 31 December 2012.

Signed in accordance with a resolution of the Directors

Dated at Perth this 28<sup>th</sup> day of March 2013.

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 audit for the financial year ended 31 December 2012 there have been:

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

*KPMG*

KPMG

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

Trevor Hart  
*Partner*

Perth

28 March 2013

## FINANCIAL REPORT

## Consolidated Statement of Comprehensive Income

|                                                               | Note | Year ended<br>December 31, 2012 | Year ended<br>December 31, 2011 |
|---------------------------------------------------------------|------|---------------------------------|---------------------------------|
|                                                               |      | \$                              | \$                              |
| Revenue                                                       | 4    | 9,435,288                       | 187,417                         |
| Cost of sales – excluding impairment                          |      | (56,977,128)                    | (35,919,410)                    |
| Impairment loss on plant and equipment                        | 13   | (49,000,000)                    | (42,034,000)                    |
| <b>Cost of sales</b>                                          |      | <b>(105,977,128)</b>            | <b>(77,953,410)</b>             |
| <b>Gross loss</b>                                             |      | <b>(96,541,840)</b>             | <b>(77,765,993)</b>             |
| Administration costs                                          |      | (28,869,930)                    | (31,403,779)                    |
| Assets written down                                           |      | (2,269,931)                     | -                               |
| <b>Loss from operations</b>                                   |      | <b>(127,681,701)</b>            | <b>(109,169,772)</b>            |
| Finance income                                                | 5    | 7,950,535                       | 3,681,592                       |
| Finance costs                                                 | 5    | (8,163,150)                     | (27,168,203)                    |
| <b>Net finance costs</b>                                      |      | <b>(212,615)</b>                | <b>(23,486,611)</b>             |
| <b>Loss before taxation</b>                                   | 6    | <b>(127,894,316)</b>            | <b>(132,656,383)</b>            |
| Income tax                                                    | 8    | -                               | 734,968                         |
| <b>Loss for the year</b>                                      |      | <b>(127,894,316)</b>            | <b>(131,921,415)</b>            |
| <b>Other comprehensive (loss)/income for the year</b>         |      |                                 |                                 |
| Foreign currency translation differences - foreign operations |      | (3,409,141)                     | 2,192,696                       |
| Net change in available-for-sale financial assets             |      | -                               | (150,000)                       |
| <b>Other comprehensive (loss)/income for the year</b>         |      | <b>(3,409,141)</b>              | <b>2,042,696</b>                |
| <b>Total comprehensive (loss)/income for the year</b>         |      | <b>(131,303,457)</b>            | <b>(129,878,719)</b>            |
| <b>Loss per share</b>                                         |      |                                 |                                 |
| Basic and diluted loss per share (cents per share)            | 11   | (29.95)                         | (47.12)                         |

The accompanying notes form part of these consolidated financial statements.



## Consolidated Statement of Financial Position

|                                      | Note | December 31,<br>2012 | December 31,<br>2011 |
|--------------------------------------|------|----------------------|----------------------|
|                                      |      | \$                   | \$                   |
| <b>NON-CURRENT ASSETS</b>            |      |                      |                      |
| Property, plant and equipment        | 13   | 169,735,813          | 185,277,427          |
| Lease prepayment                     | 14   | 1,367,025            | 2,782,067            |
| Exploration and evaluation assets    | 15   | 135,782,341          | 7,424,728            |
| Available-for-sale financial assets  | 16   | 216,196              | 205,000              |
| Other receivables and prepayments    | 17   | 6,285,396            | 3,768,202            |
| <b>TOTAL NON-CURRENT ASSETS</b>      |      | <b>313,386,771</b>   | <b>199,457,424</b>   |
| <b>CURRENT ASSETS</b>                |      |                      |                      |
| Other receivables and prepayments    | 17   | 13,175,844           | 10,728,612           |
| Inventories                          | 23   | 18,869,647           | 13,518,420           |
| Cash and cash equivalents            | 18   | 7,718,527            | 17,996,933           |
| <b>TOTAL CURRENT ASSETS</b>          |      | <b>39,764,018</b>    | <b>42,243,965</b>    |
| <b>TOTAL ASSETS</b>                  |      | <b>353,150,789</b>   | <b>241,701,389</b>   |
| <b>NON-CURRENT LIABILITIES</b>       |      |                      |                      |
| Provisions                           | 20   | 5,313,782            | 1,232,000            |
| Interest bearing liabilities         | 21   | 60,365,464           | 95,852,660           |
| <b>TOTAL NON-CURRENT LIABILITIES</b> |      | <b>65,679,246</b>    | <b>97,084,660</b>    |
| <b>CURRENT LIABILITIES</b>           |      |                      |                      |
| Trade and other payables             | 19   | 13,116,519           | 26,980,506           |
| Provisions                           | 20   | 347,785              | 406,183              |
| Interest bearing liabilities         | 21   | 107,779,160          | 3,714,935            |
| <b>TOTAL CURRENT LIABILITIES</b>     |      | <b>121,243,464</b>   | <b>31,101,624</b>    |
| <b>TOTAL LIABILITIES</b>             |      | <b>186,922,710</b>   | <b>128,186,284</b>   |
| <b>NET ASSETS</b>                    |      | <b>166,228,079</b>   | <b>113,515,105</b>   |
| <b>CAPITAL AND RESERVES</b>          |      |                      |                      |
| Share capital                        | 24   | 407,170,372          | 271,457,219          |
| Reserves                             | 24   | 32,207,502           | 20,713,250           |
| Accumulated Losses                   |      | (305,906,197)        | (178,655,364)        |
| Non-controlling interests            | 15   | 32,756,402           | -                    |
| <b>TOTAL EQUITY</b>                  |      | <b>166,228,079</b>   | <b>113,515,105</b>   |

The accompanying notes form part of these consolidated financial statements.

## Consolidated Statement of Changes in Equity

|                                                             | Note  | Share capital<br>\$ | Equity-settled<br>payments reserve<br>\$ | Foreign currency<br>translation reserve<br>\$ | Fair value<br>reserve<br>\$ | Accumulated<br>losses<br>\$ | Non-controlling<br>interest<br>\$ | Total<br>equity<br>\$ |
|-------------------------------------------------------------|-------|---------------------|------------------------------------------|-----------------------------------------------|-----------------------------|-----------------------------|-----------------------------------|-----------------------|
| <b>Balance at December 31, 2010<br/>and January 1, 2011</b> |       | <b>128,419,427</b>  | <b>13,893,621</b>                        | <b>(3,602,788)</b>                            | <b>150,000</b>              | <b>(47,426,085)</b>         | <b>-</b>                          | <b>91,434,175</b>     |
| Loss for the year                                           |       | -                   | -                                        | -                                             | -                           | (131,921,415)               | -                                 | (131,921,415)         |
| Other comprehensive income for<br>the year                  |       | -                   | -                                        | 2,192,696                                     | (150,000)                   | -                           | -                                 | 2,042,696             |
| Total comprehensive loss                                    |       | -                   | -                                        | 2,192,696                                     | (150,000)                   | (131,921,415)               | -                                 | (129,878,719)         |
| Issue of shares, net of transaction<br>costs                | 24(b) | 142,868,863         | -                                        | -                                             | -                           | -                           | -                                 | 142,868,863           |
| Exercise of share options                                   | 24(b) | 150,000             | -                                        | -                                             | -                           | -                           | -                                 | 150,000               |
| Transfer of reserve upon exercise<br>of share options       | 24(b) | 18,929              | (18,929)                                 | -                                             | -                           | -                           | -                                 | -                     |
| Transfer of reserve upon forfeit of<br>options              |       | -                   | (692,136)                                | -                                             | -                           | 692,136                     | -                                 | -                     |
| Share-based payment<br>transactions                         |       | -                   | 8,940,786                                | -                                             | -                           | -                           | -                                 | 8,940,786             |
| <b>Balance at December 31, 2011<br/>and January 1, 2012</b> |       | <b>271,457,219</b>  | <b>22,123,342</b>                        | <b>(1,410,092)</b>                            | <b>-</b>                    | <b>(178,655,364)</b>        | <b>-</b>                          | <b>113,515,105</b>    |
| Loss for the year                                           |       | -                   | -                                        | -                                             | -                           | (127,894,316)               | -                                 | (127,894,316)         |
| Other comprehensive loss for the<br>year                    |       | -                   | -                                        | (3,409,141)                                   | -                           | -                           | -                                 | (3,409,141)           |
| Total comprehensive loss                                    |       | -                   | -                                        | (3,409,141)                                   | -                           | (127,894,316)               | -                                 | (131,303,457)         |
| Issue of shares, net of transaction<br>costs                | 24(b) | 55,254,828          | -                                        | -                                             | -                           | -                           | -                                 | 55,254,828            |
| Transfer of reserve upon forfeit of<br>options              |       | -                   | (643,483)                                | -                                             | -                           | 643,483                     | -                                 | -                     |
| Share-based payment<br>transactions                         |       | -                   | 15,546,876                               | -                                             | -                           | -                           | -                                 | 15,546,876            |
| Merger with Lithium One Inc.                                | 24(b) | 80,458,325          | -                                        | -                                             | -                           | -                           | 32,756,402                        | 113,214,727           |
| <b>Balance at December 31, 2012</b>                         |       | <b>407,170,372</b>  | <b>37,026,735</b>                        | <b>(4,819,233)</b>                            | <b>-</b>                    | <b>(305,906,197)</b>        | <b>32,756,402</b>                 | <b>166,228,079</b>    |

The accompanying notes form part of these consolidated financial statements.

## Consolidated Cash Flow Statement

|                                                         | Note      | Year ended<br>December 31, 2012 | Year ended<br>December 31, 2011 |
|---------------------------------------------------------|-----------|---------------------------------|---------------------------------|
| <b>Operating activities</b>                             |           |                                 |                                 |
| Receipts from customers                                 |           | 8,492,223                       | 187,418                         |
| Receipts from Australian Taxation Office                |           | -                               | 734,968                         |
| Payments to suppliers and contractors                   |           | (76,044,574)                    | (58,255,866)                    |
| <b>Net cash used in operating activities</b>            | <b>18</b> | <b>(67,552,351)</b>             | <b>(57,333,480)</b>             |
| <b>Investing activities</b>                             |           |                                 |                                 |
| Interest received                                       |           | 348,886                         | 2,077,646                       |
| Acquisition of property, plant and equipment            |           | (55,627,940)                    | (84,826,130)                    |
| Proceeds from tenements                                 |           | 144,746                         | -                               |
| Payments for exploration and evaluation assets          |           | (7,082,391)                     | (5,326,575)                     |
| Prepayment for technology licence                       |           | -                               | (2,326,993)                     |
| Outflow for security deposits/performance bonds         |           | (1,048,626)                     | (395,115)                       |
| <b>Net cash used in investing activities</b>            |           | <b>(63,265,325)</b>             | <b>(90,797,167)</b>             |
| <b>Financing activities</b>                             |           |                                 |                                 |
| Proceeds from issue of shares                           |           | 57,245,616                      | 150,150,000                     |
| Transaction costs from issue of shares                  |           | (1,990,788)                     | (7,131,137)                     |
| Purchase of call option                                 |           | (2,500,000)                     | -                               |
| Bank charges and interest paid                          |           | (6,841,107)                     | (7,543,815)                     |
| Proceeds from borrowings                                |           | 75,565,326                      | 62,094,479                      |
| Repayments of borrowings                                |           | (4,828,818)                     | (106,589,433)                   |
| Interest and principal from restricted cash             |           | -                               | 45,825,642                      |
| Cash acquired from merger with Lithium One Inc          | 15        | 6,191,345                       | -                               |
| <b>Net cash generated from financing activities</b>     |           | <b>122,841,574</b>              | <b>136,805,736</b>              |
| <b>Net decrease in cash and cash equivalents</b>        |           | <b>(7,976,102)</b>              | <b>(11,324,911)</b>             |
| Cash and cash equivalents at the beginning of the year  |           | 17,996,933                      | 27,509,567                      |
| Effect of foreign exchange rate changes                 |           | (2,302,304)                     | 1,812,277                       |
| <b>Cash and cash equivalents at the end of the year</b> | <b>18</b> | <b>7,718,527</b>                | <b>17,996,933</b>               |

The accompanying notes form part of these consolidated financial statements.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Australian dollars unless otherwise indicated)

### 1. REPORTING ENTITY

Galaxy Resources Limited (the "Company") is a company domiciled in Australia. The address of the Company's registered office is at level 2, 16 Ord Street, West Perth, Australia. The consolidated financial statements of the Company as at and for the year ended December 31, 2012 comprise the Company and its subsidiaries (together referred to as the "Group" and individually as "Group entities"). The Group is a for-profit entity and is primarily involved in mineral exploration and processing.

### 2. BASIS OF PREPARATION

#### a. Statement of compliance

The consolidated financial statements are general purpose financial statements which have been prepared in accordance with Australian Accounting Standards (AASBs) adopted by the Australian Accounting Standards Board (AASB) and the Corporations Act 2001. The consolidated financial statements comply with International Financial Reporting Standards (IFRSs) and interpretations adopted by the International Accounting Standards Board (IASB).

The consolidated financial statements were authorised for issue by the Board of Directors on March 28, 2013.

#### b. Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for the following items in the statement of financial position:

- Derivative financial instruments are measured at fair value.
- Available-for-sale financial assets are measured at fair value.
- Liabilities for equity-settled share-based payment arrangements are measured at fair value.
- Convertible bonds issued are designated at fair value through profit or loss.

#### c. Functional and presentation currency

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

#### d. Use of estimates and judgments

The preparation of financial statements in conformity with AASBs 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 estimates are revised and in any future periods affected.

In particular, information about significant areas of estimation, uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the consolidated financial statements are described in Note 30.

#### e. Going Concern

The Group financial report has been prepared on the going concern basis which assumes the continuity of normal business activity and the realisation of assets and settlement of liabilities in the normal course of business.

For the year ended 31 December 2012 the Group incurred a loss after tax of \$127.9 million. The loss was significantly affected by a non cash impairment charge against the suspended Mt Cattlin operations of \$49.0 million and non cash share based payments expense of \$15.6 million.

In addition the Group has net current liabilities at 31 December 2012 of \$81.5 million which includes scheduled bank repayments of \$48.5 million and convertible bonds of \$61.5 million which may be called for repayment in November 2013.

The Company is looking to refinance the short term interest bearing liabilities in China and convertible bonds.

At the end of February 2013 the Group had a cash balance of \$11 million.

## 2. BASIS OF PREPARATION (CONTINUED)

### e. Financial Position (continued)

Company cash flow forecasts identify that further working capital of approximately \$23 million is required to complete the ramp up of the Jiangsu lithium carbonate production facility, progress feasibility studies for its Sal De Vida project, provide for the care and maintenance of the Mt Cattlin mine and continue to fund corporate costs. On 28 February 2013 the Group received the second tranche of \$7.5 million cash (after costs) from an equity issue and has drawn new and existing bank facilities of RMB 72 million (\$11.1 million) since 31 December 2012.

Unsecured bank facility principal repayments of RMB 378 million (\$58 million) and interest of RMB 45 million (\$6.9 million) are due to be paid before 31 March 2014. The first scheduled repayment was made in February 2013 with further repayments scheduled during the forecast period to 31 March 2014.

Included in current liabilities are Convertible Bonds. From November 2013 the bondholders have the option to redeem the bonds at their face value. The principal amount of Convertible Bonds issued total \$61.5 million (Refer Note 21), with scheduled interest payments of a further \$5.5 million.

The Directors are aware that the ability to continue as a going concern is dependent upon one or more of the following:

- The ability to renegotiate or refinance existing Convertible Bonds with existing or new bondholders;
- The ability to refinance or renegotiate or refinance existing banking facilities to obtain extended repayment terms;
- The continued ramp up of the Jiangsu lithium carbonate production facility to achieve forecasted levels of net cash inflows; and
- The ability to raise sufficient equity in the near term to fund operational funding requirements.

The Board acknowledges that the Group's operating funding requirements, the scheduled repayments of interest bearing liabilities and the potential for bondholders to redeem the Convertible Bonds represents a significant refinancing requirement for the coming 12 months. However, the Board is confident that the going concern basis of preparation remains appropriate for the following reasons:

- The Group continues to ramp up its operations and is forecasting positive cashflows to be generated from the production of lithium carbonate;
- The Group is presently in discussions with providers of equity finance with the aim of raising sufficient equity funding;
- The Group has historically received support from its financiers for the extension of credit on unsecured terms; and
- Historically the Group has successfully arranged sufficient financing facilities and raised equity.

Should the Group not be successful in efforts to either renegotiate or refinance existing or additional debt facilities or raise sufficient working capital, there exists a material uncertainty that may cast significant doubt on the entity's ability to continue as a going concern and therefore that it may be unable to realize its assets and discharge its liabilities in the normal course of business.

## 3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by Group entities.

### a. Basis of consolidation

#### (i) Business combinations

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that currently are exercisable.

#### *Acquisitions on or after 1 July 2009*

For acquisitions on or after 1 July 2009, the Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus if the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### a. Basis of consolidation (continued)

##### (i) Business combinations (continued)

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Costs related to the acquisition, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

Any contingent consideration payable is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognised in profit or loss.

When share-based payment awards (replacement awards) are required to be exchanged for awards held by the acquiree's employees (acquiree's awards) and relate to past services, then all or a portion of the amount of the acquirer's replacement awards is included in measuring the consideration transferred in the business combination. This determination is based on the market-based value of the replacement awards compared with the market-based value of the acquiree's awards and the extent to which the replacement awards relate to past and/or future service.

##### (ii) Subsidiaries

Subsidiaries are entities controlled by the Group. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group.

##### (iii) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

#### b. Financial instruments

##### (i) Non-derivative financial assets

The Group initially recognises loans and receivables and deposits on the date that they are originated. All other financial assets (including assets designated at fair value through profit or loss) are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Group has the following non-derivative financial assets: financial assets at fair value through profit or loss, cash and cash equivalents, available-for-sale financial assets and loans and receivables.

##### *Financial assets at fair value through profit or loss*

A financial asset is classified as at fair value through profit or loss if it is classified as held for trading or is designated as such upon initial recognition. Attributable transaction costs are recognised in profit or loss when incurred. These assets are initially measured at fair value and changes there in are recognised in profit or loss.

### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### b. Financial instruments (continued)

##### (i) Non-derivative financial assets (continued)

###### *Loans and receivables*

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses.

Loans and receivables comprise trade and other receivables.

###### *Cash and cash equivalents*

Cash and cash equivalents comprise cash balances and call deposits with original maturities of three months or less.

###### *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 recognised in other comprehensive income and presented in the fair value reserve in equity. When an investment is derecognised, the cumulative gain or loss in equity is reclassified to profit or loss.

##### (ii) Non-derivative financial liabilities

The Group initially recognises debt securities issued and subordinated liabilities on the date that they are originated. All other financial liabilities (including liabilities designated at fair value through profit or loss) are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Group classifies non-derivative financial liabilities into financial liabilities at fair value through profit or loss and other financial liabilities category. Financial liabilities at fair value through profit or loss are initially measured at fair value and changes therein are recognised in profit or loss. Attributable transaction costs are recognised in profit or loss when incurred. Also refer to Note 3(h).

Other financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest rate method.

Other financial liabilities comprise loans and borrowings, bank overdrafts and trade and other payables. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

##### (iii) Derivative financial instruments

Derivatives are initially recognised at fair value and any attributable transaction costs are recognised in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value with changes recognised in profit or loss.

#### c. 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.



### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### c. Exploration and evaluation assets (continued)

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 favourable 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 recognised 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; or
  - 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.

Intangible exploration and evaluation assets include:

- Acquisition of rights to explore;
- Topographical, geological, geochemical and geophysical studies;
- Exploratory drilling, trenching, and sampling;
- Activities in relation to evaluating the technical feasibility and commercial viability of extracting the mineral resource; and
- General and administrative costs 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.

Tangible 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 at that stage, and any impairment loss is recognised, 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.

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.

### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### c. Exploration and evaluation assets (continued)

##### *Impairment testing of exploration and evaluation assets*

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 AASB 136.

#### d. Property, plant and equipment

Property, plant and equipment is stated at historical cost less depreciation and impairment losses. The cost of self-constructed assets includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and borrowings costs. Purchased software that is integral to the functionality of the related equipment is capitalised 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 recognised net within profit or loss.

##### *Subsequent costs*

The Group recognises 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 recognised 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 capitalised 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 development phase.

### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### d. Property, plant and equipment (continued)

Capitalisation 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 capitalised as property, plant and equipment.

##### *Depreciation*

Depreciation is recognised in profit or loss over the estimated useful life of each part or item of property, plant and equipment. Development expenditure is depreciated or amortised over the lower of their estimated useful lives and the remaining life of mine. The estimated life of mine is based upon geological resources and is reviewed on an annual basis.

|                           |                                                                                                                 |
|---------------------------|-----------------------------------------------------------------------------------------------------------------|
| • Freehold land           | Not depreciated                                                                                                 |
| • Plant and equipment     | 3 – 20 years                                                                                                    |
| • Development expenditure | Units of production basis over the total estimated proven and probable reserves related to the area of interest |

##### *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 derecognised.

#### e. Impairment of assets

##### *Non-derivative financial assets*

A financial asset not classified as at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset, and that the loss event(s) had an impact on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired includes default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, adverse changes in the payment status of borrowers or issuers, economic conditions that correlate with defaults or the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment. The Group considers a decline of 20 percent to be significant and a period of 9 months to be prolonged.

##### *Financial assets measured at amortised cost*

The Group considers evidence of impairment for financial assets measured at amortised cost (loans and receivables) at both a specific asset and collective level. All individually significant assets are assessed for specific impairment. Those found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Assets that are not individually significant are collectively assessed for impairment by grouping together assets with similar risk characteristics.

In assessing collective impairment the Group uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or lesser than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortised 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 recognised in profit or loss and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When an event occurring after the impairment was recognised 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 recognised 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 amortisation, and the current fair value, less any impairment loss recognised previously in profit or loss. Changes in cumulative impairment losses attributable to application of the effective interest method are reflected as a component of interest income. Any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised in other comprehensive income.

### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### e. Impairment of assets (continued)

##### *Non-financial assets*

The carrying amounts of the Group's non-financial assets, other than inventories 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 recognised if the carrying amount of an asset or its related cash generating unit (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 utilised 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 recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated to reduce the carrying amounts of assets in the CGU on a pro rata basis.

Impairment losses recognised 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 amortisation, if no impairment loss had been recognised.

#### f. Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the first-in,first-out principle, and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. Cost also may include transfers from other comprehensive income of any gain or loss on qualifying cash flow hedges of foreign currency purchases of inventories.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

#### g. Revenue recognition

Revenue from the sale of goods in the course of ordinary activities is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates. Revenue is recognised when significant risks and rewards of ownership have been transferred to the customer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably.

#### h. Convertible bonds

The Convertible bonds are designated as a financial liability at fair value through profit or loss.

On issuance the Convertible Bonds were recognised at their fair value and all directly related transactions costs were expensed in the profit or loss. Subsequent to initial recognition the Convertible Bonds are measured at fair value using a generally accepted valuation technique with any change in fair value recognised in profit or loss for the period.

On conversion, the carrying amount of the Convertible Bonds will be reclassified to share capital. If the Convertible Bonds are redeemed, any difference between the amount paid and the fair value at time of redemption is recognised in profit or loss.



### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### i. Provisions

Provisions are recognised 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.

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 recognised as a finance cost.

##### *Provision for rehabilitation*

In accordance with the group's published environmental policy and applicable legal requirements, a provision for site restoration is recognised in respect of the estimated cost of rehabilitation, decommissioning and restoration of the area disturbed during mining activities up to reporting date, but not yet rehabilitated. Such activities include dismantling infrastructure, removal and treatment of waste material, and land rehabilitation, including recontouring, topsoiling and revegetation of the disturbed area.

The amount recognised as a liability represents the estimated future costs discounted to present value at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as a finance cost in the profit or loss.

The site restoration provision is separated into current (estimated costs arising within twelve months from balance date) and non-current components based on expected timing of cash flows.

A corresponding asset is recognised in Property, Plant and Equipment only to the extent that it is probable that future economic benefits associated with rehabilitation, decommissioning and restoration expenditure will flow to the entity. The asset is depreciated using the unit of production basis over the total estimated proven and probable reserves related to the area of interest.

Costs arising from unforeseen circumstances, such as contamination from discharge of a toxic material, are recognised as a provision with a corresponding expense recognised in the profit or loss when an obligation, which is probable and capable of reliable estimation, arises.

At each reporting date the site restoration provision is re-measured to reflect any changes in discount rates and timing or amounts of the costs to be incurred. Such changes in the estimated liability are accounted for prospectively from the date of the change and are added to, or deducted from, the related asset where it is probable that future economic benefits will flow to the entity.

#### j. 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.

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 recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised 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 classified as a lease prepayment and amortised on a straight-line basis over the period of the lease term, which is 50 years.

### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### k. Finance income and finance costs

Finance income represents interest income on funds invested and fair value gains/losses on financial assets/liabilities at fair value through profit or loss. Interest income is recognised as it accrues in profit or loss, using the effective interest rate method.

Finance costs comprise interest expense on borrowings, bank charges, fair value losses or gains on financial assets/liabilities at fair value through profit or loss.

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 capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred using the effective interest method.

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.

#### l. Foreign currency

The consolidated financial statements are 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 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 reporting date are translated to the functional currency of the entity at the foreign exchange rate ruling at that date.

##### *Foreign currency transactions*

The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the year. Foreign exchange differences arising on translation are recognised 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. Non-monetary 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.

##### *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 recognised 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.

#### m. 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 recognised as staff costs in profit or loss as incurred.

### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### m. Employee benefits (continued)

##### *Short term benefits*

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

##### *Termination benefits*

Termination benefits are recognised as an expense when the Group is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognised as an expense if the Group has made an offer of voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably. If benefits are payable more than 12 months after the reporting period, then they are discounted to their present value.

##### *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 transactions (continued)*

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.

#### n. Taxes

##### *Income tax*

Income tax expense comprises current and deferred taxes. Income tax is recognised in profit or loss except to the extent that it relates to items recognised directly in equity or in other comprehensive income, in which case the relevant amounts of tax are recognised in equity or in other comprehensive income, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years as applicable to the jurisdictions concerned.

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 are temporary differences for which deferred taxes are not provided: 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.

### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### n. Taxes (continued)

The amount of deferred tax provided is based on the expected manner of realisation 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 realised simultaneously.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. 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 reviewed at each reporting date and reduced to the extent that it is no longer probable that the related tax benefit will be realised.

#### *Goods and Services Tax (GST) or Value Added Tax (VAT)*

Revenues, expenses and assets are recognised net of the amount of GST or VAT, except where the amount of GST or VAT incurred is not recoverable from the relevant taxation authorities. In these circumstances the GST or VAT is recognised 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 or VAT included. The net amount of the GST or VAT recoverable from, or payable to, the relevant taxation authorities is included as a current asset or liability in the balance sheet.

Cash flows are included in the cash flow statements on a gross basis. The GST or VAT components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the relevant taxation authorities 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.

#### o. Operating segments

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segments' operating results are reviewed regularly by the Group's Managing Director to make decisions about resources to be allocated to the segment and to assess its performance, and for which discrete financial information is available.

Segment results that are reported to the Managing Director include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Segment capital expenditure is the total cost incurred during the period to acquire property, plant and equipment, and intangible assets other than goodwill.

#### p. 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, net of any tax effects.

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 recognised in the consolidated financial statements.



### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### q. Loss per share

Basic and diluted loss per share is determined by dividing the loss after income tax attributable to equity holders of the Company by the weighted average number of ordinary shares outstanding during the financial year.

#### r. Related parties

For the purpose of the consolidated financial statements, 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.

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.

#### s. Prior year comparatives

In the current year, the Group has presented analysis of expenses recognised in profit or loss using a classification based on their function within the Group as it provides more relevant information. Prior year comparative amounts in the Statement of Comprehensive Income have been reclassified to conform to the current year presentation.

#### t. New accounting standards and interpretations

The following standards, amendments to standards and interpretations have been identified as those which may impact the Group in the period of initial application when they become mandatory for the Group's 31 December 2013 financial statements. The Group does not plan to adopt these standards early. The Group has not yet determined the potential effect of the following standards, amendments to standards and interpretations on the Group's consolidated financial statements:

- AASB 9 Financial Instruments (December 2010) & AASB2010-7 Amendments to Australian Accounting Standards arising from AASB 9 (2010); includes requirements for the classification and measurement of financial assets that are generally consistent with the equivalent requirements in AASB 139 Financial Instruments: Recognition and Measurement except in respect of the fair value option and certain derivatives linked to unquoted equity instruments. Retrospective application is generally required, although there are exceptions.
- AASB 10 Consolidated Financial Statements introduces a new approach to determining which investees should be consolidated.
- AASB11 Joint Arrangements will apply if the parties have rights to and obligations for underlying assets and liabilities, the joint arrangement is considered a joint operation and partial consolidation is applied. Otherwise the joint arrangement is considered a joint venture and the entity must use the equity method to account for their interest.
- AASB 13 Fair value Measurement explains how to measure fair value when required by other AASBs. It does not introduce new fair value measurements, nor does it eliminate the practicability exceptions to fair value that currently exist in certain standards.
- AASB 12 Disclosures of Interests in Other Entities contains the disclosure requirements for entities that have interest in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities.
- AASB 119 Employee Benefits (September 2011) and AASB 2011-10 Amendments to Australian Accounting Standards arising from AASB 119 (September 2011) amended AASB 119 focussing on but not limited to the accounting for defined benefit plans. In addition it changes the definition of short-term and other long-term employee benefits and some disclosure requirements.
- AASB 2011-9 Amendments to Australian Accounting Standards – Presentation of Items of Other Comprehensive Income introduces the separate classification of those items that would be reclassified to profit and loss in the future and those that would never be reclassified to profit or loss and the impact on those items.

**4. REVENUE**

Revenue in 2012 consists solely of income received by the Group from the sale of lithium carbonate and spodumene. Income received by the Group for by-products is deducted from cost of goods sold.

|               | Year ended<br>December 31, 2012 | Year ended<br>December 31, 2011 |
|---------------|---------------------------------|---------------------------------|
|               | \$                              | \$                              |
| Sale of goods | 9,435,288                       | 187,417                         |

**5. FINANCE INCOME AND FINANCE COSTS**

|                                                                  | Year ended<br>December 31, 2012 | Year ended<br>December 31, 2011 |
|------------------------------------------------------------------|---------------------------------|---------------------------------|
|                                                                  | \$                              | \$                              |
| <b>Finance income</b>                                            |                                 |                                 |
| Interest income on cash assets                                   | 314,505                         | 2,070,586                       |
| Net Foreign exchange gains                                       | -                               | 1,611,006                       |
| Convertible bonds change in fair value                           | 7,636,030                       | -                               |
|                                                                  | <b>7,950,535</b>                | <b>3,681,592</b>                |
| <b>Finance costs</b>                                             |                                 |                                 |
| Interest expense on financial liabilities                        | (6,814,244)                     | (7,796,478)                     |
| Impairment loss on available-for-sale financial assets (note 16) | (25,000)                        | (245,000)                       |
| Bank charges                                                     | (178,882)                       | (61,808)                        |
| Convertible bonds transaction costs                              | (15,772)                        | (1,999,405)                     |
| Convertible bonds change in fair value                           | -                               | (4,568,191)                     |
| Amortisation of senior loan facility costs                       | -                               | (12,497,321)                    |
| Net Foreign exchange losses                                      | (143,252)                       | -                               |
| Option asset change in fair value                                | (986,000)                       | -                               |
|                                                                  | <b>(8,163,150)</b>              | <b>(27,168,203)</b>             |
| <b>Net finance costs</b>                                         | <b>(212,615)</b>                | <b>(23,486,611)</b>             |

**6. LOSS BEFORE TAXATION**

Loss before taxation is arrived at after (charging)/crediting:

|                                                        | Year ended<br>December 31, 2012 | Year ended<br>December 31, 2011 |
|--------------------------------------------------------|---------------------------------|---------------------------------|
|                                                        | \$                              | \$                              |
| <b>(a) Staff costs</b>                                 |                                 |                                 |
| Contributions to defined contribution retirement plans | (292,283)                       | (316,570)                       |
| Equity settled share-based payment expenses            | (15,546,876)                    | (8,940,786)                     |
| Salaries, wages and other benefits                     | (6,019,491)                     | (6,699,975)                     |
|                                                        | <b>(21,858,650)</b>             | <b>(15,957,331)</b>             |
| <b>(b) Other items</b>                                 |                                 |                                 |
| Operating lease charges for property rental            | <b>(710,658)</b>                | <b>(578,362)</b>                |

**7. AUDITOR'S REMUNERATION**

|                                         | Year ended<br>December 31, 2012 | Year ended<br>December 31, 2011 |
|-----------------------------------------|---------------------------------|---------------------------------|
|                                         | \$                              | \$                              |
| <b>Audit services</b>                   |                                 |                                 |
| Auditors of the Company                 |                                 |                                 |
| <i>KPMG Australia:</i>                  |                                 |                                 |
| - Audit and review of financial reports | (377,712)                       | (274,000)                       |
| <i>KPMG People's Republic of China</i>  |                                 |                                 |
| - Audit and review of financial reports | (70,000)                        | (45,000)                        |
|                                         | <u>(447,712)</u>                | <u>(319,000)</u>                |
| <b>Other services</b>                   |                                 |                                 |
| Auditors of the Company                 |                                 |                                 |
| <i>KPMG Australia:</i>                  |                                 |                                 |
| - Taxation services                     | (245,144)                       | (77,325)                        |
| - Other assurance services              | (175,427)                       | (55,000)                        |
| <i>KPMG People's Republic of China</i>  |                                 |                                 |
| - Taxation services                     | (5,000)                         | -                               |
|                                         | <u>(425,571)</u>                | <u>(132,325)</u>                |

**8. INCOME TAX****(a) Reconciliation between tax expense and accounting loss at applicable tax rates**

|                                                                                                                           | Year ended<br>December 31, 2012 | Year ended<br>December 31, 2011 |
|---------------------------------------------------------------------------------------------------------------------------|---------------------------------|---------------------------------|
|                                                                                                                           | \$                              | \$                              |
| Loss before taxation                                                                                                      | (127,894,316)                   | (132,656,383)                   |
| Notional tax benefit on loss before taxation, calculated at the rates applicable to losses in the jurisdictions concerned | 38,368,295                      | 39,576,424                      |
| Non-deductible expenses                                                                                                   | (5,292,186)                     | (8,980,193)                     |
| Tax effect of temporary differences not recognised for deferred tax purposes                                              | -                               | -                               |
| Tax effect on reversal of temporary differences                                                                           | (12,600,487)                    | (2,183,991)                     |
| Tax effect of losses not recognised for deferred tax purposes                                                             | (20,767,585)                    | (28,412,240)                    |
| Research and development tax concession benefit                                                                           | -                               | 734,968                         |
| Adjustment in respect of current income tax                                                                               | 291,963                         | -                               |
| <b>Income tax (expense)/benefit</b>                                                                                       | <u>-</u>                        | <u>734,968</u>                  |

- (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 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 2012 and 2011.
- (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 in 2012 and 2011.

**8. INCOME TAX (CONTINUED)****(b) Recognised deferred tax assets and liabilities****Group**

The components of deferred tax (assets)/liabilities recognised in the consolidated balance sheet and the movements during the year are as follows:

**Deferred tax arising from:**

|                                                     | Other<br>receivables | Property, plant<br>and equipment | Exploration<br>and<br>evaluation<br>assets | Available-<br>for-sale<br>financial<br>assets | Other<br>payables | Provisions | Interest<br>bearing<br>liabilities | Tax losses   | Others      | Total |
|-----------------------------------------------------|----------------------|----------------------------------|--------------------------------------------|-----------------------------------------------|-------------------|------------|------------------------------------|--------------|-------------|-------|
|                                                     | \$                   | \$                               | \$                                         | \$                                            | \$                | \$         | \$                                 | \$           | \$          | \$    |
| Balance at January 1, 2011                          | 14,791               | 3,470,619                        | 672,857                                    | (120,000)                                     | (58,045)          | (388,807)  | 283,429                            | (5,047,271)  | 1,172,427   | -     |
| Charged/(credited) to profit or loss                | 172,787              | (13,275,848)                     | 370,726                                    | 120,000                                       | 48,486            | (176,148)  | (283,429)                          | 15,914,273   | (2,890,847) | -     |
| Reclassifications                                   | -                    | -                                | -                                          | -                                             | -                 | -          | -                                  | -            | -           | -     |
| Deferred tax assets not taken to account            | -                    | 9,805,229                        | -                                          | -                                             | -                 | -          | -                                  | (11,523,649) | 1,718,420   | -     |
| Balance at December 31, 2011 and<br>January 1, 2012 | 187,578              | -                                | 1,043,583                                  | -                                             | (9,559)           | (564,955)  | -                                  | (656,647)    | -           | -     |
| Charged/(credited) to profit or loss                | (173,328)            | 18,816,971                       | 402,126                                    | (246,000)                                     | (46,720)          | 83,520     | -                                  | (20,767,585) | 1,931,016   | -     |
| Deferred tax assets not taken to account            | -                    | (18,816,971)                     | -                                          | -                                             | -                 | -          | -                                  | 21,424,232   | (2,607,261) | -     |
| Balance at December 31, 2012                        | 14,250               | -                                | 1,445,709                                  | (246,000)                                     | (56,279)          | (481,435)  | -                                  | -            | (676,245)   | -     |

**(c) Unrecognised deferred tax assets**

Deferred tax assets (recognised at 30%) have not been recognised in respect of the temporary differences on the following items:

**Group**

|                                        | Year ended<br>December 31, 2012 | Year ended<br>December 31, 2011 |
|----------------------------------------|---------------------------------|---------------------------------|
|                                        | \$                              | \$                              |
| Transaction costs for issue of shares  | 1,610,370                       | 2,763,711                       |
| Other deductible temporary differences | 21,080,172                      | 11,708,297                      |
| Unused tax losses                      | 50,724,125                      | 28,412,240                      |
|                                        | <u>73,414,667</u>               | <u>42,884,248</u>               |



**8. INCOME TAX (CONTINUED)****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 recognised as a movement in the intercompany accounts.

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.

**9. KEY MANAGEMENT PERSONNEL DISCLOSURES****Equity instrument disclosures relating to key management personnel**

The movement during the reporting period in the number of options over ordinary shares and number of ordinary shares in Galaxy Resources Limited held directly, indirectly or beneficially by each key management person, including their related parties, is as follows:

**December 31, 2012**

| <b>Name</b>                           | <b>Balance at the start of the year</b> | <b>Changes during the year</b> | <b>Granted during the year</b> | <b>Balance at the end of the year</b> |
|---------------------------------------|-----------------------------------------|--------------------------------|--------------------------------|---------------------------------------|
| <b>(1) Shares</b>                     |                                         |                                |                                |                                       |
| <b>Directors</b>                      |                                         |                                |                                |                                       |
| C L Readhead                          | 3,805,556                               | 737,832                        | -                              | 4,543,388                             |
| R J Wanless                           | 2,040,493                               | (92,000)                       | -                              | 1,948,493                             |
| I K S Tan                             | 69,000                                  | 243,500                        | -                              | 312,500                               |
| C B F Whitfield                       | 41,361                                  | (40,200)                       | -                              | 1,161                                 |
| A P Tse                               | -                                       | -                              | -                              | -                                     |
| K C Kwan                              | -                                       | -                              | -                              | -                                     |
| X Ren                                 | 38,091,616                              | (506,704)                      | -                              | 37,584,912                            |
| Y Zheng                               | 38,091,616                              | (506,704)                      | -                              | 37,584,912                            |
| M Spratt                              | -                                       | -                              | -                              | -                                     |
| S Wu                                  | -                                       | -                              | -                              | -                                     |
| <b>Other Key Management Personnel</b> |                                         |                                |                                |                                       |
| J A Sobolewski                        | -                                       | -                              | -                              | -                                     |
| T A Stark                             | 350,286                                 | -                              | -                              | 350,286                               |
| A M Sheth                             | 40,000                                  | 19,481                         | -                              | 59,481                                |
| P M Tornatora                         | 310,000                                 | (310,000)                      | -                              | -                                     |
| J Liu                                 | -                                       | -                              | -                              | -                                     |
| A L Meloncelli                        | 15,000                                  | 3,247                          | -                              | 18,247                                |
| <b>Total shares</b>                   | <b>82,854,928</b>                       | <b>(451,548)</b>               | <b>-</b>                       | <b>82,403,380</b>                     |

**9. KEY MANAGEMENT PERSONNEL DISCLOSURES (CONTINUED)****Equity instrument disclosures relating to key management personnel (continued)****December 31, 2012**

| <b>Name</b>                           | <b>Balance at the start of the year</b> | <b>Changes during the year</b> | <b>Granted during the year</b> | <b>Balance as the end of the year</b> | <b>Vested during the year</b> | <b>Vested and exercisable at December 31, 2012</b> |
|---------------------------------------|-----------------------------------------|--------------------------------|--------------------------------|---------------------------------------|-------------------------------|----------------------------------------------------|
| <b>(2) Options</b>                    |                                         |                                |                                |                                       |                               |                                                    |
| <b>Directors</b>                      |                                         |                                |                                |                                       |                               |                                                    |
| C L Readhead                          | 3,250,000                               | -                              | -                              | 3,250,000                             | -                             | 750,000                                            |
| R J Wanless                           | 2,750,000                               | -                              | -                              | 2,750,000                             | -                             | 750,000                                            |
| I K S Tan                             | 10,500,000                              | -                              | -                              | 10,500,000                            | -                             | 1,000,000                                          |
| C B F Whitfield                       | 1,000,000                               | -                              | -                              | 1,000,000                             | -                             | -                                                  |
| A P Tse                               | 1,000,000                               | -                              | -                              | 1,000,000                             | -                             | -                                                  |
| K C Kwan                              | 1,000,000                               | -                              | -                              | 1,000,000                             | -                             | -                                                  |
| X Ren                                 | 1,000,000                               | -                              | -                              | 1,000,000                             | -                             | -                                                  |
| Y Zheng                               | 1,500,000                               | -                              | -                              | 1,500,000                             | -                             | -                                                  |
| M Spratt                              | 1,000,000                               | -                              | -                              | 1,000,000                             | -                             | -                                                  |
| S Wu                                  | -                                       | -                              | -                              | -                                     | -                             | -                                                  |
| <b>Other Key Management Personnel</b> |                                         |                                |                                |                                       |                               |                                                    |
| J A Sobolewski                        | 2,200,000                               | -                              | -                              | 2,200,000                             | -                             | 450,000                                            |
| T A Stark                             | 3,800,000                               | -                              | -                              | 3,800,000                             | -                             | 2,050,000                                          |
| A M Sheth                             | 2,350,000                               | -                              | -                              | 2,350,000                             | -                             | 600,000                                            |
| P M Tornatora                         | 900,000                                 | -                              | -                              | 900,000                               | -                             | -                                                  |
| J Liu                                 | 900,000                                 | -                              | -                              | 900,000                               | -                             | 200,000                                            |
| A L Meloncelli                        | 2,000,000                               | -                              | -                              | 2,000,000                             | -                             | 1,000,000                                          |
| <b>Total options</b>                  | <b>35,150,000</b>                       | <b>-</b>                       | <b>-</b>                       | <b>35,150,000</b>                     | <b>-</b>                      | <b>6,800,000</b>                                   |

**December 31, 2011**

| <b>Name</b>                           | <b>Balance at the start of the year</b> | <b>Changes during the year</b> | <b>Granted during the year</b> | <b>Balance at the end of the year</b> |
|---------------------------------------|-----------------------------------------|--------------------------------|--------------------------------|---------------------------------------|
| <b>(1) Shares</b>                     |                                         |                                |                                |                                       |
| <b>Directors</b>                      |                                         |                                |                                |                                       |
| C L Readhead                          | 3,805,556                               | -                              | -                              | 3,805,556                             |
| R J Wanless                           | 2,040,493                               | -                              | -                              | 2,040,493                             |
| I K S Tan                             | 69,000                                  | -                              | -                              | 69,000                                |
| C B F Whitfield                       | 41,361                                  | -                              | -                              | 41,361                                |
| A P Tse                               | -                                       | -                              | -                              | -                                     |
| K C Kwan                              | -                                       | -                              | -                              | -                                     |
| I J Polovineo                         | -                                       | -                              | -                              | -                                     |
| X Ren                                 | 38,091,616                              | -                              | -                              | 38,091,616                            |
| Y Zheng                               | 38,091,616                              | -                              | -                              | 38,091,616                            |
| M Spratt                              | -                                       | -                              | -                              | -                                     |
| S Wu                                  | -                                       | -                              | -                              | -                                     |
| <b>Other Key Management Personnel</b> |                                         |                                |                                |                                       |
| J A Sobolewski                        | -                                       | -                              | -                              | -                                     |
| T A Stark                             | 350,286                                 | -                              | -                              | 350,286                               |
| A M Sheth                             | 40,000                                  | -                              | -                              | 40,000                                |
| P M Tornatora                         | 60,000                                  | 250,000*                       | -                              | 310,000                               |
| J Liu                                 | -                                       | -                              | -                              | -                                     |
| A L Meloncelli                        | 5,000                                   | 10,000**                       | -                              | 15,000                                |
| <b>Total shares</b>                   | <b>82,594,928</b>                       | <b>260,000</b>                 | <b>-</b>                       | <b>82,854,928</b>                     |

\* Exercise of options

\*\* On market purchase of shares - superfund

**9. KEY MANAGEMENT PERSONNEL DISCLOSURES (CONTINUED)****Equity instrument disclosures relating to key management personnel (continued)****December 31, 2011**

| <b>Name</b>                           | <b>Balance at the start of the year</b> | <b>Changes during the year</b> | <b>Granted during the year</b> | <b>Balance as the end of the year</b> | <b>Vested during the year</b> | <b>Vested and exercisable at December 31, 2011</b> |
|---------------------------------------|-----------------------------------------|--------------------------------|--------------------------------|---------------------------------------|-------------------------------|----------------------------------------------------|
| <b>(2) Options</b>                    |                                         |                                |                                |                                       |                               |                                                    |
| <b>Directors</b>                      |                                         |                                |                                |                                       |                               |                                                    |
| C L Readhead                          | 3,250,000                               | -                              | -                              | 3,250,000                             | -                             | 750,000                                            |
| R J Wanless                           | 2,750,000                               | -                              | -                              | 2,750,000                             | -                             | 750,000                                            |
| I K S Tan                             | 10,500,000                              | -                              | -                              | 10,500,000                            | -                             | 1,000,000                                          |
| C B F Whitfield                       | 1,000,000                               | -                              | -                              | 1,000,000                             | -                             | -                                                  |
| A P Tse                               | 1,000,000                               | -                              | -                              | 1,000,000                             | -                             | -                                                  |
| K C Kwan                              | 1,000,000                               | -                              | -                              | 1,000,000                             | -                             | -                                                  |
| I J Polovineo                         | 1,000,000                               | (1,000,000)**                  | -                              | -                                     | -                             | -                                                  |
| X Ren                                 | 1,000,000                               | -                              | -                              | 1,000,000                             | -                             | -                                                  |
| Y Zheng                               | 1,500,000                               | -                              | -                              | 1,500,000                             | -                             | -                                                  |
| M Spratt                              | -                                       | -                              | 1,000,000                      | 1,000,000                             | -                             | -                                                  |
| S Wu                                  | -                                       | -                              | -                              | -                                     | -                             | -                                                  |
| <b>Other Key Management Personnel</b> |                                         |                                |                                |                                       |                               |                                                    |
| J A Sobolewski                        | 2,200,000                               | -                              | -                              | 2,200,000                             | -                             | 450,000                                            |
| T A Stark                             | 3,800,000                               | -                              | -                              | 3,800,000                             | -                             | 2,050,000                                          |
| A M Sheth                             | 2,350,000                               | -                              | -                              | 2,350,000                             | -                             | 600,000                                            |
| P M Tornatora                         | 1,150,000                               | (250,000)*                     | -                              | 900,000                               | -                             | -                                                  |
| D J Coutts                            | 1,000,000                               | (1,000,000)**                  | -                              | -                                     | -                             | -                                                  |
| J Liu                                 | 900,000                                 | -                              | -                              | 900,000                               | 200,000                       | 200,000                                            |
| A L Meloncelli                        | 2,000,000                               | -                              | -                              | 2,000,000                             | 1,000,000                     | 1,000,000                                          |
| <b>Total options</b>                  | <b>36,400,000</b>                       | <b>(2,250,000)</b>             | <b>1,000,000</b>               | <b>35,150,000</b>                     | <b>1,200,000</b>              | <b>6,800,000</b>                                   |

\* Exercised

\*\* Forfeited

**10. CONTINGENT ASSETS AND LIABILITIES**

There are no material contingent assets or liabilities as at 31 December 2012 (2011: None).

**11. LOSS PER SHARE**

The calculation of basic loss per share for each year was based on the loss attributable to ordinary shareholders and using a weighted average number of ordinary shares outstanding during the year.

|                                                                | <b>Year ended<br/>December 31, 2012</b> | <b>Year ended<br/>December 31, 2011</b> |
|----------------------------------------------------------------|-----------------------------------------|-----------------------------------------|
| <b>Basic and diluted loss per share (cents)</b>                | (29.95)                                 | (47.12)                                 |
| Loss attributable to the ordinary shareholders of the Company  | (127,894,316)                           | (131,921,415)                           |
| <b>Weighted average number of shares</b>                       |                                         |                                         |
| Issued ordinary shares at beginning of the year                | 323,327,000                             | 192,403,358                             |
| Effect of share options exercised                              | -                                       | 226,712                                 |
| Effect of shares issued                                        | 103,661,750                             | 87,362,986                              |
| Weighted average number of ordinary shares outstanding in year | 426,988,750                             | 279,993,056                             |

All potentially dilutive instruments comprising the Convertible Bonds and employee share options were antidilutive in 2012 and 2011. Therefore, diluted loss per share is the same as basic loss per share.

## 12. OPERATING SEGMENTS

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 Managing Director for the purposes of resource allocation and performance assessment.

- Australia operation includes the development and operation of the Mt. Cattlin spodumene mine and exploration for minerals. Australia operation has existed throughout the year.
- China operation represents the construction and operation of 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 Managing Director 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 twelve months ended December 31, 2012 |               |                 |             |               |               |
|-----------------------------------------------------------|-----------------------------------------------|---------------|-----------------|-------------|---------------|---------------|
|                                                           | Australia operation                           |               | China operation |             | Total         |               |
|                                                           | 2012<br>\$                                    | 2011<br>\$    | 2012<br>\$      | 2011<br>\$  | 2012<br>\$    | 2011<br>\$    |
| Revenue from external customers                           | 5,688,417                                     | -             | 3,746,871       | 187,417     | 9,435,288     | 187,417       |
| Depreciation and amortisation                             | (7,319,773)                                   | (4,445,182)   | (3,086,295)     | (124,832)   | (10,406,068)  | (4,570,014)   |
| Finance income                                            | 7,943,980                                     | 5,978,536     | 6,555           | 211,013     | 7,950,535     | 6,189,549     |
| Finance costs                                             | (6,326,951)                                   | (29,344,552)  | (1,836,199)     | (331,608)   | (8,163,150)   | (29,676,160)  |
| Reportable segment loss before income tax                 | (114,319,204)                                 | (129,695,790) | (13,575,112)    | (2,960,593) | (127,894,316) | (132,656,383) |
| Other material non-cash items:                            |                                               |               |                 |             |               |               |
| Impairment loss on available-for-sale financial assets    | (25,000)                                      | (245,000)     | -               | -           | (25,000)      | (245,000)     |
| Impairment on property, plant and equipment               | (49,000,000)                                  | (42,034,000)  | -               | -           | (49,000,000)  | (42,034,000)  |
| Reportable segment interest bearing liabilities           | 59,249,585                                    | 66,068,191    | 108,895,039     | 33,499,404  | 168,144,624   | 99,567,595    |
| Reportable segment assets                                 | 51,947,345                                    | 115,213,658   | 142,848,598     | 93,788,984  | 194,795,943   | 209,002,642   |
| Additions to non-current segment assets during the period | (63,266,313)                                  | (9,193,579)   | 49,059,614      | 67,719,118  | (14,206,699)  | 58,525,539    |

### (b) Reconciliations of reportable segment profit or loss, assets and liabilities

Revenue from internal transfer of spodumene from the Australian operation to the China operation was \$10,584,567 (2011: \$13,813,940).

The reconciliation between reportable segment assets and the Group's consolidated total assets as at the end of the financial year is as follows:

|                                      | 2012<br>\$  | 2011<br>\$  |
|--------------------------------------|-------------|-------------|
| <b>Assets</b>                        |             |             |
| Total assets for reportable segments | 194,795,943 | 209,002,642 |
| Exploration and evaluation assets *  | 130,958,883 | -           |
| Available-for-sale financial assets  | 216,196     | 205,000     |
| Other receivables and intangibles    | 19,461,240  | 14,496,814  |
| Cash and cash equivalents            | 7,718,527   | 17,996,933  |
| Consolidated total assets            | 353,150,789 | 241,701,389 |

\*includes \$126,737,468 of exploration and evaluation assets in Argentina which were acquired as part of the Lithium One acquisition. Refer to note 15.

**13. PROPERTY, PLANT AND EQUIPMENT**

|                                                | <b>December 31, 2012</b> | <b>December 31, 2011</b> |
|------------------------------------------------|--------------------------|--------------------------|
| <b>Group</b>                                   | <b>\$</b>                | <b>\$</b>                |
| <b>Cost</b>                                    |                          |                          |
| <i>Land</i>                                    |                          |                          |
| Balance at beginning of the year               | 1,172,000                | 1,172,000                |
| Additions                                      | 239,742                  | -                        |
| Balance at end of the year                     | 1,411,742                | 1,172,000                |
| <i>Plant and equipment</i>                     |                          |                          |
| Balance at beginning of the year               | 122,726,696              | 840,046                  |
| Additions                                      | 1,030,029                | 2,254,869                |
| Effect of foreign exchange                     | (9,596)                  | -                        |
| Disposals                                      | (261,405)                | -                        |
| Acquired during merger                         | 782,188                  | -                        |
| Transfer from assets under construction        | 132,173,240              | 119,631,781              |
| Balance at end of the year                     | 256,441,152              | 122,726,696              |
| <i>Assets under construction</i>               |                          |                          |
| Balance at beginning of the year               | 90,394,578               | 126,177,244              |
| Additions                                      | 43,142,749               | 83,849,115               |
| Effect of foreign exchange                     | (989,851)                | -                        |
| Transfer to plant and equipment                | (132,173,240)            | (119,631,781)            |
| Balance at end of the year                     | 374,236                  | 90,394,578               |
| <i>Development expenditure</i>                 |                          |                          |
| Balance at beginning of the year               | 17,707,736               | 17,378,199               |
| Additions                                      | -                        | 329,537                  |
| Balance at end of the year                     | 17,707,736               | 17,707,736               |
| <b>Total Property, Plant and Equipment</b>     |                          |                          |
| Balance at end of the year                     | 275,934,866              | 232,001,010              |
| <b>Accumulated depreciation and impairment</b> |                          |                          |
| <b>Losses</b>                                  |                          |                          |
| <i>Land</i>                                    |                          |                          |
| Balance at beginning and end of the year       | -                        | -                        |
| <i>Plant and equipment</i>                     |                          |                          |
| Balance at beginning of the year               | 38,004,913               | 169,497                  |
| Depreciation                                   | 10,022,554               | 4,177,954                |
| Disposals                                      | (55,904)                 | -                        |
| Acquired during merger                         | 171,590                  | -                        |
| Impairment loss                                | 44,100,000               | 33,657,462               |
| Balance at end of the year                     | 92,243,153               | 38,004,913               |
| <i>Assets under construction</i>               |                          |                          |
| Balance at beginning and end of the year       | -                        | -                        |
| <i>Development expenditure</i>                 |                          |                          |
| Balance at beginning of the year               | 8,718,670                | -                        |
| Depreciation                                   | 337,230                  | 342,132                  |
| Impairment loss                                | 4,900,000                | 8,376,538                |
| Balance at end of the year                     | 13,955,900               | 8,718,670                |
| <b>Total</b>                                   |                          |                          |
| Balance at end of the year                     | 106,199,053              | 46,723,583               |
| <i>Carrying amounts</i>                        |                          |                          |
| Land                                           | 1,411,742                | 1,172,000                |
| Plant and equipment                            | 164,197,999              | 84,721,783               |
| Assets under construction                      | 374,236                  | 90,394,578               |
| Development expenditure                        | 3,751,836                | 8,989,066                |
| <b>Total property, plant and equipment</b>     | <b>169,735,813</b>       | <b>185,277,427</b>       |



**13. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)****Impairment loss**

The Company considers the Mt Cattlin mine and concentrator, together with the Jiangsu lithium carbonate plant as a single cash generating unit ("CGU") for the purpose of assessing impairment. This is consistent with the assessment performed in 2011.

Due to increased ramp up and commissioning timeframes at Jiangsu together with prolonged unfavourable foreign exchange rates the Group tested the CGU for impairment. The Group has determined the recoverable amount of the CGU using a value in use methodology. The Group's value in use calculation is based on discounted cash flows for a period of 25 years. A real post tax discount rate for determining the CGU's recoverable amount was assessed as 8.7 percent (2011:13.6 percent).

The resulting impairment charge of \$49,000,000 has been recognised in profit or loss and allocated to the following asset classes within property, plant and equipment of the Australian operating segment:

- Development expenditure \$4,900,000
- Plant and equipment \$44,100,000

**14. LEASE PREPAYMENT**

|                                  | <b>December 31, 2012</b> | <b>December 31, 2011</b> |
|----------------------------------|--------------------------|--------------------------|
| <b>Group</b>                     | <b>\$</b>                | <b>\$</b>                |
| <b>Cost</b>                      |                          |                          |
| Balance at beginning of the year | 2,873,250                | 2,873,250                |
| Subsidy received                 | (1,372,156)              | -                        |
| Balance at end of the year       | 1,501,094                | 2,873,250                |
| <b>Accumulated amortisation</b>  |                          |                          |
| Balance at beginning of the year | 91,183                   | 36,991                   |
| Amortisation                     | 42,886                   | 54,192                   |
| Balance at end of the year       | 134,069                  | 91,183                   |
| <b>Carrying amounts</b>          | <b>1,367,025</b>         | <b>2,782,067</b>         |

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 amortised on a straight-line basis over the period of the lease term.

**15. EXPLORATION AND EVALUATION ASSETS**

|                                  | <b>December 31, 2012</b> | <b>December 31, 2011</b> |
|----------------------------------|--------------------------|--------------------------|
| <b>Group</b>                     | <b>\$</b>                | <b>\$</b>                |
| <b>Cost:</b>                     |                          |                          |
| Balance at beginning of the year | 7,424,728                | 2,242,852                |
| Acquired during merger (b)       | 121,189,338              | -                        |
| Acquisitions                     | -                        | 2,900,000                |
| Additions                        | 7,168,275                | 2,281,876                |
| Balance at end of the year       | 135,782,341              | 7,424,728                |

(a) Recoverability of the carrying amount of deferred exploration and evaluation assets is dependent on the successful commercial exploitation, or alternatively, sale of the respective area of interest.

**15. EXPLORATION AND EVALUATION ASSETS (CONTINUED)**

(b) On July 4, 2012 the Group acquired the Sal de Vida lithium project through the acquisition of 100% of Lithium One Inc. The acquisition of the Sal de Vida Project was not accounted for as a business combination because the set of activities acquired did not meet the definition of a business as required by Accounting Standards.

The details of the acquisition are as follows:

|                                                |                    |
|------------------------------------------------|--------------------|
|                                                | \$                 |
| Consideration paid (141,154,917 shares issued) | 80,458,325         |
| Transaction cost capitalised                   | 3,926,000          |
| Total consideration                            | <b>84,384,325</b>  |
| <b>Assets/(Liabilities) Acquired</b>           |                    |
| Exploration/evaluation                         | 121,189,338        |
| Plant and equipment                            | 601,338            |
| Cash                                           | 6,191,345          |
| Other                                          | 357,569            |
| Payables                                       | (5,552,621)        |
| Convertible bonds                              | (5,646,242)        |
|                                                | <b>117,140,727</b> |
| Non-controlling interest*                      | (32,756,402)       |
| Net assets acquired                            | <b>84,384,325</b>  |

\*Interest relates to minority ownership of Sal De Vida by the Kores Joint Venture.

**16. AVAILABLE-FOR-SALE FINANCIAL ASSETS**

| Group                            | December 31, 2012 | December 31, 2011 |
|----------------------------------|-------------------|-------------------|
|                                  | \$                | \$                |
| Equity securities, at fair value | 216,196           | 205,000           |

As at December 31, 2012, the Group's available-for-sale financial assets were individually determined to be impaired on the basis of a significant decline in their fair value below cost. Adverse changes in the market in which these investees operated indicated that the cost of the Group's investment in them may not be recovered. As such, an impairment loss of \$25,000 (2011: \$245,000) was recognised, which represented the excess of original cost over the fair value in accordance with the policy set out in note 3(e).

**17. OTHER RECEIVABLES**

| Group                             | December 31, 2012 | December 31, 2011 |
|-----------------------------------|-------------------|-------------------|
|                                   | \$                | \$                |
| <b>Current</b>                    |                   |                   |
| Trade receivables                 | 1,448,507         | -                 |
| Other receivables (note 17(a))    | 11,454,283        | 10,603,924        |
| Prepayments                       | 215,174           | 66,808            |
| Others                            | 57,880            | 57,880            |
|                                   | <b>13,175,844</b> | <b>10,728,612</b> |
| <b>Non-Current</b>                |                   |                   |
| Security bonds (note 17(b))       | 1,232,000         | 1,232,000         |
| Other receivables and prepayments | 3,539,396         | 2,536,202         |
| Call option asset                 | 1,514,000         | -                 |
|                                   | <b>6,285,396</b>  | <b>3,768,202</b>  |
|                                   | <b>19,461,240</b> | <b>14,496,814</b> |

(a) Other receivables comprise mainly GST/VAT receivable.

(b) The non-current security bonds mainly relate to a restoration performance bond paid by the Group to the Australian government authorities to secure the Group's mining lease for the Mt. Cattlin spodumene mine. The bond is interest-bearing at 2.44%, unsecured and repayable once rehabilitation of the Mt. Cattlin spodumene mine is completed to the Western Australian Government's satisfaction.

**18. CASH AND CASH EQUIVALENTS**

| Group                    | December 31, 2012 | December 31, 2011 |
|--------------------------|-------------------|-------------------|
|                          | \$                | \$                |
| <b>Current</b>           |                   |                   |
| Cash at bank and on hand | 7,718,527         | 17,996,933        |
|                          | <b>7,718,527</b>  | <b>17,996,933</b> |

The Group's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in note 29.

**18. CASH AND CASH EQUIVALENTS (CONTINUED)****Reconciliation of loss after tax to net cash inflow from operating activities:**

|                                            | <b>December 31, 2012</b> | <b>December 31, 2011</b> |
|--------------------------------------------|--------------------------|--------------------------|
|                                            | <b>\$</b>                | <b>\$</b>                |
| Loss for the period                        | (127,894,316)            | (131,921,415)            |
| <b>Adjustment for:</b>                     |                          |                          |
| Depreciation and amortisation              | 10,406,068               | 4,570,014                |
| Net finance costs                          | 212,615                  | 23,486,611               |
| Impairment                                 | 49,000,000               | 42,034,000               |
| Lithium One acquisition transaction costs  | (3,926,000)              | -                        |
| Share-based payments                       | 15,546,876               | 8,940,786                |
|                                            | <b>71,239,559</b>        | <b>79,031,411</b>        |
| Change in receivables                      | (5,802,060)              | (6,804,571)              |
| Change in payables                         | (3,619,324)              | 11,841,427               |
| Change in inventories                      | (5,351,227)              | (11,516,498)             |
| Change in prepayments                      | (148,367)                | 1,657,128                |
| Change in provisions and employee benefits | 4,023,384                | 379,038                  |
|                                            | <b>(10,897,594)</b>      | <b>(4,443,476)</b>       |
| Net cash used in operating activities      | <b>(67,552,351)</b>      | <b>(57,333,480)</b>      |

**19. TRADE AND OTHER PAYABLES**

| <b>Group</b>                                  | <b>December 31, 2012</b> | <b>December 31, 2011</b> |
|-----------------------------------------------|--------------------------|--------------------------|
|                                               | <b>\$</b>                | <b>\$</b>                |
| Trade and other payables                      | 13,081,740               | 26,911,382               |
| Amounts due to Allion Legal Pty Ltd (note 27) | 34,779                   | 69,124                   |
|                                               | <b>13,116,519</b>        | <b>26,980,506</b>        |

Trade and other payables mainly represented amounts owing for engineering and construction services and are expected to be settled within one year.

**20. PROVISIONS**

| <b>Group</b>                 | <b>December 31, 2012</b> | <b>December 31, 2011</b> |
|------------------------------|--------------------------|--------------------------|
|                              | <b>\$</b>                | <b>\$</b>                |
| <b>Current</b>               |                          |                          |
| Provision for annual leave   | 347,785                  | 406,183                  |
| Balance at end of the year   | <b>347,785</b>           | <b>406,183</b>           |
| <b>Non-current</b>           |                          |                          |
| Provision for rehabilitation | 5,313,782                | 1,232,000                |
| Balance at end of the year   | <b>5,313,782</b>         | <b>1,232,000</b>         |

**21. INTEREST BEARING LIABILITIES**

| <b>Group</b>                      | <b>December 31, 2012</b> | <b>December 31, 2011</b> |
|-----------------------------------|--------------------------|--------------------------|
|                                   | <b>\$</b>                | <b>\$</b>                |
| <b>Current</b>                    |                          |                          |
| Unsecured bank loans (note 21(a)) | 48,529,575               | 3,714,935                |
| Convertible Bonds (note 21(b))    | 59,249,585               | -                        |
| Balance at end of the year        | <b>107,779,160</b>       | <b>3,714,935</b>         |
| <b>Non Current</b>                |                          |                          |
| Unsecured bank loans (note 21(a)) | 60,365,464               | 29,784,469               |
| Convertible Bonds (note 21(b))    | -                        | 66,068,191               |
| Balance at end of the year        | <b>60,365,464</b>        | <b>95,852,660</b>        |

**21. INTEREST BEARING LIABILITIES (CONTINUED)**

## a) Unsecured facilities with Chinese banks with terms as follows:

| Bank                                    | Loan            | Facility<br>RMB<br>(millions) | Drawn<br>RMB<br>(millions) | Term<br>(years) |
|-----------------------------------------|-----------------|-------------------------------|----------------------------|-----------------|
| China Construction Bank                 | Fixed assets    | 136.0                         | 136.0                      | 1-3             |
| China Construction Bank                 | Fixed assets    | 129.6                         | 129.6                      | 1-5             |
| China Construction Bank                 | Working capital | 114.0                         | 114.0                      | 1               |
| Shanghai Pudong Development Bank        | Working capital | 84.0                          | 79.9                       | 1-3             |
| Industrial and Commercial Bank of China | Fixed assets    | 182.0                         | 170.9                      | 1-5             |
| Industrial and Commercial Bank of China | Working capital | 100.0                         | 81.3                       | 1               |

Interest rates on these facilities range from 6-7% per annum. Certain CCB facilities require that GLJL meet liquidity and asset to liability ratio covenants.

Pursuant to its facility agreement with GLJL, SPD has confirmed that a 'repayment on demand' clause will not be used whilst GLJL continues to meet scheduled repayments and there are no material adverse events affecting GLJL.

## b) 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. Further information regarding valuation methodology is included in note 30(vi).

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.

## 22. 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 authorised, 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.

At the Annual General Meeting held on 23 May 2012, the shareholders approved a change to amend the option vesting terms to remove the Stock Exchange of Hong Kong Listing vesting criteria for certain options. The market price of the ordinary shares on 23 May 2012 was \$0.60. Other than this, there were no changes in the terms of those options and there was no change in the fair value of the options.

(a) The terms and conditions of the share options that existed during the year 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 |
|------------|-----------------|-----------------------|--------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------|----------------------------------------------------|
| 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                                             |
| 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                                             |
| 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 satisfaction of non-vesting conditions | \$1.92                                             |



**22. EQUITY-SETTLED SHARE-BASED TRANSACTIONS (CONTINUED)**

(a) The terms and conditions of the share options existed during the year are as follows (continued):

## (i) Options granted to directors (continued)

| 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 |
|------------|-----------------|-----------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------|-------------------------------|----------------------------------------------------|
| 04/06/2010 | 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                                             |
| 22/12/2010 | K1              | 15,000,000            | Latest to occur of completion of 12 months service from 13 October 2010, and the Company's share price being greater than A\$2 based on the 10 day VWAP.                          | None                   | 5 years from the vesting date | \$1.40                                             |
| 16/05/2011 | K3              | 2,000,000             | Latest to occur of completion of 12 months service from 13 October 2010, and the Company's share price being greater than A\$2.00 based on 10 day VWAP                            | None                   | 5 years from the vesting date | \$1.01                                             |

## (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               | Vested immediately | None                   | Expired on January 30, 2010 | \$0.66                                             |
| 04/06/2010 | Advisor 2       | 1,000,000             | Vested immediately | None                   | Expired 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.

**22. EQUITY-SETTLED SHARE-BASED TRANSACTIONS (CONTINUED)****(a) The terms and conditions of the share options existed during the year are as follows (continued):****(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                                             |
| 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                                             |
| 17/04/2009 | F               | 750,000               | Fully vested                                                                                                                                              | None                                                                                                                                                                                                             | 5 years from the grant date                         | \$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 | \$1.60                                             |
| 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                                             |
| 22/12/2010 | K2              | 14,800,000            | Latest to occur of completion of 12 months service from October 13, 2010, and the Company's share price being greater than A\$2 based on the 10 day VWAP. | None                                                                                                                                                                                                             | 5 years from the vesting date                       | \$1.40                                             |

**22. EQUITY-SETTLED SHARE-BASED TRANSACTIONS (CONTINUED)****(a) The terms and conditions of the share options existed during the year are as follows (continued):****(iii) Options granted to employees (continued):**

| 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 |
|------------|-----------------|-----------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------|----------------------------------------------------|
| 24/03/2011 | L               | 3,650,000             | Latest to occur of completion of 18 months service from 24 February 2011, and Company's share price being greater than A\$2.00 based on a 10 day VWAP.     | None                                                                                                                                                                                               | 3 years from the vesting date | \$1.33                                             |
| 13/02/12   | H               | 1,000,000             | 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 months. | 5 years from the vesting date | \$0.81                                             |
| 13/02/12   | M               | 7,550,000             | Latest to occur of completion of 18 months service from 30 November 2011, and the Company's share price being greater than A\$2.00 based on a 10 day VWAP. | None                                                                                                                                                                                               | 3 years from the vesting date | \$0.81                                             |

**(b) The number and weighted average exercise prices of share options are as follows:**

|                                          | Year ended<br>December 31, 2012             |                              | Year ended<br>December 31, 2011             |                              |
|------------------------------------------|---------------------------------------------|------------------------------|---------------------------------------------|------------------------------|
|                                          | Weighted<br>average<br>exercise price<br>\$ | Number of<br>options<br>'000 | Weighted<br>average<br>exercise price<br>\$ | Number of<br>options<br>'000 |
| Outstanding at the beginning of the year | 1.02                                        | 51,300                       | 0.66                                        | 51,950                       |
| Exercised during the year                | N/A                                         | N/A                          | 0.60*                                       | (250)                        |
| Forfeited during the year                | N/A                                         | N/A                          | 1.15                                        | (6,050)                      |
| Expired during the year                  | 1.00                                        | 1,000                        | -                                           | -                            |
| Granted during the year                  | 1.16                                        | 8,550                        | 1.16                                        | 5,650                        |
| Outstanding at the end of the year       | 1.04                                        | 58,850                       | 1.02                                        | 51,300                       |
| Exercisable at the end of the year       | 0.81                                        | 9,500                        | 0.82                                        | 10,500                       |

\* The weighted average share price at the date of exercise for share options exercised during the year was N/A (2011; \$1.60)

**22. EQUITY-SETTLED SHARE-BASED TRANSACTIONS (CONTINUED)****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 (K1, K2, K3 and L) simulations. The Company has applied an appropriate probability weighting to factor the likelihood of the satisfaction of non-vesting conditions.

| <b>Fair value of share options and assumptions per class issued</b> | <b>D1</b> | <b>D2</b> | <b>D3</b> | <b>E1</b> | <b>E2</b> | <b>F</b> | <b>G1</b> | <b>G2</b> | <b>E3</b> | <b>H</b> | <b>I</b> | <b>J</b> | <b>Advisor 2</b> |
|---------------------------------------------------------------------|-----------|-----------|-----------|-----------|-----------|----------|-----------|-----------|-----------|----------|----------|----------|------------------|
| Fair value at grant date                                            | 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                                           | 0.39      | 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 (\$)                                                 | 0.60      | 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)               | 101.60    | 101.30    | 99.60     | 101.60    | 101.30    | 101.30   | 99.60     | 99.13     | 97.00     | 97.00    | 97.00    | 97.00    | 92.00            |
| Option life (years)                                                 | 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      | 6.50      | 6.50     | 6.50     | 6.50     | 6.50             |
| Probability applied to the non-vesting conditions                   | 30%       | 30%       | 100%      | 10%       | 10%       | 100%     | 100%      | 100%      | 80%       | 60%      | 70%      | N/A      | 100%             |

| <b>Fair value of share options and assumptions per class issued</b> | <b>K1</b> | <b>K2</b> | <b>K3</b> | <b>L</b> | <b>H</b> | <b>M</b> |
|---------------------------------------------------------------------|-----------|-----------|-----------|----------|----------|----------|
| Fair value at grant date                                            | 0.94      | 0.94      | 0.29      | 0.52     | 0.44     | 0.15     |
| Share price at grant date                                           | 1.35      | 1.35      | 1.06      | 1.33     | 0.81     | 0.81     |
| Exercise price (\$)                                                 | 1.16      | 1.16      | 1.16      | 1.16     | 1.16     | 1.16     |
| Expected volatility (%) (weighted average volatility)               | 70.00     | 70.00     | 70.00     | 70.00    | 70.00    | 70.00    |
| Option life (years)                                                 | 6.00      | 6.00      | 6.13      | 4.42     | 5.25     | 4.29     |
| Expected dividends                                                  | -         | -         | -         | -        | -        | -        |
| Risk-free interest rate (%) (based on government bonds)             | 5.43      | 5.43      | 5.19      | 5.13     | 3.65     | 3.65     |
| Probability applied to the non-vesting conditions                   | N/A       | N/A       | N/A       | N/A      | N/A      | N/A      |

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.

**22. EQUITY-SETTLED SHARE-BASED TRANSACTIONS (CONTINUED)****(c) Fair value of share options and assumptions (continued)**

Probability applied to the non-vesting conditions is based on management's judgement 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 service and non-market performance conditions. 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, K1, K2 and K3, which has been taken into account in measuring the grant date fair value.

**23. INVENTORIES**

|                                      | <b>December 31, 2012</b> | <b>December 31, 2011</b> |
|--------------------------------------|--------------------------|--------------------------|
|                                      | \$                       | \$                       |
| <b>Current</b>                       |                          |                          |
| Stores                               | 4,445,106                | 2,124,363                |
| Work in progress (WIP) - spodumene   | 13,874,490               | 11,394,057               |
| Finished Product - lithium carbonate | 550,051                  | -                        |
| Carrying amount of inventories       | <u>18,869,647</u>        | <u>13,518,420</u>        |

Stores inventory is carried at cost. WIP is presented at net realisable value (NRV). Write-downs of inventory to NRV are included in production costs. Lithium carbonate is presented at NRV.

**24. 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.

**b) Share capital****i) Issued share capital**

|                                                                                          | <b>December 31, 2012</b> | <b>December 31, 2011</b> |
|------------------------------------------------------------------------------------------|--------------------------|--------------------------|
|                                                                                          | \$                       | \$                       |
| <b>Ordinary shares, issued and fully paid</b>                                            |                          |                          |
| Balance at the beginning of the year                                                     | 271,457,219              | 128,419,427              |
| Issue of shares                                                                          | 57,245,616               | 150,000,000              |
| Merger with Lithium 1 Inc.                                                               | 80,458,325               | -                        |
| Exercise of share options via equity-settled share-based transactions                    | -                        | 150,000                  |
|                                                                                          | <u>409,161,160</u>       | <u>278,569,427</u>       |
| Transfer from equity-settled payment reserve upon exercise/cancellation of share options | -                        | 18,929                   |
| Transaction costs                                                                        | (1,990,788)              | (7,131,137)              |
| Balance at the end of the year                                                           | <u>407,170,372</u>       | <u>271,457,219</u>       |
|                                                                                          | <b>Number of Shares</b>  | <b>Number of Shares</b>  |
| <b>Ordinary shares, issued and fully paid</b>                                            |                          |                          |
| Balance at the beginning of the year                                                     | 323,327,000              | 192,403,358              |
| Issue of shares                                                                          | 95,875,504               | 130,673,642              |
| Merger with Lithium 1 Inc.                                                               | 141,154,917              | -                        |
| Exercise of options (equity-settled share-based transactions)                            | -                        | 250,000                  |
| Balance at the end of the year                                                           | <u>560,357,421</u>       | <u>323,327,000</u>       |

The Company does not have authorised capital or par value in respect of issued ordinary shares. All issued shares are fully paid.



**24. CAPITAL AND RESERVES (CONTINUED)****b) Share capital (continued)**

Shares were issued during the year 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. All shares issued are fully paid.

**ii) Shares issued under share option scheme**

Particulars of shares exercised under share option scheme during the year and the prior year are as follows. All of the shares issued were ordinary.

*Options exercised by directors: Nil*

*Options exercised by employees:*

| Date of exercise | Number of shares issued | Transfer from equity settled payment reserve to share capital | Consideration recognised in share capital |
|------------------|-------------------------|---------------------------------------------------------------|-------------------------------------------|
| February 3, 2011 | 250,000                 | 18,929                                                        | 150,000                                   |
| <b>Total</b>     | <b>250,000</b>          | <b>18,929</b>                                                 | <b>150,000</b>                            |

**iii) Terms of unexpired and unexercised share options at each balance sheet date**

*Options issued to directors:*

| Exercise period                                          | Exercise price | December 31, 2012 Number | December 31, 2011 Number |
|----------------------------------------------------------|----------------|--------------------------|--------------------------|
| Not exercisable until satisfaction of vesting conditions | \$1.16         | -                        | 2,000,000                |
| <b>Total</b>                                             |                | -                        | <b>2,000,000</b>         |

*Options issued to employees:*

| Exercise period                                          | Exercise price | December 31, 2012 Number | December 31, 2011 Number |
|----------------------------------------------------------|----------------|--------------------------|--------------------------|
| Not exercisable until satisfaction of vesting conditions | \$1.16         | 8,550,000                | -                        |
| Not exercisable until satisfaction of vesting conditions | \$1.16         | -                        | 3,650,000                |
| <b>Total</b>                                             |                | <b>8,550,000</b>         | <b>3,650,000</b>         |

*Options issued to third parties:*

| Exercise period | Exercise price | December 31, 2012 Number | December 31, 2011 Number |
|-----------------|----------------|--------------------------|--------------------------|
|                 |                | -                        | -                        |

**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 recognised in accordance with the accounting policy adopted for share-based payments in note 3(m).

**24. CAPITAL AND RESERVES (CONTINUED)****c) Nature and purpose of reserves (continued)****ii) Foreign currency translation reserve**

The foreign currency translation reserve comprises all foreign exchange differences arising from the translation of the consolidated financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policies set out in note 3(l).

**iii) Fair value reserve**

The fair value reserve comprises the cumulative net change in fair value of available-for-sale financial assets until the investments are derecognised or impaired.

**(d) 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 maximising the return to shareholders through the optimisation of its capital structure comprising all components of equity and loans and borrowings.

|                                         | <b>2012</b>     | <b>2011</b>     |
|-----------------------------------------|-----------------|-----------------|
|                                         | \$              | \$              |
| Total liabilities                       | 186,922,710     | 128,186,284     |
| Less: cash and cash equivalents         | (7,718,527)     | (17,996,933)    |
| Net debt                                | 179,204,183     | 110,189,351     |
| <br>Total equity                        | <br>166,228,079 | <br>113,515,105 |
| Net debt to equity ratio at 31 December | 1.08            | 0.97            |

During the year, the Group has maintained the capital base through a cash management strategy including the preparation and monitoring of cash flow forecasts and 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.

**25. PARENT ENTITY DISCLOSURE**

As at, and throughout the financial year ended December 31, 2012, the parent company of the Group was Galaxy Resources Limited.

| <b>Result of the parent entity</b>                          | <b>December 31, 2012</b> | <b>December 31, 2011</b> |
|-------------------------------------------------------------|--------------------------|--------------------------|
|                                                             | \$                       | \$                       |
| Loss for the year                                           | (28,169,227)             | (44,646,784)             |
| Other comprehensive income/(loss)                           | -                        | (150,000)                |
| Total comprehensive income for the year                     | (28,169,227)             | (44,796,784)             |
| <br><b>Financial Position of parent entity at year end</b>  |                          |                          |
| Current Assets                                              | 6,004,881                | 12,298,556               |
| Total Assets                                                | 381,862,726              | 270,199,272              |
| <br>Current Liabilities                                     | <br>(61,457,366)         | <br>(2,890,523)          |
| Total Liabilities                                           | (61,457,366)             | (68,958,714)             |
| <br><b>Total equity of the parent entity comprising of:</b> |                          |                          |
| Contributed Equity                                          | 407,170,372              | 271,457,219              |
| Reserves                                                    | 37,026,734               | 22,123,341               |
| Accumulated losses                                          | (119,865,746)            | (92,340,002)             |
| <b>Total Equity</b>                                         | <b>324,331,360</b>       | <b>201,240,558</b>       |

**Parent entity guarantees in respect of the debts of its subsidiaries**

The parent entity has entered into a Deed of Cross Guarantee with the effect that the Company guarantees debts in respect of its Australian subsidiaries. Refer to note 31 for further details.

**26. COMMITMENTS****a) Capital commitments outstanding as at each balance sheet date not provided for in the consolidated financial statements were as follows:****i) 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 recognised as a liability in the balance sheet is as follows:

| <b>Group</b>    | <b>December 31, 2012</b> | <b>December 31, 2011</b> |
|-----------------|--------------------------|--------------------------|
|                 | \$                       | \$                       |
| Within one year | 565,900                  | 613,300                  |

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.

**ii) Construction contract commitments**

| <b>Group</b>   | <b>December 31, 2012</b> | <b>December 31, 2011</b> |
|----------------|--------------------------|--------------------------|
|                | \$                       | \$                       |
| Contracted for | 5,159,692                | 23,890,278               |

It includes various capital commitments for property, plant and equipment as at each statement of financial position date.

**b) As at each statement of financial position date, the total future minimum lease payments under non-cancellable operating leases are payable as follows:**

| <b>Group</b>                                | <b>December 31, 2012</b> | <b>December 31, 2011</b> |
|---------------------------------------------|--------------------------|--------------------------|
|                                             | \$                       | \$                       |
| Within one year                             | 132,456                  | 397,413                  |
| More than one year but less than five years | 15,829                   | 135,524                  |
|                                             | 148,285                  | 532,937                  |

The Group 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.

**27. RELATED PARTY TRANSACTIONS****Key management personnel and director transactions**

A number of key management persons, or their related parties, hold positions in other entities that result in them having control or significant influence over the financial or operating policies of those entities.

| <b>Related party</b> | <b>Type of transaction</b> | <b>Note</b> | <b>Year ended December 31, 2012</b> | <b>Year ended December 31, 2011</b> |
|----------------------|----------------------------|-------------|-------------------------------------|-------------------------------------|
| Allion Legal Pty Ltd | Legal consulting           | 27(a)       | 859,000                             | 477,670                             |
| David Michael Spratt | Consulting fees            | 27(b)       | -                                   | 64,000                              |

- (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 was the Chairman of the Company during the year.
- (b) David Michael Spratt consulting fees relate to work done on the commissioning of the Jiangsu lithium plant outside of his role as a director.

**27. RELATED PARTY TRANSACTIONS (CONTINUED)****Key management personnel and director transactions (continued)**

The directors of the Company are of the opinion that the above related party transactions were conducted on terms no less favourable to the Group than terms available to or from independent third parties, and in the ordinary course of business.

Apart from the amounts due to Allion Legal Pty Ltd as at December 31, 2011 and December 31, 2012 as disclosed in note 19, there were no outstanding balances relating to the above transactions at each balance sheet date.

**Key management personnel remuneration**

Remuneration for key management personnel of the Group, including amounts paid to the Company's directors and other key management personnel as disclosed in note 9 and certain of the highest paid employees as disclosed in note 9, is as follow:

|                                             | Year ended<br>December 31, 2012 | Year ended<br>December 31, 2011 |
|---------------------------------------------|---------------------------------|---------------------------------|
| Salaries and other short-term emoluments    | 3,477,631                       | 3,954,375                       |
| Contributions to retirement benefit schemes | 206,193                         | 252,815                         |
| Share-based payments                        | 10,179,165                      | 5,376,372                       |
|                                             | <u>13,862,989</u>               | <u>9,583,562</u>                |

Total remuneration is included in "staff costs" (see note 6(a)).

**Key management personnel disclosure****a) Directors**

The following persons were directors of Galaxy Resources Limited during the financial year:

*(i) Chairman – non-executive*

Craig Readhead

*(ii) Executive directors*

Ignatius Tan

Charles Whitfield

Anthony Tse

*(iii) Non-executive directors*

Robert Wanless

Kai Cheong Kwan

Xiaojian Ren

Yuewen Zheng

Michael Spratt

Shaoqing Wu

**b) Other key management personnel**

John Sobolewski (Chief Financial Officer)

Terry Stark (General Manager Operations)

Anand Sheth (General Manager Marketing & Business Development)

Jingyuan Liu (General Manager Development)

Andrew Meloncelli (Company Secretary)

**27. RELATED PARTY TRANSACTIONS (CONTINUED)****Key management personnel disclosure (continued)**

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/<br>establishment<br>and operation | Type of legal entity | Proportion of ownership interest as at |                   | Principal activity                                 |
|---------------------------------------|-----------------------------------------------------------|----------------------|----------------------------------------|-------------------|----------------------------------------------------|
|                                       |                                                           |                      | December 31, 2012                      | December 31, 2011 |                                                    |
| Galaxy Lithium Australia Limited      | Australia                                                 | Limited company      | 100%                                   | 100%              | Mining of Mt Cattlin spodumene                     |
| Galaxy Lithium Proprietary Limited    | Australia                                                 | Limited company      | 100%                                   | 100%              | Dormant                                            |
| Galaxy Lithium International Limited  | Hong Kong                                                 | Limited company      | 100%                                   | 100%              | Investment holding company                         |
| Galaxy Lithium (Jiangsu) Co., Limited | The PRC                                                   | Limited company      | 100%                                   | 100%              | Operations of Jiangsu lithium carbonate plant      |
| Galaxy Lithium (Canada) Inc.          | Canada (Quebec)                                           | Limited company      | 100%                                   | 100%              | Exploration of James Bay spodumene deposits        |
| Galaxy Lithium Holdings BV            | The Netherlands                                           | Limited company      | 100%                                   | 100%              | Investment holding company                         |
| Galaxy Lithium (US) Inc.              | United States (Delaware)                                  | Limited company      | 100%                                   | 100%              | Investment holding company                         |
| Galaxy Lithium One (Quebec) Inc. ***  | Canada (Quebec)                                           | Limited company      | 100%                                   | -                 | Investment holding company                         |
| Galaxy Lithium One Inc. ****          | Canada (Quebec)                                           | Limited company      | 100%                                   | -                 | Investment holding company                         |
| Galaxy Lithium (Ontario) Inc. *       | Canada (Ontario)                                          | Limited company      | 100%                                   | -                 | Investment holding company                         |
| Galaxy Lithium (BC) Limited *         | Canada (British Columbia)                                 | Limited company      | 100%                                   | -                 | Investment holding company                         |
| Galaxy Lithium Holdings LLC *         | United States (Delaware)                                  | Limited company      | 100%                                   | -                 | Dormant                                            |
| Galaxy Lithium (Colorado) Inc. *      | United States (Colorado)                                  | Limited company      | 100%                                   | -                 | Investment holding company                         |
| Galaxy Lithium (Sal de Vida) S.A. *   | Argentina (Salta)                                         | Stock Company        | 99.99%**                               | -                 | Exploration and Development of Sal de Vida Project |

\* Acquired through plan of arrangement with Lithium One Inc (now known as Galaxy Lithium (Ontario) Inc.) on July 3, 2012.

\*\* Sal De Vida Korea Corporation (SDVK) has title to 4% of the shares but registration in the company shareholders books is pending to SDVK approval to be a holder of shares in an Argentinean corporation.

\*\*\* Galaxy Lithium One (Quebec) Incorporated was incorporated in Canada on 26 March 2012.

\*\*\*\* Galaxy Lithium One Incorporated was incorporated in Canada on 26 March 2012.



**27. RELATED PARTY TRANSACTIONS (CONTINUED)****Investments in subsidiaries**

|                          | <b>December 31, 2012</b> | <b>December 31, 2011</b> |
|--------------------------|--------------------------|--------------------------|
| <b>Company</b>           | <b>\$</b>                | <b>\$</b>                |
| Unlisted share - at cost | <u>1</u>                 | <u>1</u>                 |

**28. EVENTS SUBSEQUENT TO REPORTING DATE**

Subsequent to December 31, 2012 and up to the date of this report, the following event has occurred:

- On February 6, 2013, the Company had recommenced operations at the Jiangsu Lithium Carbonate Plant.
- On February 28, 2013, the Company issued 23,998,080 fully paid ordinary shares at \$0.4167 per share.
- On March 19, 2013, the Company signed a Spodumene Supply Agreement with Talison Lithium Limited to provide stock feed to Jiangsu Lithium Carbonate Plant. As a result of the signing of the Agreement, the positions of 37 staff at Mt Cattlin have been made redundant and Mt Cattlin operations were suspended until further notice.
- The Group has drawn new and existing bank facilities of RMB 72 million (\$11.1 million) since year end.

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.

**29. 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 optimising 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 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 organisation, 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 consistent with sound credit ratings, and 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 asset.

**29. FINANCIAL RISK MANAGEMENT (CONTINUED)****(a) Credit risk (continued)***Impairment*

As at December 31, 2012, the Group'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. Adverse changes in the market in which these investees operated indicated that the cost of the Group's investment in them may not be recovered. As such, an impairment loss of \$25,000 (2011: \$245,000) was recognised in profit or loss, which represented the excess of original cost over the fair value in accordance with the policy set out in note 3(e).

*Exposure to credit risk*

The carrying amount of financial assets represents the maximum credit exposure.

|                                                   | Note | Carrying amount   |                   |
|---------------------------------------------------|------|-------------------|-------------------|
|                                                   |      | 2012              | 2011              |
| Financial assets classified as available for sale | 16   | 216,196           | 205,000           |
| Other receivables                                 |      | 17,732,066        | 11,969,573        |
| Cash and cash equivalents                         | 18   | 7,718,527         | 17,996,933        |
|                                                   |      | <b>25,666,789</b> | <b>30,171,506</b> |

**(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 (refer note 2(e)).

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.

The following are the undiscounted contractual maturities of financial liabilities, including estimated interest payments:

**Group as at December 31, 2012**

|                      | Carrying amount    | Undiscounted contractual cash outflows | Within 1 year or on demand | More than 1 year but less than 2 years | More than 2 years but less than 5 years | More than 5 years |
|----------------------|--------------------|----------------------------------------|----------------------------|----------------------------------------|-----------------------------------------|-------------------|
|                      | \$                 | \$                                     | \$                         | \$                                     | \$                                      | \$                |
| Other payables       | 13,116,519         | 13,116,519                             | 13,116,519                 | -                                      | -                                       | -                 |
| Unsecured bank loans | 108,895,039        | 119,813,615                            | 53,945,912                 | 32,600,612                             | 33,267,091                              | -                 |
| Convertible bonds    | 59,249,585         | 66,420,000                             | 66,420,000                 | -                                      | -                                       | -                 |
|                      | <b>181,261,143</b> | <b>199,350,134</b>                     | <b>133,482,431</b>         | <b>32,600,612</b>                      | <b>33,267,091</b>                       | <b>-</b>          |

**Group as at December 31, 2011**

|                      | Carrying amount    | Undiscounted contractual cash outflows | Within 1 year or on demand | More than 1 year but less than 2 years | More than 2 years but less than 5 years | More than 5 years |
|----------------------|--------------------|----------------------------------------|----------------------------|----------------------------------------|-----------------------------------------|-------------------|
|                      | \$                 | \$                                     | \$                         | \$                                     | \$                                      | \$                |
| Other payables       | 26,980,506         | 26,980,506                             | 26,980,506                 | -                                      | -                                       | -                 |
| Unsecured bank loans | 33,499,404         | 37,770,283                             | 5,908,552                  | 13,616,425                             | 18,245,306                              | -                 |
| Convertible bonds    | 66,068,191         | 71,340,000                             | 4,920,000                  | 66,420,000                             | -                                       | -                 |
|                      | <b>126,548,101</b> | <b>136,090,789</b>                     | <b>37,809,058</b>          | <b>80,036,425</b>                      | <b>18,245,306</b>                       | <b>-</b>          |

It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

**29. FINANCIAL RISK MANAGEMENT (CONTINUED)****(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.

|                              | <b>December 31, 2012</b> |
|------------------------------|--------------------------|
| <b>Group</b>                 | <b>USD</b>               |
| Cash and cash equivalents    | 347,591                  |
| Interest bearing liabilities | (18,855,462)             |
| Balance sheet exposure       | (18,507,871)             |
|                              |                          |
|                              | <b>December 31, 2011</b> |
| <b>Group</b>                 | <b>USD</b>               |
| Cash and cash equivalents    | 4,943,958                |
| Interest bearing liabilities | -                        |
| Balance sheet exposure       | 4,943,958                |

The following significant exchange rates applied during the year:

|            | <b>Average rate</b> |             | <b>Reporting date spot rate</b> |             |
|------------|---------------------|-------------|---------------------------------|-------------|
| <b>AUD</b> | <b>2012</b>         | <b>2011</b> | <b>2012</b>                     | <b>2011</b> |
| US 1       | 0.966               | 0.968       | 0.964                           | 0.964       |

**Sensitivity analysis**

A 10% strengthening of the Australian dollar against the following currencies would have (increased)/decreased equity and loss for the year by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant.

|                                     | <b>December 31, 2012</b> |                            | <b>December 31, 2011</b> |                            |
|-------------------------------------|--------------------------|----------------------------|--------------------------|----------------------------|
| <b>Effect in Australian dollars</b> | <b>Equity</b>            | <b>Loss for the period</b> | <b>Equity</b>            | <b>Loss for the period</b> |
| USD                                 | -                        | 1,850,787                  | -                        | (494,396)                  |

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.

**(d) Interest rate risk**

Throughout the year, 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 rates that expose 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:

| <b>Group</b>                 | <b>December 31, 2012</b> | <b>December 31, 2011</b> |
|------------------------------|--------------------------|--------------------------|
| Cash and cash equivalents    | 7,718,527                | 17,996,933               |
| - Interest rate              | 0% to 2.8%               | 0% to 4%                 |
| Interest bearing liabilities | 168,144,624              | 99,567,595               |
| - Interest rate              | 6.4%<br>to 8%            | 6.4%<br>to 8%            |

**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 equity by the amounts shown below:

|                              | <b>Year Ended<br/>December 31, 2012</b> | <b>Year Ended<br/>December 31, 2011</b> |
|------------------------------|-----------------------------------------|-----------------------------------------|
| Increase of 100 basis points | 77,185                                  | 155,025                                 |
| Decrease of 100 basis points | (77,185)                                | (155,025)                               |

**29. FINANCIAL RISK MANAGEMENT (CONTINUED)****(e) Equity Price Risk**

Equity price risks arise from available-for-sale financial assets. Both during and at the end of the year/period, movements in the fair value of this investment do not have a significant impact on the Group's financial position and performance.

**(f) Fair value hierarchy**

Financial instruments carried at fair value.

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 are set out in note 21(b).

| Group                                                           | December 31, 2012 |            | December 31, 2011 |            |
|-----------------------------------------------------------------|-------------------|------------|-------------------|------------|
|                                                                 | Level 1           | Level 3    | Level 1           | Level 3    |
| Available-for-sale financial assets                             | 216,196           | -          | 205,000           | -          |
| Financial liabilities at fair value through the profit and loss | -                 | 1,514,000  | -                 | -          |
| Financial liabilities at fair value through the profit and loss | -                 | 59,249,585 | -                 | 66,068,191 |

The following table shows a reconciliation from the beginning balances to the ending balances for fair value measurements in Level 3 of the fair value hierarchy:

|                                                    | Financial liabilities at fair value through the profit and loss 2012 | Financial liabilities at fair value through the profit and loss 2011 |
|----------------------------------------------------|----------------------------------------------------------------------|----------------------------------------------------------------------|
| Balance at 1 January                               | 66,068,191                                                           | 32,000,000                                                           |
| Additions: CB tranches issued                      | -                                                                    | 29,500,000                                                           |
| Valuation adjustments recognised in profit or loss | (6,818,606)                                                          | 4,568,191                                                            |
| Balance at 31 December                             | 59,249,585                                                           | 66,068,191                                                           |

**(g) Fair values of financial instruments carried at other than fair value**

All of the other financial assets and liabilities are carried at amounts that are not materially different from their fair values.

**30. ACCOUNTING JUDGEMENTS AND ESTIMATES****(a) Critical judgements***Going concern*

A key assumption underlying the preparation of the consolidated financial statements 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 without any intention or necessity to liquidate or otherwise wind up its operations. A significant amount of judgement has been required in assessing whether the Group is a going concern as set out in note 2(e).

**30. ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)****(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 capitalised in accordance with the Group's accounting policy (see note 3(c)) 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 30(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 capitalised 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 profit or loss in accordance with accounting policy (see note 3(e)).

**(iii) Provision for rehabilitation**

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 3(i)), 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 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 recognised 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 3(e)). 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. Refer to note 13 for details.

**(v) 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 behaviour), expected dividends, the risk-free interest rate (based on government bonds) and probability applied to the non-vesting conditions (based on management's judgement 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.

Subsequent changes to this estimate could have a significant effect on share based payment expense and the associated equity-settled payments reserve.

**30. ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)****(vi) Valuation of Convertible Bonds**

The fair value of the Convertible Bonds is determined by valuing the bond component based on discounted cash flows and using accepted option valuation models to value the issuer's right to convert. The fair value of the Convertible Bonds is determined by valuing the bond component based on discounted cash flows and using accepted option valuation models to value the combined impact of the holder's right to convert and the issuer's right to force conversion under certain hurdle conditions as set out in note 21(b).

**31. DEED OF CROSS GUARANTEE**

Pursuant to Class Order 98/1418, relief has been granted to Galaxy Lithium Australia Limited from the Corporations Act 2001 requirements for the preparation, audit and lodgement of a financial report. As a condition of the Class Order, Galaxy Resources Limited and Galaxy Lithium Australia Limited ("Closed Group") entered into a Deed of Cross Guarantee on 19 September 2011. The effect of this deed is that Galaxy Resources Limited has guaranteed to pay any deficiency in the event of winding up of these controlled entities or if they do not meet their obligations under the terms of overdrafts, loans, leases or other liabilities subject to the guarantee. The controlled entities have also given a similar guarantee in the event that Galaxy Resources Limited is wound up or if it does not meet its obligations under the terms of overdrafts, loans, leases or other liabilities subject to the guarantee.

A consolidated statement of comprehensive income and consolidated statement of financial position, comprising the Company and the controlled entities which are party to the Deed, after eliminating all transactions between the parties to the Deed of Cross Guarantee, for the year ended 31 December 2012 is set out as follows:

**Consolidated Statement of Comprehensive Income**

|                                        | Year ended<br>December 31, 2012 | Year ended<br>December 31, 2011 |
|----------------------------------------|---------------------------------|---------------------------------|
|                                        | \$                              | \$                              |
| Revenue                                | 16,272,984                      | 13,813,940                      |
| Production costs                       | (41,486,677)                    | (27,531,697)                    |
| Impairment loss on plant and equipment | (49,000,000)                    | (42,034,000)                    |
| Share based payments                   | (15,546,876)                    | (8,940,786)                     |
| Administration expenses                | (14,291,998)                    | (23,655,857)                    |
| Loss on sale of assets                 | (11,583)                        | -                               |
| Depreciation and amortisation          | (7,279,382)                     | (4,445,182)                     |
| <b>Loss from operations</b>            | <b>(111,343,532)</b>            | <b>(92,793,582)</b>             |
| Finance income                         | 8,791,341                       | 5,947,346                       |
| Finance costs                          | (6,157,182)                     | (29,329,317)                    |
| <b>Net finance costs</b>               | <b>2,634,159</b>                | <b>(23,381,971)</b>             |
| <b>Loss before taxation</b>            | <b>(108,709,373)</b>            | <b>(116,175,553)</b>            |
| Income tax                             | -                               | 734,968                         |
| <b>Loss for the year</b>               | <b>(108,709,373)</b>            | <b>(115,440,585)</b>            |



**31. DEED OF CROSS GUARANTEE (CONTINUED)**  
**Consolidated Balance Sheet**

|                                      | December 31,<br>2012 | December 31,<br>2011 |
|--------------------------------------|----------------------|----------------------|
|                                      | \$                   | \$                   |
| <b>NON-CURRENT ASSETS</b>            |                      |                      |
| Property, plant and equipment        | 44,432,512           | 94,270,510           |
| Exploration and evaluation assets    | 4,823,458            | 3,691,375            |
| Available-for-sale financial assets  | 180,000              | 205,000              |
| Other receivables and prepayments    | 6,767,904            | 11,055,964           |
| Investments in subsidiaries          | 163,132,623          | 64,373,994           |
| <b>TOTAL NON-CURRENT ASSETS</b>      | <b>219,336,497</b>   | <b>173,596,843</b>   |
| <b>CURRENT ASSETS</b>                |                      |                      |
| Other receivables and prepayments    | 1,138,500            | 14,218,380           |
| Inventories                          | 2,211,667            | 3,622,347            |
| Cash and cash equivalents            | 5,653,819            | 12,521,723           |
| <b>TOTAL CURRENT ASSETS</b>          | <b>9,003,986</b>     | <b>30,362,450</b>    |
| <b>TOTAL ASSETS</b>                  | <b>228,340,483</b>   | <b>203,959,293</b>   |
| <b>NON-CURRENT LIABILITIES</b>       |                      |                      |
| Provisions                           | 1,232,000            | 1,232,000            |
| Interest bearing liabilities         | -                    | 66,068,191           |
| <b>TOTAL NON-CURRENT LIABILITIES</b> | <b>1,232,000</b>     | <b>67,300,191</b>    |
| <b>CURRENT LIABILITIES</b>           |                      |                      |
| Trade and other payables             | 4,201,744            | 11,568,204           |
| Provisions                           | 347,785              | 406,183              |
| Interest bearing liabilities         | 59,249,585           | -                    |
| <b>TOTAL CURRENT LIABILITIES</b>     | <b>63,799,114</b>    | <b>11,974,387</b>    |
| <b>TOTAL LIABILITIES</b>             | <b>65,031,114</b>    | <b>79,274,578</b>    |
| <b>NET ASSETS</b>                    | <b>163,309,369</b>   | <b>124,684,715</b>   |
| <b>CAPITAL AND RESERVES</b>          |                      |                      |
| Share capital                        | 407,170,372          | 271,457,219          |
| Reserves                             | 36,406,459           | 24,785,585           |
| Accumulated Losses                   | (280,267,462)        | (171,558,089)        |
| <b>TOTAL EQUITY</b>                  | <b>163,309,369</b>   | <b>124,684,715</b>   |

## DIRECTORS' DECLARATION

For The Year Ended December 31, 2012

1. In the opinion of the Directors of Galaxy Resources Limited:

(a) the consolidated financial statements and notes and the remuneration disclosures that are contained in the Remuneration Report in the Directors Report set out on pages 12 to 20 are in accordance with the Corporations Act 2001 including:

i. giving a true and fair view of the Group's financial position as at December 31, 2012 and of its performance for the financial year January 1, 2012 to December 31, 2012; and

ii complying with Australian Accounting Standards and the Corporations Regulations 2001; and

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

2. there are reasonable grounds to believe that the Company and the group entities identified in note 31 will be able to meet any obligations or liabilities to which they are or may become subject to by virtue of the Deed of Cross Guarantee between the Company and those group entities pursuant to ASIC Class Order 98/1418.

3. the financial report also complies with International Financial Reporting Standards as disclosed in Note 2(a).

The directors have been given the declarations by the Managing Director 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, 28<sup>th</sup> day of March 2013.



I KS Tan  
Managing Director



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

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

We have audited the accompanying financial report of Galaxy Resources Limited (the company), which comprises the consolidated statement of financial position as at 31 December 2012, and consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended on that date, notes 1 to 31 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 year's end or from time to time during the financial year.

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

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement whether due to fraud or error. In note 2.a, the directors also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements of the Group comply with International Financial Reporting Standards.

#### *Auditor's responsibility*

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001* and Australian Accounting Standards, a true and fair view which is consistent with our understanding of the Group's financial position and of its performance.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### *Independence*

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



*Auditor's opinion*

In our opinion:

- (a) the financial report of the Group is in accordance with the *Corporations Act 2001*, including
  - (i) giving a true and fair view of the Group's financial position as at 31 December 2012 and of its performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001.
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in note 2.a.

**Material uncertainty regarding continuation as a going concern**

Without modification to the opinion expressed above, attention is drawn to the following matter.

As detailed in note 2.e, the Group's ability to continue as a going concern is dependent upon renegotiating or refinancing existing or additional debt facilities or raising sufficient working capital. These matters indicate the existence of a material uncertainty which may cast significant doubt as to whether the Group will be able to continue as a going concern and therefore, the Group may be unable to realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report.

**Report on the remuneration report**

We have audited the Remuneration Report included in the directors' report for the year ended 31 December 2012. The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with Section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with auditing standards.

*Auditor's opinion*

In our opinion, the remuneration report of Galaxy Resources Limited for the year ended 31 December 2012, complies with Section 300A of the *Corporations Act 2001*.

KPMG

Trevor Hart  
Partner

Perth

28 March 2013

## ASX SHAREHOLDER INFORMATION

## 1. Share Holding at March 25, 2013

## (a) Distribution of Shareholders

## Share holding

|         |   |         |
|---------|---|---------|
| 1       | - | 1,000   |
| 1,001   | - | 5,000   |
| 5,001   | - | 10,000  |
| 10,001  | - | 100,000 |
| 100,001 | - | over    |

Number of Holders  
Fully paid ordinary shares

|       |
|-------|
| 1,362 |
| 3,454 |
| 1,898 |
| 2,928 |
| 295   |

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9,937

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## (b) Unmarketable Parcels

There are 1,520 shareholders who hold less than a marketable parcel.

## (c) Voting Rights

Voting rights are one vote per fully paid ordinary share.

## (d) Names of Substantial Holders

## Shareholder

M&G Investment Management Limited  
Vanguard Precious Metals and Mining Fund  
Deutsche Bank AG  
Creat Resources Holdings Limited

## Number of Shares

104,279,806  
73,893,638  
43,011,164  
37,584,912

## 2. Top Twenty Shareholders at March 25, 2013

| Shareholder                                                | Number of Shares | % Issued Capital |
|------------------------------------------------------------|------------------|------------------|
| 1. J P Morgan Nominees Australia Limited                   | 82,451,167       | 14.11            |
| 2. National Nominees Limited                               | 58,593,802       | 10.02            |
| 3. HSBC Custody Nominees (Australia) Limited               | 58,015,355       | 9.93             |
| 4. Creat Resources Holdings Limited                        | 37,584,912       | 6.43             |
| 5. Canadian Register Control                               | 30,823,375       | 5.27             |
| 6. J P Morgan Nominees Australia Limited <Cash Income A/C> | 21,600,689       | 3.70             |
| 7. HSBC Custody Nominees (Australia) Limited – A/C 2       | 20,201,793       | 3.46             |
| 8. HSBC Custody Nominees (Australia) Limited – GSCO ECA    | 13,366,475       | 2.29             |
| 9. Computershare Trust Company of Canada                   | 11,856,433       | 2.03             |
| 10. Citicorp Nominees Pty Ltd                              | 11,051,333       | 1.89             |
| 11. Ademsa Pty Ltd                                         | 7,552,120        | 1.29             |
| 12. Cape Bouvard Equities Pty Ltd                          | 6,363,636        | 1.09             |
| 13. Credit Risk Management Services Pty Ltd                | 6,050,000        | 1.04             |
| 14. Bell Potter Nominees Ltd <BB Nominees A/C>             | 5,991,739        | 1.03             |
| 15. UBS Wealth Management Australia Nominees Pty Ltd       | 5,717,716        | 0.98             |
| 16. Super Raya International Limited                       | 4,565,767        | 0.78             |
| 17. Hengolo Pty Ltd / Craig Readhead                       | 4,543,388        | 0.77             |
| 18. Paul Cozzi                                             | 3,000,000        | 0.51             |
| 19. Gregory Hill                                           | 2,000,000        | 0.34             |
| 20. Thomas Hans Offermann <Offermann Family A/C>           | 2,000,000        | 0.34             |
|                                                            | 393,329,700      | 67.30            |

## ASX SHAREHOLDER INFORMATION

### 3. Distribution of Unlisted Options

| <b>Distribution</b>  | <b>45 cent</b> | <b>60 cent</b>   | <b>90 cent</b> | <b>96 cent</b>   | <b>\$1.11</b>    | <b>\$1.16</b>     |
|----------------------|----------------|------------------|----------------|------------------|------------------|-------------------|
| 1 - 1,000            |                |                  |                |                  |                  |                   |
| 1,001 - 5,000        |                |                  |                |                  |                  |                   |
| 5,001 - 10,000       |                |                  |                |                  |                  |                   |
| 10,001 - 100,000     |                |                  |                |                  |                  | 218               |
| 100,001 - over       | 1              | 8                | 1              | 3                | 13               | 36                |
| <b>Total Holders</b> | <b>1</b>       | <b>8</b>         | <b>1</b>       | <b>3</b>         | <b>13</b>        | <b>254</b>        |
| <b>Total Units</b>   | <b>750,000</b> | <b>9,700,000</b> | <b>800,000</b> | <b>3,000,000</b> | <b>5,500,000</b> | <b>39,100,000</b> |

### 4. Restricted Securities

As at the date of this report, there were no restricted securities.

### 5. On Market Buy-back

As at the date of this report, there was no current on market buy-back.



## TENEMENT SCHEDULE

| Project                    | Tenement          | Notes (100% interest unless stated)                                    |
|----------------------------|-------------------|------------------------------------------------------------------------|
| <b><u>Argentina</u></b>    |                   |                                                                        |
| <b><u>Sal De Vida</u></b>  | Various           | 70% Interest upon satisfaction of JV conditions with Kores Consortium. |
| <b><u>Australia</u></b>    |                   |                                                                        |
| <b><u>Boxwood Hill</u></b> | E70/2493          |                                                                        |
|                            | E70/2513-E70/2514 |                                                                        |
|                            | E70/2547          |                                                                        |
| <b><u>Connolly</u></b>     | E69/1878          |                                                                        |
| <b><u>Ponton</u></b>       | E28/1317          |                                                                        |
|                            | E28/1830          |                                                                        |
| <b><u>Shoemaker</u></b>    | E69/1869-1871     | 20% Interest with General Mining Corporation.                          |
| <b><u>Ravensthorpe</u></b> |                   |                                                                        |
| Aerodrome                  | E74/398           |                                                                        |
| Bakers Hill                | E74/287           |                                                                        |
|                            | E74/295           |                                                                        |
|                            | E74/299           |                                                                        |
|                            | E74/415           |                                                                        |
| Floater                    | E74/400           |                                                                        |
|                            | P74/307-P74/308   |                                                                        |
| Mt Cattlin                 | L74/46            |                                                                        |
|                            | L74/48            |                                                                        |
|                            | M74/244           |                                                                        |
| Sirdar                     | E74/401           | 80% Interest with Traka Resources.                                     |
|                            | P74/309-P74/310   | 80% Interest with Traka Resources.                                     |
| West Kundip                | L74/47            |                                                                        |
|                            | M74/133           |                                                                        |
|                            | M74/238           |                                                                        |
| <b><u>Canada</u></b>       |                   |                                                                        |
| <b><u>James Bay</u></b>    | Various           |                                                                        |

# Corporate Directory

ABN: 11 071 976 442  
SECURITIES EXCHANGE LISTING  
ASX Code: GXY

## CORPORATE AND MEDIA

E: [ir@galaxylithium.com](mailto:ir@galaxylithium.com)  
[www.galaxylithium.com](http://www.galaxylithium.com)

## EXECUTIVE DIRECTORS:

Ignatius Tan, Managing Director  
Anthony Tse  
Charles Whitfield

## NON-EXECUTIVE DIRECTORS:

Craig Readhead, Chairman  
Xiaojian Ren  
Yuewen Zheng (May Chen - Alternate Director)  
Shaoqing Wu (Richard Shi - Alternate Director)

## INDEPENDENT NON-EXECUTIVE DIRECTORS:

Robert Wanless  
Kai Cheong Kwan  
Michael Spratt

## COMPANY SECRETARY:

Andrew Meloncelli

## SHARE REGISTRY:

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

## AUDITORS:

KPMG Chartered Accountants  
235 St Georges Terrace PERTH WA 6000  
AUSTRALIA

## LEGAL COUNSEL TO THE COMPANY:

Allion Legal Pty Ltd  
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**GALAXY RESOURCES LIMITED**

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