Galaxy Resources Limited

ABN 11 071 976 442

Condensed Consolidated Interim Financial Report

For the Half Year Ended June 30, 2013

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Corporate

Non-Renounceable Rights Issue

In August 2013, the Company raised $17.2 million under a 1 for 1 pro-rata non-renounceable entitlement offer (Entitlement Offer), 43% above the minimum required under the raising of $12 million. The remainder of the shortfall continues to be placed.

Galaxy is very pleased with the level of support it has received to date, which included support from major shareholders M&G and Deutsche Bank. Galaxy's stronger financial position under the rights issue will allow for the implementation of a range of strategic initiatives in the coming months. Part of those initiatives is a commitment by Galaxy to reduce corporate costs in 2013 from $17.6 million in 2012 to $12.2 million. In the next 12 months, further costs savings of $7.0 million are targeted.

The Entitlement Offer, initially launched in May 2013 and subsequently extended in July 2013, consisted of the issue to eligible shareholders of up to approximately 584,355,501 new ordinary shares (New Shares) on the basis of one (1) New Share for every one (1) existing share held at the record date, and up to approximately 876,533,252 free attaching new options (New Options) on the basis of three (3) New Options for every two (2) New Shares subscribed for, to raise up to approximately $46.7 million (before costs of the Offer).

The New Shares offered under the Entitlement Offer are being issued at a price of $0.08 per New Share, which represents an approximate 65% discount to the closing price of Galaxy shares on 24 April 2013, being the day the Company's shares last traded on ASX before announcement of the Entitlement Offer, an approximately 48% discount to the TERP (theoretical ex-rights price) and an approximate 66% discount to Galaxy's 5 day volume weighted average price on the ASX on 24 April 2013.

Patersons Securities Ltd is the Lead Manager to the Entitlement Offer. Deutsche Bank is the Corporate Advisor assisting with debt refinancing and potential non-core asset sales initiatives.

The New Shares rank equally with existing shares and quoted on the ASX. The New Options will be exercisable at $0.08 per New Option on or before 31 December 2014. The New Options will also be tradeable on ASX, enabling New Option holders to potentially realise value for the New Options through selling them on ASX if they so choose.

Use Of Proceeds

The proceeds of the capital raising to date are to be used across the following areas:

- Partial debt pay down to Chinese lenders
- Working capital for the Jiangsu Lithium Carbonate Plant (Jiangsu) in China
- Working capital for the Sal de Vida Lithium Brine and Potash Project (Sal de Vida) in Argentina
- To pay costs associated with the raising

Galaxy Reaches Agreement With Bondholders To Restructure Convertible Bonds
Subsequent to 30 June 2013, Galaxy reached an agreement with the holders of its $61.5 million 8% convertible bonds (“Bondholders”), previously redeemable on 19 November 2013 at a redemption price of $61.5 million, entitling Galaxy to pre-pay the bonds earlier.

Under the agreement, Galaxy has the ability to pre-pay principal and accrued interest outstanding to Bondholders in cash, and issue pro-rata shares and 1.5 options for each share on the same basis as the Entitlement Offer in whole or part at any time until 19 November 2013. This repayment ability replaces the Bondholders' existing put option right, which (if exercised) would otherwise require the Company to redeem all or some bonds on 19 November 2013.

As at 19 November 2013, to the extent there is any principal and accrued interest outstanding, the Bondholders will have the option to either (in part or all):

- continue to hold the bonds until the maturity date of 19 November 2015 with a 2% increase in the coupon rate from 8% to 10% coupon per annum (no other variation in terms); or

- convert the remaining bonds into shares and receive 1.5 options per share on the same terms as the Entitlement Offer based on the outstanding principal plus accrued interest of the bonds.

Galaxy has undertaken that should the funds raised under the Entitlement Offer as at completion exceed:

(i) $35,000,000, the Issuer must make a repayment of $5,125,000 to the Bondholders; or
(ii) $40,000,000, the Issuer must make a repayment of $10,250,000 to the Bondholders.

Galaxy was pleased to have reached this agreement with its major Bondholders and is grateful for their ongoing support.

The agreement alleviated the cash needs for the original redemption due November 2013, which the Company understands has been a primary concern of investors to date, and represents a significant step in the restructuring of the Company's balance sheet.

Loan Repayments
Subsequent to 31 December 2012, Galaxy repaid or rescheduled near term payments due under its facilities with China Construction Bank, Industrial and Commercial Bank of China, and Shanghai Pudong Development Bank, further alleviating short term funding requirements. Discussions are continuing with these banks to achieve an overall debt profile that is better aligned with the current developmental stage of the business and its cashflows.

Appointment Of Interim Managing Director
Mr Anthony Tse was appointed Interim Managing Director of the Company, replacing Mr Iggy Tan who resigned in June 2013. Mr Tse was previously an Executive Director of the Company. The Board acknowledged the contribution by Mr Tan during his period as Managing Director and looked forward to the contribution of Mr Tse.

Board Changes
Following certain cost review initiatives during the Half Year, the following directors decided not to stand for re-election at the Annual General Meeting.

Dr Yuewen Zheng	Non-Executive Director
Mr Shaoqing Wu	Non-Executive Director
Mr Michael Spratt	Independent Director
Mr Charles Whitfield	Executive Director

Mr Whitfield remains as an Executive with the Company.

Special Management Committee Establishment

During the Half Year, Galaxy established a Special Management Committee as an advisory group reporting to the Galaxy Board. The Committee consists of Galaxy Interim Managing Director Anthony Tse, Non-executive Director Xiaojian Ren, executive Charles Whitfield, and First Quantum Minerals co-founder and former Lithium One Inc. Chairman Martin Rowley, appointed as an Advisor to the Company. The scope of the Committee's work is focused on various strategic initiatives, including financial restructuring and the current equity fundraising, a review of the Company's business, operations, as well as assessing the Board structure to evaluate and identify the optimal composition and skill set required to best serve Galaxy's future strategy and development.

Operations

Jiangsu (100%)

Operations recommenced at Jiangsu

Galaxy recommenced operations at the Jiangsu Lithium Carbonate Plant (“Jiangsu Plant” or “the Plant”) in early February 2013 and production and sales have been increasing during the year.

The Zhangjiagang Safety Bureau cleared the site to re-start operations after inspecting and approving Galaxy's repairs to the affected u-bend section of pipe in the sodium sulphate crystallisation area of the Plant that ruptured in November 2012. A complete Hazard and Operability (HAZOP) review was conducted across the entire operation to ensure complete and ongoing safety of the Plant. An investigation into the incident by the Company 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 fiber 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.

China's Suzhou Safety Bureau also conducted an independent investigation and concurred with the root cause analysis of the incident found by Galaxy. The Company's refurbishment plan of replacing the ruptured u-bend section with stainless steel (2507) material with additional load support was approved by the Suzhou Safety Bureau. The stainless steel replacement material was ordered and the system refurbishment was completed in early February. The Suzhou Safety Bureau subsequently inspected the repaired system and approved Jiangsu's production recommencement.

The Plant was fully operational again by late February and has been producing battery grade lithium carbonate to the desired specifications. Production is also increasing and sales of both technical and battery grade product have been ongoing. The kiln at the front end of the Plant has been very stable since the recommencement of operations. The recently installed kiln lifters are also allowing the kiln to operate at close-to-design feed rates and with improved levels of natural gas usage. The precipitation plant has also been re-established and is achieving production rates reached prior to the November shutdown.

<u>Jiangsu Plant Lithium Carbonate Production and Sales</u>

Tonnes	**March 2013 Quarter ***	**June 2013 Quarter**	**YTD**
Production	669	1,775	2,444
Sales	464 **	1,661	2,125

*Plant re-start 8 February 2013
**Chinese New Year closure for 2 weeks in February 2013

The Jiangsu Plant produced 2,444 tonnes of lithium carbonate from February to June 2013. The June Quarter reflected an 85% increase in production over the output of the previous three months, and quality performance continues to be excellent. 100% of the battery grade product met the range of product specifications in June, while the rate for the Quarter was 99%. The customer on-time delivery rate was 100% for the period. Galaxy and the Jiangsu team have commenced a thorough review and assessment of ways to accelerate the ramp-up process to boost production towards full capacity.

Jiansgu remains a core strategic asset for Galaxy as it increases production and sales of lithium carbonate, and the Company remains confident of reaching a cash flow break even status at the Jiangsu operation later in the year.

Safety

There were no LTIs (Lost Time Incidents) during the Half Year. There was one MTI (Medical Treatment Incident) reported in July 2013.

Plant Certification Process

The Jiangsu Plant completed the final round of external audit for ISO9001 (Quality)/ ISO14001 (Environment)/ OHSAS18001 (Occupational Health and Safety) management systems by BSI (British Standard Institute) in April 2013, with resulted in full compliance. The ISO9001 Certificate was awarded to the Jiangsu Plant on 18 May 2013. The ISO14001 & OHSAS18001 certificates will be issued in August 2013.

The Jiangsu Plant has received approval for safety and occupational health from the Suzhou Safety Bureau and Jiangsu Province Safety Bureau following a satisfactory on-site assessment. A final environmental assessment was completed, with the Company now waiting for the approval document from the Administration of Environment Protection of Jiangsu Province. This will conclude the necessary project completion regulatory approvals.

Sal de Vida (70%)

Joint Venture Option

Galaxy announced subsequent to the period that it had not received a notice from its potential partner in the Sal de Vida Lithium Brine and Potash Project regarding whether it would exercise its option to vest a 30% equity interest in Galaxy Lithium (Sal de Vida) S.A., the Galaxy subsidiary that owns the Sal de Vida Project.

KORES, LG International and GS Caltex, together known as the Sal de Vida Korea Corporation (SDVKC), had 90 days from the delivery of the Feasibility Study to increase its equity interest in Galaxy Lithium (Sal de Vida) S.A. from 4% to 30%.

Galaxy delivered a Feasibility Study to SDVKC on 13 April 2013. After SDVKC's request for further time to consider its position, Galaxy extended that date to 17 July 2013 to enable SDVKC to consider further information provided in connection with the Feasibility Study.

SDVKC has now advised Galaxy that it does not consider the Feasibility Study to satisfy all the criteria set out in the Option Agreement so as to trigger the 90 day option period. Galaxy is seeking to resolve this issue with SDVKC and will advise the market as soon as a resolution is achieved.

Sal de Vida remains a key strategic project for the Company. Discussions are continuing around project funding and development while the Company continues to assess various alternative options.

Permits Update

Galaxy's Sal de Vida team completed a review of the Environmental Impact Study as requested by the Catamarca Mining Secretary. The Mining Secretary approved the revised study but then issued it to further departments for review and comment around environment, flora/fauna, archaeology and water. Final approval is still pending, Galaxy has requested a definitive schedule from the Provincial authorities. With the project located across the border between the Salta and Catamarca provinces, the Company needs environmental approval and construction and operating permits from both provinces.

EPCM Tender Process

Galaxy received three EPCM proposals for Sal de Vida detailed engineering, design and construction. The proposals were received at the end of June 2013 from three groups. The tenderers all chose to enter into partnerships to address this specialized brine extraction and chemical processing project. The proposals received are very thorough and Galaxy is continuing a review process, pending decisions on possible changes to the development strategy and timing.

Test Work Programs

With reduced winter evaporation rates, the test evaporation ponds transfers were adjusted to maintain output concentration near the target 2.2% Li. Other test work, including magnesium and calcium extraction by precipitation, solvent extraction, ion exchange and bicarbonate purification were put on hold awaiting the permit (RENPRE) for reagent handling and storage, which has now been received, and the permit for transportation which is being awaited.

Directors' Report

Your Directors submit their report incorporating the entities that it controlled during the half-year ("Group") ended June 30, 2013 for Galaxy Resources Limited ("Company" or "Galaxy").

Directors

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

Craig Leslie Readhead
Anthony Peter Tse (Appointed Interim Managing Director 11 June 2013)
Robert James Wanless
Kai Cheong Kwan
Xiaojian Ren
Ignatius Kim Seng Tan (Resigned 11 June 2013)
Yuewen Zheng (Resigned 30 April 2013)
Charles Bernard Francis Whitfield (Resigned 30 April 2013)
Shaoqing Wu (Resigned 30 April 2013)
David Michael Spratt (Resigned 30 April 2013)

Principal Activities

The principal activity of the entities within the Group is production of lithium carbonate at the Jiangsu Lithium Carbonate Plant, and exploration for minerals.

Operating and Financial Review

The Consolidated Entity's loss after tax was $34,285,000 for the half-year ended June 30, 2013 (half-year ended June 30, 2012: loss after tax of $49,647,000).

Review of Operations

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

Events Subsequent to Reporting Date

- On 18 July 2013, the Company announced that its potential partner in the Sal de Vida Lithium Brine and Potash Project ("Sal de Vida" or "the Project") has not given a notice to exercise its option to vest a 30% equity interest in Galaxy Lithium (Sal de Vida) S.A., the Galaxy subsidiary that owns the Sal de Vida Project.
- In July 2013, the Company reached agreement with its convertible Bondholders whereby they have waived their right to redeem the bonds in November 2013. Under the Agreement, Galaxy has the ability to pre-pay principal and accrued interest outstanding to Bondholders in cash. In that event, the Bondholders have agreed to convert an equivalent amount of Bonds outstanding to issued shares and options on the same basis as the Entitlement Offer in whole or part at any time until 19 November 2013.
- On 8 August 2013, the Company issued 198,090,846 fully paid ordinary shares and 297,136,434 8 cent listed options expiring 31 December 2014.
- On 16 August 2013, the Company issued 17,470,956 fully paid ordinary shares and 26,206,434 8 cent listed options expiring 31 December 2014.
- On 27 August 2013, the Company issued 223,710 fully paid ordinary shares as a result of the exercise of listed options.

- On 4 September 2013, the Company issued 11,399 fully paid ordinary shares as a result of the exercise of listed options.
- On 10 September 2013, the Company issued 321,984 fully paid ordinary shares as a result of the exercise of listed options.

Other than the matters discussed above, there has not arisen in the interval between the end of the financial period 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.

Rounding Off

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

Lead Auditor's Independence Declaration

In accordance with section 307C of the Corporations Act 2001, the directors received the attached independence declaration set out on page 10 and forms part of the directors' report for the half-year ended June 30, 2013.

Signed in accordance with a resolution of the Directors
Dated at Perth this 13th day of September 2013.
On behalf of the Directors

C L Readhead
Chairman

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

To: the directors of Galaxy Resources Limited

I declare that, to the best of my knowledge and belief, in relation to the review for the half-year ended 30 June 2013 there have been:

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

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

KPMG

KPMG

Trevor Hart
Partner

Perth

13 September 2013

FINANCIAL REPORT

Condensed Consolidated Statement of Comprehensive Income

	Six months ended	
	June 30, 2013	**June 30, 2012**
	$'000	**$'000**
Revenue	11,491	5,688
Cost of sales	(30,041)	(35,096)
Gross loss	**(18,550)**	**(29,408)**
Administration costs	(8,111)	(18,477)
Loss from operations	**(26,661)**	**(47,885)**
Finance income	1,536	229
Finance costs	(9,589)	(1,991)
Net finance costs	**(8,053)**	**(1,762)**
Loss before taxation	**(34,714)**	**(49,647)**
Income tax benefit	429	-
Loss for the period	**(34,285)**	**(49,647)**
Other comprehensive (loss)/income for the period		
Items that may be reclassified subsequently to profit or loss		
Foreign currency translation differences – foreign operations	8,501	467
Net changes in available-for-sale financial assets	20	-
Other comprehensive /income for the period	**8,521**	**467**
Total comprehensive (loss)/income for the period	**(25,764)**	**(49,180)**
Loss per share		
Basic and diluted loss per share (cents per share)	(5.95)c	(14.67)c

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

Condensed Consolidated Statement of Financial Position

	Note	As at June 30, 2013	As at December 31, 2012
		$'000	$'000
NON-CURRENT ASSETS			
Property, plant and equipment	2	182,751	169,736
Lease prepayment		1,350	1,367
Exploration and evaluation assets	3	142,778	135,782
Available-for-sale financial assets		218	216
Other receivables and prepayments		1,547	6,286
TOTAL NON-CURRENT ASSETS		**328,644**	**313,387**
CURRENT ASSETS			
Other receivables and prepayments		22,108	13,176
Inventories		13,909	18,870
Cash and cash equivalents		1,445	7,718
TOTAL CURRENT ASSETS		**37,462**	**39,764**
TOTAL ASSETS		**366,106**	**353,151**
NON-CURRENT LIABILITIES			
Provisions		5,636	5,314
Interest bearing liabilities	4	-	60,365
TOTAL NON-CURRENT LIABILITIES		**5,636**	**65,679**
CURRENT LIABILITIES			
Trade and other payables		17,528	13,117
Provisions		222	348
Interest bearing liabilities	4	193,271	107,779
TOTAL CURRENT LIABILITIES		**211,021**	**121,244**
TOTAL LIABILITIES		**216,657**	**186,923**
NET ASSETS		**149,449**	**166,228**
EQUITY			
Contributed equity	5	415,720	407,170
Reserves		26,971	32,208
Accumulated losses		(325,998)	(305,906)
Non-controlling interests		32,756	32,756
TOTAL EQUITY		**149,449**	**166,228**

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

Condensed Consolidated Statement of Changes in Equity

	Share capital $'000	Equity-settled payments reserve $'000	Foreign currency translation reserve $'000	Fair value reserve $'000	Accumulated losses $'000	Non-controlling interest $'000	Total equity $'000
Balance at January 1, 2012	**271,457**	**22,123**	**(1,410)**	**-**	**(178,655)**	**-**	**113,515**
Loss for the year	-	-	-	-	(49,647)	-	(49,647)
Other comprehensive income for the period	-	-	467	-	-	-	467
Total comprehensive loss	-	-	467	-	(49,647)	-	(49,180)
Issue of shares, net of transaction costs	30,147	-	-	-	-	-	30,147
Share-based payment transactions	-	14,884	-	-	-	-	14,884
Balance at June 30, 2012	**301,604**	**37,007**	**(943)**	**-**	**(228,302)**	**-**	**109,366**
Balance at January 1, 2013	**407,170**	**37,027**	**(4,819)**	**-**	**(305,906)**	**32,756**	**166,228**
Loss for the year	-	-	-	-	(34,285)	-	(34,285)
Other comprehensive income for the period	-	-	8,501	20	-	-	8,521
Total comprehensive loss	-	-	8,501	20	(34,285)	-	(25,764)
Issue of shares, net of transaction costs	8,550	-	-	-	-	-	8,550
Transfer of reserve upon forfeit of options	-	(14,193)	-	-	14,193	-	-
Share-based payment transactions	-	435	-	-	-	-	435
Balance at June 30, 2013	**415,720**	**23,269**	**3,682**	**20**	**(325,998)**	**32,756**	**149,499**

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

Condensed Consolidated Statement of Cash Flows

	Six months ended	
	June 30, 2013	**June 30, 2012**
	$'000	**$'000**
Operating activities		
Receipts from customers	7,452	5,688
Receipts from Australian Taxation Office	428	-
Payments to suppliers and contractors	(19,016)	(41,358)
Net cash used in operating activities	**(11,136)**	**(35,670)**
Investing activities		
Interest received	83	222
Acquisition of property, plant and equipment	(3,050)	(36,319)
Proceeds from sale of tenements	250	-
Proceeds from sale of assets	211	-
Payments for exploration and evaluation assets	(4,867)	(1,170)
Refund of security deposits / performance bonds	854	5
Net cash used in investing activities	**(6,519)**	**(37,262)**
Financing activities		
Net proceeds from issue of shares	9,605	30,147
Purchase of call option	(2,500)	-
Bank charges and interest paid	(6,373)	(2,771)
Proceeds from borrowings	18,964	43,675
Repayments of borrowings	(11,513)	-
Net cash generated from financing activities	**8,183**	**71,051**
Net decrease in cash and cash equivalents	**(9,472)**	**(1,881)**
Cash and cash equivalents at the beginning of the period	7,718	17,997
Effect of foreign exchange rate changes	3,199	1,240
Cash and cash equivalents at the end of the period	**1,445**	**17,356**

Notes to the Condensed Consolidated Interim Financial Statements

For the half-year ended to June 30, 2013

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

Galaxy Resources Limited (the "Company") is a company domiciled in Australia. The condensed consolidated interim financial statements of the Company as at and for the half-year ended June 30, 2013 comprises the Company and its subsidiaries (together referred to as the "Group"). The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied unless otherwise stated.

The Group is a for-profit entity and is primarily involved in the production of lithium carbonate, and mineral exploration. The consolidated annual financial statements of the Group as at, and for the year ended 31 December 2012 are available on request from the Company's registered office or website.

a. Statement of Compliance

These condensed consolidated interim financial statements are general purpose financial statements and have been prepared in accordance with AASB 134: Interim Financial Reporting, IAS 34: Interim Financial Reporting and the Corporations Act 2001. Selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the last annual consolidated financial statements as at and for the year ended 31 December 2012. The consolidated interim financial statements do not include all of the information required for full annual financial statements, and should be read in conjunction with the consolidated annual financial statements of the Group as at and for the year ended 31 December 2012.

These condensed consolidated interim financial statements were approved by the Board of Directors on September 13, 2013.

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

b. Accounting policies

Other than the below, the accounting policies applied by the Group in the condensed consolidated interim financial statements are the same as those applied by the Group in its consolidated financial report as at and for the year ended December 31, 2012.

The following new accounting standards became mandatory for Group from 1 January 2013. These had no material impact on the Group on initial application:

- AASB 10 *Consolidated Financial Statements*
- AASB 11 *Joint Arrangements*
- AASB 12 *Disclosure of Interests In Other Entities*
- AASB 13 *Fair Value Measurement*.

c. Functional and Presentation Currency

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

d. Use of estimates and judgements

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

The significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended December 31, 2012.

Notes to the Condensed Consolidated Interim Financial Statements
For the half-year ended to June 30, 2013

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 half year ended 30 June 2013 the Group incurred a loss after tax of $34.3 million. The Group has net current liabilities at 30 June 2013 of $173.6 million which includes interest bearing liabilities of $193.3 million. This includes unsecured bank loans of $129.0 million and unsecured Convertible bonds of $59.25 million.

At 30 June 2013, the Company's wholly owned subsidiary Galaxy Lithium (Jiangsu) Co., Limited (GLJL) was in breach of certain lending covenants under a bank facility. The breach constitutes a potential event of default which would allow the bank to demand immediate repayment of amounts owing. Default clauses in other of GLJL's facility agreements would then allow those banks to identify a default event and demand immediate repayment of their facilities. For this reason all of the Group's unsecured bank loans have been classified as a current liability at 30 June 2013 in accordance with the requirements under accounting standards. GLJL has not requested nor received a formal waiver for this breach, however the relevant bank has informed the Company that they will not pursue this breach and will reassess the position on 31 December 2013.

In the fifteen months from 30 June 2013 the Group has contractual loan repayments to its banks of $88 million, of which $65 million is due to be repaid by 31 December 2013.

GLJL is in discussions with China Construction Bank (CCB) and Industrial and Commercial Bank of China (ICBC) to provide continuing support to GLJL for the ongoing ramp up of its Jiangsu Lithium Carbonate Plant (The Plant), pursuant to a facility management plan (Plan) for the period up to 31 December 2013. The Plan sets out deferrals of certain of the contracted repayments.

The Group's cash flow forecast anticipates the Plant reaching production capacity levels by the end of 2013 and that the Plant becomes cashflow positive during the first quarter in 2014 and also identifies that successful restructuring or refinancing of the unsecured bank loan facilities is required.

Subsequent to 30 June 2013, the Group raised $17.2 million under a 1 for 1 pro-rata non renounceable entitlement offer (Entitlement Offer). The Group is in the process of completing the Entitlement Offer through a planned placement of the shortfall to investors of up to a further $29.5 million. Whilst the amounts to be raised through this placement remain uncertain, the Board anticipates completing the placement of the shortfall in full.

The Entitlement Offer, initially launched in May 2013 and subsequently extended in July 2013, consisted of the issue to eligible shareholders of up to approximately 584,355,501 new ordinary shares (New Shares) on the basis of one (1) New Share for every one (1) existing share held at the record date, and up to approximately 876,533,252 free attaching new options (New Options) on the basis of three (3) New Options for every two (2) New Shares subscribed for, to raise up to approximately $46.7 million (before costs of the Offer). The New Shares offered under the Entitlement Offer are being issued at a price of $0.08 per New Share.

In July 2013, the Company reached agreement with its convertible Bondholders whereby they have waived their right to redeem the bonds in November 2013. Under the Agreement, Galaxy has the ability to pre-pay principal and accrued interest outstanding to Bondholders in cash. In that event, the Bondholders have agreed to convert an equivalent amount of Bonds outstanding to issued shares and options on the same basis as the Entitlement Offer in whole or part at any time until 19 November 2013.

Notes to the Condensed Consolidated Interim Financial Statements
For the half-year ended to June 30, 2013

e. Going Concern (continued)
As at 19 November 2013, to the extent there is any principal and accrued interest outstanding, the Bondholders will have the option to either (in part or full):

- Continue to hold the bonds until the maturity date of 19 November 2015 with a 2% increase in the coupon rate from 8% to 10% coupon per annum (no other variation in terms); or
- Convert the remaining bonds into shares and options on the same terms as the Entitlement Offer based on the outstanding principal plus accrued interest on the bonds.

Galaxy has undertaken that should the funds raised under the Entitlement Offer as at settlement of the Entitlement Offer exceed:

i. A$35 million, Galaxy must make a repayment of A$5.125 million to the Bondholders; or
ii. A$40 million Galaxy must make a repayment of A$10.25million to the Bondholders.

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

- The support of its bank lenders in China to waive existing rights under covenant breaches to immediately recall drawn amounts and continue to offer access to existing facilities;
- The ability to refinance or renegotiate existing banking facilities to obtain extended repayment terms;
- The successful ramp up of production and sales of lithium carbonate at the Plant to achieve forecast cashflows;
- The successful completion of the placement of the shortfall available to investors under the Entitlement Offer; and
- The ability to raise sufficient additional funds if required by the sale or partial sale of the Group's assets or optionholders exercising their rights and subscribing for fully paid issued shares in the Company at 8 cents per share.

The Board acknowledges that the Group's operating funding requirements and the scheduled repayments of interest bearing liabilities represents a significant refinancing or funding requirement for the coming 12 months. However, the Board believes 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 advanced discussions with providers of equity finance with the aim of completing the Entitlements Offer;
- The Group has historically received support from its financiers for the extension of credit on unsecured terms and financiers have indicated their present support pursuant to the Plan; and
- Historically the Group has successfully arranged sufficient financing facilities and raised equity as required.

Should the Group not be successful in efforts to either renegotiate or refinance existing or additional debt facilities or raise sufficient funds through future equity issues or other alternatives such as the sale or partial sale of its assets, there exists a material uncertainty that may cast significant doubt on the Group's ability to continue as a going concern and therefore that it may be unable to realise its assets and discharge its liabilities in the normal course of business.

Notes to the Condensed Consolidated Interim Financial Statements
For the half-year ended to June 30, 2013

2. PROPERTY, PLANT & EQUIPMENT

	June 30, 2013 $'000	December 31, 2012 $'000
Cost		
Land		
Balance at beginning of the period	1,412	1,172
Additions	-	240
Balance at end of the period	**1,412**	**1,412**
Plant & equipment		
Balance at beginning of the period	256,441	122,727
Additions	348	1,030
Effect of foreign exchange	20,521	(10)
Disposals	(710)	(261)
Acquired during merger	-	782
Transfer from assets under construction	309	132,173
Balance at end of the period	**276,909**	**256,441**
Assets under construction		
Balance at beginning of the period	374	90,394
Additions	3,186	43,143
Effect of foreign exchange	-	(990)
Transfer to plant and equipment	(309)	(132,173)
Balance at end of the period	**3,251**	**374**
Development expenditure		
Balance at beginning and end of the period	**17,708**	**17,708**
Total property, plant and equipment		
Balance at end of the period	**299,280**	**275,935**
Accumulated depreciation and impairment losses		
Land		
Balance at beginning and end of the period	-	-
Plant and equipment		
Balance at beginning of the period	92,243	38,005
Depreciation	10,264	10,022
Effect of foreign exchange	528	-
Disposals	(462)	(56)
Acquired during merger	-	172
Impairment loss	-	44,100
Balance at end of the period	**102,573**	**92,243**
Assets under construction		
Balance at beginning and end of the period	-	-
Development expenditure		
Balance at beginning of the period	13,956	8,719
Amortisation	-	337
Impairment loss	-	4,900
Balance at end of the period	**13,956**	**13,956**
Total accumulated depreciation and impairment losses		
Balance at end of the period	**116,529**	**106,199**
Carrying amounts		
Land	1,412	1,412
Plant and equipment	174,336	164,198
Assets under construction	3,251	374
Development expenditure	3,752	3,752
Total property, plant and equipment	**182,751**	**169,736**

Notes to the Condensed Consolidated Interim Financial Statements

For the half-year ended to June 30, 2013

3. EXPLORATION AND EVALUATION EXPENDITURE

	June 30, 2013 $'000	December 31, 2012 $'000
Balance at the beginning of the period	135,782	7,425
Acquired during merger (a)	-	121,189
Additions	7,133	7,168
Disposals	(137)	-
Balance at end of the period	**142,778**	**135,782**

a) On July 4, 2012 the Group acquired the Sal de Vida lithium project through the acquisition 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.

4. INTEREST BEARING LIABILITIES

	June 30, 2013 $'000	December 31, 2012 $'000
Current		
Unsecured bank loan (a)	129,021	48,529
Convertible bonds (b)	59,250	59,250
Secured bank loan (c)	5,000	-
Balance at end of the period	193,271	107,779
Non Current		
Unsecured bank loan (a)	-	60,365
Balance at end of the period	-	60,365

a) Unsecured facilities with Chinese banks with terms as follows. The borrower for these loans is Galaxy Lithium (Jiangsu) Co. Ltd, the Company's subsidiary in China.

Bank	**Loan**	**Facility RMB (millions)**	**Drawn RMB (millions)**	**Term (years)**
China Construction Bank (CCB)	Fixed assets	136.0	136.0	1-3
China Construction Bank	Fixed assets	129.6	115.6	1-5
China Construction Bank	Working capital	114.0	64.7	1
Shanghai Pudong Development Bank (SPD)	Working capital	84.0	79.9	1-3
Industrial and Commercial Bank of China (ICBC)	Fixed assets	182.0	179.7	1-5
Industrial and Commercial Bank of China	Working capital	100.0	99.6	1
		USD (millions)	**USD (millions)**	
Industrial and Commercial Bank of China	Working capital	7.1	7.1	0.5

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. During the period, these covenants were breached. Refer Note 1e.

Notes to the Condensed Consolidated Interim Financial Statements
For the half-year ended to June 30, 2013

4. INTEREST BEARING LIABILITIES (CONTINUED)

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.

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.

These bonds were restructured subsequent to 30 June 2013, see subsequent events (note 6).

c) A secured bridging loan facility of $5 million with Deutsche Bank A.G, Sydney Branch. The maturity date of the facility is the earlier of the date that is 3 months after the date of loan drawdown or the date on which settlement of the Rights Issue Entitlement Offer occurs. The loan was repaid during August 2013.

5. CONTRIBUTED EQUITY

	June 30, 2013		December 31, 2012	
	Number	**$'000**	**Number**	**$'000**
Share Capital				
Ordinary shares - Fully paid	584,355,501	415,720	560,357,421	407,170
Movement in ordinary share capital				
Balance at the beginning of the period	560,357,421	407,170	323,327,000	271,457
Issued for cash	23,998,080	8,945	95,875,504	57,246
Merger with Lithium 1 Inc.	-	-	141,154,917	80,458
Transaction costs	-	(395)	-	(1,991)
Balance at the end of the period	584,355,501	415,720	560,357,421	407,170

Notes to the Condensed Consolidated Interim Financial Statements

For the half-year ended to June 30, 2013

6. EVENTS SUBSEQUENT TO REPORTING DATE

- On 18 July 2013, the Company announced that its potential partner in the Sal de Vida Lithium Brine and Potash Project ("Sal de Vida" or "the Project") has not given a notice to exercise its option to vest a 30% equity interest in Galaxy Lithium (Sal de Vida) S.A., the Galaxy subsidiary that owns the Sal de Vida Project.
- In July 2013, the Company reached agreement with its convertible Bondholders whereby they have waived their right to redeem the bonds in November 2013. Under the Agreement, Galaxy has the ability to pre-pay principal and accrued interest outstanding to Bondholders in cash. In that event, the Bondholders have agreed to convert an equivalent amount of Bonds outstanding to issued shares and options on the same basis as the Entitlement Offer in whole or part at any time until 19 November 2013.
- On 8 August 2013, the Company issued 198,090,846 fully paid ordinary shares and 297,136,434 8 cent listed options expiring 31 December 2014.
- On 16 August 2013, the Company issued 17,470,956 fully paid ordinary shares and 26,206,434 8 cent listed options expiring 31 December 2014.
- On 27 August 2013, the Company issued 223,710 fully paid ordinary shares as a result of the exercise of listed options.
- On 4 September 2013, the Company issued 11,399 fully paid ordinary shares as a result of the exercise of listed options.
- On 10 September 2013, the Company issued 321,984 fully paid ordinary shares as a result of the exercise of listed options.

Other than the matters discussed above, there has not arisen in the interval between the end of the financial period 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.

7. SEGMENT INFORMATION

Reportable Segments	**Australia**		**China**		**Total**	
	6 months to June 30, 2013	6 months to June 30, 2012	6 months to June 30, 2013	6 months to June 30, 2012	6 months to June 30, 2013	6 months to June 30, 2012
	$'000	$'000	$'000	$'000	$'000	$'000
External revenues	-	5,688	11,491	-	11,491	5,688
Loss before tax	(17,639)	(47,400)	(16,646)	(2,247)	(34,285)	(49,647)
	As at June 30, 2013	As at December 31, 2012	As at June 30, 2013	As at December 31, 2012	As at June 30, 2013	As at December 31, 2012
	$'000	$'000	$'000	$'000	$'000	$'000
Total assets	48,500	51,947	154,493	142,849	202,993	194,796
Total interest bearing liabilities	64,250	59,250	129,021	108,895	193,271	168,145

There were no changes in the basis of segmentation composition of reportable segments or in the basis of measurement of segment profit or loss from the 31 December 2012 annual financial statements. The Group's two reportable segments are solely maintained in separate companies. As such there are no reconciling items between reportable segments profit or loss and Group's profit or loss. The reconciling items between total assets (as above) for reportable segments and the total assets per the statement of financial position represent other assets (mainly exploration and evaluation assets).

8. LOSS PER SHARE

	6 months to June 30, 2013	**6 months to June 30, 2012**
Basic loss per share		
Basic and diluted loss per share (cents per share)	**(5.95)**	(14.67)
Weighted average number of shares used as the denominator		
Weighted average number of ordinary shares outstanding during the period used in calculation of basic earnings per share	**576,532,922**	338,421,359

Notes to the Condensed Consolidated Interim Financial Statements

For the half-year ended to June 30, 2013

9. COMMITMENTS

Mining Tenement Leases

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

	June 30, 2013	**December 31, 2012**
	$'000	**$'000**
Within one year	395	566
	395	**566**

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

There are no minimum requirements in respect of Argentina or Canada tenements.

	June 30, 2013	**December 31, 2012**
Construction Contract Commitments	**$'000**	**$'000**
Contracted for	4,712	5,160
	4,712	**5,160**

10. FINANCIAL INSTRUMENTS

As at 30 June 2013, the Group had the following liability and assets measured at fair value:

- Convertible bonds liability – carrying value as at 30 June 2013 of $59,250,000. Monte Carlo Simulation valuation model is used for valuation with key inputs being underlying share price, share price volatility, risk free rate, dividend yield and credit spread.
- Call option assets – carrying value as at 30 June 2013 of $nil. Monte Carlo Simulation valuation model is used for valuation with key inputs being expected exercise date, share price of the underlying equity, strike price, share price volatility and dividend yield.

The aforementioned assets and liability are measured at fair value on a recurring basis at each reporting date until these are derecognised. These instruments are Level 3 financial instruments under the fair value hierarchy as defined under AASB 13 *Fair Value Measurement*. The valuation techniques adopted to measure these instruments have remained consistent with 31 December 2012. Inputs are updated at every reporting date. For the convertible bonds, there was no significant change in the fair value from 31 December 2012. The value of the call option asset as at 31 December 2012 was $1,514,000 and the resulting expense of $1,514,000 on re-measurement is included in profit or loss (finance costs).

Call options assets of $2,500,000 were purchased during the current half-year. On initial recognition, $1,100,000 was recognised in share capital and the remaining $1,400,000 was recognised in profit or loss upon remeasurement to $nil as at 30 June 2013.

Directors' Declaration

In the opinion of the Directors of Galaxy Resources Limited:

1. the condensed financial statements and notes set out on pages 11 to 22 are in accordance with the Corporations Act 2001, including:

   a. giving a true and fair view of the Group's financial position as at June 30, 2013 and of its performance for the half year ended on that date; and

   b. complying with Australian Accounting Standard AASB 134: Interim Financial Reporting, and the Corporations Regulations 2001; and

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

Signed in accordance with a resolution of the Directors
Dated at Perth this 13th day of September 2013.
On behalf of the Directors

C L Readhead
Chairman

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

We have reviewed the accompanying interim financial report of Galaxy Resources Limited, which comprises the condensed consolidated statement of financial position as at 30 June 2013, condensed consolidated statement of comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the half-year ended on that date, notes 1 to 10 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the Group comprising the company and the entities it controlled at the half-year's end or from time to time during the half-year.

Directors' responsibility for the interim financial report

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

Auditor's responsibility

Our responsibility is to express a conclusion on the interim financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity,* in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the interim financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's financial position as at 30 June 2013 and its performance for the half-year ended on that date; and complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001.* As auditor of Galaxy Resources Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

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

Conclusion

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

(a) giving a true and fair view of the Group's financial position as at 30 June 2013 and of its performance for the half-year ended on that date; and

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

Material uncertainty regarding continuation as a going concern

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

The matters set out in note 1.e. 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 interim financial report.

KPMG

KPMG

Trevor Hart
Partner

Perth

13 September 2013

Corporate Directory

Directors
Craig Leslie Readhead (Chairman)
Anthony Peter Tse (Interim Managing Director)
Robert (Bob) James Wanless
Kai Cheong Kwan
Xiaojian Ren

Company Secretary
Andrew Leslie Meloncelli

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

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ASX Codes
GXY and GXYO