

Galaxy Resources – Quarterly Report – March 2014

May 2, 2014 (Source: CNW) – Highlights

Significant events during the quarter

- Jiangsu Plant transitions over to Talison feedstock.
- Galaxy Jiangsu enters spodumene tolling agreement with Sichuan Tianqi Lithium Industries Inc.
- Environmental permitting work continues to progress at Sal de Vida.
- *Galaxy signs binding agreement for the 100% sale of the Jiangsu Plant for US\$230 million.

* Subsequent to end Q1

Corporate

US\$230 million sale of the Jiangsu Plant

On 30 April 2014, the Company announced that it had signed a Binding Share Purchase Agreement (“SPA”) signed with Sichuan Tianqi Lithium Industries Inc. (“Tianqi”) for the sale of 100% of the Jiangsu Lithium Carbonate Plant (“Jiangsu Plant”). The transaction is based on an enterprise value of US\$230 million, comprising cash consideration of US\$122 million and assumption of all Chinese debt (US\$108 million) by Tianqi. The agreement will be effected by way of the sale of 100% of the shares in the Company’s wholly owned Hong Kong subsidiary Galaxy Lithium International Limited (“Galaxy International”) which is the 100% shareholder of Galaxy Lithium (Jiangsu) Co., Ltd (“Galaxy Jiangsu”), the owner of the Jiangsu Plant. The final enterprise value and therefore cash consideration is subject to any working capital adjustments at Galaxy Jiangsu between the date of execution of the SPA and the closing date.

Galaxy expects that completion of the SPA will take

approximately 3 months as the transaction is subject to Galaxy and Tianqi shareholder approvals, as well as regulatory approvals in China for Tianqi.

Tianqi holds a significant range of assets in the lithium sector. It is a leading producer of lithium products in China and has also recently acquired a majority interest in Talison Lithium, which owns the Greenbushes lithium operations in Western Australia.

Operations

Jiangsu (100%)

Operational Performance – Jiangsu Plant Lithium Carbonate Production

	Q1 2014	YTD
Production (tonnes)	638	638
Sales (tonnes)	745.5	745.5

Jiangsu Plant reduced its operation rate while the Company was formulating the long-term strategy of Jiangsu.

During the quarter, Galaxy Jiangsu entered into a spodumene tolling agreement with Tianqi, to treat 8000 tonnes of lithium carbonate (battery and technical grade) on their behalf. The toll agreement is for an initial the period of 12 months commencing on 13th March 2014, with an option for further extension. Tianqi will pay a toll treatment fee to Galaxy Jiangsu, which will be responsible for production costs, excluding the cost of packaging.

Safety

There were zero LTIs (Lost Time Incidents) and MTIs (Medical Treatment Incidents) during the quarter.

Projects

Sal de Vida (96%)

The Sal de Vida project continued to progress its environmental permitting work. The project has reduced operating expenditures to a nominal level while in this preparation stage. Engineering, construction planning, early-stage owners EPCM team recruitment and IT initiatives continued.

Engineering and construction

Engineering: Work continues towards refining the conceptual engineering for the project to accommodate development alternatives. This provides a positive opportunity to optimise the development and market entry plan for the project, as well as optimising some of the earlier engineering concepts.

Organisation: An important part of the early planning process has been a review of the next phase organisation structure, and identification of candidates for the owner's management team. Candidates currently being considered for the owners EPCM team include managers for construction, procurement, contractor management, process and ponds and control.

The organisation structure, a revised development schedule and the operations design itself is (and will be) driven by both a "modular" expansion concept to seamlessly ramp up from the early development alternatives to the full-scale operation, and by the distinctly different engineering and procurement lead times for the different elements of the conceived operations. Work is progressing across the various operational streams including liming ponds and plant, well field, evaporation ponds, lithium carbonate plant and Infrastructure.

Process test work: New developments in process test work include advances on consideration of renting the Lithium Americas pilot plant, and seeking the assistance of test laboratories for the parts of the process that have yet to be tested on a pilot scale. This work continued during the quarter.

SGS Lakefield and Hazen research Inc have both expressed an interest in assisting with ion exchange "IX "and bicarbonate purification "BiC" test plans.

Operations planning (reagents): An initial reduced scale will help simplify the sourcing, transporting and storing of reagents. Recent infrastructure developments will also potentially simplify and reduce costs of supply for both lime (CaO) and soda ash (Na₂CO₃).

In addition to a reduced initial scale, the aforementioned public infrastructure works should facilitate more efficient lime supply while reducing overall costs. The improved road to the project from the south could mitigate peak demand requirement, and alleviate seasonal tightness of lime supply from Jujuy. Additionally Cameuse, the Belgian-based lime company has been expanding in Northern Chile.

Improved southerly access will also enhance alternative sources of soda ash supply via the Campana port in Buenos Aires, Bahia Blanca, or even more southerly ports in Chile.

Alternative lime and soda ash supply may also become available by way of improved rail access from the Chilean network directly serving Galaxy's proposed logistics facility.

IT and information management

While continually improving the Project Group's data management systems and procedures, the local IT staff/contactors have designed and are implementing, with the accounting staff, a modular application to improve cost control and capability with respect to generation of various statistical and financial reports.

Mt Cattlin and James Bay (100%)

Mt Cattlin and James Bay are being assessed with respect to the optimal short to mid-term strategy for each asset. Necessary activities to maintain the projects in good standing

have been maintained.

Marketing & Sales

Lithium Carbonate Sales & Product Qualification

Total lithium carbonate sales for the quarter (Jan-Mar 2014) were 745.5 tonnes of technical and battery grade product. The sales in the first quarter of 2014 decreased 55.8% compared with the fourth quarter in 2013.

Lithium Carbonate Demand

Strong indications of future demand were seen in the quarter, with several substantial future investments in lithium battery making capacity announced:

- Samsung (SDI) confirmed an investment of US\$600 million in China's Shaanxi province to build China's largest manufacturing base of lithium-ion batteries for electric vehicles. .
- LG Chem CEO, Mr Park Jin-soo, that the South Korean company was considering building an electric vehicle battery plant in China, expecting Beijing's efforts to tackle air pollution to drive demand.
- Tesla Motors Inc. Chief Executive Officer Elon Musk, forecast the company will be making cars in the country in the next three to four years.
- A record Seventy-nine new-energy vehicles are on exhibition at the 2014 Beijing International Automotive Exhibition, according to the secretariat of the event.

Sourcing data from the China Automobile industry, for the first quarter of 2014, China HEV production and sales is about 2627 units, EV 4024 units. Compared with the first quarter figures from 2013, of only 300 units of HEV and 2690 of EV units, the 120% increase reflects the incentives put in place by the Government.

Pricing

According to Asia Metal Pty Ltd, during the quarter, technical grade product average prices fell from US\$6,200/t to US\$5,950/t (inclusive of VAT) due to the recommencement of supplies from two Chinese brine producers. The average prices for battery grade lithium carbonate in China also dropped from US\$6,870/t to US\$6,770/t (inclusive of VAT) towards the end of the quarter.

Outlook

The transaction involving the 100% sale of the Jiangsu Plant is a major step in the financial transformation of the Company. The new Board and executive management team at Galaxy have been entirely focused on the best ways to reduce the interest bearing debt of the Company without further diluting shareholders equity. Completion of the sale of the Jiangsu Plant will leave the Company in a strong financial position with an increase in shareholder's equity. Upon closing, the entire US\$108 million of Chinese bank debt will have been assumed by the purchaser of Jiangsu and based on the initial cash consideration of US\$122 million, after deducting all remaining interest bearing liabilities at the corporate level, the Company will be holding a pro forma net cash position of approximately A\$62 million.

Following the divestment of the Jiangsu Plant, the Company will have a transformed balance sheet, but will also continue to retain significant exposure to the lithium sector, through its portfolio of lithium assets – namely the Sal de Vida lithium and potash brine project (96%), Mt Cattlin spodumene mine (100%) and James Bay pegmatite project (100%). Management will continue to investigate the best ways to unlock value from these projects and will begin to focus on the advancement of the Sal de Vida project as a priority.

About Galaxy Resources

Galaxy Resources Ltd (“Galaxy”) is an Australian-based global

lithium company with lithium production facilities, hard rock mines and brine assets in Australia, China, Canada and Argentina. The Company is a lithium producer listed on the Australian Securities Exchange (Codes: GXY and GXY0).

Galaxy has built an advanced and fully-automated Lithium Carbonate production facility in Jiangsu Province, China ("Jiangsu Plant"). The Jiangsu Plant has a name-plate capacity of 17,000 tpa, is primarily focused on producing battery grade lithium carbonate and is aiming to become the largest producer in the Asia Pacific region and the fourth largest in the world.

Galaxy is currently advancing plans to develop the Sal de Vida Lithium and Potash Brine Project ("Sal de Vida") in Argentina, which is situated in the Lithium Triangle, a region where Chile, Argentina and Bolivia meet and presently accounts for 60% of global lithium production. Sal de Vida has excellent promise as a future low cost production facility.

The Company also owns the Mt Cattlin Spodumene Mine near Ravensthorpe in Western Australia and the James Bay Lithium Pegmatite Project in Quebec, Canada.

Lithium compounds are used in the manufacture of ceramics, glass and electronics and are an essential ingredient in producing battery materials such as cathode and electrolyte, in the manufacture of long life lithium-ion batteries, which are used in consumer electronics, power tools, electric bikes, hybrid and electric vehicles. Anticipating the growing demand in coming years, Galaxy is positioning itself to become a major producer of lithium products.

www.galaxylithium.com

Caution Regarding Forward Looking Information.

This document contains forward looking statements concerning Galaxy.

Forward-looking statements are not statements of historical fact and actual events and results may differ materially from those described in the forward looking statements as a result of a variety of risks, uncertainties and other factors. Forward-looking statements are inherently subject to business, economic, competitive, political and social uncertainties and contingencies. Many factors could cause the Company's actual results to differ materially from those expressed or implied in any forward-looking information provided by the Company, or on behalf of, the Company. Such factors include, among other things, risks relating to additional funding requirements, metal prices, exploration, development and operating risks, competition, production risks, regulatory restrictions, including environmental regulation and liability and potential title disputes.

Forward looking statements in this document are based on Galaxy's beliefs, opinions and estimates of Galaxy as of the dates the forward looking statements are made and no obligation is assumed to update forward looking statements if these beliefs, opinions and estimates should change or to reflect other future developments.

Not For Release in US

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

Appendix 5B

Mining exploration entity and oil and gas exploration entity quarterly report

Introduced 01/07/96 Origin Appendix 8 Amended 01/07/97,
01/07/98, 30/09/01, 01/06/10, 17/12/10, 01/05/2013

Name of entity
Galaxy Resources Limited

ABN	Quarter ended ("current quarter")
11 071 976 442	31 March 2014

Consolidated statement of cash flows

Cash flows related to operating activities		Current quarter \$A'000	Year to date (3 months) \$A'000
1.1	Receipts from product sales and related debtors	6,069	6,069
1.2	Payments for		
	(a) exploration & evaluation	(518)	(518)
	(b) development	–	–
	(c) production	(6,065)	(6,065)
	(d) administration	(1,171)	(1,171)
1.3	Dividends received	–	–
1.4	Interest and other items of a similar nature received	271	271
1.5	Interest and other costs of finance paid	(1,356)	(1,356)

1.6	Income taxes paid		–	–
1.7	R&D Refund		–	–
	Net Operating Cash Flows		(2,770)	(2,770)
	Cash flows related to investing activities			
1.8	Payment for purchases of:			
	(a) prospects		–	–
	(b) equity investments		–	–
	(c) other fixed assets		(1,285)	(1,285)
1.9	Proceeds from sale of:			
	(a) prospects		–	–
	(b) equity investments		–	–
	(c) other fixed assets		1	1
1.10	Loans to other entities		–	–
1.11	Loans repaid by other entities		–	–
1.12	Deposits		5,330	5,330
	Net investing cash flows		4,046	4,046
1.13	Total operating and investing cash flows (carried forward)		1,276	1,276

1.13	Total operating and investing cash flows (brought forward)		1,276	1,276
	Cash flows related to financing activities			
1.14	Proceeds from issues of shares, options, etc.		2	2
1.15	Proceeds from sale of forfeited shares		–	–
1.16	Proceeds from borrowings		9,437	9,437
1.17	Repayment of borrowings		(9,390)	(9,390)

1.18	Dividends paid	–	–
1.19	Repayment of CB's	–	–
	Payment for call option	–	–
	Net financing cash flows	49	49
	Net increase/(decrease) in cash held	1,325	1,325
1.20	Cash and cash equivalents at beginning of quarter/year to date	2,840	2,840
1.21	Exchange rate adjustments to item 1.20	(5)	(5)
1.22	Cash and cash equivalents at end of quarter	4,160	4,160

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

		Current quarter \$A'000
1.23	Aggregate amount of payments to the parties included in item 1.2	76
1.24	Aggregate amount of loans to the parties included in item 1.10	–
1.25	Explanation necessary for an understanding of the transactions	
	Includes directors' fees, salary and superannuation and also fees paid to directors or director related entities for professional and technical services (\$A'000).	

Non-cash financing and investing activities

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

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

Financing facilities available

Add notes as necessary for an understanding of the position.

		Amount available \$A'000	Amount used \$A'000
3.1	Loan facilities	119,758	119,758
3.2	Credit standby arrangements	–	–

Estimated cash outflows for next quarter

		\$A'000
4.1	Exploration and evaluation	500
4.2	Development	–
4.3	Production	5,000
4.4	Administration	1,000
	Total	6,500

Reconciliation of cash and cash equivalents

Reconciliation of cash and cash equivalents at the end of the quarter as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.		Current quarter \$A'000	Previous quarter \$A'000
5.1	Cash on hand and at bank	960	1,338
5.2	Deposits at call	2	1,502
5.3	Bank overdraft	–	–
5.4	Bank Bills	3,198	–

	Total: cash and cash equivalents at end of quarter (item 1.22)	4,160	2,840
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Changes in interests in mining tenements and petroleum tenements

		Tenement reference and location	Nature of interest (note (2))	Interest at beginning of quarter	Interest at end of quarter
6.1	Interests in mining tenements and petroleum tenements relinquished, reduced or lapsed		See schedule.		
6.2	Interests in mining tenements and petroleum tenements acquired or increased				

Issued and quoted securities at end of current quarter

Description includes rate of interest and any redemption or conversion rights together with prices and dates.

				Issue price per security (see note 3) (cents)	Amount paid up per security (see note 3) (cents)
		Total number	Number quoted		

7.1	Preference +securities <i>(description)</i>				
7.2	Changes during quarter				
	(a) Increases through issues				
	(b) Decreases through returns of capital, buy-backs, redemptions				
7.3	+Ordinary securities	1,027,073,389 ¹	1,027,073,389	–	–
7.4	Changes during quarter				
	(a) Increases through issues	14,621	14,621	\$0.08	\$0.08
	(b) Decreases through returns of capital, buy-backs				

7.5	<p>+Convertible debt securities (description)</p>	<p>600 Convertible Bonds (face value of \$100,000 per bond). Unsecured, subordinated 8% per annum. A\$0.922 conversion price. Total owing A\$62.4 million.</p>	-	-	-
7.6	Changes during quarter				
	(a) Increases through issues	-	-	-	-
	(b) Decreases through securities matured, converted	-	-	-	-

					Expiry date 31/12/14 17/11/14 26/11/14 26/11/14
7.7	Options (description and conversion factor)	661,870,813 750,000 2,600,000 1,800,000 0 3,600,000 1,200,000 16,700,000	661,870,813 — — — — — — —	Exercise price \$0.08 \$0.45 \$0.60 \$0.90 \$0.96 \$1.11 \$1.11 \$1.16	Vesting not satisfied 22/07/16 Vesting not satisfied Vesting not satisfied
7.8	Issued during quarter	—	—	—	—
7.9	Exercised during quarter	14,621	14,621	\$0.08	31/12/14
7.10	Expired during quarter	750,000 500,000 1,500,000	— — —	\$0.60 \$0.96 \$1.16	26/11/14 Vesting not satisfied Vesting not satisfied
7.11	Debentures (totals only)	—	—		
7.12	Unsecured notes (totals only)	—	—		
—————					

¹ For voting purposes, the total number of shares presently carrying voting rights in Galaxy Resources Limited is 1,027,073,389. This is made up of 1,015,761,632 Fully Paid Ordinary Shares and 11,311,757 Special Voting Shares (which, effectively, may be voted by the holders of the remaining un-exchanged 11,311,757 Exchangeable Shares in Galaxy Lithium One Inc). These amounts are aggregated on the basis that ASX has confirmed that the voting rights attached to each Special Voting Share along with each Exchangeable Share (and its associated exchange rights and obligations) together upon and from their issue are to be treated as one Fully Paid Ordinary Share in Galaxy for the purposes of the ASX Listing Rules.

During the current quarter 0 Exchangeable Shares were exchanged for Fully Paid Ordinary Shares.

Compliance statement

1	This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Act or other standards acceptable to ASX (see note 5).
2	This statement does give a true and fair view of the matters disclosed.

Sign here:(signature).....	Date: 30 April 2014
	(Company secretary)	
Print name:	A L Meloncelli	

Notes

1	The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.
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2	The “Nature of interest” (items 6.1 and 6.2) includes options in respect of interests in mining tenements and petroleum tenements acquired, exercised or lapsed during the reporting period. If the entity is involved in a joint venture agreement and there are conditions precedent which will change its percentage interest in a mining tenement or petroleum tenement, it should disclose the change of percentage interest and conditions precedent in the list required for items 6.1 and 6.2.
3	Issued and quoted securities The issue price and amount paid up is not required in items 7.1 and 7.3 for fully paid securities.
4	The definitions in, and provisions of, <i>AASB 6: Exploration for and Evaluation of Mineral Resources</i> and <i>AASB 107: Statement of Cash Flows</i> apply to this report.
5	Accounting Standards ASX will accept, for example, the use of International Financial Reporting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.

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Tenement Schedule as at 31 March 2014

Project	Tenement	Notes (100% interest unless stated)
<i>Argentina</i>		
<u>Sal De Vida</u>	Various	96% (70% Interest upon satisfaction of JV conditions with Kores Consortium).
<i>Australia</i>		
<u>Boxwood Hill</u>	E70/2493	
	E70/2513-E70/2514	
	E70/2547	

<u>Ponton</u>	E28/1317	
	E28/1830	
<u>Shoemaker</u>	E69/1869-1871	20% Interest with General Mining Corporation.
<u>Ravensthorpe</u>		
Bakers Hill	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	
<u>Canada</u>		
<u>James Bay</u>	Various	