

GALAXY RESOURCES LIMITED

QUARTERLY ACTIVITIES REPORT

THREE MONTHS ENDED 31 DECEMBER 2018

Galaxy Resources Limited (ASX: GXY, "Galaxy" or the "Company") is pleased to report to shareholders its activities for the quarter ended 31 December 2018.

HIGHLIGHTS

Mt Cattlin Operations

- Production of 33,780 dry metric tonnes ("dmt") of spodumene concentrate
- Sales of 39,682 dmt of spodumene concentrate
- Average cash margin of US\$288 per dmt sold (including royalties and marketing fees)
- Construction of Yield Optimisation Project completed and commissioning 85% complete
- Mining activities commenced east of Floater Road

Sal de Vida Project

- Tenement transfer deeds for sale of the northern tenement package to POSCO executed
- Registration of the Catamarca tenement transfers to POSCO with the Catamarca Mining Court completed on 28 December 2018
- Two new exploration wells drilled on the Sal de Vida tenements in the southern basin of Salar del Hombre during the quarter
- Commenced work on construction of 15 hectare test ponds

James Bay Project

- The Environmental and Social Impact Assessment ("ESIA") submitted to various authorities in Canada for evaluation
- Continued engagement with local Cree community, including further negotiation of Pre-Development Agreement ("PDA")
- Mining tenements renewed
- Bid process completed to select engineering firms and specialized consultants to undertake the combined feasibility study integrating a downstream conversion facility into the project design

Corporate

- Closing cash and liquid assets of US\$41.1 million
- Zero debt



PROJECTS

MT CATTLIN – OPERATIONS

Safety Performance

Operations at Mt Cattlin have continued without any Lost Time Injuries.

Production & Sales Statistics

	Units	Q1 2018	Q2 2018	Q3 2018	Q4 2018	YTD 2018	Q4 vs Q3
Mined Volume	<i>bcm</i>	843,308	846,830	779,485	988,387	3,458,010	↑ 27%
Ore Mined	<i>wmt</i>	528,977	419,314	397,047	432,382	1,777,720	↑ 9%
Ore Mined - Grade	<i>Li₂O %</i>	1.01	1.11	0.89	0.98	1.00	↑ 0.09
Ore Treated	<i>wmt</i>	430,398	435,296	441,206	396,604	1,703,503	↓ 10%
Ore Treated - Grade	<i>Li₂O %</i>	1.11	1.17	0.98	1.07	1.08	↑ 0.09
Recovery	<i>%</i>	52	56	42	47	50	↑ 5
Concentrate Produced	<i>dmt</i>	43,852	47,901	31,156	33,780	156,689	↑ 8%
Concentrate Sold	<i>dmt</i>	44,258	45,761	29,555	39,682	159,255	↑ 34%
Concentrate Sold - Grade	<i>Li₂O %</i>	5.70	5.83	5.65	5.81	5.76	↑ 0.16
Cash margin per tonne Concentrate Sold #	<i>US\$/dmt</i>	439	534	411	288	424	↓ 30%

after including royalties and marketing fees

Total mining volumes increased 27% compared with the previous quarter due to increased ore mined and an increased stripping ratio.

Ore grade mined of 0.98% during the quarter was higher than Q3 but still lower than the average reserve grade because the majority of ore mined came from the lower grade 2SW pit. All the necessary permits required to mine east of Floater Road were received during the first week of October with mining activities commencing in this area during the quarter. The ore mined from east of Floater Road is expected to be higher grade fresh ore resulting in an improvement in recovery. Ore from this area will only be processed from Q1 2019.

Treated ore volume decreased 10% compared to Q3 2018 due to tie-in shutdowns and commissioning of the Yield Optimisation Project ("YOP"). As a direct result of these commissioning shut-downs concentrate production volumes of 33,780 dmt achieved during the quarter were lower than targeted. Production volumes achieved were 8% higher than the previous quarter primarily due to higher ore feed grade of 1.07%. Similar to Q3, during this period the continued processing of the weathered ore originating from the 2SW pit resulted in lower than average recovery as this ore contained lower spodumene content.

Mt Cattlin reported an average cash margin per dmt sold (including royalties and marketing fees) of US\$288 for the quarter primarily due to increased unit costs of production arising from higher mining volumes and lower production. Cost of production

in Q4 was in line with Q3 but the cash margin in Q3 had the benefit of lower cost of production in Q2 resulting in the higher cash margin in Q3. Final product inventory on hand at year end was almost 8,000mt.

A total of three shipments of lithium concentrate were completed during the quarter for an aggregate of 39,682 dmt of product sold, with all shipments at pricing, grade and specifications meeting contract terms.

Construction of the YOP at the Mt Cattlin Plant was completed during the quarter and commissioning was approximately 85% completed by the end of the period. The YOP includes an ultra-fines DMS circuit, a secondary float re-crush circuit and several optical sorting units. These productivity improvement projects have been implemented with the objective of increasing overall process recovery. The improvements in recoveries and production rates are expected to be realized starting from Q1 2019.

MT CATTLIN – EXPLORATION AND RESOURCES & RESERVES

During the quarter, the Company continued the previously announced ~30,000m drill program in support of exploration, resource and reserve development at Mt Cattlin.

The following exploration work was completed during the quarter:

- 5,520m of RC drilling for direct resource development
 - An additional 248m of diamond tails were completed in deeper development drilling in the pegmatite,
- 1,308m RC drilling on exploration on Mining lease M74/244,
- 3,122m of greenfield regional exploration drilling on the Sidar and Floater projects, north of Mt Cattlin on tenements E74/401, P74/370 (Galaxy 80%, Traka Resources, 20%), E74/400 and P74/371 (Galaxy 100%).

The Company released an exploration update in regards to Mt Cattlin in early December 2018 that detailed that exploration drilling had delineated a second, previously unidentified lode beneath the known spodumene bearing lode immediately to the north of the 2SW pit as illustrated in figures 1 and 2: This pegmatite body was not previously included in the existing resource model, but has now been included in the updated reserve and resource numbers announced on 23 January 2019.

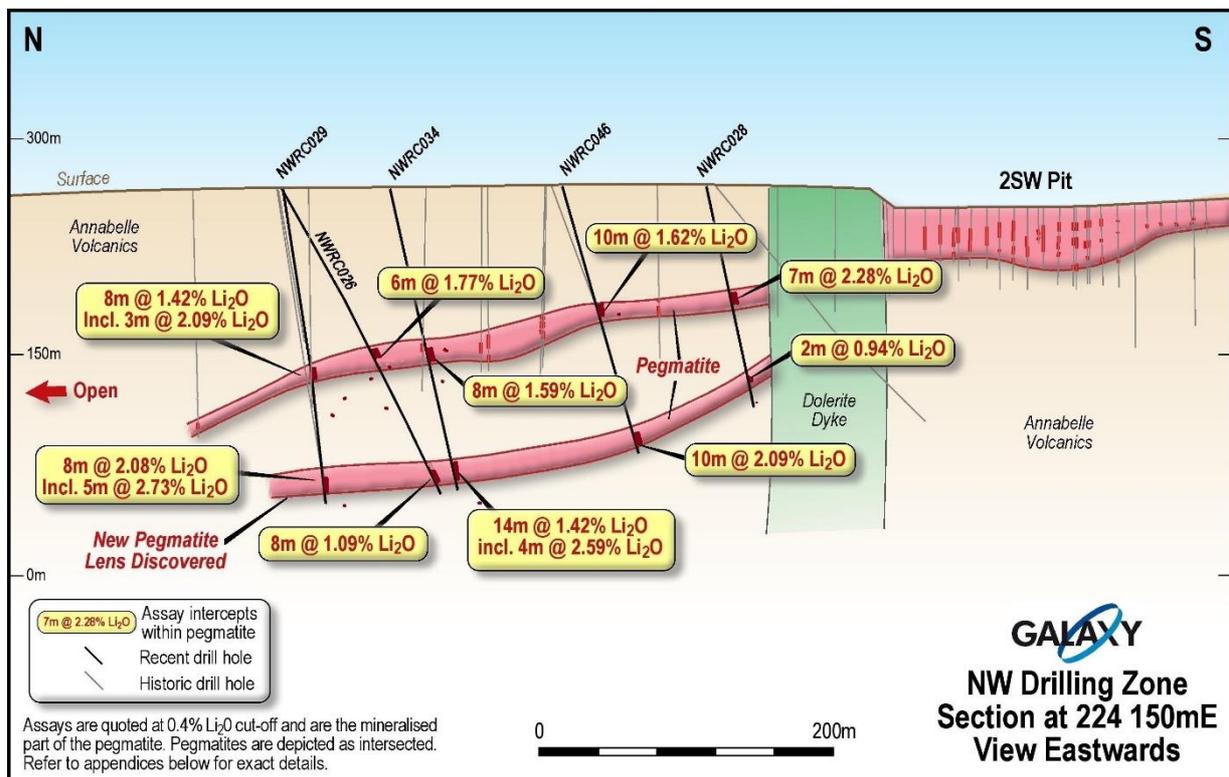


Figure 1: Eastward viewing section with Li₂O intercepts.

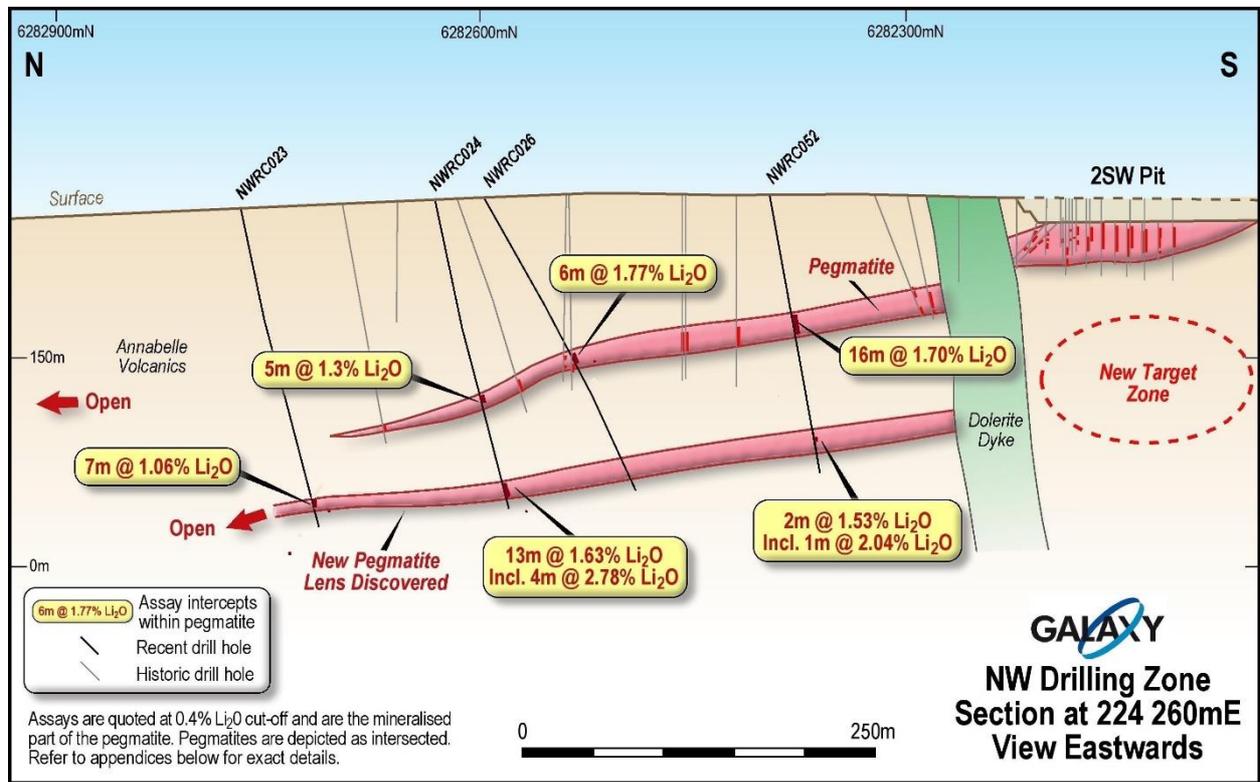


Figure 2: Eastward viewing section with Li_2O intercepts.

Exploration at the Sidar and Floater Projects north of Mt Cattlin targeted four ground penetrating radar (“GPR”) targets with twelve drill holes, intersecting eight new blind pegmatite targets. Assays for these drill holes have not yet been received. Blind targets had no surface expression and no other targeting prior to the GPR campaign. These results provide strong validation of the Company’s strategic exploration strategy and provide preliminary insight into the potential for resource expansion that could be delineated through further successful exploration.

Exploration activities will now focus on a further round of GPR in the tenements surrounding Mt Cattlin and completion of geochemical sampling programs confirming earlier GPR work. Drilling in support of resource development re-started in early January 2019.

Subsequent the quarter end, Galaxy announced a 42% upgrade in Mt Cattlin’s mineral resource to 16.7Mt @ 1.28% Li_2O and a 40% increase in the Project’s ore reserve to 10.7Mt @ 1.15% Li_2O .

MT CATTLIN - Q1 2019 PRODUCTION GUIDANCE

Galaxy is targeting total spodumene production volumes in the range of 40,000 dmt to 45,000 dmt in Q1 of 2019 and 180,000 dmt to 210,000 dmt for the full calendar year.

SAL DE VIDA PROJECT

Sale of Northern Tenements

During the September quarter, Galaxy entered into a binding agreement with POSCO to sell a package of tenements located on the northern area of the Salar del Hombre Muerto in Argentina for a cash consideration of US\$280 million.

In late November, Galaxy announced that the final tenement transfer deeds relating to the sale of the northern tenement package had been executed with POSCO. Registration of the Catamarca tenement transfers with the Catamarca Mining Court was completed on 28 December 2018. The Salta tenements transfer registration process has started and the relevant public deeds lodged with the Mining Court for registration. Registration has not yet been finalized and the Salta court is closed for all of January 2019, so February 2019 is targeted for final registration of the Salta tenement transfers. This is the final condition to release the consideration of US\$280 million (less withholding tax of approximately US\$8 million) from the escrow account held with HSBC. In the meantime, Galaxy is entitled to the interest accruing on the funds on deposit in the HSBC escrow account.

Strategic Partnership

Throughout the second half of 2018, Galaxy advanced a comprehensive evaluation of strategic options in relation to Sal de Vida.

Galaxy has received several offers from potential strategic partners which are currently being evaluated in detail. Negotiations continue to progress, so the Board has resolved to formally extend the process timeline to ensure proper consideration is given to the strategic merits and proposed terms and structures of each of the offers.

Given the superior quality of Sal de Vida as a long life, low-cost operation with excellent economics, Galaxy will only proceed with a strategic partner if the final terms of the relationship properly recognize the fundamental underlying value of Sal de Vida and the partner can add additional value to the Project either through technical and/or financial input.

Sal de Vida is recognized as one of the best undeveloped lithium resources, globally, based on:

- Reserves of 1.14Mt LCE (0.18Mt Proven, 0.96Mt Probable), supporting an initial 40-year project life, coupled with a resource of 4.92Mt LCE (1.96Mt Measured, 2.58Mt Indicated, 0.38 Inferred) and substantial upside;
- Favorable brine chemistry – highest lithium concentration of Argentine development assets (732mg/L Li) and low impurity levels;
- High economic returns forecast through feasibility studies, with operating costs forecast to be within the lowest quartile; and
- Project already substantially de-risked from a financial perspective following the completion of the POSCO transaction for US\$280 million.

Project Development

A lease has been signed for a new corporate office location in Catamarca City which will act as the principal base for the project team. Construction and fit-out of the office is scheduled to be completed early in Q2, 2019.

WorleyParsons will be engaged as Project Management Consultant (“PMC”) and a contract covering early works is being negotiated.

Mike Nelson, a highly experienced mining professional has been appointed as the SDV Project Director. Recruitment is currently underway for other key project team positions.

Geology & Hydrogeology

The resource extension drilling campaign advanced in Q4 2018 and will continue into Q1 2019 following some delays. Wells #25 and #26 have achieved depths of 311m and 183m respectively with well #25 now widened to a 16” diameter.

When completed, results from the new wells will be modelled to enable a recalculation of the resource, as well as to strengthen the knowledge base upon which the current hydrogeological model of the salar is founded.

Process Development

As part of the Company’s continuous product validation and process optimization strategy the project team is currently undertaking two concurrent test work programs. Work is currently underway to prove up and fine tune each unit process in the existing process flowsheet (incorporating solar evaporation ponds) to produce a battery-grade lithium carbonate. A

strategic decision was also made in late 2018 to further assess alternative processing technologies through a parallel test work program utilizing several non-conventional technologies that are already in commercial use, albeit in non-lithium industries. To assist this process, an independent process advisory committee has been established to oversee and guide this work program. The committee comprises three technical industry experts, with former experience at FMC, Rockwood and Tianqi, as well as two senior Galaxy representatives.

Engineering Development and Site Works

Following the completion of the sale of the northern tenement package to POSCO as well as a series of comprehensive planning and alignment technical workshops, the workplan and budget for development works for FY2019 was developed during the quarter. This refined execution plan details the key milestones and all required engineering, as well as other functional activities required in order to take the project to a position where the Board can resolve to commit the full updated project capital estimate required for the construction of the Sal de Vida project.

Value engineering studies were initiated during the quarter, primarily focused on identifying potential capital reduction opportunities and advancing project engineering to the detail required to prepare and commission bid packages for detailed engineering. A detailed geotechnical survey was also well advanced in during the quarter. This work program will form the foundation of engineering input to civil works, most notably for the construction of the evaporation ponds and the precise location of the process plant. Further value engineering analysis, including energy generation options, water supply and offsite precast and pre-assembly options will be advanced in 2019.

Construction of a 15 hectare pilot evaporation pond commenced with progress of earthworks approximately 50% complete at the end of the quarter.

Government Relations and Corporate Social Responsibility

A high-level meeting was held with the Catamarca Secretary of Mining during the quarter to reiterate the regional commitment by Galaxy to the province of Catamarca and to brief on recent updates to the project. Ongoing dialogue between the project team and the relevant government departments will be a priority.

JAMES BAY PROJECT

Exploration & Development

The Environmental and Social Impact Assessment (“**ESIA**”) was completed and submitted to various authorities for evaluation in Q4 2018. Communications, exchanges and meetings regarding the ESIA have commenced with various key stakeholders, including federal, provincial, and the Cree Nation authorities.

Engagement with the Cree Nation of Eastmain continued during the quarter, which included discussions around finalizing a Pre-Development Agreement (“**PDA**”).

“*Pre-Work*” engineering by Hydro-Quebec involving the design and construction of a powerline and connection infrastructure for future power supply to the project continued throughout the quarter.

The Phase 2 test work program for the James Bay upstream operation continued as planned during the period. This test work program is being completed by Nagrom and is focused on confirming, refining and optimizing the upstream flowsheet design to maximize theoretical process performance based on the specific geological and metallurgical characteristics of the James Bay orebody. It is estimated that this work program is 50% completed

In line with mandatory tenement management requirements a geology and drilling work summary report was completed and submitted to the relevant authorities, allowing for the renewal of all mining tenements for a further 2 years.

A comprehensive and competitive bid process to select engineering firms and specialized consultants to undertake the combined feasibility study integrating a downstream conversion facility into the project design was completed. Contract award is expected in January with work planned to commence shortly thereafter.

CORPORATE

Cash and Debt

Galaxy had US\$41.1 million in cash and liquid securities at 31 December 2018 and zero debt.

INDUSTRY & MARKET UPDATE

Market indicators observed throughout Q4 2018 were illustrative of the robustness of the maturing lithium market. Domestic lithium chemical prices within China plateaued, following several periods of retreat, which many have interpreted as signaling the bottom of the pricing cycle within this region. Significant growth in unit EV production and sales volumes were recorded within all key global markets during 2018, including China (60% year-on-year (“YoY”)), USA (81% YoY) and Europe (34% YoY through to November 2018). Key indicators point to a more buoyant market environment throughout 2019 with Chinese domestic prices for lithium stabilizing during the last quarter and the combination of strong demand growth and supply challenges to support a favorable market moving forward.

China’s dominance as the global leader in electric vehicle (“EV”) production was further exemplified by a second straight year of growth that exceeded market and industry analyst estimates. The China Association of Automobile manufacturers reported total NEV production of c.536,000 vehicles throughout Q4 2018, representing growth of 48% YoY compared to the same period in 2017. Total production of battery electric vehicles (“BEV”) throughout this period was c.432,000, whilst total production of plug-in hybrid vehicles (“PHEV”) for the period was c.104,000, representing YoY growth rates of 40% and 97%, respectively. This resulted in total NEV production volumes for CY2018 of c.1.27 million, representing an impressive 60% growth over CY2017 volumes.

China is expected to formally confirm their revised NEV subsidy plans early in the first half of 2019. Unofficial indications suggest that subsidies will be scaled back for NEVs with a range of less than 300km, whilst increased for vehicles with a range of greater than 400km. This is consistent with changes implemented in 2018 and with the original subsidy reduction strategy outlined by the central government. The subsidy changes have been structured as such to drive continued innovation at the battery level and the promotion of BEV production with longer range and larger battery capacities. The turn of the new year also marked the formal commencement of the NEV quota and cap and trade policy. All vehicle manufacturers are now mandated to achieve minimum NEV sale credits of 10%.

China was not the only market to demonstrate noteworthy growth in EV demand throughout the year with the both the USA and Europe boasting as strong growth markets. *InsideEVs* reported plug in vehicle deliveries of c.126,562 vehicles in the US throughout Q4, representing 120% growth YoY. Total CY2018 sales were estimated to be c.361,307 vehicles (81% growth YoY). Further, plug in vehicle sales in Europe increased c.34% YoY to c.351,300 units throughout the period of January-November 2018.

The growth in networked mobility and distributed energy generation continues to be supported through the development of mandated policy and targets across all governing jurisdiction levels (i.e. federal, provincial and city). Updated policy from key global jurisdictions is outlined in Table 1.

Table 1: Updated Environmental and Electric Vehicle Policy Supporting Global Uptake

Location	Level	Overview
Europe	Continent	Mandatory emission reduction targets for new vehicles striving to cut emissions from cars by 37.5% and vans by 31% by 2030 compared to 2021; an interim target of 15% by both by 2025 Exceedance of targets to result in fines Super credits for low emission cars to begin accruing as of 2019
China	Federal	Average fleet fuel consumption of requirement of 5.0L/100 km by 2020
Italy	Federal	The Italian government plans to offer subsidies up to €6,000 for the purchase of BEVs and PHEVs ICE vehicles to be taxed according to their CO ₂ emissions
Colorado	State	The 13th US state to adopt low-emission vehicle standards based on those of California following the Air Quality Control Commission’s approval of new emissions standards
British Columbia	State	Government to introduce legislation requiring all new light-duty cars and trucks sold in the province to be electric or zero-emission vehicles by 2040 Sales targets to be phased in (10% 2025, 30% 2030 and 100% 2040) C\$20mm in incentives to be offered for consumers purchasing electric vehicles in 2019
New Delhi - India	City	Draft Delhi EV Policy 2018 strives for BEV penetration of 25% by 2023 Purchase, top up and scraping incentives will be used to promote EV uptake and cash rebates to promote the use of electrified commercial vehicle services Additional road taxes will be levied on ICE vehicles and congestion taxes on non-BEV vehicles

Downstream expansion continues to emphasize the exponential growth expectations for lithium demand. Most notably, Tesla broke ground on the Chinese gigafactory in Shanghai which is expected to begin producing cars by the end of the year and have an eventual production capacity of 500,000 vehicles per year. BASF earmarked Harjavalta, Finland as the first location

of its €400m European cathode expansion. SK Innovation announced plans to build its first 10GWh EV battery plant in the USA and Panasonic committed to boosting its Chinese lithium-ion battery capacity by 80%.

Domestic prices for battery grade lithium chemicals in China stabilized during Q4 2018, which may be interpreted as the base of the commodity cycle. Lithium carbonate prices within China steadied (US\$11,000 – 12,000/t) following improved demand from downstream customers as production of battery materials began to normalize post a period of inventory destocking. Lithium hydroxide prices remained robust despite a slight retraction (US\$15,500 – 16,500/t), reflecting a minor correction to the slower than expected pace of the technical transition to high nickel intensity cathode chemistries. During the period, seaborne prices remained strong and market commentary related to rest of the world contract pricing indicates that prices for battery grade product are relatively consistent with those observed in Q3. Reduced margins in lithium chemical sales have resulted in a reduction in the contracted price of spodumene for 1H CY2019. Whilst contract prices are notably weaker than 2018 they have not reduced by the same percentage magnitude as the fall in Chinese lithium carbonate prices throughout 2018.

The current state of the lithium market presents a firm foundation for price recovery and potential industry consolidation. The combination of forecast growth in the adoption of lithium-ion battery applications, incremental demand requirements expected for inventory build following destocking, as well as completion and commissioning of new spodumene conversion capacity are expected to support price rationalization on the demand side. This is further supported by continued supply side challenges that will limit the pace and amount of new product entering the market. Current prices for lithium materials in China are within the hard rock production cost curve and thus will slow the pace and level of capital investment required (at the raw material end of the value chain) in order to bring on adequate new supply to maintain market balance in the medium term.

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Competent Person Statement

MT CATTLIN

Any information in this report that relates to the estimation and reporting of the Mt Cattlin Mineral Resources and Ore Reserves is extracted from the report entitled “42% increase in Mt Cattlin resource to 16.7Mt” created on 23 January 2019 which is available to view on www.galaxylithium.com and www.asx.com.au. The Company confirms that it is not aware of any new information or data that materially affects the information included in the original market announcement and that all material assumptions and technical parameters underpinning the Mineral Resources and Ore Reserves estimates in the relevant market announcement continue to apply and have not materially changed. The Company confirms that the form and context in which the Competent Person’s findings are presented have not been materially modified from the original market announcement.

Any information in this report that relates to Exploration Results at Mt Cattlin is based on information presented in the announcement entitled “Re-Release Mt Cattlin Update – Exploration Drilling Hits Thick, High-Grade Intersections Outside the Known Resource” created on 11 December 2018 which is available to view on www.galaxylithium.com and www.asx.com.au. The Company confirms that it is not aware of any new information or data that materially affects the information included in the original market announcement and that all material assumptions and technical parameters underpinning the exploration estimates in the relevant market announcement continue to apply and have not materially changed. The Company confirms that the form and context in which the Competent Person’s findings are presented have not been materially modified from the original market announcement.

SAL DE VIDA

Any information in this report that relates to the estimation and reporting of the Sal de Vida Project Mineral Resources is extracted from the report entitled “Sale of Northern Tenements at Sal de Vida to POSCO Completed” created on 26 November 2018 and the Sal de Vida Project Ore Reserves is extracted from the report entitled “Sal De Vida: Revised Definitive Feasibility Study Confirms Low Cost, Long Life and Economically Robust Operation” created on 22 August 2016 both of which are available to view on www.galaxylithium.com and www.asx.com.au. The Company confirms that it is not aware of any new information or data that materially affects the information included in the original market announcements and that all material assumptions and technical parameters underpinning the Mineral Resources and Ore Reserve estimates in the relevant market announcement continue to apply and have not materially changed. The Company confirms that the form and context in which the Competent Person’s findings are presented have not been materially modified from the original market announcement.

JAMES BAY

Any information in this report that relates to the estimation and reporting of the James Bay Mineral Resources is extracted from the ASX announcement, entitled “James Bay Resource Update” dated 4 December 2017 which is available to view on www.galaxylithium.com and www.asx.com.au. The Company confirms that it is not aware of any new information or data that materially affects the information included in the original market announcement and that all material assumptions and technical parameters underpinning the Mineral Resources in the relevant market announcement continue to apply and have not materially changed. The Company confirms that the form and context in which the Competent Person’s findings are presented have not been materially modified from the original market announcement.

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.

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