GALAXY

Annual Report 2010

Year End December 31, 2010

Galaxy Resources Limited

Content

Company

GALAXY: THE COMPANY

The Company is an international S&P/ASX300 index company positioning to become a leading, vertically integrated producer of high quality lithium-related products in the growing lithium-ion battery market. The Company is domiciled in Australia and listed on ASX.

In Q4 2010, the Company started producing lithium-bearing spodumene concentrate from its Mt Cattlin project near Ravensthorpe, Western Australia. The Company intends to add value to the spodumene concentrate produced at Mt Cattlin by establishing its own downstream lithium processing facilities in China, which will target the expected increases in demand for lithium-ion batteries driven by the nascent electric powered vehicle ("EV") market. Construction of the Company's 17,000 tpa lithium carbonate plant in Jiangsu Province commenced in 2010 and commissioning is targeted for end Q2 2011.

The Company has entered into offtake framework agreements for 17,000 tpa of lithium carbonate (subject to further quarterly pricing agreement) with Mitsubishi Corporation and 13 major cathode producers in China. The Company is also investigating the development of an E-bike lithium-ion battery plant in close proximity to its lithium carbonate plant in Jiangsu to capture potential growth of the Chinese e-bike market envisaged by the Company.

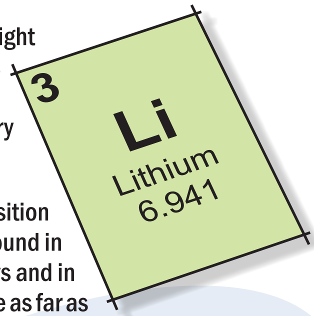
HIGHLIGHTS OF 2010

- Galaxy shareholders approved a dual listing of its shares on the Stock Exchange of Hong Kong (SEHK).
- Finalised A$91.5 million capital raising.
- Mt Cattlin constructed from ground breaking, commissioning and start up in less than 12 months.
- Mt Cattlin's total contained lithium oxide resource increased by 11% to 172,000 tonnes.
- Mt Cattlin's mine life increased.
- Galaxy increased 'proved and probable' ore reserves by 23 percent to 11.4 million tonnes @ 1.05% Li_2O.
- Galaxy achieved 100% sales offtake agreements for lithium carbonate production.
- Commenced construction of Jiangsu Lithium Carbonate Plant.
- Signed tantalum concentrate sales agreement.
- Announced agreement to acquire up to 70% of James Bay Pegmatite Project.
- Letter of Intent signed for potential battery site.
- Galaxy launched 'EV Grade' lithium carbonate.
- Completed Pre-feasibility Study of a lithium battery plant.

Ramp up at Mt Cattlin has been progressing well, with weekly spodumene production at the end of March 2011 averaging 70% of design output

Lithium

WORLD OF LITHIUM



Lithium (chemical symbol Li), the 3rd element in the periodic table, atomic weight of 6.94 g/mole, is a member of the group of alkali metals. The lithium atom is the smallest of the metal atoms in the periodic table. Lithium is a soft silver-grey metal, yet when combined with metals such as magnesium, it forms a very strong alloy.

The fascination and versatility of lithium and its compounds are linked to the position of lithium in the periodic table of elements. Due to its high reactivity it is not found in nature. Traces of this element are present in all minerals, in brines, wells, clays and in sea water. Lithium cannot be considered to be very rare and ranks at 27th place as far as abundance is concerned. Modern daily life is hardly conceivable without the beneficial effects of lithium and its compounds.

USERS OF LITHIUM

Today the application of lithium carbonate or other lithium-enriched materials as additives in the glass, enamel and ceramic industries has become very important. The addition of lithium oxide in glass manufacturing increases the melting rate which increases production throughput and lowers the melting temperature providing energy cost savings. For ceramics, lithium oxide's very low co-efficient of thermal expansion makes it ideal for heat-proof ovenware and ceramic cook tops to withstand the thermal shock of rapid temperature changes. Ceramics and glass accounted for around 37% of lithium consumption in 2008.

More importantly, the product is becoming a key requirement to meet the production of lithium-ion batteries in the rapidly expanding international hybrid and electric vehicle market. Batteries are the second largest end-use for lithium, consisting of 20% of total consumption.

The third largest application for lithium is in the production of multi-purpose lubricating greases. Lubricating grease consists of mineral oil thickened with lithium. Greases accounted for 11% of total consumption in 2008.

Lithium is also used in pharmaceuticals, catalysts and other lithium compounds, air conditioning, welding electrodes, nucleonics, luminescent paints, varnishes and dyes, rubber production and aluminium production.

Lithium

WORLD OF LITHIUM

LITHIUM-ION BATTERIES

Lithium-ion batteries (sometimes abbreviated Li-ion batteries) are a type of rechargeable battery in which lithium ions move from the negative electrode (anode) to the positive electrode (cathode) during discharge, and from the cathode to the anode during charging.

Lithium-ion batteries are common in portable consumer electronics because of their high energy-to-weight ratios, lack of memory effect, and slow loss of charge when not in use. In addition to consumer electronics, lithium-ion batteries are increasingly used in defence, automotive, and aerospace applications due to their high energy density.

They are generally much lighter than other types of rechargeable batteries of the same size. The electrodes of a lithium-ion battery are made of lightweight lithium and carbon. Lithium is also a highly reactive element, meaning that a lot of energy can be stored in its atomic bonds. This translates into a very high energy density for lithium-ion batteries.

As the technology for lithium batteries has developed and improved, its use has expanded from non-rechargable batteries for small toys, watches, and cameras to rechargeable versions that have supplanted nickel metal hydride making laptops and cellphones lighter and run longer. Galaxy expects the next major area of use for lithium rechargeable batteries to be electric bicycles and scooters (e-bikes) automotive starter batteries, mass energy storage batteries and the electric vehicle industry.

LITHIUM BATTERY SUPPLY CHAIN

The downstream process from the source to the Li batteries has several steps as shown below. Briefly, the concentrated spodumene ore is converted to lithium carbonate and supplied to the producers of cathode materials like lithium cobaltite, lithium iron phosphate and lithium fluoro phosphate electrolyte. These in turn supply the cathode and battery assemblers who deliver the battery pack to the car manufacturers.

Spodumene Mine | Lithium Carbonate Producer | Upgraders & Component Makers | Cathode & Electrolyte Producers | Battery Producer | Carmaker

Mt Cattlin was constructed from ground breaking to commissioning and start up in less than 12 months

Chairman

CHAIRMAN'S LETTER

Dear Shareholders,

As Chairman of Galaxy Resources Limited it is with great pride and enthusiasm that I present the Company's Annual Report for 2010. During the calendar year, your company grew from a diluted market capitalisation of A$219 million to A$354 million by the end of December 2010.

It was only November 2009 that we held the ground breaking ceremony at Mt Cattlin when the Premier, Mr Colin Barnett, marked the commencement of construction of the mine by unveiling the plaque commemorating the event. What a difference a year makes. What was once a farming paddock is now an operating mine producing spodumene concentrate for shipment to Galaxy's Jiangsu Lithium Carbonate Plant being constructed at Zhangjiagang in China.

It has been a remarkable year during which Galaxy has:

- Completed construction of the Mt Cattlin mine and commenced production of spodumene concentrate.
- Commenced construction of the Lithium Carbonate Plant in China.
- Successfully completed a US$105 million debt facility with China Development Bank (CDB) and RB International Finance (Hong Kong) Limited (RZB).
- Successfully completed A$91.5 million in funding via a mix of convertible notes and equity funding.
- Fengli, a significant Chinese conglomerate and the Chairman of Geely Motors, a major Chinese car manufacturer.
- Commenced the process to seek a secondary listing on the Hong Kong Stock Exchange.
- Announced an intention to undertake a feasibility study to construct a battery manufacturing facility near our Lithium Carbonate facility in China for the purpose of supplying batteries to the burgeoning E-bike market in China.

I am sure you will agree that these are significant achievements in such a short space of time. I would like to acknowledge our partners, Creat Group, for the significant support and resources which it has provided to Galaxy during this critical phase of the Company's development. Creat has provided major funding support; the encouragement to CDB and RZB to provide the project finance to Galaxy; credit enhancement to the banks for that purpose; and always provided wise counsel and guidance on our dealings in China.

The achievements of Galaxy, its contractors and consultants at Mt Cattlin are nothing short of remarkable. For a company of Galaxy's size to successfully construct and commission this mine within a 12 month timeframe, is most uncommon and is an outstanding achievement.

I would also like to acknowledge the leadership which Mr Iggy Tan provides as Managing Director of Galaxy. His strategic vision and the execution of the Company's strategy are outstanding. His energy and enthusiasm is an inspiration to us all. One of the features of an outstanding leader is to bring on board good people and then give them the space in which to operate as part of an effective team. This is a hallmark of Mr Tan's leadership.

On behalf of the Board, I convey my sincere thanks to Galaxy's management and staff for an outstanding year. Without the hard work and commitment of these dedicated people, the Company could not have achieved what it has to date. I would also like to thank shareholders for their continued support during the year. I look forward with anticipation to an exciting year ahead.

Yours sincerely,

Craig Readhead
Chairman

Operations

MANAGING DIRECTOR'S REPORT

On behalf of the Galaxy team, I am pleased to report on the outstanding progress the Company has made over the past 12 months. The Company has recorded numerous achievements during the year, particularly at Galaxy's Mt Cattlin Spodumene Mine in Western Australia and the Jiangsu Lithium Carbonate Plant in China. These achievements have helped to build on Galaxy's strong foundations and the means to move to a new period of growth and development. Most importantly we achieved this without a single lost time injury.

Yours sincerely,

Iggy Tan
Managing Director

Safety Performance

Galaxy is proud to report a zero lost time injury performance on both sites. This includes construction of the Mt Cattlin mine and Jiangsu Lithium Carbonate plant, as well as mining and production at Mt Cattlin. Total man hours recorded was 676,306 and the Lost Time Frequency Rate (LTIFR) is zero. The Medical Treatment Incident Frequency Rate (MTIFR) is 10.4 per million man hours.

New Corporate Strategy

Galaxy is achieving regular milestones in its journey to becoming a vertically integrated lithium company, involved in raw product lithium production, through to chemical processing and lithium-ion battery manufacturing.

The efficient development of Galaxy's Mt Cattlin mine was testament to the Company's commitment to enter the lithium market as quickly as possible to meet increasing global demand for lithium and capture full value from its projects.

The end of year was marked by a lithium project investment in Canada, continued development of the Jiangsu Lithium Carbonate Plant and a signed letter of intent for a block of land on which to build a lithium-ion battery manufacturing plant.

With a robust project pipeline and significant funds to support the ramp up of both projects, Galaxy is ideally placed to meet the growing demand for lithium being driven from Asia by the push to produce clean energy vehicles and consumer electronics.

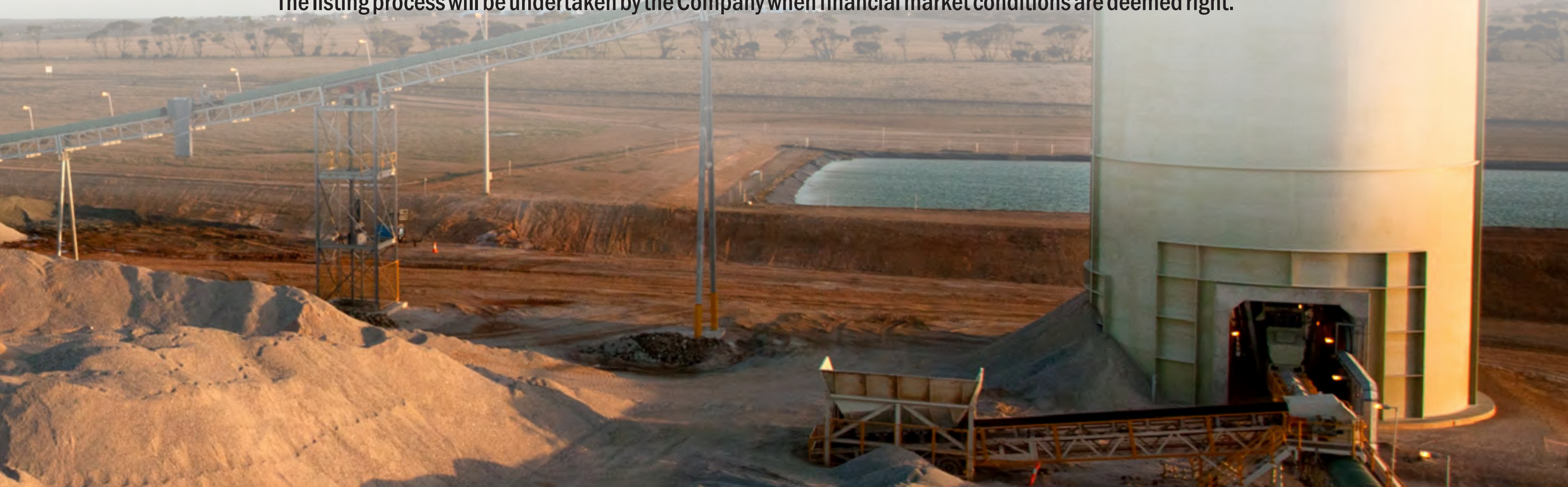
Hong Kong Listing

In December 2010, Galaxy shareholders approved a dual listing of its shares on the Stock Exchange of Hong Kong (SEHK). Galaxy has applied to dual list its shares.

The Company appointed Morgan Stanley and BNP Paribas as joint sponsors and joint book-runners for the proposed listing. Azure Capital Pty Ltd has been engaged as the Company's financial adviser. The basis for seeking a Hong Kong listing is the strong appetite of Chinese and international investors for lithium exposure, along with China being the base for Galaxy's downstream lithium operations.

Galaxy is seeking to raise the US$260 million Hong Kong listing to pay down a loan facility and to fund the construction of its proposed lithium-ion battery plant in China. The listing fits with Galaxy's overarching strategy to become involved with every step of the lithium production chain, from raw product lithium production through to chemical processing and battery manufacturing.

The listing process will be undertaken by the Company when financial market conditions are deemed right.



Operations

MANAGING DIRECTOR'S REPORT

A$91.5 Million Capital Raising Finalised

The Company finalised funding of A$91.5 million to several investors, including the private investment company of the founder and major shareholder of Geely Automobile Holdings Co. Limited (Geely) and Fengli Group (Hong Kong) Co. Limited (Fengli).

Investor	Investment Type	Total Investment
Strong Target Int Ltd	Convertible Bond	A$25m
Fengli	Convertible Bond	A$30m
Other Investors	Convertible Bond	A$6.5m
Fengli	Equity Placement	A$30m
Total		A$91.5m

The funding consisted of A$61.5 million in unlisted convertible bonds (increased from A$30 million) and an A$30 million equity placement. Both the convertible bond and equity documentation has been finalised and executed by all parties.

The funding was completed in two tranches, and were allocated as shown above.

Tantalum Concentrate Sales Agreement Signed

In December 2010, Galaxy signed a sales agreement with Global Advanced Metals Pty Ltd (GAM), for tantalum concentrate produced at its Mt Cattlin operation.

GAM, which owns the world's largest-known tantalum resource, agreed to purchase up to 200,000 lbs of contained tantalum pentoxide over the next five years. The long term sales agreement is based on a CPI-adjusted price of raw tantalum concentrate product (around 3% tantalum pentoxide) from Mt Cattlin. GAM intends to further upgrade this material into a saleable form at its tantalum Greenbushes operations in Western Australia.

By selling tantalum as a primary concentrate, Galaxy is able to establish a market for its tantalum, but without the costly process of upgrading the material.

Strategic Investor Details

Strong Target International Ltd

A private company of Mr Li Shu Fu, who is the founder, Chairman and controlling shareholder (50.47%) of Geely. Geely is a Hong Kong listed company principally engaged in the manufacture and sale of automobiles in China.

Fengli

A large, privately-owned company based in Zhangjiagang city, Jiangsu Province, China. It is the largest used metal processor and distributor in China, and is one of the top 500 private enterprises in China.


GALAXY


MATT

Operations

MANAGING DIRECTOR'S REPORT

Mt Cattlin Spodumene Mine Opening Ceremony

A number of Chinese offtake companies and Mitsubishi Corporation of Japan attended the opening of Galaxy's Mt Cattlin Mine Operations in Western Australia on 9 November, 2010. The commissioning of Mt Cattin marked a significant milestone for Galaxy, which achieved construction, commissioning and start up of the plant in less than 12 months.

Western Australia's Former Minister for Water Dr Graham Jacobs, who is also the Member for Eyre, officially opened the Mt Cattlin Mine.

Mt Cattlin Production

2011	Dec Qtr 2010
Ore Mined (Tonnes)	74,310
Grade (%)	1.02
Waste Mined (BCM)	370,284
Ore Treated (Tonnes)	61,926
Grade (%)	0.96
Grade (%)	1,645
Grade (%)	6.18

Mt Cattlin Ramp Up

Mining has been operating well and meeting concentration requirements with above design grades.

The crushing circuit, which was commissioned in September 2010, has continued to perform above design capacity with throughput at times achieving 30% above design. A number of changes have been made to sizes of the dry and wet screens to smooth the throughput and improve overall efficiency of the circuit.

The ramp up of the heavy media circuit is continuing with effort being directed to the removal of mica from the product, increasing the throughput and availability of the plant in conjunction with the Company's design consultants and equipment suppliers. The mica being removed from the process stream is being evaluated for sale as a valuable by-product.

Mt Cattlin Resource and Mine Life Upgrade

In January 2010, Galaxy announced a new resource statement for Mt Cattlin. Drilling, modelling and evaluation increased the project's total contained lithium oxide resource by 11% to 172,000 tonnes.

- The resource increase at Mt Cattlin extended the mine life of the spodumene project to 16 years.
- Total lithium oxide contained tonnes increased by 11%.
- Total resource ore tonnes increased by 10%, or 1.51 million tonnes from the previous resource estimate.
- Measured and indicated categories of the resource increased by 32%, or 2.98 million tonnes.
- New North West Zone has potential for several million tonnes of mineralisation, in addition to the current resource.

The heavy media circuit has clearly demonstrated that it can achieve the design product grade of 6% Li_2O. Efforts are now focusing on achieving the design spodumene recovery.

The tantalum circuit is working at design and at the end of 2010, preparations were being made to ship first tantalum concentrate to Global Advanced Metals for processing and sale. The initial shipment was made in March 2011.

The first shipment of spodumene from Mt Cattlin was shipped during Q1 2011.

James Bay Pegmatite Project Acquisition

In December 2010, Galaxy signed a Memorandum of Understanding (MOU) with Lithium One Inc. (TSX-V LI) of Canada to acquire up to 70% of the James Bay Lithium Pegmatite Project as part of a farm-in arrangement. The MOU was subject to a formal, binding agreement which has now been reached. Under the terms of the agreement Galaxy will acquire an initial 20% equity interest in the James Bay Project in Quebec for C$3 million and has the potential to increase its stake to 70% through the completion of a definitive feasibility study within a 24 month period.

The James Bay Lithium Pegmatite Project is an extensive high-grade spodumene pegmatite deposit that occurs at surface. Situated adjacent to key infrastructure including high-tension power, roads and readily accessible water, the project is well located to potentially provide a stable supply of lithium to the emerging lithium battery sector in the northeast United States and eastern Canada.

Lithium One has been drilling the resource and recently published a NI 43-101 compliant resource. The resource estimate is as shown.

Resource	Tonnes	Li_2O%
Indicated	11,750,000	1.30%
Inferred	10,470,000	1.20%
TOTAl	22,220,000	1.28%

Note: Li_2O cut off grade >= 0.75% Li_2O. Figures in the above table may not sum due to rounding. Source: Lithium One

The Company intends to grow its lithium resource footprint and James Bay's location, geology and the low cost of entry, are the key attractive aspects of the proposed transaction.

James Bay is a bulk tonnage outcropping deposit and is located close to excellent infrastructure in Quebec, one of the most mining-friendly jurisdictions in the world. Galaxy expects to be able to fast track the development of this project by using similar capacity and design as the plants constructed at Mt Cattlin and Jiangsu.

Galaxy and Lithium One Representatives at James Bay

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

Resources

MANAGING DIRECTOR'S REPORT

Ponton Rare Earths Project

Subsequent to year end, the Company announced positive results from a review of the Company's 100% owned Ponton Rare Earths Project (Ponton Project), which has been held by Galaxy since 2003. The Ponton Project is located 200km east of Kalgoorlie in the eastern Goldfields region of Western Australia, 70km north of the Trans-Australian railway line. It comprises a single Exploration Licence Application (E28/1317) covering 206 km^2.

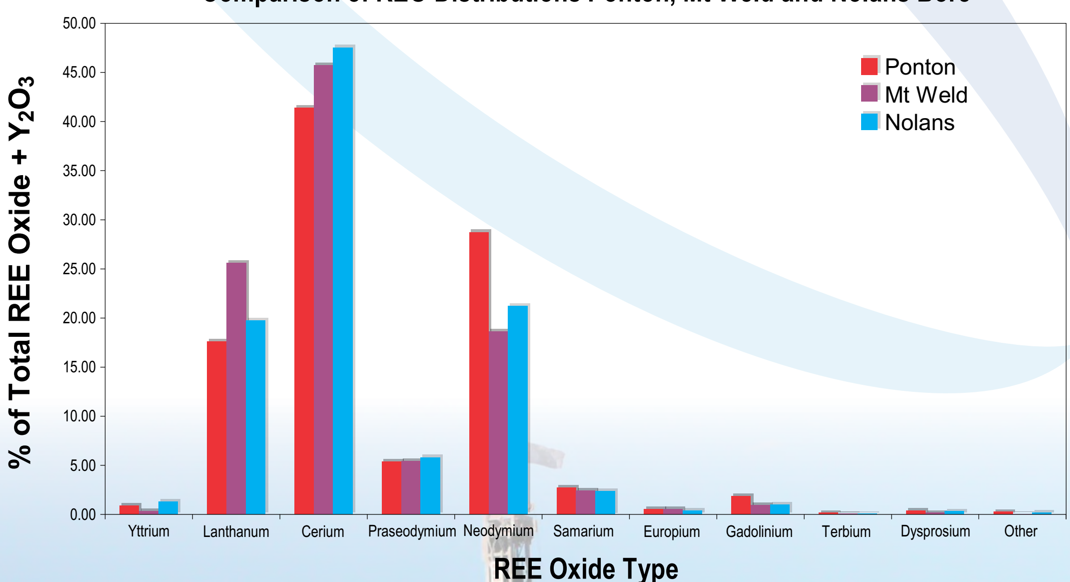
During the review, Galaxy analysed historical rare earth element (REE) exploration and drill data completed by Herald Resources Limited in 1994.

The best historical drill results show intersections including 16m @ 14.48% rare earth oxides (REO), 28m @ 10.50% REO (including 6m @ 20.57% REO) and 26m @ 6.99% REO from surface (including 8m @ 13.12% REO). As a comparison, Lynas Corporation Mt Weld's Central Lanthanide deposit has an average resource grade of 10.7% REO + Y.

Galaxy's review of the Ponton Project shows the grades and distribution of the various rare earth elements are comparable to those of the high grade Mt Weld deposit (Western Australia) being developed by Lynas Corporation and the Nolans Bore deposit (Northern Territory) being developed by Arafura Resources Limited. However, Ponton has a higher percentage of the element neodymium, which is projected to be in tight supply.

The development of Galaxy's lithium assets has been a priority; market demand for rare earths presents opportunities in developing the Company's long held Ponton Rare Earth Project. In light of interest in future global rare earths supply, Galaxy has decided to review and evaluate the potential viability of the Ponton Rare Earths Project.

Comparison of REO Distributions Ponton, Mt Weld and Nolans Bore



Mt Cattlin has focussed on a residential workforce which has provided a boost to the local community of Ravensthorpe and Hopetoun

Marketing

MANAGING DIRECTOR'S REPORT

Marketing Overview

Demand for lithium mineral and chemicals demand in 2010 recovered to levels not seen since the global financial crisis.

Spodumene shipments from Australia grew 30% year-on-year, while Chinese imports of lithium carbonate rose by more than 200% from the corresponding period in 2009. These figures indicate the limited capacity of domestic Chinese lithium processors to meet the surging demand. Japanese lithium carbonate imports, meanwhile, increased more than 70% year-on-year.

The primary global growth area for lithium carbonate was in the lithium battery sector for mobile, laptop and EV applications. Galaxy's Jiangsu Lithium Carbonate Project is due to be commissioned in Q2 2011, which will enable Galaxy to capitalise on this growing demand.

While the lithium carbonate price has fallen in the vicinity of 20% since the global financial crisis, the price premiums for 99.9% and 99.99% (high purity) product have been maintained. Galaxy has upgraded its technology to meet the high purity standards required by lithium cathode makers who demand consistency of product, reliability of supply and close proximity to supply sources. Galaxy has received serious interest in its high purity product from various lithium cathode manufacturers. However, with burgeoning demand recovery, Galaxy sees all lithium carbonate prices recovering to pre-financial crisis levels this year.

"EV Grade" and "EV Plus Grade" Brands of Lithium Carbonate

During the year, the Company launched two brands of high grade lithium carbonate that once in production will be tailored for lithium batteries used in the production of electric vehicles (EVs). These new brands, "EV Grade" (99.9% lithium carbonate) and "EV Plus Grade" (99.99% lithium carbonate) will represent a key niche product offering for the electric vehicle market.

The previous process design for the Jiangsu Lihtium Carbonate Plant enabled the Company to comfortably produce commercial quantities of 99.5% lithium carbonate. The Company took the opportunity to modify the design of the plant by incorporating an additional bicarbonate purification step which, once the plant is commissioned, will allow production of "EV Grade" and "EV Plus Grade" lithium carbonate.

The bicarbonate purification process is conventional and already adopted by smaller batch refiners in the industry. The process involves the re-dissolution of lithium carbonate with carbon dioxide to form soluble lithium bicarbonate. The re-crystallisation of high purity lithium carbonate is then affected through heating. By adopting this process, the quality of the lithium carbonate can be dramatically improved. Galaxy believes the electric vehicle industry will demand higher quality cathodes for battery production.

Marketing

MANAGING DIRECTOR'S REPORT

Offtake Framework Agreements

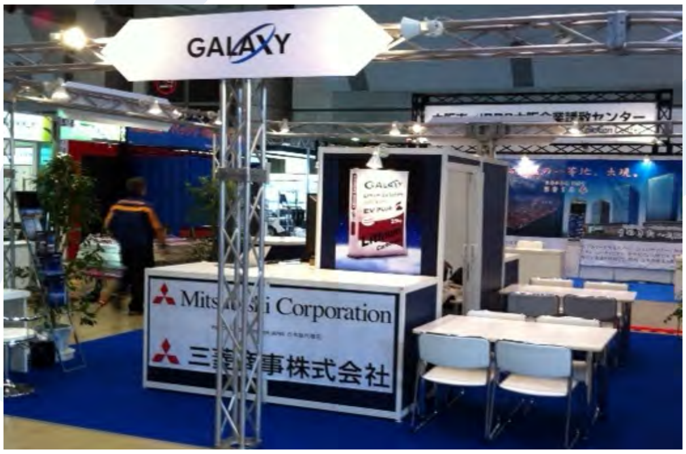
The Company announced in February 2010 and April 2010, it had negotiated offtake framework agreements covering all of its expected production of lithium carbonate with Mitsubishi and 13 major lithium cathode producers in China.

These arrangements contemplate the sale of fixed annual volumes, subject to the parties agreeing the price of the product to be sold each quarter.

Galaxy believes a quarterly price setting mechanism is appropriate in an industry where there is currently no recognised benchmark price. It will also allow Galaxy to capture any increases in lithium compound pricing – something Galaxy anticipates alongside increasing demand as the lithium-ion battery market grows.

Under the agreement with Galaxy, Mitsubishi will make reasonable efforts to purchase 5,000 tpa of Galaxy's lithium carbonate production over a 5 year term, subject to a price being agreed between the parties each quarter.

In addition to this offtake arrangement, the framework agreement appoints Mitsubishi as exclusive distributor of Galaxy's product in Japan for a period of five years from date of first shipment.



"Galaxy Resources has positioned itself to meet this lithium future by not only mining the lithium but by downstream processing to supply lithium carbonate to the lucrative Asian market."

Electric Vehicles

An electric vehicle (EV) is a vehicle using an electric motor instead of an internal combustion engine.

A hybrid electric vehicle (HEV) is a type of hybrid vehicle and electric vehicle which combines a conventional internal combustion engine (ICE) propulsion system with an electric propulsion system. Modern HEVs make use of efficiency-improving technologies such as regenerative braking, which converts the vehicle's kinetic energy into battery-replenishing electric energy, rather than wasting it as heat energy as conventional brakes do.

A plug-in hybrid electric vehicle (PHEV or PHV), also known as a plug-in hybrid, is a hybrid vehicle with rechargeable batteries that can be restored to full charge by connecting a plug to an external electric power source (usually simply a normal electric wall socket).

MANAGING DIRECTOR'S REPORT

The UWA REV Project

The Company is pleased to be one of the lead sponsors of the Western Australian Renewable Energy (UWA REV) project. The REV project is an initiative formed by the University of Western Australia to design and develop environmentally sustainable technologies for future transportation. In 2008, REV established itself by building a commercially viable, cheap and efficient electric commuter vehicle, capable of driving 100km on a single charge. The vehicle can achieve speeds of up to 125/km and costs as little as $1.40/100km to operate. The Company was invited to speak at the launch of its new model a fully electric Lotus car and F1 electric racer.

Charging Stations

The Company is also supporting an initiative of the University of Western Australia to install seven on-street Elektromotive recharging stations for electric and plug-in hybrid vehicles around Perth. Elektromotive has developed the world's first truly generic electric vehicle refuelling network and functions as a stylish durable piece of street furniture. Galaxy's sponsorship of the UWA Renewable Electric Vehicle project and the installation of recharging stations is aimed at changing people's attitudes to alternative energy transport infrastructure.

Galaxy Wins Sustainable Energy Award for Solar Technology

Galaxy Resources Limited, together with Swan Energy Pty Ltd (Swan Energy), was awarded the Energy Generation and Distribution Award by the Sustainability Energy Association of Australia. Galaxy received the award for the installation of state-of-the-art solar tracking technology at its Mt Cattlin project near Ravensthorpe in Western Australia.

Mt Cattlin is the first mine site in Australia to have real-time solar tracking panels as part of its power generating requirements. The solar tracking feature means the solar panels are able to follow the sun in all directions to maximise the power generated and provides 15% more power than a single axis systems. The Company has 14 giant solar trackers and 2 wind turbines in operation at its Mt Cattlin lithium mine and processing plant, which together generate 226 MWh per year of renewable energy. The panels and turbine system was designed by Australian renewable energy suppliers Swan Energy. The wind and solar hybrid system supplements power from Galaxy's 5MW diesel generator, which accounts for, on average, about a sixth of the mine site's daily power. This system also promotes savings in CO_2 emissions to the tune of 200 tonnes per year.


Speedglas

Marketing

MANAGING DIRECTOR'S REPORT

Zero Emission Race

Galaxy is helping to drive home the message about the importance of electric vehicles in a sustainable future through its sponsorship of Australia's only participant in the world's inaugural Zero Emissions Race. The Company sponsored Adelaide based Team TREV (Two-seater Renewable Energy Vehicle) in its emission free journey across the globe.

The Zero Race began in Geneva, Switzerland with five teams competing in a "Jules Verne" style race around the world in 80 days, except this adventure takes place behind the wheel of an electric vehicle, powered completely by renewable energy.

The Zero Emissions Race involves five teams competing in a race around the world in electric vehicles powered completely by renewable energy. Lithium is an essential component of electric vehicles, with the TREV model using a lithium-ion polymer battery to power the car for a distance of 250 kilometres before a recharge is required.

Electric Vehicles New China Government Policy

According to the State Auto and New Energy Auto Industry Development Planning published in September 2010 (State Planning), the Chinese Government will focus on R&D and development of electric vehicles (EV) and (plug-in hybrids) PHEVs in addition to the technological development of fuel cell batteries for use in the automobile sector.

China aims to be the world's largest market for new energy vehicles (EV and PHEV) and targets consumer ownership of 5 million new energy vehicles by 2020. The report says China expects sales volumes of energy saving vehicles will be the largest in the world, ie: 1.5 million or above per year by 2020.

The policy states China aims to reach this mission in two steps:

A. By 2015, average energy consumption for vehicles will be reduced by 35% to approx 5.9 L/100 kilometres.

B. By 2020, average energy consumption for vehicles will be around 4.5 L/100 kilometres, which is close to the western world's advanced target.

Chemicals

MANAGING DIRECTOR'S REVIEW

CHEMICALS DIVISION

Jiangsu Lithium Carbonate Plant, Zhangjiagang, China

Considerable progress was made on the development of the Jiangsu Lithium Carbonate Plant during the year. The plant's location is within the Yangtze River International Chemical Industrial Park in Jiangsu Province of China.

Construction of the plant is substantially complete and it is on track to be commissioned in Q2 2011.

The Jiangsu plant's construction has been a significant achievement for Galaxy, representing Galaxy's first steps to becoming a downstream processor of lithium concentrate.

Significant milestones during the year included:

7 JANUARY 2010	9 FEBRUARY 2010	QUARTER ONE 2010	4 JUNE 2010
The Company received safety and energy saving approvals, granted by the Suzhou Municipal Administration of Work Safety.	Receipt of the Project Approval and Business Licence from the Jiangsu Province Administration Bureau for Industry and Commerce.	Construction on site commenced in the first quarter, with foundation piling and earthworks.	Construction Permit received from the Zhangjiagang (ZJG) authorities.

By the end of the year, all roads, foundation piling, building steel structures and wall cladding have been completed. Most of the plant and equipment has started arriving on site including the calciner, cooler, sulphating kiln shells ready for installation. The kiln shells will be welded together on site and lifted into place when the pillions and roller bearings are in place. Once in place, the refractory will be established in situ and cured ready for commissioning.

Other equipment such as the ball mill, centrifuges and packing machine have also arrived on site. Raw water connection to municipal pipeline (which is under construction) along Dongxin Road was completed and a permanent power supply application was accepted by the Power Bureau. The lithium carbonate plant is on track for commissioning in Q2 2011.

The final construction budget for Jiangsu has indicated a capital cost of RMB 477 million (A$72.5 million @ FX rate of RMB:AUD of 6.6), excluding owners' costs.

Construction of Jiangsu Lithium Carbonate Plant is expected to be implemented by late quarter 2 2011.

MANAGING DIRECTOR'S REPORT

BATTERY DIVISION

Lithium-Ion Battery Project

Galaxy has completed a pre-feasibility study evaluating the potential to develop a Lithium-Ion Battery Project in the Jiangsu Zhangjiagang High Technology Park.

The Company believes the Lithium-Ion Battery Project offers a compelling opportunity for Galaxy's downstream expansion and investment in the lithium-ion battery manufacturing industry.

The pre-feasibility study modelled production of high quality, lithium-ion battery packs for E-bikes at a rate of 350,000 per annum in the first phase.

The proposed plant will be highly automated, utilising Korean technology, and designed with the potential to eventually double and triple production capacity across three phases of operation to meet the growing demand for E-bike lithium ion batteries.

Demand growth for battery-powered bicycles or E-Bikes is very positive in developing countries, with China producing 30 million E-Bikes in 2009.

KUBT MOU

Galaxy entered into a non-binding Memorandum of Understanding with a Korean consortium, KUBT, to supply the turn-key equipment for the Lithium-Ion Battery Project.

KUBT is a group of equipment suppliers covering different aspects of the battery manufacturing process that have formed a consortium to provide plant design and equipment supply services. KUBT has previously supplied equipment to several large and reputable lithium-ion battery producers including LG Chem, Samsung and SK Energy.

Galaxy has also established an experienced team of lithium battery operation and technology experts to investigate the project opportunity headed by Mr Walter Yi, Managing Director, Battery Division. Mr Yi was formerly General Manager of A123 Systems' China lithium battery plant. A123 Systems is a Nasdaq-listed global battery company. The project manager is Dr Yatendra Sharma, a battery technologist experienced in lithium ion batteries.

The development of the Lithium-Ion Battery Project remains at a preliminary stage and a final investment decision is yet to be made by the Company.

Potential Battery Site

Galaxy signed a non-binding Letter of Intent (LOI) for the site of the Company's proposed Lithium-Ion Battery Project in China. The LOI has been signed with the Jiangsu Province Zhangjiagang Free Trade Zone Administrative Committee (JPZFTZ) for a 10 hectare site, located in the Jiangsu Eco-Friendly New Materials Industrial Park - 7.5 kilometres from the Lithium Carbonate Plant. In addition to the LOI, there are a number of conditions that must be satisfied prior to entering into a binding agreement, on which Galaxy is currently working.

Battery

MANAGING DIRECTOR'S REPORT

Appointment of EPCM Contractor

The Company appointed M+W Group on 1 December 2010 to become the EPCM contractor for the Lithium-Ion Battery Project in the Jiangsu Zhangjiagang High Technology Park.

M+W Group is a recognised global project partner for technology-based clients in the segments of electronics, photovoltaics, life sciences, chemicals, science and research, energy, automotive, IT and telecoms, aerospace and defence.

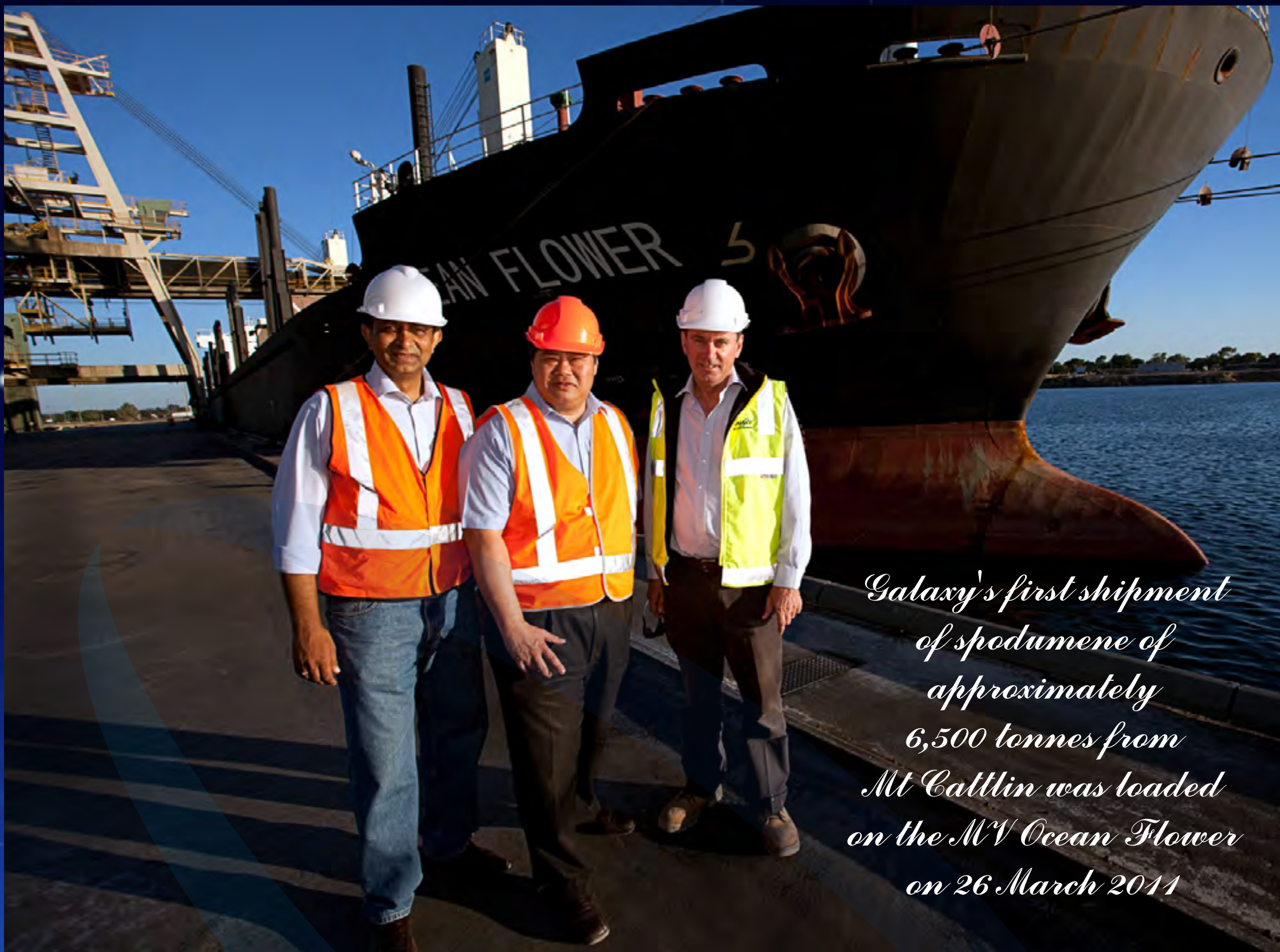
Market Interest – E-bikes

Various Chinese E-bike manufacturers have expressed interest in Galaxy's lithium carbonate production and indicated strong interest in signing long term offtake agreements with Galaxy for output from its proposed battery manufacturing plant in China.

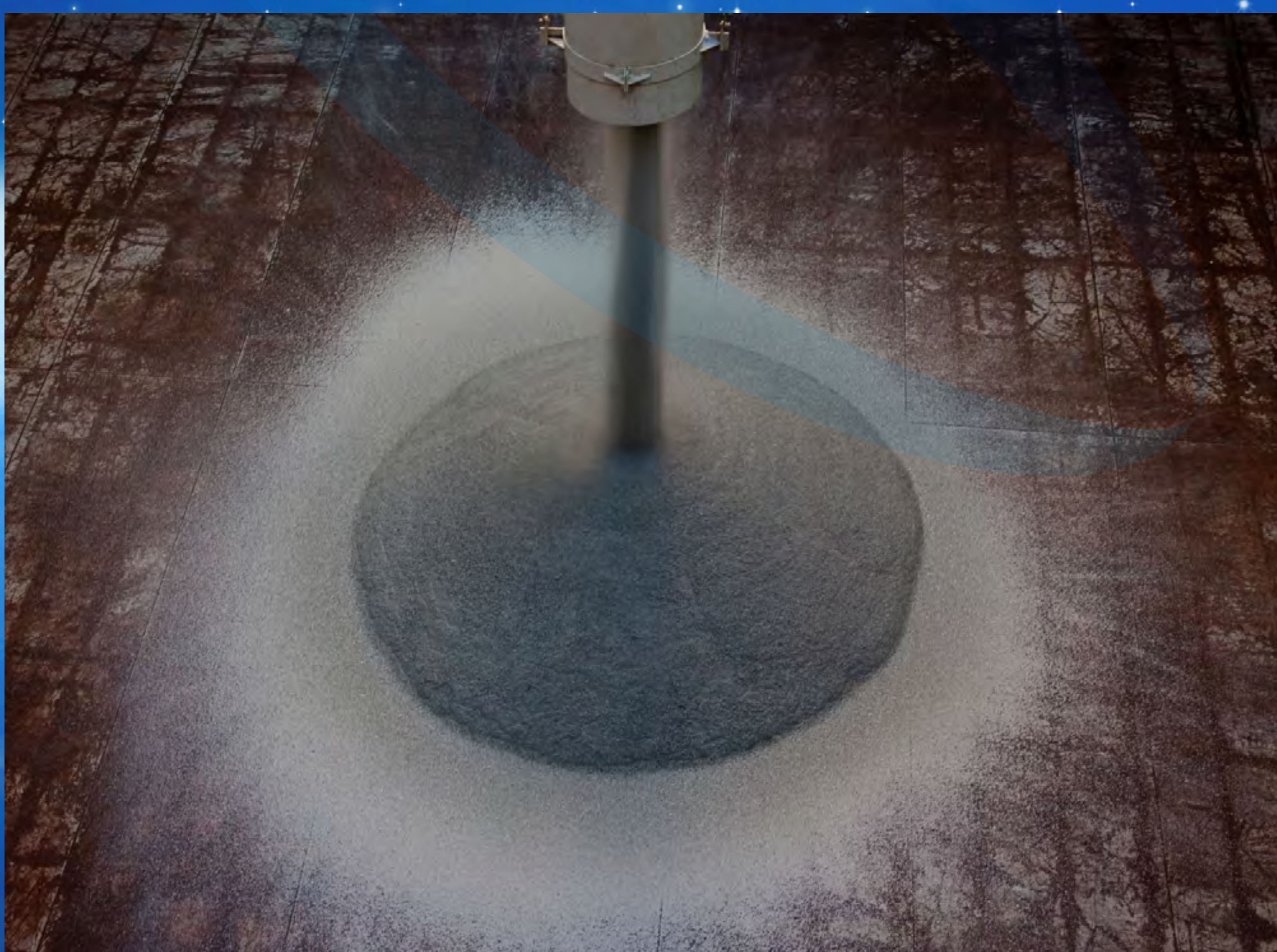
The estimated production capacity of E-bikes in China is 25 million per annum powered mainly by lead acid batteries (LAB). Only 3% use Lithium-ion (Li) batteries currently, however, the conversion rate from LAB to Li ion is approximately 30% pa. The Chinese Government's proposed policy on weight restriction of e-bikes may spur further demand for lithium batteries.

Galaxy believes it is well poised to exploit this market by 2013, which is its proposed commissioning timeframe for the battery plant.

The Company has achieved zero lost time injuries at both projects in 2010. To date, Galaxy has also achieved 3.2 years lost time injury free



Galaxy's first shipment of spodumene of approximately 6,500 tonnes from Mt Cattlin was loaded on the MV Ocean Flower on 26 March 2011



DIRECTORS'S REPORT

Your Directors submit their report for the year ended 31 December 2010 for Galaxy Resources Limited (Company or Galaxy) and the consolidated entity incorporating the entities that it controlled during the financial year (Consolidated Entity).

Directors

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

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

Craig Leslie Readhead B Juris, LLB, FAICD (Chairman, Non-Independent Non-Executive Director) – Age 57

Mr Readhead joined the Company on April 27, 1999 and has been a Director and the Chairman of the Board of the Company since then. He has more than 30 years' experience in the mining industry. Mr Readhead acts as a Director of a number of ASX listed companies.

Mr Readhead received Bachelor of Jurisprudence and Bachelor of Laws from University of Western Australia in 1976 and 1977 respectively. He is a barrister and solicitor and was admitted to the Supreme Court of Western Australia in 1977. He is a Fellow of the Australian Institute of Company Directors (FAICD). He was the President of Australian Mining and Petroleum Law Association Ltd.

Special Responsibilities: Chairman and Member of the Remuneration and Nomination Committee and Member of Audit and Risk Management Committees.
Directors' Interests: 3,805,556 fully paid ordinary shares and 3,250,000 options.
Current Directorships: Frankland River Olive Company Limited, General Mining Corporation Ltd, Heron Resources Ltd, India Resources Ltd, Mt. Gibson Iron Ltd and Beadell Resources Ltd.
Past Directorships (last 3 years): Nil.

Ignatius (Iggy) Kim-Seng Tan BSc, MBA, GAICD (Managing Director) – Age 48

Mr Tan is an experienced operations executive with over 25 years' experience in the mining and chemical industry. He has a proven background in both marketing and business development. He joined the Company on September 18, 2008 and has been a Director since then. He was appointed as the Managing Director on November 11, 2008, and is in charge of the overall development of the Company's business from mining through to processing and marketing.

Prior to joining the Company, Mr Tan was the managing director (re-designated as an executive director in 2009) of Nickelore Ltd (formerly Halcyon Group Ltd), an ASX-listed nickel company, between July 12, 2007 and September 30, 2009. Mr Tan continued his role at Nickelore Ltd for a period of time after commencing at the Company to allow a suitable replacement to be found.

Special Responsibilities: Nil.
Directors' Interests: 69,000 fully paid ordinary shares and 10,500,000 options.
Current Directorships: Nil.
Past Directorships (last 3 years): Nickelore Ltd.

Anthony Peter Tse (Executive Director) – Age 40

Mr Tse has been an Executive Director since October 13, 2010 with responsibilities to manage the Company's office in Hong Kong, compliance matters, investor and public relations. He was previously chief executive officer, from August 2008 to July 2010, and director, from January 2009 to July 2010, of CSN Corporation, a home shopping television channel in the PRC. Prior to this, he worked for TOM Group from 2000 to 2008 and served in various positions, including president of China Entertainment Television Broadcast Ltd, director of corporate development of the TOM Group and deputy general manager of online operations.

DIRECTORS' REPORT (CONTINUED)
Directors (Continued)

Mr Tse is a former board director and member of the Council of Governors for The Cable & Satellite Broadcasting Association of Asia. He was a member of Digital Information & Telecommunications Committee for the Hong Kong General Chamber of Commerce. He is an advisory board member for Music Matters, a leading music and entertainment industry event in Asia.

Special Responsibilities: Nil.
Directors' Interests: Nil fully paid ordinary shares and 1,000,000 options.
Current Directorships: Nil
Past Directorships (last 3 years): Nil.

Charles Bernard Francis Whitfield BEc, MBA (Executive Director) – Age 41

Mr Whitfield has been an Executive Director since October 13, 2010 with responsibilities for corporate finance, merger and acquisition activities and treasury. He has been a director and a chief investment officer of Drumrock Capital since March 2008. He was formerly a managing director with Citigroup Global Markets Asia Limited from June 5, 2006 to March 30, 2008. Prior to this, he worked for Deutsche Bank Group, where his last position was director of the Structured Equity Transaction Division, from October 1, 2000 to May 31, 2006.

Mr Whitfield received his Masters in Business Administration from Columbia Business School (New York) in 1998 and his Bachelor of Economics from The University of Exeter (U.K.) in 1992.

Special Responsibilities: Nil.
Directors' Interests: 41,361 fully paid ordinary shares and 1,000,000 options.
Current Directorships: Nil
Past Directorships (last 3 years): Nil.

Robert (Bob) James Wanless (Non-Independent Non-Executive Director) – Age 63

Mr Wanless has been a Director since January 15, 1996. He has negotiated numerous mining-related sale and joint venture agreements with several international and Australian mining companies involving gold, base metals and industrial mineral properties.

Mr Wanless is a prospector and mining investor with more than 14 years' experience in the mineral resources industry. He has been a director of General Mining Corporation Ltd, an ASX-listed mining resource company, since May 2007. He was a director of Greenstone Resources NL (now Red 5), an ASX-listed mining resource company, from September 1996 to November 1998.

Special Responsibilities: Nil.
Directors' Interests: 2,040,493 fully paid ordinary shares and 2,750,000 options.
Current Directorships: General Mining Corporation Ltd.
Past Directorships (last 3 years): Nil.

Yuewen Zheng BEc, MBA, PhD (Non-Independent Non-Executive Director) – Age 48

Dr Zheng has been a Director since January 7, 2010. He has six years' experience in assuming managerial and advisory roles in the mineral resources industry. He was the chief executive officer of Creat Group from 1992 to 2002 and has been the chairman since 2002. Creat Group is the substantial interest holder of CRHL, a mining resources company listed on AIM. He has also been a non-executive chairman of CRHL since March 16, 2008 and has been the managing director and chief executive officer of CRHL since June 24, 2010.

Dr Zheng has been a director of Beijing Keruicheng Mining Investment Co Ltd and Beijing Keruicheng Jinchuan Mining Investment Co Ltd since 2006 and 2007 respectively. From November 16, 2000 to June 22, 2009, he was the chairman and an executive director of Yantai North Andre Juice Co., Ltd, which is listed on the Main Board of the Hong Kong Stock Exchange. Since June 16, 2004, Dr Zheng has also been chairman of Shanghai RAAS Blood Products Co., Ltd, a company listed on the Shenzen Stock Exchange specialising in the research, manufacture and sale of plasma derived medical products.

DIRECTORS' REPORT (CONTINUED)
Directors (Continued)

Dr Zheng received his Doctor of Philosophy in Finance from Dongbei University of Finance and Economics in the PRC in 1999 after receiving his Master of Business Administration from Asia International Open University (Macau) earlier that year and Bachelor of Economics from Jiangxi University of Finance & Economics in the PRC in 1985. He is the vice president of the Non-Governmental Science & Technology Entrepreneurs Association, and was the vice president of the All-China Federation of Industry & Commerce.

Special Responsibilities: Chairman and Member of the Risk Management Committee and Member of Audit and Remuneration and Nomination Committees.
Directors' Interests: 38,091,616 fully paid ordinary shares and 1,500,000 options.
Current Directorships: Creat Resources Holdings Limited, Shanghai RAAS Blood Products Co. Ltd.
Past Directorships (last 3 years): Yantai North Andre Juice Co. Ltd.

Xiaojian Ren MBA (Non-Independent Non-Executive Director) – Age 54

Mr Ren was formerly an Alternative Director for Dr Zheng. He has six years of experience in performing managerial and advisory roles in the mineral resources industry. He has been the chief executive officer of Creat Group since 2002 and has been a director of Creat Group since 1992. He has been a director of CRHL since 2008. Mr Ren has been a director of Beijing Keruicheng Mining Investment Co Ltd and Beijing Keruicheng Jinchuan Mining Investment Co Ltd since 2006 and 2007 respectively. He was a non-executive director of Yantai North Andre Juice Co., Ltd from November 16, 2000 to May 18, 2007. He has been a director of Shanghai RAAS Blood Products Co., Ltd since June 16, 2004. Mr Ren was appointed as Non-executive Director on October 13, 2010.

Mr Ren received his Master of Business Administration from La Trobe University in Australia in 2001.

Special Responsibilities: Nil.
Directors' Interests: 38,091,616 fully paid ordinary shares and 1,000,000 options.
Current Directorships: Creat Resources Holdings Limited, Shanghai RAAS Blood Products Co. Ltd.
Past Directorships (last 3 years): Yantai North Andre Juice Co. Ltd.

Shaoqing Wu BE (Non-Independent Non-Executive Director) – Age 40

Mr Wu was appointed as Non-executive Director on February 24, 2011. He has 17 years' experience in the steel raw materials trading and processing, overseas shipping and port logistics industries. Mr Wu has been employed by Fengli Group since July 1993. He was a vice general manager of Jiangsu Yongheng Furnace Material Industrial Co., Ltd., a subsidiary of Fengli Group, from July 1993 to October 1997 and was responsible for the sales of raw steel scrap and boiler materials. He was vice general manager of Jiangsu Fengli International Trade Co., Ltd, a subsidiary of Fengli Group, from October 1997 to April 2004 and was responsible for the export and re-export of raw steel scrap and metal scrap.

Mr Wu was then vice general manager of Fengli Group from April 2004 to January 2011 and was responsible for the international trade businesses and general management of VIP customers. Mr Wu was appointed as the general manager of Fengli Group in January 2011 and is responsible for all the senior management and daily activities of Fengli Group.

Mr Wu has been chairman of Good Credit International Trade Co., Ltd. since June 23, 2010. Mr Wu received his Bachelor of Civil Engineering from Shazhou Vocational Institute of Technology in 1992.

Special Responsibilities: Nil.
Directors' Interests: Nil fully paid ordinary shares and Nil options.
Current Directorships: Nil.
Past Directorships (last 3 years): Nil.

DIRECTORS' REPORT (CONTINUED)
Directors (Continued)

Ivo John Polovineo (Independent Non-Executive Director) – Age 60

Mr Polovineo was appointed as an Independent Non-executive Director on July 20, 2010. Mr Polovineo was previously Chief Financial Officer and Company Secretary for Sino Gold Mining Limited, formerly an ASX 100 company.

Mr Polovineo was with Sino Gold for 12 years forming part of the executive team that built the company from a market capitalisation of A$100m before it was acquired by Eldorado Gold Corporation in December 2009 for approximately $2.4 billion. Mr Polovineo is highly familiar with the cultural requirements for an Australian company doing business in China. Mr Polovineo is a Professional Member of National Institute of Accountants (PNA) with more than 30 years experience as a CFO and Company Secretary including over 20 years in the resources sector.

Special Responsibilities: Chairman and Member of the Audit Committee and Member of Risk Management and Remuneration and Nomination Committees.
Directors' Interests: Nil fully paid ordinary shares and 1,000,000 options.
Current Directorships: Nil.
Past Directorships (last 3 years): Nil.

Kai Cheong Kwan (Independent Non-Executive Director) – Age 61

Mr Kwan graduated from the University of Singapore (since renamed as the National University of Singapore) in 1973 with a degree in Accountancy. Mr Kwan qualified as a Chartered Accountant in Australia in 1979 and has been a member of the Hong Kong Institute of Certified Public Accountants since 1982. He completed the Stanford Executive Program in 1992. Mr Kwan was appointed as Independent Non-executive Director on October 13, 2010. In addition to the above mentioned positions, Mr Kwan acts as a Director for a number of companies listed on the Stock Exchange of Hong Kong.

Special Responsibilities: Member of the Audit, Risk Management and Remuneration and Nomination Committees.
Directors' Interests: Nil fully paid ordinary shares and 1,000,000 options.
Current Directorships: JF Household Furnishings Ltd, China Properties Group Ltd, SPG Land (Holdings) Ltd, Win Hanverky Holdings Ltd, Henderson Sunlight Asset Management Limited and Hutchison Harbour Ring Ltd.
Past Directorships (last 3 years): Soundwill Holdings Ltd and Hutchison Telecommunications International Ltd.

David Michael Spratt BSc (Hons), FAIMM, FAICD (Independent Non-Executive Director) – Age 65

Mr Spratt was appointed as an Independent Non-executive Director on February 11, 2011. He has experience in the mining, mineral processing and smelting industries. Mr Spratt was appointed as a non-executive director of Kasbah Resources Ltd, an ASX-listed company with principal activities in tin and gold exploration in Morocco, in August 2010 and he took over as the chairman of the board of Kasbah Resources Ltd in December 2010. Before that, he was the managing director of Thailand Smelting and Refining Co., Ltd, a manufacturer of tin, tin alloys and tin-related products, from September 2003 to June 2010. Mr Spratt was also a director of Australian Silicon Limited (now Gold One International Limited), an ASX-listed gold mining company, from December 2001 to May 2003.

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

Mr Spratt received his Bachelor of Science in Metallurgy with first class honours from University of New South Wales in 1971. He is also a Life Member of the Stanford Business School Alumni Association. Mr Spratt is a Fellow of the Institute of Engineers, Australia and a Fellow of Australasian Institute of Mining and Metallurgy. Mr Spratt is also a Fellow of the Australian Institute of Company Directors.

Special Responsibilities: Member of the Audit, Risk Management and Remuneration and Nomination Committees.
Directors' Interests: Nil fully paid ordinary shares and Nil options.
Current Directorships: Kasbah Resources Ltd.
Past Directorships (last 3 years): Nil.

DIRECTORS' REPORT (CONTINUED)
Company Secretaries

Andrew Leslie Meloncelli BCom, CA, FCIS (Company Secretary) – Age 35

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

Mr Meloncelli joined Marengo Mining Ltd (listed on TSX) on November 12, 2007 as Manager – Finance and Treasury and subsequently worked as its company secretary and chief financial officer from April 28, 2008 to March 30, 2009. Mr Meloncelli is a former company secretary of Impress Energy Ltd, an ASX-listed oil and gas exploration and production company from March 15, 2002 to June 7, 2007 recently successfully acquired by Beach Energy Limited. He is a former company secretary of Carpathian Resources Ltd (previously listed on AIM) from April 1, 2004 to June 7, 2007. Mr Meloncelli is the former company secretary of Novacoat Holdings Ltd (now Decmil Group Ltd), an ASX-listed company from October 1, 2004 to June 30, 2005.

Mr Meloncelli received his Bachelor of Commerce Degree from the University of Western Australia in 1996. He is an Associate Member of the Institute of Chartered Accountants in Australia, a Fellow of Chartered Secretaries Australia, Taxation Institute of Australia and the Financial Services Institute of Australasia.

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

Wai Yee Ella Wong BEc, ACS, ACIS (Company Secretary – Hong Kong) – Age 35

Ms Wong joined Tricor Services Ltd (Tricor) in January 1, 2004 and is currently a manager of the corporate services division of Tricor. Ms Wong is a chartered secretary and an associate member of both The Institute of Chartered Secretaries and Administrators and The Hong Kong Institute of Chartered Secretaries. Ms Wong received her Bachelor of Economics from the University of Hong Kong in 1997 and has also completed a Postgraduate Diploma in Corporate Administration at the City University of Hong Kong in 2000.

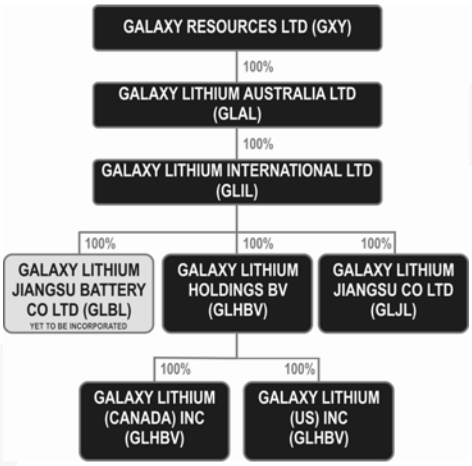
Ms Wong has 13 years experience in corporate secretarial practice. Over the years, Ms Wong has provided outsourced company secretarial services to many private companies and has been actively involved, as a manager of Tricor, in servicing a number of public companies listed on the Stock Exchange.

Ms Wong joined the Company on February 24, 2011 and has been the Company Secretary since then. Given the market share of Tricor as a provider of public company secretarial services, Tricor has the resources, experience and expertise to provide secretarial services to the Company.

DIRECTORS' REPORT (CONTINUED)
CORPORATE INFORMATION

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

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



Directors' Meetings

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

Director	Board Meetings		Audit Committee Meetings		Remuneration and Nomination Committee Meetings		Risk Management Committee Meetings	
	A	**B**	**A**	**B**	**A**	**B**	**A**	**B**
C L Readhead	12	12	2	2	1	1	1	1
I K S Tan	12	12	2 ***	2 ***	1 ***	1 ***	1 ***	1 ***
A P Tse	4	4	-	-	-	-	-	-
C B F Whitfield	4	4	-	-	-	-	-	-
R J Wanless	12	12	2	2	1	1	1	1
Y Zheng	5	12	-	2	1	1	1	1
X Ren	10	12	-	-	1 ***	1 ***	-	-
S Wu **	-	-	-	-	-	-	-	-
I J Polovineo	7	7	1	1	1	1	1	1
K C Kwan	4	4	-	-	-	-	-	-
D M Spratt *	-	-	-	-	-	-	-	-

* Appointed on 11 February 2011.
** Appointed on 24 February 2011.
*** By invitation.

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

DIRECTORS' REPORT (CONTINUED)
CORPORATE GOVERNANCE STATEMENT

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

The Company's Corporate Governance Principles and Practices Manual are reviewed and updated as necessary during the year.

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

The Board will continue to review and develop its corporate governance practices and the corporate governance section of the website will be updated with policies and procedures as they are formally adopted by the Company.

The Role of the Board and the Board Charter
The Board operates in accordance with the broad principles set out in the Company's Board Charter, a copy of which is available from the Company's website. The Board is responsible for guiding and monitoring the Company on behalf of Shareholders by whom they are elected and to whom they are accountable. The Board's primary responsibility is to oversee the Company's business activities and management for the benefit of Shareholders.

Day to day management of the Company's affairs and the implementation of corporate strategies and policy initiatives are delegated by the Board to the Managing Director and senior executives, as set out in the Board Charter.

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

- overseeing the development of the Company's corporate strategy through constructive engagement with senior executives;
- reviewing and approving strategy plans and performance objectives of the Company consistent with the corporate strategy, and reviewing the assumptions and rationale underlying the strategy plans and performance objectives; and
- monitoring implementation of the strategy plans.

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

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

Managing Director
The Managing Director is responsible for running the affairs of the Company under delegated authority from the Board and implementing the policies and strategy set by the Board. In carrying out his responsibilities the Managing Director must report to the Board in a timely manner and ensure all reports to the Board present a true and fair view of the Company's financial condition and operational results.

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

DIRECTORS' REPORT (CONTINUED)
CORPORATE GOVERNANCE STATEMENT (CONTINUED)

Board Composition
As at the date of this report the Company has eleven Directors: eight Non-Executive Directors including the Chairman, and three Executive Directors.

Board composition size and structure will be reviewed annually to ensure that the Non-Executive Directors between them bring the range of skills, knowledge and experience necessary to direct the Company. All Directors, other than the Managing Director, are required to retire and stand for re-election by Shareholders, every three years. Details of the skills, experience and expertise relevant to the position of Director held by each Director in office as at the date of the Annual Report on pages 25-28.

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

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

Director Independence
The Company's Board Charter provides criteria for the assessment of the independence of Directors. A Director may be considered by the Board to be independent where the Director does not meet one or more of the criteria. An independent Director is a Non-Executive Director who is free of any business or other relationship that could materially interfere with, or could reasonably be perceived to materially interfere with, the exercise of the Director's unfettered and independent judgement.

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

As a result of these classifications, the Board may not be composed of a majority of independent Directors. The Board will continue to assess its size and composition with a view to ensuring compliance with Corporate Governance Principles and Recommendations. If any Director has a material interest in a matter, the Director will not be permitted to vote on the matter.

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

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

Directors' attendance at Board and Committee meetings is detailed on page 30.

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

DIRECTORS' REPORT (CONTINUED)
CORPORATE GOVERNANCE STATEMENT (CONTINUED)

Audit Committee (AC)
The AC is comprised of Messrs Polovineo (Chairman), Readhead, Kwan, Spratt and Zheng. Mr Meloncelli is the Secretary to the Committee. It has a formal charter and meets generally two times during a financial year. A copy of the Charter is located on the Company's website. Committee members' attendance at AC meetings is detailed on page 30.

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

The AC's specific responsibilities include (but are not limited to):
- Evaluating the effectiveness of the Company's internal control measures, and gaining an understanding of whether internal control measures are adequate;
- Recommendations made by external auditors have been implemented;
- Understanding the current areas of greatest financial risk for the Company and management's response to minimising those risks;
- Reviewing significant accounting and reporting issues; and
- Reviewing annual financial reports, and meeting with management and external auditors to discuss the reports and the results of the audit.

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

Remuneration and Nomination Committee (RNC)
The RNC is comprised of Messrs Readhead (Chairman), Polovineo, Kwan, Spratt and Zheng. Mr Meloncelli is the Secretary to the Committee. It has a formal charter and meets generally at least one time during a financial year. A copy of the Charter is located on the Company's website. Committee members' attendance at RNC meetings is detailed on page 30.

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

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

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

Risk Management Committee (RMC)
The RMC is comprised of Messrs Zheng (Chairman), Polovineo, Kwan, Spratt and Readhead. Mr Meloncelli is the Secretary to the Committee. It has a formal charter and meets generally at least one time during a financial year. A copy of the Charter is located on the Company's website. Committee members' attendance at RMC meetings is detailed on page 30.

The RMC is responsible for the identification of significant areas of business risk, implementing procedures to manage such risks and developing policies regarding the establishment and maintenance of appropriate ethical standards to:
- Ensure compliance in legal statutory and ethical matters;
- Monitor the business environment;
- Identify business risk areas; and
- Identify business opportunities.

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

DIRECTORS' REPORT (CONTINUED)
CORPORATE GOVERNANCE STATEMENT (CONTINUED)

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

Corporate Reporting
The Managing Director and Chief Financial Officer have made the following certifications to the Board with respect to the 31 December 2010 accounts:

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

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

Financial Reporting
Consistent with ASX Principle 4.1, the Company's financial report preparation and approval process for the year ended 31 December 2010 involved both the Managing Director and the Chief Financial Officer providing detailed representations to the Board covering:

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

Indemnities
The Company has entered into good faith, protection and access deeds with each Director. These deeds provide access to documentation, indemnification against liability from conduct of the Company's business and subsidiaries, and Directors' and officers' liability insurance.

Directors and Senior Executives Performance Evaluation and Remuneration
The Board annually self assess its collective performance, and the performance of individual Directors and of Board committees. The assessment is undertaken using discussions and, where applicable, advice from external consultants.

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

Disclosure and Communication Policy
The Company has established a Disclosure and Communication policy. This policy outlines corporate governance measures adopted by the Company to further its commitments. It seeks to incorporate:

- Principle 5 (Make timely and balanced disclosure) and Principle 6 (Respect the rights of shareholders) of the ASX Corporate Governance Council's: Corporate Governance Principles and Recommendations;
- The principles in Guidance Note 8 - Continuous Disclosure: Listing Rule 3.1 issued by ASX; and
- Disclosure obligations in the ASX Listing Rules.

DIRECTORS' REPORT (CONTINUED)
CORPORATE GOVERNANCE STATEMENT (CONTINUED)

The Company Secretary has primary responsibility for ensuring that the ASX disclosure requirements are met. A copy of of this policy is located on the Company's website.

Shareholders may elect to receive company reports by mail or e-mail.

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

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

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

Principle No.	Best Practice Principle	Commentary	Galaxy's mechanism for dealing with non compliance
1	Lay solid foundations for management and oversight.	Galaxy complies with this Principle.	Not applicable.
2	Structure the Board to add value.	The Chairman is not considered independent. Messrs Polovineo, Kwan and Spratt (Three of Eleven Directors) are considered independent.	The Board considers that the Board Structure appropriate at this time and is consistent with the Business Activities of the Consolidated Entity.
3	Promote ethical and responsible decision-making.	Galaxy complies with this principle.	Not applicable.
4	Safeguarding integrity in financial reporting.	Galaxy complies with this principle.	Not applicable.
5	Make timely and balanced disclosure.	Galaxy complies with this principle.	Not applicable.
6	Respect the rights of shareholders.	Galaxy complies with this principle.	Not applicable.
7	Sound systems to recognise and manage risk.	Galaxy complies with this principle.	Not applicable.
8	Remunerate fairly and responsibly.	Galaxy substantially complies with this Principle. Non-Executive Directors have received performance options to provide incentive to grow the Company.	The Board considers that the issue of performance options to Non-Executive Directors appropriate as it aligns the interests of the Non-Executive Directors with Shareholders.

DIRECTORS' REPORT (CONTINUED)
PRINCIPAL ACTIVITIES

The principal activities of the entities within the Consolidated Entity are:
- Development of the Mt Cattlin Spodumene Mine;
- Development of the Jiangsu Lithium Carbonate Plant; and
- Exploration for minerals.

Dividends
No dividends have been paid by the Company during the year ended 31 December 2010, nor have the Directors recommended that any dividends be paid.

OPERATING AND FINANCIAL REVIEW

Operating Results for the Period
The Consolidated Entity's loss was $29,583,330 after tax for the year to 31 December 2010 (31 December 2009: $12,321,992).

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

Review of Financial Condition
During the course of the financial period a number of events impacted on the financial condition of the Consolidated Entity as follows:
- Total equity increased by $11,012,439 (13%) to $91,434,175:
  - 31,000,000 shares were issued by way of placements raising $25,593,712 after costs; and
  - 11,468,750 shares were issued by way of exercise of options raising $7,235,625.
- Cash on hand decreased by $55,931,811 (67%) to $27,509,567.
- Current assets decreased by $44,406,469 (52%) to $40,667,855.
- Total assets increased by $126,482,412 (116%) to $235,532,283.

As at 31 December 2010 the Consolidated Entity had:
- Cash and cash equivalents of $27,509,567;
- Current Debt of $7,636,968;
- Non Current Debt of $123,078,868.

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

The state of affairs of the Company was not affected by any significant changes during the year.

DIRECTORS' REPORT (CONTINUED)
EVENTS SUBSEQUENT TO REPORTING DATE

- On January 17, 2011, part of Tranche Two (A$10.5 million in Convertible Bonds) of the A$91.5 million capital raising was settled.
- On February 3, 2011, 250,000 fully paid ordinary shares were issued as a result of exercise of options.
- On February 11, 2011, Mr Michael Spratt was appointed as a Non-Executive Director of the Company.
- On February 16, 2011, final part of Tranche Two (A$19.5 million in Convertible Bonds and A$30 million in Equity) of the A$91.5 million capital raising was settled. 21,582,733 fully paid ordinary shares were issued.
- On February 25, 2011, Mr Shaoqing Wu was appointed as a Non-Executive Director and Ms Ella Wong as Company Secretary (Hong Kong) of the Company.
- On February 28, 2011, the Company lodged the Web Proof Information Pack (WPIP) with the Stock Exchange of Hong Kong (SEHK) in relation to the proposed listing.
- On March 14, 2011, the Company postponed the proposed initial public offering in Hong Kong until further notice due to the unfavourable financial market conditions.
- On March 16, 2011, the Company sold its first shipment of tantalum concentrate from Mt Cattlin of 28 tonnes.
- On March 22, 2011, the Mt Cattlin resource was increased by 14.6% to 18,188,000 tonnes @ 1.08% Li_2O.
- On March 24, 2011, 3,650,000 ESOP options were issued. These options are exercisable at $1.16 per share upon completion of 18 months service, successful listing on SEHK and the company's share price being greater than $2.00 (based upon a 10 day VWAP).
- On March 28, 2011, the Company successfully loaded the first shipment of spodumene at Bunbury Port in Western Australia, bound for China.

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

LIKELY DEVELOPMENTS AND EXPECTED RESULTS OF OPERATIONS

The Consolidated Entity intends to continue exploration and development of the Mt Cattlin Spodumene Mine and Jiangsu Lithium Carbonate Plant and to seek investment opportunities in the resources industry.

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

REMUNERATION REPORT – AUDITED

The remuneration report is set out under the following main headings:
A Principles used to determine the nature and amount of remuneration
B Details of remuneration
C Service agreements
D Share-based compensation

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

The information provided within this remuneration report includes remuneration disclosures that are required under Accounting Standard AASB 124 'Related Party Disclosures'. These disclosures have been transferred from the financial report and have been audited.

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

A Principles used to determine the nature and amount of remuneration
Key management personnel have authority and responsibility for planning, directing and controlling the activities of the Company and the Group, including directors of the Company and other executives. Key management personnel comprise the directors of the Company and senior executives for the Company and the Group including the five most highly remunerated Company and Group executives.

The objective of the Group's executive reward framework is to ensure reward for performance is competitive and appropriate for the results delivered. The framework aligns executive reward with achievement of strategic objectives and the creation of value for shareholders.

The Board ensures that executive reward satisfies the following key criteria for good reward corporate governance practices:
- Competitiveness and reasonableness;
- Acceptability to shareholders;
- Transparency; and
- Capital management.

The Group has structured an executive remuneration framework that is market competitive and complementary to the reward strategy for the organisation.

Non-executive directors
Fees and payments to non-executive directors reflect the demands which are made on, and the responsibilities of, the directors. Non-executive directors' fees and payments are reviewed annually by the Board. The Chairman's fees are determined independently to the fees of non-executive directors based on comparative roles in the external market. The Chairman is not present at any discussions relating to determination of his own remuneration.

Directors' fees
Directors' fees are determined within an aggregate directors' fee pool limit, which is periodically recommended for approval by shareholders. The maximum non–executive Director remuneration currently stands at $800,000 in aggregate, as approved by shareholders at the December 22, 2010 General Meeting.

Each non-executive director is entitled to receive fees of $70,000 per annum (plus superannuation) and the Chairman of Directors is entitled to receive $120,000 per annum (plus superannuation). A Director may also be paid fees or other amounts as the Directors determine if a Director performs special duties or otherwise performs services outside the scope of the ordinary duties of a Director. A Director may also be reimbursed for out of pocket expenses incurred as a result of their directorship or any special duties.

The Galaxy Resources Limited Short Term Bonus Scheme was introduced during 2010 to encourage and incentivise Galaxy employees to continue to ensure the success of the Company. The Short Term Bonus will be considered annually against 10 Company Goals. All permanent employees of Galaxy Resources and its controlled subsidiaries will be eligible to participate in the Short Term Bonus. The calculation of whether corporate goals have been met will be assessed by the Board and if satisfied the Board will approve the Short Term Bonus for payment. This assessment will finalise whether the full Short Term Bonus is paid or what proportion of the maximum will be paid, depending on the goals outcomes. Should all the Company goals be satisfactorily met, the maximum Short Term Bonus will represent a percentage of annual base salary and Superannuation for Australian employees and the same percentage of annual gross salary for employees in China. The basis for the calculation of the bonus will be the annual base salary and Superannuation for Australia-based and the annual gross salary for China based employees as at 1 July 2010. The maximum Short Term Bonus is 30% for the Managing Director, 20% for senior management and 10% for all other staff.

<u>Consequences of performance on shareholder wealth</u>
In considering the Group's performance and benefits for shareholder wealth, the Board believes that at this stage of the Group's development there is not a relevant link between revenue and profitability and the advancement of shareholder wealth. For this reason the Group does not currently link revenue and profitability against shareholder wealth. As executives hold share options, the advancement of shareholder wealth will incentivise the executives.

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

B Details of remuneration

	12 months to 31 December 2010 $	6 months to 31 December 2009 $
Total income received, or due and receivable, by key management personnel of the Group	7,870,886	9,892,632

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

- Ignatius Tan (MD)
- Anthony Tse (Executive Director)
- Charles Whitfield (Executive Director)
- John Sobolewski (Chief Financial Officer)
- Terry Stark (MD Resource Division)
- Anand Sheth (GM Marketing & Business Development)
- Phil Tornatora (Exploration & Geology Manager)
- Andrew Meloncelli (Company Secretary)
- Duncan Coutts (GM Development)

Executives	Short –term benefits	Post-employment benefits	Share-based payment (% of total remuneration)	Other	
Name	Cash Salary & Fees	Superannuation			Total
	$	$	$		$
31 December 2010					
I KS Tan	**440,000**	**39,560**	**1,823,023 (79%)**	10,000	**2,312,583**
J A Sobolewski	**230,000**	**20,700**	**203,539 (44%)**	-	**454,239**
T A Stark	**300,000**	**27,000**	**203,539 (38%)**	-	**530,539**
A M Sheth	**260,763**	**23,469**	**203,539 (42%)**	-	**487,771**
P M Tornatora	**230,110**	**20,710**	**101,769 (29%)**	-	**352,589**
A L Meloncelli	**200,000**	**18,000**	**721,666 (77%)**	-	**939,666**
D J Coutts (appointed 1 Nov 10)	**41,538**	**3,738**	**203,539 (82%)**	-	**248,815**
A P Tse (appointed 13 Oct 10)	**66,668**	-	**203,539 (75%)**	-	**270,207**
C B F Whitfield (appointed 13 Oct 10)	**66,668**	-	**203,539 (75%)**	-	**270,207**
31 December 2009					
I KS Tan	155,769	14,019	2,757,871 (94%)	10,000	2,937,659
J A Sobolewski	91,154	8,204	691,890 (87%)	-	791,248
T A Stark	111,404	10,026	691,890 (85%)	-	813,320
A M Sheth	100,917	9,083	691,890 (86%)	-	801,890
P M Tornatora	100,917	9,083	691,890 (86%)	-	801,890
M Tamlin (Resigned 29 Jan 10)	91,602	8,244	2,029,767 (95%)	-	2,129,613
A L Meloncelli	17,308	1,558	-	-	18,866

DIRECTORS' REPORT (CONTINUED)
REMUNERATION REPORT AUDITED (CONTINUED)
B Details of remuneration (continued)

Non-executive Directors

	Short-term benefits	Post employment benefits	Share-based payment (% of total remuneration)	
	Cash Salary and Fees	Superannuation		Total
	$	$	$	$
31 December 2010				
C L Readhead	97,500	-	455,756 (82%)	553,256
R J Wanless	60,000	5,400	353,986 (84%)	419,386
K C Kwan	15,054	-	203,539 (93%)	218,593
I J Polovineo	25,432	-	203,539 (89%)	228,971
X Ren	15,217	-	203,539 (93%)	218,756
Y Zheng	60,000	-	305,308 (84%)	365,308
31 December 2009				
C L Readhead	191,960	-	689,468 (78%)	881,428
R J Wanless	25,000	2,250	689,468 (96%)	716,718

C Service Agreements

I KS Tan (Managing Director)

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

Agreement

Under the terms of the agreement, Mr Tan is entitled to a Salary of $520,000 (from 1 July 2010) per annum plus 9% superannuation. Mr Tan is also provided with a vehicle for which lease payments are made by the Company, to the value of $1,786 per month. This is reviewed by the Remuneration and Nomination Committee annually.

Termination

Termination of the contract can occur by either party giving three months notice in writing.

Other executives have a contract with the Company on a fixed annual salary plus 9% superannuation. Each executive must give one month notice to terminate the contract.

DIRECTORS' REPORT (CONTINUED)
REMUNERATION REPORT AUDITED (CONTINUED)
D Share-based compensation

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

Grant date	Date exercisable	Expiry date	Exercise Price	Value per option at grant date
27 November 2008	a	24 November 2011	$0.80	$0.161
27 November 2008	b	24 November 2011	$1.00	$0.137
27 November 2008	c	24 November 2011	$1.20	$0.118
2 April 2009	d	5 years from vesting	$0.60	$0.065
17 April 2009	d	5 years from vesting	$0.60	$0.076
2 April 2009	e	5 years from vesting	$0.60	$0.025
17 April 2009	e	5 years from vesting	$0.60	$0.028
17 April 2009	f	5 years from vesting	$0.45	$0.273
14 October 2009	g	5 years from vesting	$0.60	$1.379
23 November 2009	g	5 years from vesting	$0.90	$0.865
14 October 2009	d	5 years from vesting	$0.60	$1.070
10 March 2010	e	5 years from vesting	$1.11	$1.000
10 March 2010	h	5 years from vesting	$1.11	$1.000
10 March 2010	i	5 years from vesting	$1.11	$1.030
4 June 2010	j	5 years from vesting	$0.96	$0.770
22 December 2010	k	5 years from vesting	$1.16	$0.940

a. On completion of securing of all necessary debt/equity funding for development of Mt Cattlin.
b. On achievement of commercial production of lithium/tantalum concentrate at nameplate rate specified in BFS.
c. On achievement of positive earnings before interest and tax from production of lithium carbonate/concentrate.
d. On completion of the Company securing all necessary debt and equity funding for the development of the Mt Cattlin Project.
e. On achievement of commercial production of lithium concentrate at the nameplate capacity specified in the final plant design at the Company's Mt Cattlin Project for 3 consecutive months.
f. Immediately.
g. On completion of the Company securing all necessary debt and equity funding for the development of the Jiangsu Lithium Carbonate Project.
h. On achievement of commercial production of lithium carbonate at the nameplate capacity specified in the final plant design at the Company’s Jiangsu Project for 3 consecutive months.
i. On completion of 18 months employment (earliest vesting date of 22 July 2011).
j. On completion of 18 months service from date of grant and increase shareholder returns by 68% measured by a 5 day VWAP share price being greater than $2.00 per share.
k. On completion of 12 months service from 13 October 2010, successful listing on SEHK, and Company’s share price being greater than A$2.00 based on 10 day VWAP.

DIRECTORS' REPORT (CONTINUED)
REMUNERATION REPORT AUDITED (CONTINUED)
D Share-based compensation (continued)

Name	Number of options granted		Number of options vested	
	31 December 2010	31 December 2009	31 December 2010	31 December 2009
Directors of Galaxy Resources Limited				
C L Readhead	2,000,000 (a)	500,000	-	500,000
R J Wanless	1,500,000 (b)	500,000	-	500,000
I KS Tan	8,000,000 (c)	2,000,000	-	2,000,000
C B F Whitfield	1,000,000 (d)	-	-	-
A P Tse	1,000,000 (d)	-	-	-
K C Kwan	1,000,000 (d)	-	-	-
I J Polovineo	1,000,000 (d)	-	-	-
X Ren	1,000,000 (d)	-	-	-
Y Zheng	1,500,000 (e)	-	-	-
Other Key Management Personnel				
T A Stark	1,000,000 (d)	800,000	-	800,000
J A Sobolewski	1,000,000 (d)	800,000	-	800,000
A M Sheth	1,000,000 (d)	800,000	-	800,000
P M Tornatora	500,000 (f)	800,000	-	800,000
M Tamlin	-	2,050,000	-	2,050,000
D J Coutts	1,000,000 (d)	-	-	-
A L Meloncelli	2,000,000 (g)	-	-	-

(a) 500,000 Class J and 1,500,000 Class K.
(b) 500,000 Class J and 1,000,000 Class K.
(c) 2,000,000 Class J and 6,000,000 Class K.
(d) 1,000,000 Class K.
(e) 1,500,000 Class K.
(f) 500,000 Class K.
(g) 1,000,000 Class I and 1,000,000 Class K.

DIRECTORS' REPORT (CONTINUED)
REMUNERATION REPORT AUDITED (CONTINUED)
D Share-based compensation (continued)

Shares issued on exercise of remuneration options

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

Name	Date of exercise of options	Amount paid per share	Number of ordinary shares issued on exercise of options	
			December 31, 2010	December 31, 2009
Directors of Galaxy Resources Limited				
I KS Tan	April 29, 2010	$0.60	2,500,000	-
I KS Tan	November 11, 2010	$0.60	1,000,000	-
Other Key Management Personnel				
J A Sobolewski	April 29, 2010	$0.60	550,000	-
J A Sobolewski	April 29, 2010	$0.90	500,000	
J A Sobolewski	November 8, 2010	$0.60	250,000	-
A M Sheth	January 7, 2010	$0.90	100,000	-
A M Sheth	January 15, 2010	$0.90	200,000	
A M Sheth	April 29, 2010	$0.60	550,000	-
A M Sheth	April 29, 2010	$0.90	500,000	
A M Sheth	November 8, 2010	$0.60	100,000	-
P M Tornatora	January 12, 2010	$0.90	200,000	-
P M Tornatora	April 29, 2010	$0.60	550,000	-
P M Tornatora	April 29, 2010	$0.90	500,000	
J A Sobolewski	December 4, 2009	$0.90	-	300,000
M Tamlin	December 7, 2009	$0.90	-	100,000
P M Tornatora	December 7, 2009	$0.90	-	100,000

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

Share Options

December 31, 2010

Name	Balance at the start of the financial period	Changes during the period	Options exercised during the period	Balance as the end of the financial period
Options				
Directors				
C L Readhead	1,250,000	2,000,000	-	3,250,000
RJ Wanless	1,250,000	1,500,000	-	2,750,000
I KS Tan	6,000,000	8,000,000	(3,500,000)	10,500,000
C B F Whitfield	-	1,000,000	-	1,000,000
A P Tse	-	1,000,000	-	1,000,000
K C Kwan	-	1,000,000	-	1,000,000
I J Polovineo	-	1,000,000	-	1,000,000
X Ren	-	1,000,000	-	1,000,000
Y Zheng	-	1,500,000	-	1,500,000
Other Key Management Personnel				
J A Sobolewski	2,500,000	1,000,000	(1,300,000)	2,200,000
T A Stark	2,800,000	1,000,000	-	3,800,000
A M Sheth	2,800,000	1,000,000	(1,450,000)	2,350,000
P M Tornatora	1,900,000	500,000	(1,250,000)	1,150,000
D J Coutts	-	1,000,000	-	1,000,000
A L Meloncelli	-	2,000,000	-	2,000,000
Total options	18,500,000	24,500,000	(7,500,000)	35,500,000

December 31, 2009

Name	Balance at the start of the financial period	Changes during the period	Options exercised during the period	Balance as the end of the financial period
Options				
Directors				
C L Readhead	1,600,000	(250,000)	(100,000)	1,250,000
R J Wanless	1,500,000	(250,000)	-	1,250,000
I KS Tan	4,000,000	2,000,000	-	6,000,000
Other Key Management Personnel				
J A Sobolewski	2,000,000	800,000	(300,000)	2,500,000
T A Stark	2,000,000	800,000	-	2,800,000
A M Sheth	2,000,000	800,000	-	2,800,000
P M Tornatora	1,200,000	800,000	(100,000)	1,900,000
M Tamlin	-	2,050,000	(100,000)	1,950,000
A L Meloncelli	-	-	-	-
Total options	14,300,000	6,750,000	(600,000)	20,450,000

DIRECTORS' REPORT
INSURANCE OF OFFICERS

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

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

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

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

ENVIRONMENTAL REGULATION AND PERFORMANCE

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

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

PROCEEDINGS ON BEHALF OF THE COMPANY

There are no proceedings on behalf of the Company under section 237 of the Corporations Act 2001 in the year ended 31 December 2010 or at the date of this report.

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 46 and forms part of the directors' report for the year ended 31 December 2010.

NON-AUDIT SERVICES

During the year, KPMG provided additional assuarnce and services associated with the Company's proposed listing and initial public offering on the Stock Exchange of Hong Kong as follows:

	$
KPMG Australia	850,000
KPMG China	350,000

Signed in accordance with a resolution of the Directors
Dated at Perth this 29th day of March 2011.
On behalf of the Directors

I KS Tan
Managing Director

KPMG

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

To: the directors of Galaxy Resources Limited

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 31 December 2010 there have been:

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

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

KPMG

KPMG

Trevor Hart
Partner

Perth

29 March 2011

Finance

FINANCIAL REPORT
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Note	Year ended December 31, 2010	Six months ended December 31, 2009
		$	$
Turnover	4	-	-
Other income	6(a)	-	1,081,356
Staff costs	6(b)	(5,101,723)	(1,107,174)
Share based payments	6(b)	(11,219,220)	(8,934,132)
Exploration and evaluation assets written-off	14(a)	-	-
Administration and accounting fees		(463,272)	(63,971)
Consulting fees		(2,848,697)	(2,034,026)
Consultants – HK Listing		(3,022,314)	-
Depreciation and amortisation		(169,925)	(21,162)
Legal fees		(788,809)	(174,187)
Public relations and communications		(661,076)	(237,387)
Travel expenses		(1,216,502)	(418,040)
Other operating expenses		(3,584,335)	(642,096)
Loss from operations		(29,075,873)	(12,550,819)
Finance income		4,841,880	483,894
Finance costs		(5,349,337)	(255,067)
Net finance (costs)/income	5	(507,457)	228,827
Loss before taxation	6	(29,583,330)	(12,321,992)
Income tax	7	-	-
Loss for the year/period		(29,583,330)	(12,321,992)
Other comprehensive income for the year/period			
Foreign currency translation differences – foreign operations		(3,602,788)	-
Net change in available-for-sale financial assets		150,000	-
Net movement during the period in other comprehensive income		(3,452,788)	-
Total comprehensive income for the year/period		(33,036,118)	(12,321,992)
Loss per share			
Basic and diluted loss per share (cents per share)	10	(16.62)	(11.91)

The accompanying notes form part of these consolidated financial statements.

CONSOLIDATED BALANCE SHEETS

	Note	December 31, 2010 $	December 31, 2009 $
NON-CURRENT ASSETS			
Property, plant and equipment	12	145,397,992	20,815,172
Lease prepayment	13	2,836,259	-
Exploration and evaluation assets	14	2,242,852	1,267,375
Available-for-sale financial assets	16	600,000	1,025,000
Other receivables	17	952,654	868,000
Restricted cash deposit	19	42,834,671	-
TOTAL NON-CURRENT ASSETS		**194,864,428**	**23,975,547**
CURRENT ASSETS			
Other receivables	17	5,936,284	1,632,946
Inventories		2,001,922	-
Restricted cash deposit	19	5,220,082	-
Cash and cash equivalents	18	27,509,567	83,441,378
TOTAL CURRENT ASSETS		**40,667,855**	**85,074,324**
TOTAL ASSETS		**235,532,283**	**109,049,871**
CURRENT LIABILITIES			
Other payables	20	12,123,127	6,197,751
Provisions	21	346,145	69,024
Interest bearing liabilities	22	7,636,968	22,361,360
TOTAL CURRENT LIABILITIES		**20,106,240**	**28,628,135**
NON-CURRENT LIABILITIES			
Provisions	21	913,000	-
Interest bearing liabilities	22	123,078,868	-
TOTAL NON-CURRENT LIABILITIES		**123,991,868**	**-**
TOTAL LIABILITIES		**144,098,108**	**28,628,135**
NET ASSETS		**91,434,175**	**80,421,736**
CAPITAL AND RESERVES			
Share capital	24	128,419,427	88,834,372
Reserves	24	(36,985,252)	(8,412,636)
TOTAL EQUITY		**91,434,175**	**80,421,736**

The accompanying notes form part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Note	Share capital $	Equity-settled payments reserve $	Foreign currency translation reserve $	Fair value reserve $	Accumulated losses $	Total equity $
Balance at June 30, 2009 and July 1, 2009		**15,637,914**	**1,308,596**	**-**	**-**	**(5,520,763)**	**11,425,747**
Total comprehensive income for the period		-	-	-	-	(12,321,992)	(12,321,992)
Issue of shares, net of transaction costs	24(b)	69,958,698	-	-	-	-	69,958,698
Exercise of share options	24(b)	2,425,151	-	-	-	-	2,425,151
Transfer of reserve upon exercise of share options	24(b)	812,609	(812,609)	-	-	-	-
Share-based payment transactions	24(b)	-	8,934,132	-	-	-	8,934,132
Balance at December 31, 2009 and January 1, 2010		**88,834,372**	**9,430,119**	**-**	**-**	**(17,842,755)**	**80,421,736**
Total comprehensive income for the period		-	-	(3,602,788)	150,000	(29,583,330)	(33,036,118)
Issue of shares, net of transaction costs	24(b)	25,593,712	-	-	-	-	25,593,712
Exercise of share options	24(b)	7,235,625	-	-	-	-	7,235,625
Transfer of reserve upon exercise of share options	24(b)	6,755,718	(6,755,718)	-	-	-	-
Share-based payment transactions	24(b)	-	11,219,220	-	-	-	11,219,220
Balance at December 31, 2010		**128,419,427**	**13,893,621**	**(3,602,788)**	**150,000**	**(47,426,085)**	**91,434,175**

The accompanying notes form part of these consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENTS

	Note	Year ended December 31, 2010	Six months ended December 31, 2009
		$	$
Operating activities			
Payments to suppliers and contractors		(16,674,002)	(4,935,780)
Net cash used in operating activities		**(16,674,002)**	**(4,935,780)**
Investing activities			
Interest received		1,418,178	258,361
Acquisition of property, plant and equipment		(125,872,654)	(7,249,071)
Proceeds from sale of tenements		-	175,000
Payments for exploration and evaluation assets		(2,840,975)	(1,576,937)
Outflow for security deposits/ performance bonds		(164,654)	(868,700)
Net cash used in investing activities		**(127,460,105)**	**(9,261,347)**
Financing activities			
Net proceeds from issue of shares		32,829,337	71,915,411
Bank charges and interest paid		(2,198,732)	(105,194)
Proceeds from loan from a director		-	70,000
Proceeds from borrowings		158,380,353	21,810,251
Repayments of borrowings		(44,081,022)	-
Deposit restricted for loan repayment		(51,563,466)	-
Net cash generated from financing activities		**93,366,470**	**93,690,468**
Net increase/(decrease) in cash and cash equivalents		(50,767,637)	79,493,341
Cash and cash equivalents at the beginning of the year/period	18	83,441,378	3,441,613
Effect of foreign exchange rate changes		(5,164,174)	506,424
Cash and cash equivalents at the end of the year/period	18	**27,509,567**	**83,441,378**

The accompanying notes form part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in Australian dollars unless otherwise indicated)

1. REPORTING ENTITY

Galaxy Resources Limited (the Company) is a company domiciled in Australia. The address of the Company's registered office is at level 2, 16 Ord Street, West Perth, Australia. The consolidated financial statements of the Company as at and for the year ended December 31, 2010 comprise the Company and its subsidiaries (together referred to as the Group and individually as Group entities).

2. BASIS OF PREPARATION

(a) Statement of compliance

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

The consolidated financial statements were authorised for issue by the Board of Directors on March 29, 2011.

(b) Basis of measurement

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

- Derivative financial instruments are measured at fair value.
- Financial assets are measured at fair value.
- Available-for-sale financial assets are measured at fair value with changes through profit and losses.
- Liabilities for cash-settled share-based payment arrangements are measured at fair value.
- Convertible bonds are designated at fair value through profit and losses.

(c) Functional and presentation currency

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

(d) Use of estimates and judgments

The preparation of financial statements in conformity with AASBs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

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

(e) Financial Position

The principal activities of the Group are the development of the Mt Cattlin spodumene mine, development of the Jiangsu lithium carbonate plant, and exploration for minerals. The plan of the Group is to mine and process the hard rock lithium minerals at Mt Cattlin situated in Western Australia which are further processed into spodumene concentrate. The spodumene concentrate will then be delivered to Jiangsu plant situated in the People Republic of China (PRC) for conversion into lithium compounds and chemicals, including lithium carbonate.

2. BASIS OF PREPARATION (CONTINUED)

(e) Financial Position (continued)

Currently, the Group is in the process of mining and processing of hard rock lithium minerals at Mt Cattlin and constructing the Jiangsu plant (the Project). In order to progress the construction, commissioning and ramp up of the Project over the coming twelve months, the Project activities have been funded through equity contributions together with a bridging finance facility from Creat Group Co. Limited (Creat Group), a shareholder of the Group via a controlled entity, of US$14 million, which was drawn down in two equal instalments on August 16, 2010 and September 2, 2010 and repaid on September 20, 2010. The senior loan facility of US$105 million was drawn down on September 22, 2010, as detailed in note 22.

In addition, on November 4, 2010 the Company entered into a Convertible Bond subscription Agreement to issue up to A$61.5 million, 8% convertible bonds (Bonds) maturing in November 2015. The Bonds are unsecured and subordinated to the senior loan facility.

On November 19, 2010, the Company issued the first tranche of the Bonds being $32 million receiving $29.69 million in net proceeds. The balance of the Bonds are to be issued in tranches on completion of conditions precedent.

On January 17, 2011, the Company issued the initial part of the second tranche of Bonds being $10.5 million and on 16 February 2011, the Company issued the remaining second tranche of the Bonds being $19 million.

On November 8, 2011 the Company announced the agreement to issue 21,582,733 fully paid ordinary shares at $1.39 to an investor to raise $30 million. On December 22, 2010 the Company's shareholders approved both the issue of the Bonds and the fully paid ordinary shares. The shares were issued on February 16, 2011.

At that meeting shareholders also approved the issue of up to 197 million fully paid ordinary shares in the Company at a prevailing market price to be issued in conjunction with the planned listing of the Company's shares on the Stock Exchange of Hong Kong.

On March 14, 2011, the Company announced the postponement of its proposed initial public offering (IPO) in Hong Kong until further notice, due to unfavourable financial market conditions. As a result of this postponement, the Group requires further funding forecast to be approximately $30 million to complete construction and ramp-up of the Project.

The Directors are confident that the Group has the capacity to raise additional debt or equity, based on recent success together with achieving a successful ramp-up and commissioning of the Mt Cattlin and Jiangsu operations in accordance with the Company's forecast, which supports the going concern basis of preparation for the consolidated financial statements.

(f) Change of financial year end

The financial year of the Group was changed from June 30 to December 31 during the period ended December 31, 2009 to align the Company's financial year end with that of its subsidiary Galaxy Lithium (Jiangsu) Co., Limited. This will improve the efficiency of the Group's financial reporting, allowing the Company to co-ordinate financial reporting and the audit and review process with that of its subsidiaries. The comparative figures for the Statement of comprehensive income, cash flow and changes in equity and related notes are for the six months from July 1, 2009 to December 21, 2009. The results for the financial year are therefore not directly comparable with the results for the period ended December 31, 2009.

2 BASIS OF PREPARATION (CONTINUED)

(g) Changes in accounting policies

(i) Business combinations

From January 1, 2010 the Group has adopted revised AASB 3 *Business Combinations* (2008) and amended AASB 127 Consolidated and Separate Financial Statements (2008) for business combinations occurring in the financial year starting January 1, 2010. The change in accounting policy is applied prospectively and had no material impact on earnings per share.

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

Acquisitions on or after January 1, 2010

For acquisitions on or after January 1, 2010, the Group measures goodwill at the acquisition date as:

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

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

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss. Costs related to the acquisition, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

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

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

Acquisitions between January 1, 2004 and January 1, 2009

For acquisitions between January 1, 2004 and January 1, 2009, goodwill represents the excess of the cost of the acquisition over the Group's interest in the recognised amount (generally fair value) of the identifiable assets, liabilities and contingent liabilities of the acquiree. When the excess was negative, a bargain purchase gain was recognised immediately in profit or loss. Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurred in connection with business combinations were capitalised as part of the cost of the acquisition.

Acquisitions prior to July 1, 2004 (date of transition to IFRSs)

As part of its transition to IFRSs, the Group elected to restate only those business combinations that occurred on or after January 1, 2003. In respect of acquisitions prior to January 1, 2003, goodwill represents the amount recognised under the Group's previous accounting framework, Australian GAAP. Acquisitions of non-controlling interests are accounted for as transactions with owners in their capacity as owners and therefore no goodwill is recognised as a result of such transactions. The adjustments to non-controlling interests are based on a proportionate amount of the net assets of the subsidiary.

2 BASIS OF PREPARATION (CONTINUED)

(g) Changes in accounting policies (continued)

(ii) Presentation of transactions recognised in other comprehensive income

From January 1, 2010 the Group has applied amendments to AASB 101 Presentation of Financial Statements outlined in AASB 2010-4 Further amendments to Australian Accounting Standards arising from the Annual Improvements Project. The change in accounting policy only relates to disclosures and had no impact on consolidated earnings per share or net income. The changes have been applied retrospectively and allow the Group to disclose transactions recognised in other comprehensive income in the financial statements.

(h) Accounting policies for new transactions and events

Distributions of non-cash assets to owners of the Company

From January 1, 2010 the Group has applied Interpretation 17 *Distributions of Non-cash Assets to Owners* in accounting for distributions of non-cash assets to owners of the Company. The new accounting policy has been applied prospectively.

The Group measures a liability to distribute non-cash assets as a dividend to the owners of the Company at the fair value of the assets to be distributed. The carrying amount of the dividend is remeasured at each reporting date and at the settlement date, with any changes recognised directly in equity as adjustments to the amount of the distribution. On settlement of the transaction, the Group recognises the difference, if any, between the carrying amount of the assets distributed and the carrying amount of the liability in profit or loss.

(i) Removal of parent entity financial statements

The Group has applied amendments to the Corporations Act (2001) that remove the requirement for the Group to lodge parent entity financial statements. Parent entity financial statements have been replaced by the specific parent entity disclosures in note 25.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by Group entities, except as explained in notes 2(g) which address changes in accounting policies.

a. Basis of consolidation

(i) Business combinations

The Group has changed its accounting policy with respect to accounting for business combinations. See note 2(g)(i) for further details.

(ii) Subsidiaries

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

The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group. Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

(iii) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

b. Available-for-sale financial assets

The Group's investments in equity securities are classified as available-for-sale financial assets. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses, are recognised in other comprehensive income and presented in the fair value reserve in equity. When an investment is derecognised, the cumulative gain or loss in equity is reclassified to profit or loss.

c. Exploration and evaluation assets

Exploration for and evaluation of mineral resources is the search for mineral resources after the Group has obtained legal rights to explore in a specific area, as well as the determination of the technical feasibility and commercial viability of extracting the mineral resources. Accordingly, exploration and evaluation assets are those expenditures incurred by the Group in connection with the exploration for and evaluation of minerals resources before the technical feasibility and commercial viability of extracting a mineral resources are demonstrable.

Accounting for exploration and evaluation assets is assessed separately for each 'area of interest'. An 'area of interest' is an individual geological area which is considered to constitute a favourable environment for the presence of a mineral deposit or has been proved to contain such a deposit.

Expenditure incurred on activities that precede exploration and evaluation of mineral resources, including all expenditure incurred prior to securing legal rights to explore an area, is expensed as incurred. For each area of interest the expenditure is recognised as an exploration and evaluation asset where the following conditions are satisfied:

a) The rights to tenure of the area of interest are current; and

b) At least one of the following conditions is also met:

  i) The expenditure is expected to be recouped through successful development and commercial exploitation of an area of interest, or alternatively by its sale; and

  ii) Exploration and evaluation activities in the area of interest have not, at reporting date, reached a stage which permits a reasonable assessment of the existence or otherwise of 'economically recoverable reserves' and active and significant operations in, or in relation to, the area of interest are continuing. Economically recoverable reserves are the estimated quantity of product in an area of interest that can be expected to be profitably extracted, processed and sold under current and foreseeable conditions.

Exploration and evaluation assets include:

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

General and administrative costs are allocated to, and included in, the cost of exploration and evaluation assets only to the extent that those costs can be related directly to the operational activities in the area of interest to which the exploration and evaluation assets relate. In all other instances, these costs are expensed as incurred.

Exploration and evaluation assets include:

- Piping and pumps;
- Tanks;
- Exploration vehicles and drilling equipment;
- Drilling rights;
- Acquired rights to explore;
- Exploratory drilling costs; and
- Trenching and sampling costs.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

c. Exploration and evaluation assets (continued)

Exploration and evaluation assets are transferred to development expenditure, which is disclosed as a component of property, plant and equipment, once technical feasibility and commercial viability of an area of interest is demonstratable. Exploration and evaluation assets are assessed for impairment, and any impairment loss is recognised, prior to being reclassified.

The carrying amount of the exploration and evaluation assets is dependent on successful development and commercial exploitation, or alternatively, sales of the respective area of interest.

Exploration and evaluation assets are assessed for impairment if sufficient data exists to determine technical feasibility and commercial viability or facts and circumstances suggest that the carrying amount exceeds the recoverable amount.

Impairment testing of exploration and evaluation assets

Exploration and evaluation assets are tested for impairment when any of the following facts and circumstances exist:

- The term of exploration licence in the specific area of interest has expired during the reporting period or will expire in the near future, and is not expected to be renewed;
- Substantive expenditure on further exploration for and evaluation of mineral resources in the specific area are not budgeted nor planned;
- Exploration for and evaluation of mineral resources in the specific area have not led to the discovery of commercially viable quantities of mineral resources and the decision was made to discontinue such activities in the specified area; or
- Sufficient data exists to indicate that, although a development in the specific area is likely to proceed, the carrying amount of the exploration and evaluation assets is unlikely to be recovered in full from successful development or by sale.

Where a potential impairment is indicated, an assessment is performed for each cash generating unit ("CGU") which is no larger than the area of interest. The Group performs impairment testing in accordance with accounting policy (see note 3(e)).

d. Property, plant and equipment

Property, plant and equipment is stated at historical cost less depreciation and impairment losses. The cost of self-constructed assets includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads and borrowings costs. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment. Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognised net within "other income" in the profit or loss.

Subsequent costs

The Group recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied within the item will flow to the Group and the cost of the item can be measured reliably. All other costs are recognised in profit or loss as an expense as incurred.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

d. Property, plant and equipment (continued)

Assets under construction

Assets under construction represent property, plant and equipment under construction and are stated at cost less impairment losses. Cost comprises direct costs of construction. Depreciation of these costs commences when substantially all of the activities necessary to prepare the assets for their intended use are complete.

Development expenditure

Development expenditure relates to costs incurred to access a mineral resource. It represents those costs incurred after the technical feasibility and commercial viability of extracting the mineral resource has been demonstrated and an identified mineral reserve is being prepared for production (but is not yet in production).

Significant factors considered in determining the technical feasibility and commercial viability of the project are the completion of a feasibility study, the existence of sufficient proven and probable reserves to proceed with development and approval by the board of directors to proceed with development of the project.

Development expenditure is capitalised as either a tangible or intangible asset depending on the nature of the costs incurred.

Development expenditure includes the following:

- Reclassified exploration and evaluation assets
- Direct costs of construction
- Pre-production stripping costs
- An appropriate allocation of overheads and borrowing costs incurred during the production phase.

Capitalisation of development expenditure ceases once the mining property is capable of commercial production, at which point it is depreciated in accordance with accounting policy set out below in this note. Any development expenditure incurred once a mine property is in production is immediately expensed to profit or loss except where it is probable that future economic benefits will flow to the entity, in which case it is capitalised as property, plant and equipment.

Depreciation

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

• Freehold land	Not depreciated
• Plant and equipment	3 – 16 years
• Development expenditure	Units of production basis over the total estimated proven and probable reserves related to the area of interest

No depreciation is made on assets under construction until such time when the assets are substantially completed and ready for use.

De-recognition

Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the profit or loss in the period the item is derecognised.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

e. Impairment of assets

Loans and receivables

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

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

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against loans and receivables. Interest on the impaired asset continues to be recognised. When a subsequent event (e.g. a repayment by a debtor) causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Available-for-sale financial assets

Impairment losses on available-for-sale financial assets are recognised by reclassifying the losses accumulated in the fair value reserve in equity to profit or loss. The cumulative loss that is reclassified from equity to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss recognised previously in profit or loss. Changes in impairment provisions attributable to time value are reflected as a component of interest income. If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognised in profit or loss, then the impairment loss is reversed, with the amount of the reversal recognised in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised in other comprehensive income.

Non-financial assets

The carrying amounts of the Group's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. An impairment loss is recognised if the carrying amount of an asset or its related CGU exceeds its estimated recoverable amount.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generate cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGU.

The Group's corporate assets do not generate separate cash inflows and are utilised by more than one CGU. Corporate assets are allocated to CGUs on a reasonable and consistent basis and tested for impairment as part of the testing of the CGU to which the corporate asset is allocated.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

e. Impairment of assets (continued)

Impairment losses are recognised in profit or loss.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

f. Inventories

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

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

g. Receivables

Receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment, except where the receivables are interest-free loans made to related parties without any fixed terms or the effect of discounting would be immaterial. Collectability of receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off.

h. Other payables

Trade and other payables are initially recognised at fair value. Other payables are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

i. Cash and cash equivalents

For cash flow statement presentation purposes, cash and cash equivalents include cash at bank and on hand, deposits with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

j. Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

k. Convertible bonds

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

l. Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. The unwinding of the discount is recognised as a finance cost.

Site restoration

The Group provides for the future cost of rehabilitating its exploration sites in accordance with the environmental and legal obligations imposed on the tenements. A provision for rehabilitation is required to be brought to account as soon as there is a probable outflow of resources that can be measured reliably. Provisions for restoration are based on the discounted cash flow of expected future cost.

m. Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

Assets that are held by the Group under leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases.

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total expense, over the term of the lease.

The cost of acquiring land held under an operating lease is amortised on a straight-line basis over the period of the lease term, which is 50 years.

n. Finance income and finance costs

Finance income represents interest income on funds invested (including available-for-sale financial assets). Interest income is recognised as it accrues in profit or loss, using the effective interest rate method.

Finance costs comprise interest expense on borrowings, unwinding of the discount on provisions and bank charges.

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

Foreign currency gains and losses are reported on a net basis as either finance income or finance costs depending on whether foreign currency movements are in a net gain or net loss position.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

o. Foreign currency translation

The consolidated financial statements are presented in Australian dollars, which is the functional currency of the Company and its Australian subsidiary. The functional currencies of the Company's Hong Kong subsidiary and the PRC subsidiary are Hong Kong dollars (HKD) and Renminbi (RMB) respectively.

Foreign currency transactions

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to the functional currency of the entity at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in profit or loss. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Nonmonetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to the functional currency of the entity at foreign exchange rates ruling at the dates the fair value was determined.

Foreign operations

The assets and liabilities of foreign operations are translated to Australian dollars at exchange rates at the reporting date. The income and expenses of foreign operations are translated to Australian dollars at exchange rates at the dates of the transactions.

Foreign currency differences are recognised in other comprehensive income, and presented in the foreign currency translation reserve in equity. When a foreign operation is disposed of such that control, significant influence or joint control is lost, the cumulative amount in the foreign currency translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal.

p. Employee benefits

Defined contribution retirement plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contribution into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution retirement plans are recognised as staff costs in profit or loss as incurred.

Short term benefits

Liabilities for employee benefits for wages, salaries, annual leave and sick leave that are expected to be settled within 12 months of the reporting date represent present obligations resulting from employee's services provided to reporting date, are calculated at undiscounted amounts based on remuneration wage and salary rates that the Group expects to pay as at reporting date including related on-costs, such as workers compensation insurance and payroll tax. Non-accumulating monetary benefits, such as medical care and motor vehicles, are expensed as the benefits are taken by the employees.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

q. Taxes

Income tax

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

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

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax assets also arise from unused tax losses. The following temporary differences, of which deferred taxes are not provided for: initial recognition of goodwill, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses, that is those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Taxation Office (ATO). In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables are stated with the amount of GST included. The net amount of the GST recoverable from, or payable to, the ATO is included as a current asset or liability in the balance sheets.

Cash flows are included in the cash flow statements on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

Tax consolidation

The Company and the Australian subsidiary, Galaxy Lithium Australia Limited, formed a tax consolidated group on July 1, 2008 under Australian taxation laws, whereby all entities within the tax consolidated group are taxed as a single entity. The head entity of the tax consolidated group is Galaxy Resources Limited.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

r. Operating segments

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

Segment results that are reported to the Managing Director include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets (primarily the Company's headquarters), head office expenses, and income tax assets and liabilities. Segment capital expenditure is the total cost incurred during the period to acquire property, plant and equipment, and intangible assets other than goodwill.

s. Share capital

Ordinary shares are classified as share capital. Costs directly attributable to the issue of new shares or options are shown in share capital as a deduction from the proceeds.

A contract that will be settled by the entity delivering a fixed number of its own equity instruments in exchange for a fixed amount of cash or another financial asset is an equity instrument. Any consideration received from such equity instrument is credited to share capital. Changes in fair value of such equity instrument subsequently are not recognised in the consolidated financial statements.

t. Earnings/loss per share

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

u. Related parties

For the purpose of the consolidated financial statements, a party is considered to be related to the Group if:

(i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;

(ii) the Group and the party are subject to common control;

(iii) the party is an associate of the Group or a joint venture in which the Group is a venturer;

(iv) the party is a member of key management personnel of the Group or the Group's parent, or a close family member of such individual, or is an entity under the control, joint control or significant influence of such individuals;

(v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or

(vi) the party is a post-employment benefit plan which is for the benefit of employees of the Group or of any entity that is a related party of the Group.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

v. Share based payment transactions

The grant-date fair value of share-based payment awards granted to employees (including directors) is recognised as an employee expense, with a corresponding increase in equity, over the period that the employees unconditionally become entitled to the awards. The fair value of employee share options is measured using a Black & Scholes option valuation model (Black & Scholes) or Monte-Carlo valuation model (Monte-Carlo). Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information), weighted average expected life of the instruments (based on historical experience and general option holder behaviour), expected dividends, and the risk-free interest rate (based on government bonds). Service and non-market performance conditions attached to the transactions are not taken into account in determining fair value.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

v. Share based payment transactions (continued)

The amount recognised as an expense is adjusted to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant-date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

Share-based payment arrangements in which the Group receives goods or services as consideration for its own equity instruments are accounted for as equity-settled share-based payment transactions, regardless of how the equity instruments are obtained by the Group.

w. New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are available for early adoption for annual periods beginning after January 1, 2010, and have not been applied in preparing the consolidated financial statements. None of these are expected to have a significant effect on the Group, except for *IFRS 9 Financial Instruments*, which becomes mandatory for the Group's 2013 consolidated financial statements and could change the classification and measurement of financial assets. The Group does not plan to adopt this standard early and the extent of the impact has not been determined.

4. TURNOVER

The principal activities of the Group are the development of the Mt. Cattlin spodumene mine, development of Jiangsu lithium carbonate plant, and exploration for minerals. The Group did not earn any revenue from these activities during the year/period as it was still in a development stage.

5. FINANCE INCOME AND FINANCE COSTS

	Year ended December 31, 2010	Six months ended December 31, 2009
	$	$
Finance income		
Interest income on cash assets	1,233,786	483,894
Net foreign exchange gains	3,608,094	-
	4,841,880	483,894
Finance costs		
Interest expense on financial liabilities wholly repayable within five years	(1,813,455)	(105,833)
Impairment loss on available-for-sale financial assets (note 16)	(575,000)	-
Bank charges	(229,615)	(104,563)
Net foreign exchange losses	-	(44,671)
Convertible bond transaction costs	(2,220,584)	-
Amortisation of senior loan facility costs	(510,683)	-
	(5,349,337)	(255,067)
Net finance (costs)/income	(507,457)	228,827

6. LOSS BEFORE TAXATION

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

	Year ended December 31, 2010	Six months ended December 31, 2009
	$	$
(a) Other income		
Net gain on sale of mineral tenements (note 14(b))	-	1,056,356
Others	-	25,000
	-	1,081,356
(b) Staff costs		
Contributions to defined contribution retirement plans	(210,354)	(78,553)
Equity settled share-based payment expenses	(11,219,220)	(8,934,132)
Salaries, wages and other benefits	(4,891,369)	(1,028,621)
	(16,320,943)	(10,041,306)
(c) Other items		
Operating lease charges for property rental	(437,756)	(209,319)
Auditors' remuneration		
Audit and review services		
Statutory financial statements		
- KPMG Australia	(189,910)	(30,000)
- KPMG People's Republic of China	(45,000)	-
	(234,910)	(30,000)
Other services		
KPMG Australia		
- Stock Exchange Hong Kong IPO assurance services	(850,000)	-
KPMG People's Republic of China		
- Stock Exchange Hong Kong IPO assurance services	(350,000)	-
	(1,200,000)	-

7. INCOME TAX

(a) Reconciliation between tax expense and accounting loss at applicable tax rates

	Year ended December 31, 2010 $	Six months ended December 31, 2009 $
Loss before taxation	(29,583,330)	(12,321,992)
Notional tax benefit on loss before taxation, calculated at the rates applicable to losses in the jurisdictions concerned	8,874,999	3,696,598
Non-deductible expenses	(6,598,314)	(3,020,435)
Tax effect of temporary differences not recognised for deferred tax purposes	(345,658)	-
Tax effect on reversal of temporary differences	157,204	11,677
Tax effect of losses not recognised for deferred tax purposes	(2,088,231)	(687,840)
Income tax expense	-	-

(i) The statutory tax rate applicable to the Company and the Australian subsidiary was 30% during the Relevant Period. No provision for Australian taxation was made during the Relevant Period as the Company and the Australian subsidiary sustained losses for taxation purposes in Australia.

(ii) Hong Kong's statutory rate for 2009 and 2010 was 16.5%. No provision for Hong Kong Profits Tax was made for the Hong Kong subsidiary incorporated in July 2009 as it did not have assessable profits subject to Hong Kong Profits Tax for 2009 and 2010.

(iii) The statutory tax rate applicable to the subsidiary established in the PRC in February 2010 was 25%. No provision for the PRC profits tax was made as the PRC subsidiary suffered losses for taxation purposes for 2010.

7. INCOME TAX (CONTINUED)

(b) Recognised deferred tax assets and liabilities

Group

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

Deferred tax arising from:	Other receivables $	Property, plant and equipment $	Exploration and evaluation assets $	Available-for-sale financial assets $	Other payables $	Provisions $	Interest bearing liabilities $	Tax losses $	Others $	Total $
Balance at July 1, 2009	4,206	-	2,585,559	-	(5,400)	(6,632)	-	(2,577,733)	-	-
Charged/(credited) to profit or loss	65,902	-	437,489	7,500	(3,600)	(14,075)	-	(493,216)	-	-
Reclassifications	-	2,642,835	(2,642,835)	-	-	-	-	-	-	-
Balance at December 31, 2009 and January 1, 2010	70,108	2,642,835	380,213	7,500	(9,000)	(20,707)	-	(3,070,949)	-	-
Charged/(credited) to profit or loss	(55,317)	426,514	693,914	(127,500)	(49,045)	(368,100)	283,429	(1,976,322)	1,172,427	-
Reclassifications	-	401,270	(401,270)	-	-	-	-	-	-	-
Balance at December 31, 2010	14,791	3,470,619	672,857	(120,000)	(58,045)	(388,807)	283,429	(5,047,271)	1,172,427	-

7. INCOME TAX (CONTINUED)

(c) Unrecognised deferred tax assets

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

Group	December 31, 2010 $	December 31 2009 $
Transaction costs for issue of shares	1,323,810	923,107
Other deductible temporary differences	835,352	5,824
Unused tax losses	5,109,907	1,424,995
	7,269,069	2,353,926

Tax consolidation

The Company and the Australian subsidiary, Galaxy Lithium Australia Limited, formed a tax consolidated group on July 1, 2008 under Australian taxation laws, whereby they are taxed as a single entity. The head entity of the tax consolidated group is the Company. Also, the Company and the Australian subsidiary entered into a tax funding agreement which provides for the allocation of current taxes between these two entities. The allocation of taxes under the tax funding agreement is recognised as a movement in the intercompany accounts.

The unused tax losses relating to the Company (including the Australian subsidiary) do not expire under the current tax legislation. Deferred tax assets have not been recognised in respect of the above-mentioned deductible temporary differences and unused tax losses as it is not probable that future taxable profits will be available against which they can be utilised.

8. KEY MANAGEMENT PERSONNEL DISCLOSURE

a) Directors
The following persons were directors of Galaxy Resources Limited during the financial year:
(i) Chairman – non-executive

Craig Readhead

(ii) Executive directors

Ignatius Tan

Charles Whitfield

Anthony Tse

(iii) Non- executive directors

Robert Wanless

Kai Cheong Kwan

Ivo Polovineo

Xiaojian Ren

Yuewen Zheng

b) Other key management personnel

John Sobolewski (Chief Financial Officer)

Terry Stark (MD Resource Division)

Anand Sheth (GM Marketing & Business Development)

Phil Tornatora (Exploration & Geology Manager)

Duncan Coutts (GM Development)

Andrew Meloncelli (Company Secretary)

c) Equity instrument disclosures relating to key management personnel
The interests of the directors and their director related entities in shares and options at the end of the financial year are as follows:

Name of Director	Shares Held Directly	Shares Held Indirectly	Options Held Directly	Options Held Indirectly
C L Readhead	750,000	3,055,556	750,000	2,500,000
R J Wanless	1,332,740	707,753	1,500,000	1,250,000
I KS Tan	-	69,000	-	10,500,000
C B F Whitfield	-	41,361	-	1,000,000
A P Tse	-	-	1,000,000	-
K C Kwan	-	-	1,000,000	-
I J Polovineo	-	-	1,000,000	-
X Ren	-	38,091,616	1,000,000	-
Y Zheng	-	38,091,616	1,500,000	-

8. KEY MANAGEMENT PERSONNEL DISCLOSURE (CONTINUED)

c) Equity instrument disclosures relating to key management personnel (continued)

December 31, 2010

Name	Balance at the start of the year/period	Changes during the period	Issued during the period	Balance as the end of the year/period
(1) Shares				
Directors				
C L Readhead	3,805,556	-	-	3,805,556
R J Wanless	2,140,493	(100,000)	-	2,040,493
I KS Tan	1,200	(3,432,200)	3,500,000	69,000
C B F Whitfield	41,361	-	-	41,361
A P Tse	-	-	-	-
KC Kwan	-	-	-	-
I J Polovineo	-	-	-	-
X Ren*	6,818,182	31,273,434	-	38,091,616
Y Zheng*	6,818,182	31,273,434	-	38,091,616
Other Key Management Personnel				
J A Sobolewski	98,000	(1,398,000)	1,300,000	-
T A Stark	350,286	-	-	350,286
A M Sheth	40,000	(1,450,000)	1,450,000	40,000
P M Tornatora	250,000	(1,440,000)	1,250,000	60,000
A L Meloncelli	5,000	-	-	5,000
Total shares	20,326,899	54,768,029	7,500,000	82,594,928

* Shareholder is Creat Resources Holdings Ltd. Mr Ren and Dr Zheng have a beneficial interest.

8. KEY MANAGEMENT PERSONNEL DISCLOSURE (CONTINUED)

c) Equity instrument disclosures relating to key management personnel (continued)

Name	Balance at the start of the year/period	Changes during the period	Issued during the period	Balance as the end of the year/period
(2) Options				
Directors				
C L Readhead	1,250,000	2,000,000	-	3,250,000
R J Wanless	1,250,000	1,500,000	-	2,750,000
I KS Tan	6,000,000	8,000,000	(3,500,000)	10,500,000
C B F Whitfield	-	1,000,000	-	1,000,000
A P Tse	-	1,000,000	-	1,000,000
K C Kwan	-	1,000,000	-	1,000,000
I J Polovineo	-	1,000,000	-	1,000,000
X Ren	-	1,000,000	-	1,000,000
Y Zheng	-	1,500,000	-	1,500,000
Other Key Management Personnel				
J A Sobolewski	2,500,000	1,000,000	(1,300,000)	2,200,000
T A Stark	2,800,000	1,000,000	-	3,800,000
A M Sheth	2,800,000	1,000,000	(1,450,000)	2,350,000
P M Tornatora	1,900,000	500,000	(1,250,000)	1,150,000
D J Coutts	-	1,000,000	-	1,000,000
A L Meloncelli	-	2,000,000	-	2,000,000
Total options	18,500,000	24,500,000	(7,500,000)	35,500,000

December 31, 2009

Name	Balance at the start of the year/period	Changes during the period	Received during the period on exercise of options	Balance as the end of the year/period
(1) Shares				
Directors				
C L Readhead	2,905,556	800,000	100,000	3,805,556
R J Wanless	2,140,493	-	-	2,140,493
I KS Tan	1,200	-	-	1,200
Other Key Management Personnel				
J A Sobolewski	-	(202,000)	300,000	98,000
T A Stark	250,286	100,000	-	350,286
A M Sheth	40,000	-	-	40,000
P M Tornatora	90,000	60,000	100,000	250,000
M Tamlin	-	-	100,000	100,000
A L Meloncelli	-	5,000	-	5,000
Total shares	5,427,535	763,000	600,000	6,790,535
(2) Options				
Directors				
C L Readhead	1,600,000	(250,000)	(100,000)	1,250,000
R J Wanless	1,500,000	(250,000)	-	1,250,000
I K S Tan	4,000,000	2,000,000	-	6,000,000
Other Key Management Personnel				
J A Sobolewski	2,000,000	800,000	(300,000)	2,500,000
T A Stark	2,000,000	800,000	-	2,800,000
A M Sheth	2,000,000	800,000	-	2,800,000
P M Tornatora	1,200,000	800,000	(100,000)	1,900,000
M Tamlin	-	2,050,000	(100,000)	1,950,000
A L Meloncelli	-	-	-	-
Total options	14,300,000	6,750,000	(600,000)	20,450,000

9. CONTINGENT ASSETS AND LIABILITIES

No contingent assets or liabilities have arisen during the year/period.

10. LOSS PER SHARE

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

	Year ended December 31, 2010	Six months ended December 31, 2009
Basic loss per share (cents)	(16.62)	(11.91)
Loss attributable to the ordinary shareholders of the Company	(29,583,330)	(12,321,992)
Weighted average number of shares		
Issued ordinary shares at beginning of the year/period	149,934,608	76,125,816
Effect of share options exercised	7,091,284	1,573,117
Effect of shares issued	21,009,337	25,797,991
Weighted average number of ordinary shares outstanding during the year/period	178,035,229	103,496,924

There were no dilutive ordinary shares during the year/period.

11. OPERATING SEGMENTS

The Group had one operating and reportable segment up to the period ended December 31, 2009, which was the Australian operation which included the development of the Mt Cattlin spodumene mine and exploration for minerals. The segment information reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment was the same as those reported in this consolidated financial statements up to December 31, 2009.

In February 2010, the Group established a subsidiary in the People's Republic of China (PRC), which mainly engaged in the construction of the Jiangsu lithium carbonate plant. Since then, the Group has managed its businesses by geographic location, which resulted in two operating and reportable segments which consisted of Australian operation and the PRC operation as set out below. This is consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment.

- Australia operation includes the development of the Mt. Cattlin spodumene mine and exploration for minerals. Australia operation has existed throughout the year/period.
- China operation represents the Jiangsu lithium carbonate plant and was established in February 2010.

(a) Segment results and assets

For the purposes of resource allocation and performance assessment, the Group's senior executive management monitors the results and assets attributable to each reportable segment on the following bases:

Segment results are profit or loss before taxation which is measured by allocating revenue and expenses to the reportable segments according to geographic location which they arose in or related to.

Segment assets include property, plant and equipment, lease prepayment and exploration and evaluation assets. The geographical location of the segment assets is based on the physical location of the assets.

11. OPERATING SEGMENTS (CONTINUED)

	For the twelve months ended December 31, 2010		
	Australia operation	China operation	Total
	$	$	$
Segment results:			
Reportable segment loss before taxation	(26,981,810)	(2,601,520)	(29,583,330)
Depreciation	(121,733)	(48,192)	(169,925)
Finance income/loss	(129,885)	(377,572)	(507,457)
Impairment loss on available-for-sale financial assets	(575,000)	-	(575,000)
Segment assets:			
Reportable segment assets	124,407,237	26,069,866	150,477,103
Additions to non-current segment assets during the period	102,492,012	26,069,866	128,561,878

(b) Reconciliation of reportable segment results and assets

There were no inter-segment transactions from February to December 2010. Accordingly there are no reconciling items between reportable segment's loss and the Group's loss.

The reconciliation between reportable segment assets and the Group's consolidated total assets as at December 31, 2010 is as follows:

Assets	$
Reportable segment assets	150,477,103
Available-for-sale financial assets	600,000
Other receivables	6,888,938
Inventories	2,001,922
Restricted cash deposit	48,054,753
Cash and cash equivalents	27,509,567
Consolidated total assets	235,532,283

12. PROPERTY, PLANT AND EQUIPMENT

	December 31, 2010	December 31, 2009
Group	$	$
Cost		
Land (note 12(c))		
Balance at beginning of the year/period	932,000	175,000
Additions	240,000	757,000
Balance at end of the year/period	1,172,000	932,000
Plant and equipment		
Balance at beginning of the year/period	207,442	107,828
Additions	632,604	99,614
Balance at end of the year/period	840,046	207,442
Assets under construction (note 12(a))		
Balance at beginning of the year/period	7,304,818	-
Additions	118,872,426	7,304,818
Balance at end of the year/period	126,177,244	7,304,818
Development expenditure		
Balance at beginning of the year/period	12,410,078	-
Additions	3,630,552	3,600,627
Transfer from exploration and evaluation assets (note 14)	1,337,569	8,809,451
Balance at end of the year/period	17,378,199	12,410,078
Total		
Balance at beginning of the year/period	20,854,338	282,828
Additions	123,375,582	11,762,059
Transfer from exploration and evaluation assets	1,337,569	8,809,451
Balance at end of the year/period	**145,567,489**	**20,854,338**
Accumulated depreciation		
Land		
Balance at beginning and end of the year/period	-	-
Plant and equipment		
Balance at beginning of the year/period	39,166	18,004
Depreciation	130,331	21,162
Balance at end of the year/period	169,497	39,166
Assets under construction		
Balance at beginning and end of the year/period	-	-
Development expenditure		
Balance at beginning and end of the year/period	-	-
Total		
Balance at beginning of the year/period	39,166	18,004
Depreciation	130,331	21,162
Balance at end of the year/period	**169,497**	**39,166**
Carrying amounts		
Land	1,172,000	932,000
Plant and equipment	670,549	168,276
Assets under construction	126,177,244	7,304,818
Development expenditure	17,378,199	12,410,078
Total property, plant and equipment	**145,397,992**	**20,815,172**

12. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

(a) Assets under construction represented plant and equipment and construction works under way at the Mt Cattlin spodumene mine and the Jiangsu lithium carbonate plant site. Mt Cattlin construction has been substantially completed as at December 31, 2010 and Jiangsu plant construction is planned to be completed in the first half of 2011.
(b) During the year ended December 31, 2010, the assets under construction of $103,169,903 and development expenditure of $17,378,199 relating to the Mt Cattlin spodumene mine were transferred from the Company to its subsidiary, Galaxy Lithium Australia Limited, at cost.
(c) All of the Group's and the Company's land is freehold land located in Australia.

13. LEASE PREPAYMENT

	December 31, 2010	December 31, 2009
Group	$	$
Cost		
Balance at beginning of the year/period	-	-
Additions	2,873,250	-
Balance at end of the year/period	2,873,250	-
Accumulated amortisation		
Balance at beginning of the year/period		
Amortisation	36,991	-
Balance at end of the year/period	36,991	-
Carrying amounts	2,836,259	-

Lease prepayment represented a lump sum prepayment made in April 2010 for a land use right in the PRC with the lease term of 50 years. Lease prepayment is amortised on a straight-line basis over the period of the lease term.

14. EXPLORATION AND EVALUATION ASSETS

	December 31, 2010	December 31, 2009
Group	$	$
Cost:		
Balance at beginning of the year/period	1,267,375	8,618,533
Additions	2,313,046	1,576,937
Less:		
Costs of tenements sold (note 14(a))	-	(118,644)
Transfer to property, plant and equipment (notes 12 and 14 (b))	(1,337,569)	(8,809,451)
Balance at end of the year/period	2,242,852	1,267,375

14. EXPLORATION AND EVALUATION ASSETS

(a) During the six months ended December 31, 2009, the Group sold its mineral tenements in the Shoemaker project and its 25% interest in the Ravensthorpe joint venture exploration tenement to General Mining Corporation Ltd and Pioneer Resources Limited, respectively. For Shoemaker project, sales consideration was $1.1 million, which was settled by $100,000 in cash and 5,000,000 shares in General Mining Corporation Ltd at $0.20 each which was then its fair value (see note 16). Net gain from this sales amounted to $998,031. For the Ravensthorpe joint venture, sales consideration was $75,000, which was settled in cash and gave rise to a net gain of $58,325.

(b) The Group has undertaken various feasibility studies in relation to the mining and extraction of spodumene ore and lithium carbonate since its listing on ASX on February 6, 2007. The Group's major mining tenements incorporate the Mt Cattlin spodumene mine which is located near the town of Ravensthorpe in Western Australia. Exploration and evaluation assets relating to Mt Cattlin were transferred to property, plant and equipment upon the board of directors' approval of commercial viability on July 1, 2009 and the balances as at December 31, 2010 mostly related to the Bakers Hill project, which is another lithium reserve located near Ravensthorpe in Western Australia.

(c) There exist, on the Group's exploration properties, areas containing sacred sites or sites of significance to Aboriginal people. As a result, exploration properties or areas within the tenements may be subject to exploration and mining restrictions. The Directors are of the opinion that those sites are immaterial to the whole tenements and do not have a significant impact on the Group's exploration and mining plans.

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

15. INVESTMENTS IN SUBSIDIARIES

Company	December 31, 2010 $	December 31, 2009 $
Unlisted share - at cost	1	1

The following list contains the particulars of all of the subsidiaries of the Company. The issue of shares held is ordinary.

Name of company	Place of incorporation/ establishment and operation	Type of legal entity	Particulars of issued/registered/ paid up capital	Proportion of ownership interest as at December 31, 2010	December 31, 2009	Principal activity
Galaxy Lithium Australia Limited	Australia	Limited liability company	1 share of $1 each	100%	100%	Mining of Mt Cattlin spodumene
Galaxy Lithium International Limited*	Hong Kong	Limited liability company	349,665,400 shares of HK$ 1 each	100%	100%	Investment holding company
Galaxy Lithium (Jiangsu) Co., Limited**	PRC	Limited liability company	US$ 35million	100%	N/A	Operations of Jiangsu lithium carbonate plant

*Galaxy Lithium International Limited was incorporated in Hong Kong on July 23, 2009.
**Galaxy Lithium (Jiangsu) Co., Limited was established in the PRC on February 10, 2010 as a wholly-foreign owned enterprise with an operating period of 50 years expiring on February 1, 2060.

16. AVAILABLE-FOR-SALE FINANCIAL ASSETS

Group	December 31, 2010 $	December 31, 2009 $
Equity securities listed in Australia, at fair value	600,000	1,025,000

During the six months ended December 31, 2009, the Group and the Company received 5,000,000 shares in General Mining Corporation Ltd, which is listed on the ASX, as part of the consideration for the sale of the Group's mineral tenements in the Shoemaker project (see note 14(a)).

As at December 31, 2010, the Group's and the Company's available-for-sale financial assets were individually determined to be impaired on the basis of a material decline in their fair value below cost and adverse changes in the market in which these investees operated which indicated that the cost of the Group's and the Company's investment in them may not be recovered. As such, an impairment loss of $575,000 was recognised, which represented the excess of carrying amount over the fair value and were recognised in profit or loss in accordance with the policy set out in note 3(g). Subsequent to the recognition of this impairment loss, there was a recovery in the fair value of $150,000 which was recognised through fair value reserve in equity.

17. OTHER RECEIVABLES

Group	December 31, 2010 $	December 31, 2009 $
Current		
Other receivables (note 17(a))	2,756,712	1,529,899
Prepayments	1,723,936	24,967
Amounts capitalised for proposed Hong Kong listing	1,397,756	-
Others	57,880	78,080
	5,936,284	1,632,946
Non-Current		
Security bonds (note 17(b))	913,000	868,000
Others	39,654	-
	952,654	868,000
	6,888,938	2,500,946

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

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

18. CASH AND CASH EQUIVALENTS

Group	December 31, 2010	December 31, 2009
	$	$
Current		
Cash at bank and on hand	27,509,567	58,441,378
Pledged Deposit	-	25,000,000
	27,509,567	83,441,378

Non-cash transactions

(a) During the six months ended December 31, 2009, the Group sold its mineral tenements in the Shoemaker project and received the consideration of $1.1 million, which was settled by $100,000 in cash and 5,000,000 shares in General Mining Corporation Ltd at $0.20 each, amounting to $1,000,000 (see note 14(a)).

Reconciliation of loss after tax to net cash inflow from operating activities:

	December 31, 2010	December 31, 2009
	$	$
Loss for the period	(29,583,330)	(12,321,992)
Adjustment for:		
Depreciation	169,925	21,162
Net finance costs	507,457	(179,362)
Profit on sale of tenements	-	(1,056,356)
Share-based payments	11,219,220	8,934,132
	11,896,602	7,719,576
Change in receivables	(1,233,697)	(1,091,568)
Change in payables	4,757,093	710,725
Change in inventories	(2,001,922)	-
Change in prepayments	(1,698,869)	562
Change in provisions and employee benefits	1,190,121	46,917
	1,012,726	(333,364)
Net cash used in operating activities	(16,674,002)	(4,935,780)

19. RESTRICTED CASH DEPOSIT

Group	December 31, 2010	December 31, 2009
Current	$	$
Restricted cash deposit	5,220,082	-
Non-current		
Restricted cash deposit	42,834,671	-
	48,054,753	-

The restricted cash deposits of $48,054,753 were pledged as security pursuant to the terms of the China Development Bank Corporation and RB International Finance (Hong Kong) Limited loan facilities detailed in note 22(b).

20. OTHER PAYABLES

Group	December 31, 2010	December 31, 2009
	$	$
Other payables	12,081,845	6,163,776
Amounts due to Allion Legal Pty Ltd (note 27(a))	41,282	33,975
	12,123,127	6,197,751

Other payables mainly represented payments for engineering and construction services and are expected to be settled within one year.

21. PROVISIONS

Group	December 31, 2010	December 31, 2009
Current	$	$
Provision for annual leave	346,145	69,024
Balance at end of the year/period	346,145	69,024
Non-current		
Provision for rehabilitation	913,000	-
Balance at end of the year/period	913,000	-

22. INTEREST BEARING LIABILITIES

Group	December 31, 2010	December 31, 2009
Current	$	$
Bank loan – Letter of Credit	7,636,968	-
Secured bank loan (note 22(a))	-	22,361,360
Balance at end of the year/period	7,636,968	22,361,360
Non Current		
Secured bank loan (note 22(b))	91,078,868	-
Convertible Bonds (note 22(c))	32,000,000	-
Balance at end of the year/period	123,078,868	-

a) On November 24, 2009, a loan of $22,361,360 was drawn down from RB International Finance (Hong Kong) Limited as a bridging facility. This loan was initially scheduled for repayment on February 26, 2010, which was, subsequent to December 31, 2009, extended to April 30, 2010 and then further extended to August 31, 2010. The loan carried an interest rate ranging from 4.77% to 5.15% and was secured over the Group's bank deposits amounting to $25,000,000 (refer to note 18). The Group subsequently repaid the loan in full on June 22, 2010. There was no covenant attached to this loan.

b) On September 10, 2010, the Group executed a loan facility agreement with China Development Bank Corporation and RB International Finance (Hong Kong) Limited of US$105,000,000 (the Facility). On September 22, 2010, the Facility was drawn down in full. Transaction costs of $12,729,737 that were directly attributable to the acquisition of the Facility have been capitalised into the cost of the Facility.

The key terms of the Facility are as follows:

- Interest rate is determined by reference to Singapore Interbank Offered Rate with a margin of 4.50% per annum payable every six months;
- Principal repayments are made over ten equal repayments every six months commencing on June 10, 2012;
- No break fees are payable if a prepayment is made on an interest payment date;
- Debt service reserve account to be maintained to an amount at least equal to the principal and interest payment due on the next interest payment date;
- Mandatory prepayment on dilution – if at any time, the amount of the shareholding held by Creat Resources Holdings Ltd (CRHL), a subsidiary of Creat Group, in the issued share capital of the Company falls below 19.99%, then additional shares must be issued to CRHL such that CRHL maintains its 19.99% within two months of the dilution, or a prepayment must be made such that the outstanding loan amount is reduced in proportion to the dilution of CRHL from 19.99% within 20 days or on the next interest payment date, whichever is earlier; and
- US$50 million has been set aside in an equity account to fund interest prior to completion, and on the first interest payment date post completion, 100% of the remaining funds in the equity account are to be used towards prepayment and the scheduled repayment amounts reduced proportionately (see note 19).

22. INTEREST BEARING LIABILITIES (CONTINUED)

The Facility does not contain any financial covenants, however, contains a number of undertakings which require the Group to obtain certain consents prior to carrying out certain activities or entering into certain transactions. The key undertakings in the Facility restrict the Group's ability to:

- Create additional charges on or further encumber assets, except where such charges or encumbrances are of a type specifically permitted;
- Incur additional debt, except where such debt is of a type specifically permitted;
- Provide additional guarantees or dispose of certain assets, except where such guarantees or disposals are of a type specifically permitted; and
- Pay dividends or repay shareholder loans, except as permitted by the Facility.

In addition, as a condition of the Facility, the Group agreed to grant security documents in favour of Bank of China Ltd and its subsidiaries (as security trustee) pursuant to the security trust deed dated September 10, 2010. The Facility is secured by following:

- Guarantee and indemnity granted to Bank of China Ltd and its subsidiaries by the Company;
- Fixed and floating charge granted to Bank of China Ltd and its subsidiaries over all assets of the Company, the Australian subsidiary and the Hong Kong subsidiary;
- Equitable mortgage or like encumbrance granted to Bank of China Ltd and its subsidiaries of shares over the Company's interests in subsidiaries;
- Charge granted to Bank of China Ltd and its subsidiaries over various project accounts held by the Company, the Australian subsidiary and the Hong Kong subsidiary, including the Facility proceeds account, the mine disbursement account, the mine proceeds account, the equity account and the debt service reserve account;
- Mortgage granted to Bank of China Ltd and its subsidiaries over the Mt Cattlin Project tenements;
- Real property mortgage granted to Bank of China Ltd and its subsidiaries over certain areas of Mt Cattlin;
- Grant of security to the lenders of the Facility in the Company's interest in its process plant engineering, procurement and construction contract with DMB Joint Venture and the mining services contract with Orionstone Pty Ltd in relation with Mt Cattlin;
- Assignment of security granted to Bank of China Ltd and its subsidiaries by the Hong Kong subsidiary over its interest in the security granted by the PRC subsidiary to the Hong Kong subsidiary for the US$10 million shareholder loan from the Hong Kong subsidiary to the PRC subsidiary including:
    - Mortgage over all of the assets of the PRC subsidiary, including the Jiangsu Plant, plant area, project authorisations and all other project documents to which the PRC subsidiary is a party; and
    - Charge over receivables in connection to any sale contract entered into by the PRC subsidiary and a third party;
- Equitable mortgage granted to Bank of China Ltd and its subsidiaries over CRHL's interest in 19.99% of the Company's shares; and
- Put option in favour of the lenders requiring CRHL to purchase the outstanding debt from the lenders, exercisable during a four year period after September 22, 2010.

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

22. INTEREST BEARING LIABILITIES (CONTINUED)

Interest is payable semi annually in arrears. Each Bond is convertible into fully paid ordinary shares of the Company at an initial conversion price of $1.56 per share (conversion price). 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 $1.56 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.

In addition the conversion price may be reset downwards to reflect the current market price of the shares as at 12 months from the date of issuing the Bonds if the then share price is below the conversion price at that time subject to a minimum of 80% of such conversion price.

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 Bond issue is subject to the approval of the Company's senior lenders, RZB and CDB and the Company's shareholders.

On November 19, 2010, the Company issued the first tranche of the Bonds being $32 million receiving $29.69 million in net proceeds. The balance of the Bonds are to be issued in tranches on completion of conditions precedent.

On 17 January 2011, the Company issued the initial part of the second tranche of Bonds being $10.5 million and on 16 February 2011, the Company issued the remaining second tranche of the Bonds being $19 million.

23. EQUITY-SETTLED SHARE-BASED TRANSACTIONS

The Company has an employee share option scheme which was adopted on February 5, 2007 and approved by the shareholders on April 2, 2009 whereby the directors of the Company are authorised, at their discretion, to invite employees of the Group to take up options at nil consideration to subscribe for shares in the Company. Options are also granted to directors from time to time as approved by the shareholders under the Corporations Act 2001 of the Commonwealth of Australia. Options vest immediately or after a certain period from the grant date and are then exercisable within a period of three to five years. Each option gives the holder the right to subscribe for one ordinary share in the Company and is settled gross in shares.

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

(i) Options granted to directors

Grant date	Options Classes	Number of instruments	Vesting conditions	Non-vesting conditions	Contractual life of option	Market value per share at date of grant of options
27/11/2008	A	500,000	Fully vested	Each option shall vest on completion of the Company securing all necessary debt and equity funding for the development of the Mt Cattlin project	3 years from the grant date	$0.43
27/11/2008	B	500,000	Fully vested	Each option shall vest on achievement of commercial production of lithium concentrate at the Mt Cattlin project at the nameplate rate specified in the bankable feasibility study for that project	3 years from the grant date	$0.43
27/11/2008	C	500,000	Fully vested	Each option shall vest once the Company achieves a positive earnings before interest and tax from production of lithium carbonate and concentrate from its Mt Cattlin project	3 years from the grant date	$0.43
2/04/2009	D1	3,000,000	Fully vested	Each option shall vest on completion of the Company securing all necessary debt and equity funding for the development of the Mt Cattlin project	5 years from satisfaction of non-vesting conditions	$0.39
2/04/2009	E1	2,500,000	Fully vested	Each option shall vest on achievement of commercial production of lithium concentrate at the nameplate capacity specified in the final plant design at the Company's Mt Cattlin project for 3 consecutive months	5 years from satisfaction of non-vesting conditions	$0.39
14/10/2009	G1	3,000,000	Fully vested	Each option will be issued on completion of the Company securing all necessary debt and equity funding for the development of the Jiangsu lithium carbonate plant	5 years from satisfaction of non-vesting conditions	$1.92

23. EQUITY-SETTLED SHARE-BASED TRANSACTIONS (CONTINUED)
(a) The terms and conditions of the share options existed during the year/period are as follows (continued)
(i) Options granted to directors (continued)

Grant date	Options Classes	Number of instruments	Vesting conditions	Non-vesting conditions	Contractual life of option	Market value per share at date of grant of options
04/06/2010	J	3,000,000	Completion of 18 months of service from date of grant and increase shareholder returns by 68% measured by 5 day volume-weighted-average-price being greater than $2.00 per share	None	5 years from the vesting date	$1.06
22/12/2010	K1	15,000,000	Completion of 12 months service from 13 October 2010, the Company listing on the Stock Exchange of Hong Kong Ltd, and the Company's share price being greater than A$2 based on the 10 day VWAP.	None	5 years from the vesting date	$1.40

(ii) Options granted to third parties

Grant date	Options classes	Number of instruments	Vesting conditions	Non-vesting conditions	Contractual life of option	Market value per share at date of grant of options
29/06/2007	**Advisor 1**	750,000	Fully vested	None	Expire on January 30, 2010	$0.66
4/06/2010	**Advisor 2**	1,000,000	Fully vested	None	Expire on June 30, 2012	$1.02

The Company granted 750,000 share options to the financial advisors who sponsored the Company's initial public offering on the ASX as part of the compensation for their professional services provided.

The Company granted 1,000,000 share options to a consultant advisor as part of the compensation for the professional services provided.

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

Grant date	Options classes	Number of instruments	Vesting conditions	Non-vesting conditions	Contractual life of option	Market value per share at date of grant of options
17/04/2009	D2	4,100,000	Fully vested	Each option shall vest on completion of the Company securing all necessary debt and equity funding for the development of the Mt Cattlin project	5 years from satisfaction of non-vesting conditions	$0.43
17/04/2009	E2	2,850,000	Fully vested	Each option shall vest on achievement of commercial production of lithium concentrate at the nameplate capacity specified in the final plant design at the Company's Mt Cattlin project for 3 consecutive months	5 years from satisfaction of non-vesting conditions	$0.43
17/04/2009	F	750,000	Fully vested	None	5 years from the grant date	$0.43
14/10/2009	D3	1,250,000	Fully vested	Each option shall vest on completion of the Company securing all necessary debt and equity funding for the development of the Mt Cattlin project	5 years from satisfaction of non-vesting conditions	$1.92

23 EQUITY SETTLED SHARE-BASED TRANSACTIONS (CONTINUED)

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

(iii) Options granted to employees (continued)

Grant date	Options classes	Number of instruments	Vesting conditions	Non-vesting conditions	Contractual life of option	Market value per share at date of grant of options
23/11/2009	G2	4,000,000	Fully vested	Each option will be issued on completion of the Company securing all necessary debt and equity funding for the development of the Jiangsu lithium carbonate plant	5 years from satisfaction of non-vesting conditions	$1.60
10/03/2010	E3	850,000	Fully vested	Each option shall vest on achievement of commercial production of lithium concentrate at the nameplate capacity specified in the final plant design at the Company's Mt Cattlin project for 3 consecutive months	5 years from satisfaction of non-vesting conditions	$1.24
10/03/2010	H	2,200,000	Fully vested	Each option shall vest on achievement of commercial production of lithium concentrate at the nameplate capacity specified in the final plant design at the Company's Jiangsu project for 3 consecutive months	5 years from satisfaction of non-vesting conditions	$1.24
10/03/2010	I	3,600,000	Completion of 18 months of employment	None	5 years from the vesting date	$1.24
22/12/2010	K2	14,800,000	Completion of 12 months service from October 13, 2010, the Company listing on the Stock Exchange of Hong Kong Ltd, and the Company's share price being greater than A$2 based on the 10 day VWAP.	None	5 years from the vesting date	$1.40

23. EQUITY SETTLED SHARE-BASED TRANSACTIONS (CONTINUED)

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

	Year ended December 31, 2010		Six months ended December 31, 2009	
	Weighted average exercise price $	Number of options '000	Weighted average exercise price $	Number of options '000
Outstanding at the beginning of the year/period	0.62	22,969	0.57	18,450
Exercised during the year/period	0.63	(11,469)	0.43	(2,231)
Cancelled during the year/period	-	-	1.00	(1,500)
Expired during the year/period	-	-	-	-
Granted during the year/period	1.13	40,450	0.75	8,250
Outstanding at the end of the year/period	0.66	51,950	0.62	22,969
Exercisable at the end of the year/period	0.67	4,818	0.63	17,619
Weighted average market value per share on exercise of options	1.18	-	1.56	-

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

The fair value of services received in return for share options granted is measured by reference to the fair value of the share options granted. The estimate of the fair value of these share options granted is measured using a generally accepted valuation techniques including Black & Scholes and Monte-Carlo simulations. The Company has applied an appropriate probability weighting to factor the likelihood of the satisfaction of non-vesting conditions.

Fair value of share options and assumptions per class issued	D1	D2	D3	E1	E2	F	G1	G2	E3	H	I	J	Advisor 2
Fair value at grant date	0.29	0.33	1.41	0.29	0.33	0.33	1.41	0.92	1.00	1.00	1.03	0.77	0.64
Share price at grant date	0.39	0.43	1.92	0.39	0.43	0.43	1.92	1.60	1.24	1.24	1.24	1.06	1.02
Exercise price ($)	0.60	0.60	0.60	0.60	0.60	0.45	0.60	0.90	1.11	1.11	1.11	0.96	1.00
Expected volatility (%) (weighted average volatility)	101.6	101.3	99.60	101.6	101.3	101.3	99.60	99.13	97.00	97.00	97.00	97.00	92.00
Option life (years)	5.7	5.6	1.0	5.6	5.6	5.0	1.0	1.0	5.6	5.6	6.5	6.5	2.1
Expected dividends	-	-	-	-	-	-	-	-	-	-	-	-	-
Risk-free interest rate (%) (based on government bonds)	6.25	6.25	6.25	6.25	6.25	6.25	6.25	6.25	6.50	6.50	6.50	6.50	6.50
Probability applied to the non-vesting conditions	30%	30%	100%	10%	10%	100%	100%	100%	80%	60%	70%	N/A	100%

23. EQUITY-SETTLED SHARE-BASED TRANSACTIONS (CONTINUED)

(c) Fair value of share options and assumptions (continued)

Fair value of share options and assumptions per class issued	K1	K2
Fair value at grant date	0.94	0.94
Share price at grant date	1.35	1.35
Exercise price ($)	1.16	1.16
Expected volatility (%) (weighted average volatility)	70.0	70.0
Option life (years)	6.0	6.0
Expected dividends	-	-
Risk-free interest rate (%) (based on government bonds)	5.43	5.43
Probability applied to the non-vesting conditions	N/A	N/A

The expected volatility is based on the historic volatility (calculated based on the weighted average remaining life of the share options), adjusted for any expected changes to future volatility based on publicly available information. Changes in the subjective input assumptions could materially affect the fair value estimate. Probability applied to the non-vesting conditions is based on the management's judgement which was formed in consideration of all the facts and circumstances that were available to management at the grant date of each class of share options. Such facts and circumstances included the overall economy condition, lithium market condition, the Company's business plan and management's industry experience. Changes in the subjective probability ratios applied could materially affect the fair value estimate.

Certain share options were granted under a service condition. This condition has not been taken into account in the grant date fair value measurement. There were no market conditions associated with the share option grants, except for class J, which has been taken into account in measuring the grant date fair value.

24. CAPITAL AND RESERVES

(a) Movements in components of equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statements of changes in equity.

(b) Share capital

(i) Authorised and issued share capital

	December 31, 2010 $	December 31, 2009 $
Authorised:		
Ordinary shares at no par value	128,419,427	88,834,372
Ordinary shares, issued and fully paid		
Balance at the beginning of the year/period	88,834,372	15,637,914
Issue of shares	27,280,000	74,640,000
Exercise of share options via equity-settled share-based transactions	7,235,625	969,375
Exercise of free options (*)	-	1,455,776
Exercise of share options	7,235,625	2,425,151
Transfer from equity-settled payment reserve upon exercise/cancellation of share options	6,755,718	812,609
Transaction costs	(1,686,288)	(4,681,302)
Balance at the end of the year/period	128,419,427	88,834,372
Authorised:		
Ordinary shares at no par value	192,403,358	149,934,608
Ordinary shares, issued and fully paid		
Balance at the beginning of the year/period	149,934,608	76,125,816
Issue of shares	31,000,000	67,418,182
Exercise of options (equity-settled share-based transactions)	11,468,750	2,231,250
Exercise of free options (*)	-	4,159,360
	11,468,750	6,390,610
Balance at the end of the year/period	192,403,358	149,934,608

* The Company issued 4,220,000 ordinary shares of $0.35 each on December 15, 2008 together with free attaching, 4,220,000 unlisted one year share options exercisable at $0.35 each. There were no conditions attached to these options. Proceeds from the exercise of these options were recognised in equity when they were received.

Shares were issued during the year/period in order to provide working capital to the Company. Holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholders' meetings. In the event of winding up of the Company, ordinary shareholders rank after all creditors and are fully entitled to any proceeds of liquidation.

24. CAPITAL AND RESERVES (CONTINUED)
(ii) Shares issued under share option scheme

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

Options exercised by directors:

Date of exercise	Number of shares issued	Transfer from equity settled payment reserve to share capital	Consideration recognised in share capital
January 20, 2010	18,750	3,318	5,625
February 4, 2010	500,000	17,987	150,000
March 10, 2010	250,000	8,993	100,000
March 22, 2010	500,000	17,987	200,000
April 9, 2010	250,000	8,993	100,000
April 29, 2010	500,000	32,714	300,000
April 29, 2010	2,000,000	2,757,871	1,200,000
November 11, 2010	1,000,000	65,429	600,000
December 31, 2010	500,000	17,987	200,000
Total	**5,518,750**	**2,931,279**	**2,855,625**

Options exercised by employees:

Date of exercise	Number of shares issued	Transfer from equity settled payment reserve to share capital	Consideration recognised in share capital
January 7, 2010	100,000	86,486	90,000
January 12, 2010	200,000	172,973	180,000
January 15, 2010	200,000	172,973	180,000
January 20, 2010	200,000	172,973	180,000
April 29, 2010	1,650,000	124,933	990,000
April 29, 2010	2,000,000	1,729,725	1,800,000
April 29, 2010	1,250,000	1,337,877	750,000
November 8, 2010	350,000	26,501	210,000
Total	**5,950,000**	**3,824,441**	**4,380,000**

24. CAPITAL AND RESERVES (CONTINUED)
(iii) Terms of unexpired and unexercised share options at each balance sheet date

Options issued to directors:

Exercise period	Exercise price	December 31, 2010 Number	December 31, 2009 Number
February 6, 2007 to February 6, 2010	$0.30	-	500,000
February 6, 2007 to February 6, 2011	$0.40	-	1,500,000
June 29, 2007 to January 30, 2010	$0.30	-	18,750
December 16, 2008 to August 12, 2009	$0.80	-	-
December 16, 2008 to August 12, 2009	$1.00	-	-
December 16, 2008 to August 12, 2009	$1.20	-	-
November 26, 2009 to November 26, 2014	$0.60	1,500,000	3,000,000
November 26, 2009 to November 26, 2014	$0.60	1,000,000	3,000,000
Not exercisable until satisfaction of non-vesting conditions	$0.60	2,500,000	2,500,000
Not exercisable until satisfaction of vesting conditions	$1.11	3,000,000	-
Not exercisable until satisfaction of vesting conditions	$1.16	15,000,000	
Total		**23,000,000**	**10,518,750**

Options issued to employees:

Exercise period	Exercise price	December 31, 2010 Number	December 31, 2009 Number
April 17, 2009 to April 17, 2014	$0.45	750,000	750,000
November 26, 2009 to November 26, 2014	$0.60	2,100,000	4,100,000
November 26, 2009 to November 26, 2014	$0.90	800,000	3,500,000
November 26, 2009 to November 26, 2014	$0.60	-	1,250,000
Not exercisable until satisfaction of non-vesting conditions	$0.60	2,850,000	2,850,000
Not exercisable until satisfaction of non-vesting conditions	$1.11	850,000	-
Not exercisable until satisfaction of non-vesting conditions	$1.11	2,200,000	-
Not exercisable until satisfaction of vesting conditions	$1.11	3,600,000	-
Not exercisable until satisfaction of vesting conditions	$1.16	14,800,000	-
Total		**27,950,000**	**12,450,000**

Options issued to third parties:

Exercise period	Exercise price	December 31, 2010 Number	December 31, 2009 Number
June 4, 2010 to June 30, 2012	$1.00	1,000,000	-

24. CAPITAL AND RESERVES (CONTINUED)
(c) Nature and purpose of reserves

(i) Equity-settled payment reserve

The equity-settled payments reserve comprise the portion of the grant date fair value of unexercised share options granted to employees of the Company that has been recognised in accordance with the accounting policy adopted for share-based payments in note 3(v).

(ii) Foreign currency translation reserve

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

(d) Distributability of reserves

Prior to January 1, 2010, the Company could only pay a dividend out of profit as provided by the Australian Corporations Act 2001. Therefore the distributable reserves for the six months ended December 31, 2009 were nil.

As stated in note 2(h), the Company may pay a dividend only if the following conditions are met as provided by the Australian Corporations Act 2001:

(a) The Company's assets exceed its liabilities immediately before the dividend is declared and the excess is sufficient for the payment of the dividend; and
(b) The payment of the dividend is fair and reasonable to the Company's shareholders as a whole; and
(c) The payment of the dividend does not materially prejudice the Company's ability to pay its creditors.

At December 31, 2010, management considered that the distributable reserve is nil given the Company had significant accumulated losses whereby the payment of a dividend may not be fair and reasonable to the Company's shareholders as a whole.

(e) Capital Management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Group manages its capital to ensure its entities will be able to continue as going concern while maximising the return to shareholders through the optimisation of its capital structure comprising all components of equity and loans and borrowings.

During the year/period, the Group have maintained the capital base through a cash management strategy including the preparation and monitoring of cash flow forecasts and cost control. Where a cash requirement is identified management will prepare suitable funding solutions to address the identified requirement.

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

25. PARENT ENTITY DISCLOSURE

As at, and throughout the financial year ending December 31, 2010, the parent company of the Group was Galaxy Resources Limited.

Result of the parent entity	December 31, 2010	December 31, 2009
	$	$
Loss for the year	(31,997,684)	(10,866,908)
Other comprehensive income	150,000	-
Total comprehensive income for the year	(31,847,684)	(10,866,908)
Financial Position of parent entity at year end		
Current Assets	17,419,773	64,006,846
Total Assets	128,279,326	88,033,394
Current Liabilities	(2,568,630)	(6,156,574)
Total Liabilities	(34,568,630)	(6,156,574)
Total equity of the parent entity comprising of:		
Contributed Equity	128,419,427	88,834,372
Reserves	14,043,621	9,430,119
Accumulated losses	(48,752,352)	(16,387,671)
Total Equity	93,710,696	81,876,820

26. COMMITMENTS

(1) Capital commitments outstanding as at each balance sheet date not provided for in the consolidated financial statements were as follows:

(a) Mining tenements

In order to maintain current rights of tenure to mining tenements, the Group will be required to perform minimum exploration work to meet the minimum expenditure requirements specified by the Western Australia State Government. The estimated exploration expenditure commitment for the ensuing year, but not recognised as a liability in the balance sheets is as follows:

Group	**December 31, 2010** $	**December 31, 2009** $
Within one year	606,180	523,780

This expenditure will only be incurred should the Group retain its existing level of interest in its various exploration areas and provided access to mining tenements is not restricted. These obligations will be fulfilled in the normal course of operations, which may include exploration and evaluation activities. Tenure to mining tenements can be released by the Group and returned to the Australian government after one year. The remaining period of mining tenements is optional. As such, the minimum expenditure requirements relating to mining tenements fall within one year.

(b) Construction contract commitments

Group	**December 31, 2010** $	**December 31, 2009** $
Contracted for	27,893,048	29,540,203

It includes various capital commitments to property, plant and equipments as at each balance sheet date.

(2) As at each balance sheet date, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

Group	**December 31, 2010** $	**December 31, 2009** $
Within one year	354,639	99,132
More than one year but less than five years	443,163	29,407
	797,802	128,539

The Group is the lessee in respect of some properties and items of plant and machinery and office equipment held under operating leases. The leases typically run for an initial period of 3 years, with an option to renew the lease when all terms are terminated. None of the leases includes contingent rentals.

27. RELATED PARTY TRANSACTIONS

Related party	Type of transaction	Note	Year ended December 31, 2010	Six months ended December 31, 2009
Allion Legal Pty Ltd	Legal consulting	26(a)	527,599	154,460
Creat Resources Holdings Ltd	Commission	26(b)	97,658	-
Marvel Link Group Limited	Commission	26(c)	2,157,970	-
Creat Group (HK) Ltd	Interest	26(d)	155,179	-

(a) Allion Legal Pty Ltd is a related party being an entity over which Mr Craig Leslie Readhead has the capacity to exercise significant influence. Mr Readhead is the Chairman of the Company during the year/period.
(b) Creat Resources Holdings Ltd (CRHL) is a substantial shareholder of the Company with 19.99% equity interest in the Company.
(c) Marvel Link Group Limited is a related entity to CRHL and received commission on behalf of CRHL for facilitating the Group's obtaining the Senior Loan Facility.
(d) Creat Group (HK) Ltd is related to CRHL and received interest for guaranteeing a Letter of Credit.

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

Apart from the amounts due to Allion Legal Pty Ltd as at December 31, 2009 and December 31, 2010 as disclosed in note 20, there were no outstanding balances relating to the above transactions at each balance sheet date.

Key management personnel remuneration
Remuneration for key management personnel of the Group, including amounts paid to the Company's directors as disclosed in note 8 and certain of the highest paid employees as disclosed in note 8, is as follow:

	Year ended December 31, 2010	Six months ended December 31, 2009
Salaries and other emoluments	2,118,950	896,031
Contributions to retirement benefit schemes	158,577	62,467
Share-based payments	5,593,359	8,934,134
	7,870,886	9,892,632

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

28. NON-ADJUSTING POST BALANCE SHEET EVENTS

Subsequent to December 31, 2010 and up to the date of this report, the following events have occurred:

- On January 17, 2011, part of Tranche Two (A$10.5 million in Convertible Bonds) of the A$91.5 million capital raising was settled.
- On February 3, 2011, 250,000 fully paid ordinary shares were issued as a result of exercise of options.
- On February 11, 2011, Mr Michael Spratt was appointed as a Non-Executive Director of the Company.
- On February 16, 2011, final part of Tranche Two (A$19.5 million in Convertible Bonds and A$30 million in Equity) of the A$91.5 million capital raising was settled. 21,582,733 fully paid ordinary shares were issued.
- On February 25, 2011, Mr Shaoqing Wu was appointed as a Non-Executive Director and Ms Ella Wong as Company Secretary (Hong Kong) of the Company.
- On February 28, 2011, the Company lodged the Web Proof Information Pack (WPIP) with the Stock Exchange of Hong Kong (SEHK) in relation to the proposed listing.
- On March 14, 2011, the Company postponed the proposed initial public offering in Hong Kong until further notice due to the unfavourable financial market conditions.
- On March 16, 2011, the Company sold its first shipment of tantalum concentrate from Mt Cattlin of 28 tonnes.
- On March 22, 2011, the Mt Cattlin resource was increased by 14.6% to 18,188,000 tonnes @ 1.08% Li_2O.
- On March 24, 2011, 3,650,000 ESOP options were issued. These options are exercisable at $1.16 per share upon completion of 18 months service, successful listing on SEHK and the company's share price being greater than $2.00 (based upon a 10 day VWAP).
- On March 28, 2011, the Company successfully loaded the first shipment of spodumene at Bunbury Port in Western Australia, bound for China.

29. FINANCIAL RISK MANAGEMENT

The Group have exposure to the following risks from their use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

This note presents information about the Group's exposure to each of the above risks, their objectives, policies and processes for measuring and managing risk, and quantitative disclosures.

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

The Board of Directors has overall responsibility for the establishment and oversight of the risk management framework. Management is responsible for establishing procedures which provide assurance that major business risks are identified, consistently assessed and appropriately mitigated. The Group has developed a framework for a risk management policy and internal compliance and control system which covers organisation, financial and operational aspects of the Group's activities.

The Group's audit committee oversees how management monitors compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group.

29. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit risk

Credit risk is the risk of financial loss to the Group if counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's cash and cash equivalents and available-for-sale financial assets. Other receivables predominantly relates to GST receivable from the Australian federal government. Management do not consider this receivable balance is subject to any material credit risk.

The Group limit their exposure to credit risk by only investing in liquid securities and only with counterparties and financial institutions that have credit ratings of between A2 and A1+ from Standard & Poor's and A from Moody's, with more weighting given to investments in the higher credit ratings. Given these credit ratings, management does not expect any counterparty to fail to meet its obligations.

The Group's cash and cash equivalents are placed with various financial institutions with sound credit ratings, and the management consider the Group's exposure to credit risk is low.

The carrying amount of the Group's financial assets represents the maximum credit exposure. The Group's maximum exposure to credit risk is represented by the carrying amount of each financial asset.

(b) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputations.

Typically the Group ensures that it has sufficient cash and cash equivalents to meet expected operational expenses for a period of 90 days, including the servicing of financial obligations.

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

Group

December 31, 2010						
Non-derivative financial liabilities	Carrying amount $	Undiscounted contractual cash outflows $	Within 1 year or on demand $	More than 1 year but less than 2 years $	More than 2 years but less than 5 years $	More than 5 years $
Other payables	12,123,127	12,123,127	12,123,127	-	-	-
Interest bearing liabilities	130,715,836	175,137,197	17,649,586	27,701,028	108,828,567	20,958,016
	142,838,963	187,260,324	29,772,713	27,701,028	108,828,567	20,958,016

Group

December 31, 2009			
Non-derivative financial liabilities	Carrying amount $	Undiscounted contractual cash outflows $	Within six months $
Other payables	6,197,751	6,197,751	6,197,751
Interest bearing liabilities	22,361,360	22,636,907	22,636,907
	28,559,111	28,834,658	28,834,658

29. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Foreign exchange risk

The Group is exposed to currency risk on purchases of property, plant and equipment and on borrowings that are denominated in a currency other than the respective functional currencies of the Company or its subsidiaries. The currencies in which these transactions primarily are denominated are USD, HKD and RMB.

At any point in time the Group may monitor and manage its estimated foreign currency exposure in respect of cash and cash equivalents, other receivables and interest bearing liabilities. The Group ensures that the net exposure is kept to an acceptable level by buying or selling foreign currency at spot rates where necessary to address short-term imbalances.

The Group's exposure to foreign currency risk at each balance date was as follows. For presentation purposes, the amounts of the exposure are shown in Australian dollars translated using the spot rate at each balance sheet date.

	December 31, 2010			December 31, 2009
Group	**USD**	**HKD**	**RMB**	**USD**
Cash and cash equivalents	17,148,881	16,796	28,981	21,019,398
Restricted cash deposit	48,054,753	-	-	-
Other receivables	-	-	1,723,936	-
Interest bearing liabilities	(98,715,837)	-	-	(22,361,360)
Balance sheet exposure	(33,512,203)	16,796	1,752,917	(1,341,962)

Sensitivity analysis

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

	December 31, 2010		December 31, 2009	
Effect in Australian dollars	**Accumulated losses**	**Loss for the period**	**Accumulated losses**	**Loss for the period**
USD	3,351,220	3,351,220	120,025	120,025
HKD	(1,680)	(1,680)	-	-
RMB	(175,292)	(175,292)	-	-

A 10% weakening of the Australian dollar against the above currencies would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

29. FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Interest rate risk

At any point in time, the Group may monitor and manage its interest rate exposure on future borrowings. The Group's main interest rate risk arises from cash at bank and interest bearing liabilities, which are held at a variable rate that exposes the Group to cash flow interest rate risk.

The Group's interest-bearing cash at bank and liabilities and the respective interest rates as at each balance sheet date are set as below:

Group	December 31, 2010	December 31, 2009
	$	$
Cash and cash equivalents	27,509,567	83,441,378
- Interest rate	0% to 5%	0% to 4.82%
Interest bearing liabilities	130,715,836	22,361,360
- Interest rate	SIBOR + 4.5% to 8%	4.77%

Sensitivity Analysis

A general increase/decrease of 100 basis points in interest rates of variable rate instruments prevailing at each balance sheet dates, with all other variables held constant, would increase/(decrease) the Group's loss after tax and accumulated losses by the amounts shown below:

	Year Ended December 31, 2010	Six months Ended December 31, 2009
Increase of 100 basis points	(275,096)	834,414
Decrease of 100 basis points	275,096	(834,414)

(e) Equity Price Risk

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

29 FINANCIAL RISK MANAGEMENT (CONTINUED)

(f) Fair value

Financial instruments carried at fair value.

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability are set out in note 22(c).

Group	December 31, 2010		December 31, 2009
	Level 1	Level 3	Level 1
Available-for-sale financial assets	600,000	-	1,025,000
Financial liabilities at fair value through the profit and loss	-	32,000,000	-

The Group had no financial instruments during the years ended June 30, 2009 and 2008.

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

Amounts due from subsidiaries are unsecured, interest-free and expected to be recovered after one year. Given these terms, it is not meaningful to disclose the fair values of such balances.

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

30. ACCOUNTING JUDGEMENTS AND ESTIMATES

(a) Critical judgements

Going concern

A key assumption underlying the preparation of the Consolidated financial statements is that the entity will continue as a going concern. An entity is a going concern when it is considered to be able to pay its debts as and when they are due, and to continue in operations.

Recent fundraising success, together with the drawdown of the secured bank loan support the going concern basis of preparation for the Consolidated financial statements. However, the validity of the going concern assumption is dependent on future events, some of which would be out of the Director's control such as financial market conditions and the prospects of lithium related industries. The Consolidated financial statements does not include any adjustments relating to the recoverability and classification of recorded asset amounts or to amounts and classification of liabilities that may be necessary if the Group were unable to continue as a going concern.

(b) Estimates and assumptions

(i) Ore reserves

Economically recoverable ore reserves represent the estimated quantity of product in an area of interest that can be expected to be profitably extracted, processed and sold under current and foreseeable economic conditions. The Group determines and reports ore reserves under the standards incorporated in the Australasian Code for Reporting Exploration Results, Mineral Resources and Ore Reserves, 2004 edition (the JORC Code). The determination of ore reserves includes estimates and assumptions about a range of geological, technical and economic factors, including: quantities, grades, productions techniques, recovery rates, production costs, transport costs, commodity demand, commodity prices and exchange rates. Changes in ore reserves impact the assessment of recoverability of exploration and evaluation assets, property, plant and equipment, the carrying amount of assets depreciated on a units of production basis, provision for site restoration and the recognition of deferred tax assets, including tax losses.

30. ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

(ii) Exploration and evaluation assets

Determining the recoverability of exploration and evaluation assets capitalised in accordance with the Group's accounting policy (see note 3(c)) requires estimates and assumptions as to future events and circumstances, in particular, whether successful development and commercial exploration, or alternatively sale, of the respective areas of interest will be achieved. Critical to this assessment is estimates and assumptions as to ore reserves (see note 30(b)(i) above), the timing of expected cash flows, exchange rates, commodity prices and future capital requirements. Changes in these estimates and assumptions as new information about the presence or recoverability of an ore reserve becomes available, may impact the assessment of the recoverable amount of exploration and evaluation assets. If, after having capitalised the expenditure under the accounting policies, a judgment is made that the recovery of the expenditure is unlikely, an impairment loss is recorded in the statement of comprehensive income in accordance with accounting policy (see note 3(e)).

(iii) Site restoration liability

Determining the cost of rehabilitation, decommissioning and restoration of the area disturbed during mining activities in accordance with the Group's accounting policy (see note 3(l)), requires the use of significant estimates and assumptions, including: the appropriate rate at which to discount the liability, the timing of the cash flows and expected life of the relevant area of interest, the application of relevant environmental legislation, and the future expected costs of rehabilitation, decommissioning and restoration.

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

(iv) Impairment of assets

The recoverable amount of each non financial asset or CGU is determined as the higher of the value-in-use and fair value less costs to sell, in accordance with the Group's accounting policies (see note 3(e)). Determination of the recoverable amount of an asset or CGU based on a discounted cash flow model, requires the use of estimates and assumptions, including: the appropriate rate at which to discount the cash flows, the timing of cash flow and expected life of the relevant area of interest, exchange rates, commodity prices, ore reserves, future capital requirements and future operating performance. Changes in these estimates and assumptions impact the recoverable amount of the asset or CGU, and accordingly could result in an adjustment to the carrying amount of that asset or CGU.

(v) Valuation of share based payments

The fair value of employee share options is measured using Black & Scholes and Monte-Carlo simulation. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information), weighted average expected life of the instruments (based on historical experience and general option holder behaviour), expected dividends, the risk-free interest rate (based on government bonds) and probability applied to the non-vesting conditions (based on management's judgement formed in consideration of all the available facts and circumstances). Service and non-market performance conditions attached to the transactions are not taken into account in determining fair value. Any different estimates and assumptions affecting the measurement inputs would have resulted in different grant date fair values, which would have changed equity settled share-based payments expense.

(vi) Valuation of convertible bonds

The fair value of the convertible notes is determined by valuing the bond component based on discounted cash flows and using accepted option valuation models to value the issuer's right to convert. The fair value of the exchangeable bond sis determined by valuing the bond component based on discounted cash flows and using accepted option valuation models to value the combined impact of the holder's right to convert and the issuer's right to force conversion under certain hurdle conditions as set out in note 22(c).

DIRECTORS' DECLARATION
For The Year Ended December 31, 2010

In the opinion of the Directors of Galaxy Resources Limited:

(a) the financial statements and notes and the remuneration disclosures that are contained in the Remuneration Report in the Directors Report set out on pages 37 to 44 are in accordance with the Corporations Act 2001 including:

   i. giving a true and fair view of the financial position of the Group as at December 31, 2010 and of its performance for the financial year January 1, 2010 to December 31, 2010; and

   ii complying with Australian Accounting Standards (including the Australian Accounting Standards Interpretations) and the Corporations Regulations 2001; and

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

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

The directors have been given the declarations by the Managing Director and Chief Financial Officer required by section 295A of the Corporations Act 2001.

This declaration is made in accordance with a resolution of the Directors:

I KS Tan
Managing Director

Perth, March 29, 2011

KPMG

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

Report on the financial report

We have audited the accompanying financial report of Galaxy Resources Limited (the Company), which comprises the consolidated statement of financial position as at 31 December 2010, and consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended on that date, notes 1 to 30 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the Group comprising the Company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

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

Auditor's responsibility

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

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

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

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

KPMG

Independence

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

Auditor's opinion

In our opinion:

(a) the financial report of the Group is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the Group's financial position as at 31 December 2010 and of its performance for the year ended on that date; and

(ii) complying with Australian Accounting Standards and the Corporations Regulations 2001.

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

Report on the remuneration report

We have audited the Remuneration Report included in the directors' report for the year ended 31 December 2010. The directors of the Company are responsible for the preparation and presentation of the remuneration report in accordance with Section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with auditing standards.

Auditor's opinion

In our opinion, the remuneration report of Galaxy Resources Limited for the year ended 31 December 2010, complies with Section 300A of the *Corporations Act 2001*.

KPMG

KPMG

Trevor Hart
Partner

Perth

29 March 2011

ASX SHAREHOLDER INFORMATION

1. Share Holding at March 24, 2011

(a) Distribution of Shareholders

Share holding			Number of Holders Fully paid ordinary shares
1	-	1,000	1,677
1,001	-	5,000	3,808
5,001	-	10,000	1,629
10,001	-	100,000	1,708
100,001	-	over	123
			8,945

(b) Unmarketable Parcels
There are 244 shareholders who hold less than a marketable parcel.

(c) Voting Rights
Voting rights are one vote per fully paid ordinary share.

(d) Names of Substantial Holders

Shareholder	Number of Shares
Creat Resources Holdings Limited	38,091,616
Fengli Group (Hong Kong) Co Ltd	21,582,733

2. Top Twenty Shareholders at March 24, 2011

	Shareholder	Number of Shares	% Issued Capital
1.	Creat Resources Holdings Limited	38,091,616	17.78
2.	Fengli Group (Hong Kong) Co Ltd	21,582,733	10.07
3.	HSBC Custody Nominees (Australia) Limited	9,349,283	4.36
4.	National Nominees Limited	7,835,341	3.66
5.	Ademsa Pty Ltd	7,677,120	3.58
6.	Super Raya International Limited	7,383,200	3.45
7.	J P Morgan Nominees Australia Limited <Cash Income A/C>	5,203,501	2.43
8.	Citicorp Nominees Pty Ltd	4,966,141	2.32
9.	Hengolo Pty Ltd/Craig Readhead	3,805,556	1.78
10.	HSBC Custody Nominees (Australia) Limited – GSCO FCA	3,488,201	1.61
11.	J P Morgan Nominees Australia	2,511,722	1.17
12.	Robert Wanless/Rubellite Investments Pty Ltd	2,040,493	0.62
13.	Mineral Administration Services Pty Ltd	1,294,841	0.60
14.	ABN Amro Clearing Sydney Nominees Pty Ltd <Custodian A/C>	1,248,006	0.58
15.	Charles Longworth	1,132,222	0.53
16.	Arinya Investments Pty Ltd	680,953	0.32
17.	Paul Dowling	625,000	0.29
18.	Silver Fern Holdings Pty Ltd <Alkoomi Super No.1 A/C>	596,594	0.28
19.	Alison Dowling	575,000	0.27
20.	Yun Ying and Ying Zhong	536,000	0.25
		120,623,523	55.95

ASX SHAREHOLDER INFORMATION

3. Distribution of Unlisted Options

Distribution	45 cent	60 cent	90 cent	96 cent	$1.00	$1.11	$1.16
1 - 1,000							
1,001 – 5,000							
5,001 – 10,000							
10,001 – 100,000							73
100,001 - over	1	8	1	3	1	15	37
Total Holders	**1**	**8**	**1**	**3**	**1**	**15**	**110**
Total Units	**750,000**	**9,700,000**	**800,000**	**3,000,000**	**1,000,000**	**6,650,000**	**32,450,000**

4. Restricted Securities

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

5. On Market Buy-back

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

TENEMENT SCHEDULE

Project	Tenement	Notes
Boxwood Hill	E70/2493	
	E70/2513-E70/2514	
	E70/2547	
Connolly	E69/1878	
Ponton	E28/1317	
	E28/1830	
Shoemaker	E69/1869-1871	50% Interest with General Mining Corporation Ltd.
Ravensthorpe		
Aerodrome	E74/334	
	E74/398	
Bakers Hill	E74/287	
	E74/295	
	E74/299	
	E74/415	
	P74/278	
	P74/336	
McMahon	M74/165	
	M74/184	
	P74/334	
Mt Cattlin	L74/46	
	M74/244	
West Kundip	M74/133	
	M74/238	
Floater	E74/400	
	P74/307-P74/308	
Sirdar	E74/401	80% Interest with Traka Resources
	P74/309-P74/310	80% Interest with Traka Resources

Corporate Directory

ABN: 11 071 976 442

STOCK EXCHANGE LISTING
ASX Code: GXY

EXECUTIVE DIRECTORS:
I KS Tan, Managing Director
A P Tse
C B F Whitfield

NON-EXECUTIVE DIRECTORS:
C L Readhead, Chairman
R J Wanless
Y Zheng
X Ren
S Wu

INDEPENDENT NON-EXECUTIVE DIRECTORS:
I J Polovineo
K C Kwan
D M Spratt

SECRETARIES:
A L Meloncelli
W Y E Wong (Hong Kong)

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

AUDITORS:
KPMG Chartered Accountants
235 St Georges Terrace PERTH WA 6000
AUSTRALIA

LEGAL COUNSEL TO THE COMPANY:
Allion Legal Pty Ltd
Level 2, 50 Kings Park Road WEST PERTH WA 6005
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REGISTERED OFFICE & PLACE OF BUSINESS:
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Galaxy Resources Limited

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