



GALAXY RESOURCES LIMITED

ABN 11 071 976 442

ANNUAL FINANCIAL REPORT

SIX MONTHS ENDED 31 DECEMBER 2009

TABLE OF CONTENTS

Chairman's Letter	3
Review of Operations	4
Directors' Report	12
Audit Independence Letter	28
Financial Report	29
Directors' Declaration	54
Audit Report	55
ASX Information	57
Corporate Directory	60

CHAIRMAN'S LETTER

Dear Fellow Shareholders,

As Chairman of Galaxy Resources Limited it is with pride and enthusiasm that I present the Company's Annual Report for the six months ended 31 December 2009. The Shareholders of the Company has approved the change of Financial Year End to 31 December to synchronise with overseas operations.

There has been substantial advancement over the last six months towards the target of bringing the Lithium Carbonate Project ("Project") - consisting of the Mt Cattlin Spodumene Mine and Jiangsu Lithium Carbonate Plant into commissioning during 2010.

The continuing momentum in the second half of 2009 to the date of this Annual Report has clearly demonstrated the Company's resolve to bring the Project to rapid fruition.

Our cornerstone shareholder and partner in China is Creat Group Co Limited ("Creat"). The signing of the financing agreement with Creat, where Creat will hold a 19.99% interest in Galaxy, procure a debt facility of \$130 million with a project finance syndicate consisting of China Development Bank ("CDB") and Austrian Bank Raiffeisen Zentralbank Österreich AG ("RZB") and undertaking a \$65 million institutional share placement in October 2009 provides considerable strength to the Galaxy Balance Sheet to ensure that the Project is fully funded.

I welcome Dr Yuewen Zheng (Chairman – Creat) to the Board, who was appointed on 7 January 2010. He brings considerable experience to the Board particularly in his understanding and contacts in conducting business in China. We look forward to a long and successful partnership with Creat.

The Company received the Project Approval and Business Licence for its China Lithium Carbonate Plant in Jiangsu Province in February 2010, which was another significant milestone for Galaxy.

The Ground Break Ceremonies at Mt Cattlin Spodumene Mine was held in November 2009 and Jiangsu Lithium Carbonate Plant was held in February 2010 to mark the start of construction of the Project.

The signing of an Off-take Agreement with Mitsubishi Corporation in February 2010 for a significant proportion of its battery grade lithium carbonate production is significant. The agreement involves long term off-take sales and distribution of Galaxy's product to the Japanese market. Galaxy has various Off-take Agreements with various parties accounting for 90% of the estimated output.

The outlook for lithium carbonate remains extremely positive. With demand forecast to increase three fold over the next 10 years on the back of global market growth for lithium batteries used in electric car manufacturing, all bodes well for Galaxy's Lithium Carbonate Project.

On behalf of the Board of Directors, I wish to congratulate Galaxy's Managing Director, Iggy Tan, Executive Management team and all staff and contractors for an outstanding six months. Without the hard work, dedication and commitment of all, we would not be where we are today.

We look forward with anticipation to the first shipment of spodumene arriving at Zhangjiagang and the first delivery of Lithium Carbonate to the Customer, which is very exciting for the all concerned.

Yours sincerely,



Craig Readhead
Chairman

REVIEW OF OPERATIONS

Highlights

- \$65 million institutional placement completed and first stage of Share Placement completed with Creat.
- Shareholder approval for the second stage of Creat Share Subscription.
- Project now fully funded following binding Share Subscription and Debt Facility Agreement with Creat signed in August 2009.
- Appointment of Dr Yuewen Zheng as a Non Executive Director on 7 January 2010.
- First facility loan drawdown occurred in December 2009.
- China Development Bank (CDB) and RZB join the project finance syndicate.
- Galaxy wins the China Business Entrepreneurial Excellence Award.
- Change of Financial Year End to 31 December to synchronise with overseas operations.
- Ground Breaking Ceremony for Mt Cattlin, opened by Hon Colin Barnett, Premier of Western Australia.
- Mining Approval granted and Mining Leases approved – Mt Cattlin and West Kundip.
- The Engineering, Procurement and Construction Management (EPCM) contract for the minerals processing plant at Mt Cattlin was awarded to the DRA Pacific, Mintrex, BEC Engineering Joint Venture.
- Reserve Statement for Mt Cattlin was released.
- Mt Cattlin construction progressing on schedule.
- Pre Strip Mining commences at Mt Cattlin.
- General Mining Corporation (GMC) successfully listed on ASX – Galaxy is 8.91% shareholder.
- Ground Breaking Ceremony for Jiangsu.
- Business Licence and Project Approval received for Jiangsu Lithium Carbonate Plant.
- Environmental and Safety Approvals received for Jiangsu Lithium Carbonate Plant.
- Final Jiangsu Definitive Feasibility Study results positive.
- The Engineering, Procurement and Construction Management (EPCM) contract awarded to Hatch Consulting Shanghai.
- Jiangsu site preparation has commenced.
- Project Investment Contract (PIC) for Jiangsu Site signed.
- Key staff appointments made for Jiangsu.
- Aligns with Mitsubishi of Japan in Offtake Agreement.
- Update economic modelling at current foreign exchange rates highlights the robust nature of the project with the pre tax Net Present Value (NPV) at **\$425 million**.
- The **post tax NPV is estimated at A\$297 million**.

Corporate

\$65 Million Institutional Raising

The Company placed 51 million shares to sophisticated and institutional investors on 21 October 2009. The placement was approved by shareholders at a General Meeting held on 14 October 2009.

The joint lead managers of the raising were State One Stockbroking Ltd and Helmsec Global Capital Ltd.

Creat Equity Raising

Galaxy announced on 25 August 2009, that it has signed a binding Share Subscription and Debt Facility Agreement for financing its project with Creat Group Co Limited (“Creat”), a private sector investment company based in Beijing, China.

Creat has no off-take requirements and Galaxy is therefore free to market its own product, positioning itself well to maximise the benefits of anticipated increasing lithium carbonate prices. The Board is delighted to have secured the interest and commitment of Creat as a strategic investor to provide long term financing arrangements for the Company's lithium projects.

Creat is a 54% major shareholder of CRHL listed on the AIM market of the London Stock Exchange. The owners and employees of Creat also comprise the Chairman, Managing Director/CEO and CFO of CRHL.

Creat Group has nominated CRHL as the subscriber for the Galaxy shares in accordance with its right to do so under the Share Subscription Agreement. Galaxy has agreed with Creat to a delayed and staged share placement program because of the nomination of CRHL as the subscriber and the need for CRHL to comply with AIM listing requirements.

As a result of this delay, Galaxy refreshed its shareholder approval for these placements and the nomination of CRHL at the General Meeting held on 10 February 2010.

Galaxy issued 6,818,182 shares to CRHL on 15 December 2009 raising A\$ 6 million being the first stage share subscription placement ("First Subscription") from Creat Resources Holdings Limited ("CRHL"), an investment vehicle for Creat.

The second and final stage share subscription placement of approximately A\$ 26 million ("Final Subscription") will occur after the CRHL AGM held on 29 March 2010 to formally approve this Final Subscription.

Subsequent to the end of the year, Dr Yuewen Zhang has been appointed as a Non Executive Director of the Company on 7 January 2010.

Project Finance from RZB and CDB

Galaxy is in the process of transferring its Debt Facility Agreement for financing its lithium project from Creat to a syndicate of banks led by Austrian bank, Raiffeisen Zentralbank Österreich AG (RZB).

China Development Bank Corporation (CDB), China's leading financial institution, also joined the project finance syndicate.

On 27 November 2009 the Company received US\$ 20 million from RZB as a bridging loan.

Galaxy and Creat are of the view that it is in the best interests of the project over the longer term for the project funding to be provided by an independent banking arrangement rather than by a major shareholder of Galaxy. Creat is fulfilling its funding obligation by procuring the bank funding through its significant banking relationships. In effect, the parties have decided that it is better to accelerate that envisaged outcome now rather than putting in place these arrangements at a later date.

Both banks, RZB and CDB have conducted their respective due diligence on the Mt Cattlin and Jiangsu Projects.

Galaxy Wins Australia Business Award

The Company was announced as the winner of the entrepreneurial excellence award at the AustCham Australia-China Business Awards in Beijing on 4 December 2009. The award recognised an Australian business that has demonstrated entrepreneurial excellence in greater China over the past year.

Change of Financial Year End

The Company will be changing its financial year end from 30 June to 31 December, effective from 1 July 2009. The Company has been granted approval from the Australian Securities and Investments Commission ('ASIC') to make this change on 23 December 2009. The purpose of the change of financial year end is to synchronise with the overseas operations of Galaxy.

The Company has prepared its normal annual financial report for the year ending 30 June 2009 and will then prepare a further financial report covering the six month period 1 July 2009 to 31 December 2009. Annual reports thereafter will be prepared for a 12 month period from 1 January to 31 December each subsequent year.

Mt Cattlin Spodumene Project

Ground Breaking Ceremony

At the beginning of November, more than 100 guests descended upon Ravensthorpe to witness Western Australia's Premier Colin Barnett officially break the ground at the Company's Mt Cattlin Spodumene Project.

The Ground Breaking Ceremony marked a significant milestone in the development of the Mt Cattlin Spodumene Project – with construction and earthworks on the site commencing immediately.

Mining Approval Granted

The Company secured Mining Approval from the Department of Mines and Petroleum (DoMP) for its Mt Cattlin Spodumene Project, near Ravensthorpe, Western Australia.

The granting of Mining Approval marks the final stage of pre-development for the Mt Cattlin project, effectively enabling the Company to commence mining and production in Q3 2010. With Works Approval secured, Galaxy commenced construction of the project including earthworks and the minerals processing plant in the second week of November 2009.

Mining Leases Granted

On 1 December 2009, four mining leases (M74/158, M74/159, M74/196 and M74/197) surrounding the Mt Cattlin Spodumene mine were granted to the Company by the Department of Mines and Petroleum (DoMP). The leases further consolidate the Company's tenement holding in the area.

The tenements are considered very prospective for pegmatite-hosted lithium-tantalum mineralisation, and outcropping spodumene (lithium) bearing pegmatite has been recorded from several areas on the new leases. The Company is currently planning sampling and drill programs to follow up on pegmatite mineral occurrences with the aim of expanding the Mt Cattlin resource base.

EPCM Contractor Selected

The Company awarded the Engineering, Procurement and Construction Management (EPCM) contract for its minerals processing plant at Mt Cattlin, Ravensthorpe to the DRA Pacific, Mintrex, BEC Engineering Joint Venture (DMB JV).

The EPCM contract includes construction of a crusher and concentrator process plant capable of producing 137,000 tonnes of spodumene concentrate per year. Both Mintrex and DRA Pacific have strong track records in the field of mineral processing and project delivery, stretching over the past 25 years. Mintrex has specialised strengths in crushing and materials handling, while DRA has significant capability in the processing and concentrating of most ores via Dense Medium Separation (DMS), Gravity and Mill Concentrators.

The Joint Venture will utilise the strengths of BEC Engineering for the electrical and instrumentation design and construction management. Galaxy authorised the DMBJV to commence the early detailed engineering design and procurement phase. The award of the EPCM contract moves the Mt Cattlin project firmly into development phase and on track to achieve first production of spodumene concentrate by Q3 2010.

Updated Economic Modelling

The Company has updated project economics for Galaxy's vertically integrated Mt Cattlin Spodumene Mine and the Jiangsu Lithium Carbonate Plant. The update, prepared following the finalisation of capital, operating costs, and at the current exchange rate of USD:AUD of \$0.90, verifies the robust nature of the project.

The construction budget for the Mt Cattlin Spodumene Project has been finalised at \$79 million. While this represents a 16% increase from the Definitive Feasibility Study, it reflects changes to the initial design that will improve the robustness, reliability and safety margin of the plant. The changes to the original design include the introduction of quaternary crushing (from three to four stage crushing); a standby crusher, up-flow classification for mica removal, and a larger capacity spirals circuit. In addition, extra physical quantities of structural steel, concrete, platework, piping and electrical materials have been required supplementary to the DFS estimate. Early recruitment costs have also been incorporated into the revised construction budget for Mt Cattlin to ensure operational readiness when the plant undergoes commissioning in July 2010.

The \$55 million cost of the Lithium Carbonate Plant in China is derived from the Jiangsu DFS which was finalised in October 2009 and remains unchanged. Various supplier and contractor negotiations have also now been finalised, with the majority of costs decreasing in comparison to the DFS projections. Reductions in ocean shipping rates as well as reduced mining costs, following the successful outcome of the mining tender, will deliver an overall improvement in operating costs from the DFS.

The Company also recently announced it had extended the mine life from 15 to 16 years following the release of an updated and improved resource statement which will boost the project economics.

Financial modelling at current foreign exchange rates highlights the robust nature of the project with the pre tax Net Present Value (NPV) at **\$425 million**. The **post tax NPV is estimated at A\$297 million**.

Galaxy ensured that the DFS had very conservative assumptions and estimates and this has proved to be the case with most cost assumptions arriving at less than the DFS figures. A summary of the updated economic model, including revisions to capital and operating costs from the DFS, has been provided below:

Project Economics (LOM Ave)	<u>\$0.90 USD/AUD</u> <u>FX Rate</u>
Capital Costs	A\$ 145 million
Mine Life	16 Years
Revenue pa	A\$ 143 million
Net Cash (pre tax) pa	A\$ 69 million
Net Present Value NPV (non-geared, real @8%)	A\$ 425 million
Internal rate of Return IRR%	36%
Payback	2.7 Years

Construction Progress

The construction of the processing plant at the Mt Cattlin Spodumene Project near Ravensthorpe, Western Australia is progressing on schedule.

Earthworks at the Mt Cattlin site commenced in early November and are being carried out by Esperance based Martin's Mining and Civil. Earthworks have been completed over a large percentage of the site, with handover to the concrete contractor achieved. Construction of the run of mine (ROM) stockpile is also well advanced using material from the plant site earthworks and will be completed to final design when mining commences in early April 2010.

Construction of the new site access road from the Lake King road to the west of the site is also well advanced, with Roadtech Constructions having been awarded the contract in early December. Completion of the main access road including bitumen sealing is expected in late January.

Mobilisation of the concrete contractor S & N Constructions commenced on 4 December and the first major concrete pour which was the base of the fine ore bin tunnel occurred on 19 December.

A number of other major contracts were awarded recently. These include the mine and maintenance offices which were awarded to local Ravensthorpe company R & L Constructions, the mine workshop to S & N Constructions, the power station supply contract to the Contract Power Group of Companies and the mining contract was awarded to Orionstone Pty Ltd. Other major contracts are to be awarded in the coming months.

Mt Cattlin Pre Strip Mining

On 4 March 2010, the Company announced has commenced pre-strip mining at its Mt Cattlin Spodumene Project ahead of schedule.

The four month pre-strip mining period was on track and would guarantee supply of run of mine ore for the commissioning of the Mt Cattlin processing plant during the third quarter of 2010.

Orionstone's mining fleet at the Mt Cattlin Project comprises a Hitachi 1800 excavator, four Caterpillar 777D dump trucks, a Caterpillar D10 dozer and other ancillary equipment as well as plant operators and maintenance staff.

Resource Statement Upgrade

A new ore reserve statement for the Mt Cattlin Spodumene Project near Ravensthorpe, Western Australia was announced on 11 March 2009. The total "Proved" and "Probable" estimate has increased to **11.4 million** tonnes @ 1.05% Li₂O which represents a **23% increase** from the previous reserve estimation in September 2009 (9.3 million tonnes at 1.04% Li₂O).

New Ore Reserve Estimation

The new ore **reserve** estimate reported in compliance with the JORC Code is provided in Table 1 below.

Table 1 - Mt Cattlin – March 2010 Ore **Reserve** estimate

Reserve	Tonnes	Li₂O %	Ta₂O₅ ppm
Proved	2,683,000	1.08	135
Probable	8,684,000	1.04	151
TOTAL	11,367,000	1.05	147

Note: Li₂O lower cut off grade >= 0.4% Li₂O. Figures in the above table may not sum due to rounding

Ore reserves are based on the January 2010 Mt Cattlin global **resource** estimate (Table 2). Reserves were estimated within an optimal Whittle pit shell and a final pit design developed by consultant Roselt Croeser.

Table 2 – Mt Cattlin Global **Resource** Estimate (Jan 2010)

Resource	Tonnes	Li₂O %	Ta₂O₅ ppm
Measured	2,672,000	1.17	150
Indicated	9,629,000	1.09	171
Inferred	3,575,000	1.00	145
TOTAL	15,875,000	1.08	161

Note: Li₂O cut off grade >= 0.4% Li₂O. Figures in the above table may not sum due to rounding

Reserve estimation has incorporated data from resource definition drilling, geological modelling/resource estimation, detailed surface topography surveys, metallurgical test work, process/plant design, capital/processing cost estimation and mine planning. The pit design incorporates geotechnical pit design parameters developed by consultants Dempers and Seymour.

Shoemaker Joint Venture

As announced in the September 2009 quarterly, the proposed 50% sale and joint venture of Shoemaker to General Mining Corporation Limited (GMC) was subject to the successful listing of GMC on the Australian Securities Exchange or completion of corresponding capital raising of at least \$3 million.

GMC successfully listed on the ASX on 18 December 2009. Galaxy holds a 8.91% interest.

Geological Activities

Mt Cattlin

Half of a significant 9,260m RC drilling program aimed at upgrading and extending resources at the Mt Cattlin Spodumene Project was completed. The overall resource grade for Mt Cattlin is 1.08% Li_2O so intercept grades above this level are considered significant.

North West Zone

The program has discovered a new zone of lithium-bearing pegmatite mineralisation to the northwest of the current resource. Eight widely-spaced holes intersected pegmatite at a depth of around 80-100m, with best intercepts of **16m @ 1.35% Li_2O** in GX1054 and **9m @ 2.13% Li_2O** in GX947. The mineralised pegmatite has been intersected over an area of around 400m x 400m in plan view and varies from around 6m to 16m in width. The zone is still open to the west, although narrowing in this direction.

The North West zone appears to represent the north western extension of the main pegmatite horizon in the Dowling pit area. It lies to the west of a fault and northeast-trending dyke, which until now has defined the western limit of the resource.

South West Zone

Drilling at the South West margin of the resource indicates that some extension of the resource to the west is possible. Several holes intersected significant pegmatite mineralisation, including **5m @ 1.93% Li_2O** in GX926 and **4m @ 1.82% Li_2O** in GX925. A full list of significant intercepts from this area is given in Table 2 below.

Further step out drilling to the west did not intersect pegmatite at a depth however, geology in this area is complex, with several cross-cutting faults and dykes, and interpretation of results is ongoing. Sterilisation drilling to the west of the resource over the plant site failed to intersect pegmatite.

Eastern Zone

In the east of the Mt Cattlin resource, infill and minor step out drilling has confirmed the geological interpretation and returned excellent results, with the best of these including **9m @ 1.78% Li_2O** in GX968 and **9m @ 1.41% Li_2O** in GX969.

Several widely spaced holes around 200m east of the resource did not intersect any significant pegmatite mineralisation. It appears that the eastern margin of the main pegmatite horizon is controlled by a north-south trending structure in this area, and the continuation of the pegmatite has not yet been encountered to the east of this structure. However, outcropping spodumene-bearing pegmatite has been mapped around 300m to the south east of the area, on an adjoining Galaxy tenement. This zone will be followed up by drilling when permitting has been completed.

WMC Costean Area

Resource upgrade drilling in the WMC Costean Area to the east of Floater Road has intersected some excellent near surface mineralisation. This drilling was designed to upgrade resources from inferred to measured and indicated, and thereby increase reserves. Some historic drilling in this area was not assayed for lithium or was drilled using inappropriate techniques for resource estimation, so additional drilling was required.

High grade intercepts were returned from some areas that previously showed gaps in the resource or low grades, due to insufficient drilling or interpolation from surrounding lower grade drill holes. Intercepts include **15m @ 1.71% Li_2O** in GX984 and **14m @ 1.91% Li_2O** in GX986 (from surface).

North Ravensthorpe Area

Drilling in the "North Ravensthorpe" area, which was not assayed for lithium in most historic holes, has also been completed. The mineralisation shows excellent grade and continuity. Some very high grade intercepts over wide zones have been returned, including **21m @ 1.88% Li_2O** in GX1008, **14m @ 2.06% Li_2O** in GX1007 and **13m @ 2.10% Li_2O** in GX1009. This area also showed some very high grade tantalum results, including **2m @ 5,513ppm Ta_2O_5** in GX1037.

Dowling Pit Area

A 10m x 10m grade control pattern over a small area of the Dowling pit was also completed. This work was carried out to investigate short range continuity of mineralisation, aid in grade control planning, and to gain further information on rock hardness

and blasting characteristics. The drilling has returned some excellent intercepts, including **10m @ 3.37% Li₂O in GX921**, **14m @ 2.07% Li₂O in GX996** and **10m @ 2.42% Li₂O in GX1002**. It should be noted that some of the intercepts from this area, in addition to North Ravensthorpe, include a small proportion of the lithium-bearing mineral lepidolite, in addition to spodumene. Significant tantalum was reported from hole GX1059, which returned **8m @ 1,074 ppmTa₂O₅**.

West Kundip Manganese Project

Mining Leases Granted

On 1 December 2009, Two mining leases (M74/133 and M74/238) making up Galaxy's West Kundip Manganese Project were also granted recently. The leases are approximately 15km south of Ravensthorpe and cover a sequence of Proterozoic sediments including dolomite units, which are prospective for manganese mineralisation. Work conducted by Galaxy several years ago, prior to the tenements being converted to mining leases, outlined the presence of scattered pods of high grade manganese mineralisation. Galaxy will carry out a VTEM airborne geophysical survey in the near future to follow up on the potential for manganese mineralisation and to define drill targets with economic tonnage potential.

The mineralisation at West Kundip is considered to be of a similar style to Woodie Woodie, which is a significant manganese producing mine in Western Australia's Pilbara region.

The style consists of high grades pods of manganese ore produced from dolomitic sediments as a result of hydrothermal alteration is being used by Galaxy in the West Kundip area to target manganese mineralisation. Past exploration in the region in the same geological sequence has previously defined small manganese ore bodies at the Copper Mine Creek Deposit, Dempster River Crossing and Hamersley Gorge (which now lie in the Fitzgerald River National Park).

A sample of manganese from a 7 tonne bulk sample in 1998 gave assays of 38% Mn, 3.22% Fe, 2.80% Si, 0.03% P and 2.00% Al. Surface rock chip grab samples from the same area taken in 2008 and 2009 have returned up to 46.6% Mn, with 8.5% Fe, 1.0% Si, 0.002% P and 0.6% Al.

Galaxy's experience in heavy media separation processing techniques, its mining fleet in the Ravensthorpe area and Esperance port facility agreements provide the Company with an advantage in exploiting potential manganese mineralisation in the Ravensthorpe region.

Jiangsu Lithium Carbonate Project

Jiangsu Definitive Feasibility Study

During the period, Galaxy released the final result of the Definitive Feasibility Study for the Jiangsu Lithium Carbonate Project.

The estimated capital cost is CNY 342 million or A\$ 55 million (based on an exchange rate of RMB:AUD of 6.2).

The final DFS capital cost estimation of A\$55 million is well in line with Galaxy's earlier estimates (A\$ 50 million) and confirms the estimated returns of the project. The estimate also incorporates a conservative 24% in contingency costs which will allow Galaxy to manage any changes to projected costs or in the future economic environment.

The study was conducted by Hatch Engineering in China. Hatch China has 20 years project experience in the Peoples Republic of China (PRC). The Hatch China team has successfully completed assignments on over 260 projects with a capital value in excess of US\$2 billion.

EPCM Contract Awarded

In December 2009, the Company awarded the EPCM contract to design and build the Jiangsu Lithium Carbonate plant to Hatch Consulting Shanghai (Hatch).

The contract appoints Hatch to provide the engineering services, procurement and management of construction of the Jiangsu Battery Grade Lithium Carbonate Plant in the Zhangjiagang Yangtze River International Chemical Industrial Park.

The contract strengthens the association between Galaxy and Hatch and their appointment as EPCM contractor will provide a seamless transition into the project delivery phase.

Hatch delivered the comprehensive project DFS report for Galaxy on time and within budget earlier this year and has already commenced the process design and preliminary site preparation works at Jiangsu.

Hatch has coordinated the application for the business license which is due to be awarded shortly.

Project Investment Contract signed

The Company signed the Project Investment Contract (PIC) for the Jiangsu Lithium Carbonate Plant with the Zhangjiagang Free Trade Zone Administrative Committee (ZFTZAC). Mayor Xu, head of the ZFTZAC visited the Company in Perth in December 2009 to finalise the PIC which supersedes the Letter of Intent (LOI) between the parties and confirms all commitments made to Galaxy that were announced in May 2009.

The PIC provides for land use for 50 years in an ideal location for the production of battery grade lithium carbonate. The site will be serviced by a 500m conveyor between the ocean bulk shipping wharf and the plant to facilitate inexpensive delivery of the Mt Cattlin spodumene from the mine.

The site will be serviced by reticulated natural gas, electricity, water, waste water drainage, steam and telecommunications to the site boundary at no cost to Galaxy as a condition of the contract. Generous taxation concessions are also a provision of the contract and will assist Galaxy in being the lowest cost lithium carbonate producer in China.

In addition, the site is next to a 2.4 million tpa sulphuric acid plant that will provide cheap concentrated sulphuric acid, a major cost item in the lithium carbonate process. The other major consumable is soda ash (sodium carbonate) which will be sourced from China's second largest synthetic soda ash plant also located within the chemical park.

Approvals

In November 2009, the Company received the Environmental Approval for its Jiangsu Lithium Carbonate Plant. The final Environment Approval Report has been approved by the Jiangsu Province Environmental Bureau. This approval is an important step toward full project approval for the Company's Jiangsu Lithium Carbonate Plant.

The environmental approval application required extensive testing and the submission of a detailed report which was compiled by a qualified competent organisation and was assessed by an expert review panel. The process also required the project to be publicly advertised twice as a condition of the approval. The Zhangjiagang Industrial Park where the Jiangsu plant is situated has very tight environmental regulations having won awards for eco friendly development.

On 7 January 2010, the Company also received the safety and energy saving approvals for its Jiangsu Lithium Carbonate Plant. Both approvals were granted by the Suzhou Municipal Administration of Work Safety. These approvals are important steps toward full project approval for the Company's lithium carbonate plant.

On 9 February 2010, the Company announced it has received the Project Approval and Business Licence for its China Lithium Carbonate Plant in Jiangsu Province.

Both approvals were granted by the Jiangsu Province Administration Bureau for Industry and Commerce and represent the final key milestones for the Company's Lithium Carbonate plant development.

Site Preparation commences

The preparation works for the Jiangsu Lithium Carbonate Plant in the Zhangjiagang Yangtze River International Chemical Industrial Park have commenced.

The work involves clearing the vegetation from the site in preparation for back-filling, levelling and compaction by the Zhangjiagang Free Trade Zone (ZFTZ) authorities. The site will be levelled to a height of 4.4m (higher than flood level) before being handed over for the erection of security fencing by Galaxy.

Work commences at Jiangsu site

The Galaxy component of the site preparation works commenced in December, 2009. Galaxy recently awarded contracts to Times Engineering Design and Project Management Co Ltd for design institute and construction supervision services and to Shanghai No. 1 Construction Company for the site preparation services.

Construction of the plant is expected to commence on schedule in Q1 2010 with piling and foundations. This schedule is in accordance with the intended plant start-up in Q4 2010.

Ground Breaking Ceremony

On 21 February 2010, Galaxy moved a step closer to becoming a world player in lithium yesterday as it marked the commencement of piling foundations for its Jiangsu Lithium Carbonate Project with a blessing ceremony on site.

The Foundation Day Ceremony was jointly conducted by Galaxy and the Zhangjiagang Free Trade Zone authorities on the eighth day of the Chinese New Year to coincide with the conclusion of the Spring Festival celebrations.

Lithium Market Update

The unanimous message received from all of the lithium cathode producers during several marketing trips last year to China was that Galaxy's project is:

**At the Right Time
At the Right Place
With the Right Product**

These potential customers indicated a strong interest in Galaxy's project as it provides security of supply for battery grade lithium carbonate to underpin their expansion plans. Almost all of the lithium cathode producers engaged are doubling capacities over the coming 12 to 24 months.

The demand for lithium batteries in electric vehicles (EVs) and in the energy storage segment is forecast to grow exponentially in the next two years as the Chinese Government implements policies aimed at reducing greenhouse gas emissions.

To meet this demand, there are more than 100 companies in the value adding chain that produce lithium cathode, anode and electrolyte materials, battery assemblers and power management systems. Additionally, several Chinese car manufacturers have announced the release of EVs in the next one to two years.

EVs are listed as one of the major projects of national importance. In total, the planned investment in policies to reduce pollution and promote energy conservation is expected to reach US\$1.6 billion. In addition, local provincial governments have developed regulations to support the development of EVs.

China's State Grid has commenced pilot operations in Beijing, Shanghai, Tianjin, Shandong, Zhejiang, Hubei, Hunan and other provinces to replace current fleet vehicles with approximately 2,000 EVs as well as building a recharging network.

A year ago, the Chinese Department of Science & Technology and the Ministry of Finance jointly launched a program to have 1,000 new-energy cars on the roads in each of the nominated 10 cities across China.

China is now the largest market for automobiles and potentially of EVs in the future. The Government aims to increase ownership of EVs to 50% in 2030, the equivalent of between 10 million and 19.5 million annually. It could reach this target earlier if the battery cost reduces and the recharging station network is established country wide.

The current market of lithium batteries in power tools, lap tops, mobiles, PDA's and other consumer electronics in China is forecast to increase as manufacturers of these products shift their facilities from Japan into China. China currently supplies 48% of the total demand.

With strong progress being made on the development of both the Mt Cattlin and Jiangsu projects, Galaxy is well positioned to capitalise on the burgeoning demand for lithium.

Mitsubishi and Offtake Update

The Company signed an Off-take Agreement with Mitsubishi Corporation for a significant proportion of its battery grade lithium carbonate production. The agreement involves long term off-take sales and distribution of Galaxy's product to the Japanese market.

Mitsubishi Corporation (MC) is Japan's largest general trading company with more than 200 bases of operations in approximately 80 countries worldwide. Mitsubishi employs a multinational workforce of approximately 60,000 people across some 500 companies. Mitsubishi has long been engaged in business with customers around the world in virtually every industry, including energy, metals, machinery, chemicals, food and general merchandise.

Galaxy is currently in discussions and is close to finalising similar off take agreements with other major groups and high end users of battery grade lithium carbonate in China and other Asia Pacific regions.

Competent Persons

The information in this report that relates to Mineral Resources and Exploration Results is based on information compiled by Mr. Robert Spiers who is a full time employee of Hellman & Schofield Pty Ltd and Mr Philip Tornatora who is a full time employee of the Company. Mr. Spiers and Mr Tornatora have sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity they are undertaking to qualify as a Competent Person as defined in the 2004 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Mr. Spiers and Mr Tornatora consent to the inclusion in this report of the matters based on their information in the form and context in which it appears.

The information in this report that relates to Mineral Ore Reserves is based on information compiled by Mr. Roselt Croeser who is a full time employee of Croeser Pty Ltd. Mr. Croeser has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity 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. Croeser consents to the inclusion in this report of the matters based on his information in the form and context in which it appears.

DIRECTORS' REPORT

Your Directors submit their report for the six months ended 31 December 2009 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 Readhead B Juris, LLB, FAICD (Chairman, Non-Independent Non-Executive Director) – Age 56

Mr Readhead was appointed as a Non-Executive Director on 27 April 1999. Mr Readhead has spent the last 30 years practising in the resources law area and is a partner of law firm Allion Legal (formerly called Pullinger Readhead Lucas). Mr Readhead has had a significant legal role in the development of a number of mining projects within Australia, Africa and South East Asia.

Mr Readhead is past President of the Australian Mining and Petroleum Law Association, and past Vice-President of the Association of Mining and Exploration Companies.

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

Directors Interests: 3,805,556 fully paid ordinary shares and 1,250,000 options.

Current Directorships: Frankland River Olive Company Limited, General Mining Corporation Ltd, Heron Resources Ltd, India Resources Ltd and Mt. Gibson Iron Ltd.

Past Directorships (last 3 years): Agincourt Resources Ltd and Nickelore Limited.

Ignatius Tan BSc, MBA, MAICD (Managing Director) – Age 47

Mr Tan was appointed as a Director on 18 September 2008 and Managing Director on 11 November 2008. Mr Tan is an experienced operations manager with over 24 years of experience in the mining and chemical industry. He has also a proven background in both marketing and business development. Mr Tan has been in managerial roles with SCM Chemicals and Sons of Gwalia; and General Manager roles at Westlime, Iluka Resources (MW), Imdex Minerals and Metals X Limited. His responsibilities have included the commissioning and operations management of several significant mining and processing projects in Western Australia. Mr Tan managed the Lithium Mineral and Lithium Carbonate plants at Sons of Gwalia, Greenbushes operations in 1995.

During his time at Iluka, he won the Prime Minister's Community and Business Partnership award for industry commitment to local communities in WA. Mr Tan is a former Chairman of the Western Australian Chamber of Minerals and Energy's (CME) Murchison Regional Council. He is also a member of the Australian Institute of Company Directors.

Special Responsibilities: Nil.

Directors Interests: 1,200 fully paid ordinary shares and 6,000,000 options.

Current Directorships: Nil.

Past Directorships (last 3 years): Nickelore Limited.

Robert (Bob) Wanless (Independent Non-Executive Director) – Age 62

Mr Wanless was appointed as a Non-Executive Director on 15 January 1996. Mr Wanless is a prospector and mining investor with 35 years mining industry experience.

He was employed by Placer Exploration Limited as a professional prospector and exploration supervisor covering South East Asia and Australia including exploration at Laloki, Watut and Pleysumi (PNG) and throughout Western Australia. Since then he embarked on all aspects of mineral exploration, assessment, acquisition, fieldwork, development and mining, mainly in Western Australia. He has negotiated numerous mining related sale and joint venture agreements with International and Australian mining companies involving gold, base metals and industrial mineral properties. Recently he managed the Alicia Gold Mine in Western Australia. He is founding director of ASX listed Red 5 Ltd (formerly Greenstone Resources NL) and is responsible for the Company's Ravensthorpe WA nickel, gold and tantalum exploration and development activities.

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

Directors Interests: 2,140,493 fully paid ordinary shares and 1,250,000 options.

DIRECTORS' REPORT

DIRECTORS - continued

Current Directorships: General Mining Corporation Ltd.

Past Directorships (last 3 years): Nil.

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

Dr Zheng was appointed as a Non-Executive Director on 7 January 2010. Dr Zheng is the founder and Chairman of Creat Group Co Ltd and has worked in several major Chinese governmental organisations including the Ministry of Railway and the State Bureau of Seismology. He is Vice President of the All-China General Chamber of Industry and Commerce, Vice President of the China Non-Governmental Science & Technology Entrepreneurs Association. He has a PhD in Finance and a Bachelors degree in Finance and Economics.

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

Directors Interests: 6,818,182 fully paid ordinary shares and nil options.

Current Directorships: Beijing Keruicheng Mining Investment Co Ltd, Beijing Keruicheng Jinchuan Mining Investment Co Ltd, Creat (Europe) Limited, Creat Group Company Ltd, Creat Resources Holdings Limited, Glory Industrial Co. Ltd, Jiangxi Chengkai Investment Group Co Ltd, Jiangxi Zhongcheng Construction Development Co Ltd and Kerui Tiancheng Investment Holdings Limited.

Past Directorships (last 3 years): Beijing RAJ Network Sales Co Ltd, Glory Cause Land Afforestation Co Ltd and Lead REITS Asset Management Corporation.

Xiaojian Ren (Alternate Director for Yuewen Zheng) – Age 53

Mr Ren was appointed as an Alternate Director for Dr Zheng on 7 January 2010. Mr Ren is a co-founder and CEO of Creat Group Co Ltd. He has extensive experience in banking, having worked in the Head Office of the Agricultural Bank of China, Sweden Savings Bank, and Germany's DG Bank (H.K.). Mr Ren also has extensive experience in enterprise management in the areas of manufacturing, real estate and non-ferrous metal resource. Led by Mr Ren, the Creat Group is responsible for the high investment performances achieved through investments of companies such as: Pinggao Electric (SH 600312), the largest high-voltage switchgear manufacturer in China; Shanghai RAAS, a leader in the blood product sector in Asia; and North Andre (HK 8259), the world's number one apple juice concentrate supplier.

Mr. Ren holds a Bachelor degree of Finance and an MBA from Latrobe University in Australia.

Special Responsibilities: Nil.

Directors Interests: 6,818,182 fully paid ordinary shares and nil options.

Current Directorships: Beijing Keruicheng Mining Investment Co Ltd, Beijing Keruicheng Jinchuan Mining Investment Co Ltd, Creat Group Company Ltd, Creat Resources Holdings Limited, Glory Industrial Co. Ltd and Kerui Tiancheng Investment Holdings Limited.

Past Directorships (last 3 years): Beijing RAJ Network Sales Co Ltd and Glory Cause Land Afforestation Co Ltd.

COMPANY SECRETARY

Andrew Meloncelli BCom, CA, FCIS – Age 34

Mr Andrew Meloncelli commenced his career with Pricewaterhouse Coopers and has extensive experience working as a Company Secretary for resources companies listed on AIM, ASX and TSX in the areas of corporate compliance/governance, finance, investor relations, prospectus fundraisings, systems implementation and taxation. Andrew holds a Bachelor of Commerce Degree from the University of Western Australia, in addition is a 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. Andrew was the founding Company Secretary of Novacoat Holdings Limited (now Decmil Group Limited) listing on the ASX in 2005 and is a former assistant Company Secretary of an S&P/ASX 200 Index Company.

Mr John Sobolewski was Company Secretary from 1 July 2009 until 23 November 2009. Mr Sobolewski continues as Chief Financial Officer of the Company and Consolidated Entity.

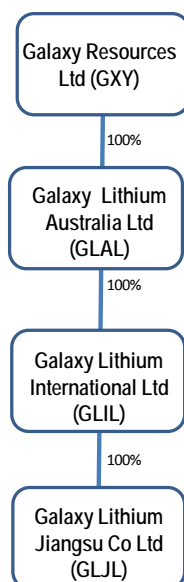
DIRECTORS' REPORT

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 financial period are:

Director	Board Meetings		Audit Committee Meetings		Nomination Committee Meetings		Remuneration Committee Meetings	
	A	B	A	B	A	B	A	B
C L Readhead	10	10	1	1	1	1	1	1
I K S Tan	10	10	1 **	1 **	1 **	1 **	1 **	1 **
R J Wanless	9	10	1	1	1	1	1	1
Y Zheng *	-	-	-	-	-	-	-	-
X Ren *	-	-	-	-	-	-	-	-

* Appointed on 7 January 2010.

** By invitation.

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

DIRECTORS' REPORT

CORPORATE GOVERNANCE STATEMENT

Galaxy Resources Limited (“**Company**”) has established procedures to encourage and maintain a culture of good corporate governance, consistent with the Corporate Governance Principles and Recommendations (2nd edition) as published by the ASX Corporate Governance Council (“**ASX Principles**”). Unless otherwise stated, the practices detailed in this statement have been in place for the entire reporting period ended 31 December 2009.

Further information about the Company’s corporate governance practices are set out in the “Corporate Governance” available on the Company's website at galaxyresources.com.au. A summary follows:

Board of Directors

The Board comprises a Non-Executive Chairman, Craig Readhead, the Managing Director Iggy Tan, and two Non-Executive Directors, Robert Wanless and Yuewen Zheng. Full details of Galaxy’s Board of Directors and their relevant experience and skills are detailed in the Directors’ Report.

Galaxy’s Constitution requires that one third of the members of the Board retire by rotation each year but are eligible for re-election. Any new director appointed holds office only until the next general meeting and is then eligible for re-election.

Galaxy has established a Nomination Committee which implements a Nomination Charter governing the procedure for selection and appointment of new directors. The policy provides guidelines to ensure that any such person to be appointed as a director possesses an appropriate level of qualifications, expertise and experience.

The Nomination Committee consists of three Non-Executive Directors comprising Craig Readhead, Bob Wanless and Yuewen Zheng. The Nomination Committee reports a summary of the findings of each Committee Meeting to the Board of Directors. The Board receives a copy of the minutes of the Nomination Committee meetings.

The Company Secretary Andrew Meloncelli is Secretary to the Committee.

The Directors are aware of their responsibilities and obligations to protect shareholder’s funds. Due care is taken to explain both the positive and negative aspects in all reports, to highlight the inherent risks involved in mineral exploration and development and other activities.

Independence of Board Members

Non-Executive Director Robert Wanless is the only Director of Galaxy considered by the Board of Directors to be independent for the purposes of the ASX Principles.

Management of Strategic Business Operations

The Board of Directors determine the strategic direction of Galaxy by regularly monitoring and evaluating the performance and status of each of Galaxy’s projects and activities, with the objective of maximising and enhancing the reputation and performance of Galaxy to increase shareholder value. Advice on the performance of Galaxy’s projects and investments is also provided by consultants and employees, where required.

Risk Management Policy

Risk recognition and management are viewed by Galaxy as integral to its objectives of creating and maintaining shareholder value, and the successful execution of Galaxy’s research and development.

The Board as a whole is responsible for oversight of the processes by which risk is considered for both ongoing operations and prospective actions.

Management is responsible for establishing procedures which provide assurance that major business risks are identified, consistently assessed and appropriately addressed.

Not all aspects of risk management can be formalised and Galaxy places considerable reliance on the skill, experience and judgement of its people to take risk managed decisions within the policy framework, and to communicate openly on all risk related matters.

There are a range of specific risks that have the potential to have an adverse impact on Galaxy’s business. Galaxy has developed a framework for a risk management policy and internal compliance and control system which covers organisational, financial and operational aspects of Galaxy’s affairs.

DIRECTORS' REPORT

CORPORATE GOVERNANCE STATEMENT – continued

Key elements of the framework for the management of risk by Galaxy are:

- Oversight of Galaxy's financial affairs and internal controls by the Audit Committee;
- The formulation of programmes for exploration and development;
- Regular reporting against established targets;
- Approval guidelines for exploration and capital expenditure;
- Regulatory compliance programmes and reporting in key areas such as safety and environment;
- Management of capital and financial risk;
- An annual insurance program; and
- Oversight of the conduct of contractors.

Risk Evaluation and Control

The management team, under the leadership of the Managing Director, draw together from within their ranks a group who periodically meet on an informal basis to identify and assess specific business risks specific to their operations. The group has collective experience in all of Galaxy's operations in Australia and in the People's Republic of China, and is broadly consistent with Galaxy's business plans, objectives and values. Based on reviews of Galaxy's business, an overall profile of the risks is established and a process is established for dealing with such risks. Any identified risks are periodically brought to the attention of the Board or the Audit Committee, generally in the format of a Board or Audit Committee meeting. In assessing and managing identified risks:

- Risks are assessed in terms of potential consequences and likelihood;
- Risks are ranked in accordance with their likely impact;
- The acceptability of each identified risk is assessed;
- Proposed actions to eliminate, reduce or manage each material risk are considered and agreed; and
- Responsibilities for the management of each risk are assigned.

Periodic review is made at least annually in respect of the effectiveness and suitability of the risk management plan. Such a review was undertaken by management during the year and reported to the Board. The Board ultimately has responsibility for internal compliance and control. The Audit Committee has responsibility for ensuring that internal control systems are in place to monitor and manage risk. Galaxy has a number of financial control processes to ensure that the information that is presented to senior management and the Board is both accurate and timely. The control processes include, among other things:

- Annual audit and half year review by the external auditor;
- Internal audit program to review the quality and effectiveness of internal processes, procedures and controls;
- Management review of the balance sheet and internal control environment;
- Monthly review of financial performance compared to budget and forecast; and
- Analysis of financial performance and significant balance sheet items to comparative periods.

DIRECTORS' REPORT

CORPORATE GOVERNANCE STATEMENT - continued

Remuneration Committee

The Board has established a Remuneration Committee for the purposes of making recommendations to Galaxy's Board of Directors on remuneration packages and policies applicable to senior executives and the Directors themselves. The functions of a Remuneration Committee are set out in the Remuneration Charter, and include review of:

- Policies for salaried personnel and directors remuneration annually;
- The basis of the calculation for senior executives' and directors' remuneration annually to ensure that it appears reasonable;
- Current industry practice and the professional executive recruitment organisations' publications;
- Different methods for remunerating senior executives and directors;
- Existing or proposed share option schemes;
- Superannuation payments;
- Retirement and termination payments;
- Professional indemnity and liability insurance policies;
- Related party transaction disclosure in the financial statements;
- Communication with major shareholders and institutional investors to gauge their views on remuneration packages; and
- Annual leave policies (and long service leave).

The Remuneration Committee consists of three Non-Executive Directors comprising Craig Readhead, Bob Wanless and Yuewen Zheng. Access is also available to Galaxy's auditors and senior managers and the ability to consult independent experts when necessary. The Remuneration Committee reports a summary of the findings of each Committee Meeting to the Board of Directors. The Board receives a copy of the minutes of the Remuneration Committee meetings.

The Company Secretary Andrew Meloncelli is Secretary to the Committee.

Galaxy has established policies for the remuneration of Executive and Non-Executive Directors as well as the process for evaluation of the Board and senior executives. The Chairman oversees the evaluation of Non-Executive Directors while the independent Non-Executive Director Robert Wanless carries out the evaluation of the Chairman with the assistance of an unrelated third party if required.

In relation to Non-Executive Directors, there are presently no schemes for retirement benefits, other than statutory superannuation.

The Executive Directors are remunerated based on the provision of services provided to Galaxy under employment contract for executive management and for their services as Directors. The Directors' fees are determined by Galaxy in general meeting and other consulting services are remunerated at levels independently agreed by the Remuneration Committee.

Non-Executive Directors are paid their fees out of the maximum aggregate amount approved by shareholders for the remuneration of Non-Executive Directors. The sum each Non- Executive Director is paid is determined by the Remuneration Committee from time to time. Additional fees may be paid for participation on Board Committees, however, the total fees paid to Non-Executive Directors, including fees paid for participation on Board Committees, are kept within the total amount approved by shareholders, of \$400,000 with effect from the general meeting of the Company held on 10 February, 2010.

Audit Committee

Galaxy has established an Audit Committee with an established Charter which requires the Audit Committee to have three members of which three must be Non-Executive Directors. The Audit Committee comprises the three Non-Executive Directors of Craig Readhead, Bob Wanless and Yuewen Zheng. Andrew Meloncelli is Secretary to the Committee. 1 meeting of the Audit Committee was held during the reporting period. All members were present at this meeting.

DIRECTORS' REPORT

CORPORATE GOVERNANCE STATEMENT - continued

Selection of External Auditor

Should there be a vacancy for the position of external auditor, Galaxy, through the Audit Committee, conducts a formal tendering process, either a general or selective tender. The current auditor, KPMG, was appointed on 19 November 2009. The Audit Committee is satisfied that the external auditors were not engaged for non-audit services during the six months ended 31 December 2009.

Tenders for replacement auditors are evaluated in accordance with the criteria, as appropriate from time to time, provided to tenderers. Tenders are not assessed solely on the basis of price, but on a number of issues such as:

- Skills and knowledge of the team proposed to do the work;
- Quality of work;
- Independence of the audit firm;
- Lead signing partner and independent review partner rotation and succession planning;
- Value for money; and
- Ethical behaviour and fair dealing.

Through the tendering process, the Audit Committee identifies and recommends an appropriate external auditor for appointment by the Board in conjunction with senior management and/or Galaxy shareholders in general meeting. The appointment is made in writing.

The external auditor is required to rotate its audit partners so that no partner of the external auditor is in a position of responsibility in relation to Galaxy's accounts for a period of more than five consecutive years. Further, once rotated off Galaxy's accounts no partner of the external auditor may assume any responsibility in relation to Galaxy's accounts for a period of five consecutive years. This requires succession planning on the part of the external auditor, a process in which Galaxy expects to be involved.

Galaxy in general meeting is responsible for the appointment of the external auditors of the Company, and the Board from time to time will review the scope, performance and fees of those external auditors.

Independent Professional Advice

Subject to the Chairman's approval (not to be unreasonably withheld), the Directors, at Galaxy's expense, may obtain independent professional advice on issues arising in the course of their duties.

Ethical Standards

Galaxy is committed to the highest standards of ethical business conduct. As part of that commitment, Galaxy established a Code of Conduct for Directors and a Corporate Code of Conduct, to guide executives, management and staff in carrying out their duties and responsibilities. The Codes are subject to ongoing review to ensure that Galaxy's standards of behaviour and corporate culture reflect best practice in corporate governance. The Code is based on the following key principles:

- Acting with honesty and integrity;
- Abiding by laws and regulations;
- Respecting confidentiality and handling information in a proper manner;
- Maintaining the highest standards of professional behaviour;
- Avoiding conflicts of interest; and
- Striving to be a good corporate citizen and to achieve community respect.

Galaxy also has a number of specific policies that underpin the Code of Conduct and elaborate on various legal and ethical issues. These policies are designed to foster and maintain ethical business conduct within Galaxy, and govern such things as workplace and human resources practices, handling of confidential information, insider trading, risk management and legal compliance. In addition, the Board has guidelines dealing with disclosure of interests by Directors in participating and voting at Board meetings where any such interests are discussed.

In accordance with the Corporations Act, any Director with a material personal interest in a matter being considered by the Board must not be present when the matter is being considered, and may not vote on the matter. The Directors adhere to this requirement at all times.

DIRECTORS' REPORT

CORPORATE GOVERNANCE STATEMENT - continued

Share Trading

Galaxy recognises that directors, officers and employees may hold securities in Galaxy and that most investors are encouraged by these holdings. It is the responsibility of the individual director, officer or employee to ensure that any trading by the director, officer or employee complies with the Corporations Act 2001, the ASX Listing Rules and Company Policy. Galaxy's Share Trading Policy is available on its website and is communicated to all affected by it, including directors, employees and contractors of Galaxy, their immediate family, people or entities under their control or influence.

A breach of this policy may lead to disciplinary action. It may also be a breach of the law.

Galaxy's Share Trading Policy includes established procedures and protocols to be complied with if a director, officer or employee wishes to trade in Galaxy's securities.

Shareholder Communications Policy

Galaxy has established a Shareholder Communications Policy to ensure that shareholders are informed of all major developments affecting Galaxy. All shareholders receive Galaxy's annual report, and may also request copies of Galaxy's half-yearly and quarterly reports. Galaxy also encourages full participation of shareholders at the annual general meeting of Galaxy. In addition, Galaxy maintains a website at www.galaxyresources.com.au on which Galaxy makes information available on a regular and up to date basis. Galaxy maintains a database of shareholders who receive automatic email updates of significant developments in Galaxy's affairs.

Summaries of the Company's Corporate Governance Policies including the Audit, Nomination and Remuneration Committee Charter are available on Galaxy'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 has complied with the recommendations as set out under this Principle.	Not applicable.
2	Structure the Board to add value.	The Chairman is not considered independent. Robert Wanless is considered to be an independent director.	Galaxy proposes to appoint one or more independent non-Executive Directors in the near future to address the imbalance of non-independent directors on the Galaxy Board.
3	Promote ethical and responsible decision-making.	Galaxy complies with this principle.	Not applicable.
4	Safeguarding integrity in financial reporting.	Galaxy only partially complies with this Principle. The Audit Committee is smaller than recommended and more Independent Directors are required.	Galaxy proposes to appoint one or more independent non-Executive Directors in the future.
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 only partially complies with this Principle. Non-Executive Directors have received performance options to provide incentive to grow the company and minimise director fees. The Remuneration Committee is smaller than recommended and more Independent Directors are required.	Galaxy proposes to appoint one or more independent non-Executive Directors in the future.

DIRECTORS' REPORT

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 six months ended 31 December 2009, 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 \$12,321,992 after tax for the six months to 31 December 2009 (2009: \$3,758,550).

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:

- Contributed Equity increased by \$73,196,458 (468%) to \$88,834,372:
 - 67,418,182 shares were issued by way of placements raising \$74,640,000 before costs; and
 - 6,390,610 shares were issued by way of exercise of options raising \$2,425,151.
- Cash on hand increased by \$79,999,765 (2,324%) to \$83,441,378.
- Current Assets increased by \$81,258,920 (2,129%) to \$85,074,324.
- Total Assets increased by \$96,351,110 (759%) to \$109,049,871.

As at 31 December 2009 the Consolidated Entity had:

- Cash on hand of \$83,441,378;
- Debt of \$22,361,360;

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

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

EVENTS SUBSEQUENT TO REPORTING DATE

On 7 January 2010, Dr Yuewen Zheng was appointed as a Non-Executive Director of the Company and Mr Xiaojian Ren as an Alternate Director for Dr Yuewen Zheng.

On 9 February 2010, Galaxy Lithium Jiangsu Co Limited, a Peoples Republic of China subsidiary of Galaxy Lithium International Limited was established and business licence approved.

On 10 March 2010, The Company issued 6,650,000 unlisted options exercisable at \$1.11 pursuant to the ESOP.

Since period end, The Company allotted 1,968,750 shares as a result of the exercise of options.

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.

DIRECTORS' REPORT

LIKELY DEVELOPMENTS AND EXPECTED RESULTS OF OPERATIONS

The Company and 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
- E Additional information

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.

A Principles used to determine the nature and amount of remuneration

The objective of the Company'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
- Capital management

The Company 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.

Director's 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 \$400,000 in aggregate.

Each non-executive director is entitled to receive fees of \$50,000 per annum (plus superannuation) and the Chairman of Directors is entitled to receive \$75,000 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 Company has no performance based remuneration component built into director and executive remuneration packages.

Consequences of performance on shareholder wealth

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.

DIRECTORS' REPORT

REMUNERATION REPORT – continued

B Details of remuneration

	6 months to 31 December 2009 \$	12 months to 30 June 2009 \$
Total income received, or due and receivable, by key management personnel of Galaxy Resources Limited from the Company, and any related party in connection with the management of the Company and any related party.	9,892,632	2,184,486

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

- John Sobolewski (CFO) – Company Secretary until 23 November 2009
- Terry Stark (GM Operations)
- Anand Sheth (GM Marketing & Business Development)
- Phil Tornatora (Exploration & Geology Manager)
- Michael Tamlin (GM China)
- Andrew Meloncelli (Company Secretary) – Appointed 23 November 2009

Key Management personnel and other executives of the Company (see note 1(x) for change in accounting policy).

Executives

Name	<u>Short-term benefits</u>	<u>Post-employment benefits</u>	<u>Share-based payment **</u>	<u>Other</u>	Total \$
	Cash Salary and Fees \$	Superannuation \$	\$		
31 December 2009					
I KS Tan	155,769	14,019	2,757,871**	10,000	2,937,659
J Sobolewski	91,154	8,204	691,890**	-	791,248
T Stark	111,404	10,026	691,890**	-	813,320
A Sheth	100,917	9,083	691,890**	-	801,890
P Tornatora	100,917	9,083	691,890**	-	801,890
M Tamlin	91,602	8,244	2,029,767**	-	2,129,613
A Meloncelli	17,308	1,558	-	-	18,866
30 June 2009					
M G Fotios	171,126 ^(a)	-	-	-	171,126
I KS Tan	183,419	16,508	200,452	13,526	413,905
J Sobolewski	74,251	6,683	115,810	-	196,744
T Stark	103,976	99,357	279,727	-	483,060
A Sheth	77,629	6,987	115,810	-	200,426
P Tornatora	146,827	13,214	71,860	-	231,901

Non-executive Directors

Name	<u>Short-term benefits</u>	<u>Post-employment benefits</u>	<u>Share-based payment</u>	Total \$
	Cash Salary and Fees \$	Superannuation \$	\$	
31 December 2009				
C L Readhead	191,960 ^(b)	-	689,468**	881,428
R J Wanless	25,000	2,250	689,468**	716,718
30 June 2009				
C L Readhead	161,655 ^(b)	-	132,695	294,350
R J Wanless	51,610 ^(c)	2,250	132,695	186,555
I KS Tan*	5,889	530	-	6,419

*appointed 18 September 2008

** The Board believes the true value of the “g” class options to recipients is \$0.171 each (not \$1.38) being the value at 13 August 2009, the date when the Board approved their issue. AASB 2 *Share Based Payments* requires that the options be valued at the date of the shareholders meeting (14 October 2009). The delay in shareholder approval and the requirements of AASB 2 resulted in the options being valued at \$1.38 per option.

DIRECTORS' REPORT

REMUNERATION REPORT – continued

B Details of remuneration - continued

31 December 2009

- (b) Legal fees of \$154,460 paid or due and payable to Allion Legal (formerly Pullinger Readhead Lucas), a firm in which the director has substantial financial interest, for services provided in the normal course of business and at normal commercial rates.

30 June 2009

- (a) Consulting fees and provision of office facilities of \$171,126 paid or due and payable to Delta Resource Management Pty Ltd, a company in which Mr. Fotios has a substantial financial interest for services provided in the normal course of business and at normal commercial rates.
- (b) Legal fees of \$99,155 paid or due and payable to Pullinger Readhead Lucas, a firm in which the director has substantial financial interest, for services provided in the normal course of business and at normal commercial rates..
- (c) Consulting/supervising fees of \$11,610 paid or due and payable to companies in which the director has a substantial financial interest, for services provided in the normal course of business and at normal commercial rates.

C Service Agreements

Formal written consultancy agreements exist with companies of which directors have a substantial financial interest as detailed below. No performance related bonuses or benefits are provided.

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 \$360,000 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 Committee annually.

Termination

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

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	\$0.60	\$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

- 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.

The unlisted options were granted for no consideration as an incentive bonus. The options carry no dividend or voting rights. When exercised, each option is convertible into one ordinary share. 8,250,000 options were granted to the directors and key management personnel during the year. 500,000 options were exercised during the year. The a, b and c options were cancelled during the period. The above performance conditions were chosen as they were considered, by the Board, to be the most effective way of aligning the goals of the executives and directors with those of the Group. Performance conditions are satisfied when resolved by the Board.

DIRECTORS' REPORT

REMUNERATION REPORT – continued

D Share-based compensation - continued

Name	Number of options granted		Number of options vested*	
	31 December 2009	30 June 2009	31 December 2009	30 June 2009
Directors of Galaxy Resources Limited				
C L Readhead	500,000	1,500,000	500,000	1,500,000
R J Wanless	500,000	1,500,000	500,000	1,500,000
I KS Tan	2,000,000	4,000,000	2,000,000	4,000,000
Other Key Management Personnel				
T Stark	800,000	2,000,000	800,000	2,000,000
J Sobolewski	800,000	2,000,000	800,000	2,000,000
A Sheth	800,000	2,000,000	800,000	2,000,000
P Tornatora	800,000	1,200,000	800,000	1,200,000
M Tamlin	2,050,000	-	2,050,000	-

* All options vested are exercisable aside from e class options.

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	Number of ordinary shares issued on exercise of options	
		31 December 2009	30 June 2009
Directors of Galaxy Resources Limited			
C L Readhead	30 September 2008	-	750,000
R J Wanless	30 September 2008	-	500,000
M G Fotios	30 September 2008	-	750,000
Other Key Management Personnel			
J Sobolewski	4 December 2009	300,000	750,000
M Tamlin	7 December 2009	100,000	-
P Tornatora	7 December 2009	100,000	-

The amounts paid per ordinary share on the exercise of options at the date of exercise were as follows:

Exercise date	Amount paid per share
4 December 2009	\$0.90
7 December 2009	\$0.90

No amounts are unpaid on any shares issued on exercise of options.

E Additional information

Share –based compensation: Options

Name	A Remuneration consisting of options	B Value at grant date \$	C Value at exercise date \$	D Value at lapse date \$	E Total of columns B-D \$
J Sobolewski	-	-	168,000	-	168,000
M Tamlin	-	-	50,000	-	50,000
P Tornatora	-	-	50,000	-	50,000

DIRECTORS' REPORT**SHARE OPTIONS**

Options to take up ordinary shares in the capital of Galaxy Resources Limited granted and still outstanding are as follows:

Unlisted Options - exercisable at 30 cents on or before 06 February 2010	
Outstanding at beginning of year	1,500,000
Outstanding at the date of this report	Nil
Outstanding at the end of the financial period	500,000
Granted during the financial period	Nil
Exercised during the financial period	(1,000,000)

Unlisted Options - exercisable at 30 cents on or before 30 January 2010	
Outstanding at beginning of year	750,000
Outstanding at the date of this report	Nil
Outstanding at the end of the financial period	18,750
Granted during the financial period	Nil
Exercised during the financial period	(731,250)

Unlisted Options - exercisable at 40 cents on or before 06 February 2011	
Outstanding at beginning of year	1,500,000
Outstanding at the date of this report	750,000
Outstanding at the end of the financial period	1,500,000
Granted during the financial period	Nil
Exercised during the financial period	Nil

Unlisted Options - exercisable at 80 cents on or before 24 November 2011	
Outstanding at beginning of year	500,000
Outstanding at the date of this report	Nil
Outstanding at the end of the financial period	Nil
Granted during the financial period	Nil
Exercised during the financial period	Nil
Cancelled during the financial period	(500,000)

Unlisted Options - exercisable at \$1.00 on or before 24 November 2011	
Outstanding at beginning of year	500,000
Outstanding at the date of this report	Nil
Outstanding at the end of the financial period	Nil
Granted during the financial period	Nil
Exercised during the financial period	Nil
Cancelled during the financial period	(500,000)

Unlisted Options - exercisable at \$1.20 on or before 24 November 2011	
Outstanding at beginning of year	500,000
Outstanding at the date of this report	Nil
Outstanding at the end of the financial period	Nil
Granted during the financial period	Nil
Exercised during the financial period	Nil
Cancelled during the financial period	(500,000)

Unlisted Options - exercisable at 45 cents on or before 17 April 2014	
Outstanding at beginning of year	750,000
Outstanding at the date of this report	750,000
Outstanding at the end of the financial period	750,000
Granted during the financial period	Nil
Exercised during the financial period	Nil

Unlisted Options - exercisable at 60 cents on or before 5 years from vesting (a)	
Outstanding at beginning of year	7,100,000
Outstanding at the date of this report	8,350,000
Outstanding at the end of the financial period	8,350,000
Granted during the financial period	1,250,000
Exercised during the financial period	Nil

(a) On completion of the Company securing all necessary debt and equity funding for the development of the Mt Cattlin Project.

DIRECTORS' REPORT**SHARE OPTIONS – continued**

Unlisted Options - exercisable at 60 cents on or before 5 years from vesting (b)

Outstanding at beginning of year	5,350,000
Outstanding at the date of this report	5,350,000
Outstanding at the end of the financial period	5,350,000
Granted during the financial period	Nil
Exercised during the financial period	Nil

(b) 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.

Unlisted Options - exercisable at 35 cents on or before 31 December 2009

Outstanding at beginning of year	4,161,500
Outstanding at the date of this report	Nil
Outstanding at the end of the financial period	Nil
Granted during the financial period	Nil
Exercised during the financial period	(4,159,360)
Expired during the financial period	(2,140)

Unlisted Options - exercisable at 60 cents on or before 5 years from vesting (c)

Outstanding at beginning of year	Nil
Outstanding at the date of this report	3,000,000
Outstanding at the end of the financial period	3,000,000
Granted during the financial period	3,000,000
Exercised during the financial period	Nil
Expired during the financial period	Nil

(c) On completion of the Company securing all necessary debt and equity funding for the development of the Jiangsu Lithium Carbonate Plant.

Unlisted Options - exercisable at 90 cents on or before 5 years from vesting (d)

Outstanding at beginning of year	Nil
Outstanding at the date of this report	2,800,000
Outstanding at the end of the financial period	3,500,000
Granted during the financial period	4,000,000
Exercised during the financial period	(500,000)
Expired during the financial period	Nil

(a) On completion of the Company securing all necessary debt and equity funding for the development of the Jiangsu Lithium Carbonate Plant.

None of the existing options are listed on ASX Limited. No person entitled to exercise any option has or had, by virtue of the option, a right to participate in any share issue of any other body corporate.

Shares issued on the exercise of options

The following ordinary shares of Galaxy Resources Limited were issued during the period ended 31 December 2009 on the exercise of options

Date options granted	Issue price of shares	Number of shares issued
Upon listing	\$0.30	731,250
Upon listing	\$0.30	1,000,000
Various	\$0.35	4,159,360
23 November 2009	\$0.90	500,000

Since the end of the financial year, the following ordinary shares of Galaxy Resources Limited were issued on exercise of options

Date options granted	Issue price of shares	Number of shares issued
Upon listing	\$0.30	18,750
Upon listing	\$0.30	500,000
Upon listing	\$0.40	750,000
23 November 2009	\$0.90	700,000

DIRECTORS' REPORT

INSURANCE OF OFFICERS

During the six month period, 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 State and Federal law, to regulate its mining and exploration activities in Australia. 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 and exploration 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 six months ended 31 December 2009 or at the date of this report.

CHANGE OF FINANCIAL YEAR

The Company applied to the ASIC to change the financial year ended from 30 June to 31 December. In accordance with section 340(1) of the Corporations Act 2001, the Company was granted relief from the ASIC on 23 December 2009.

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 30 and forms part of the directors' report for the six months ended 31 December 2009.

NON-AUDIT SERVICES

There were no non-audit services provided by the Consolidated Entity's auditor.

Signed in accordance with a resolution of the Directors
Dated at Perth this 31st day of March 2010.
On behalf of the Directors



I KS Tan
Managing Director



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

To: the directors of Galaxy Resources Limited

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial period ended 31 December 2009 there have been:

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

KPMG

KPMG

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

T R Hart
Partner

Perth

31 March 2010

STATEMENT OF COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 31 DECEMBER 2009

	Note	Consolidated		Company	
		6 months to 31 December 2009 \$	12 months to 30 June 2009 \$	6 months to 31 December 2009 \$	12 months to 30 June 2009 \$
Revenue from continuing operations					
Revenue from tenements sold		1,175,000	-	1,175,000	-
Net foreign exchange gain/(loss)		(44,683)	-	(12)	-
Other income		25,000	1,275	25,000	1,275
Total revenue from continuing operations		1,155,317	1,275	1,199,988	1,275
Expenses from continuing operations					
Administration, secretarial and accounting fees		(63,971)	(209,186)	(63,971)	(209,186)
Corporate lodgements and registry fees		(138,144)	(56,768)	(138,144)	(56,768)
Consulting fees		(2,034,026)	(170,122)	(737,009)	(170,122)
Depreciation	3	(21,162)	(15,724)	(21,162)	(15,724)
Directors fees		(67,500)	(109,514)	(62,500)	(109,514)
Employee benefits	1(t)	(9,912,449)	(1,513,274)	(9,912,449)	(1,513,274)
Insurance		(17,094)	(1,789)	(17,094)	(1,789)
Legal fees		(174,187)	(99,772)	(171,471)	(99,772)
Office running costs		(340,451)	(364,706)	(340,451)	(364,706)
Public relations and promotions		(237,387)	(132,594)	(237,387)	(132,594)
Travel		(418,040)	(134,637)	(418,040)	(134,637)
Other expenses from ordinary activities		(279,823)	(86,783)	(279,335)	(86,783)
Exploration expenditure written off	4	-	(1,520,875)	-	(1,520,875)
Exploration - General		(32,492)	(14,702)	(32,492)	(14,702)
Costs of tenements sold		(118,644)	-	(118,644)	-
Results from continuing operations		(12,700,053)	(4,429,171)	(11,350,161)	(4,429,171)
Finance income		483,894	78,195	483,884	78,195
Finance costs		(105,833)	83	(631)	83
Net finance income		378,061	78,278	483,253	78,278
(Loss) before income tax		(12,321,992)	(4,350,893)	(10,866,908)	(4,350,893)
Income tax benefit	5	-	592,343	-	592,343
(Loss) for the period		(12,321,992)	(3,758,550)	(10,866,908)	(3,758,550)
Other comprehensive income		-	-	-	-
Total comprehensive income for the period for the period		(12,321,992)	(3,758,550)	(10,866,908)	(3,758,550)
(Loss) per share from continuing operations attributable to the ordinary equity holders of the Company					
Basic and diluted earnings per share (cents per share)	21	(11.91c)	(6.40c)		

The above statement of comprehensive income should be read in conjunction with the accompanying notes.

BALANCE SHEET
AS AT 31 DECEMBER 2009

ASSETS	Note	Consolidated		Company	
		31 December 2009 \$	30 June 2009 \$	31 December 2009 \$	30 June 2009 \$
CURRENT ASSETS					
Cash and cash equivalents	6	83,441,378	3,441,613	62,373,901	3,441,613
Other receivables	7	1,632,946	373,791	1,632,946	373,791
TOTAL CURRENT ASSETS		85,074,324	3,815,404	64,006,847	3,815,404
NON-CURRENT ASSETS					
Property, plant & equipment	3	20,815,172	264,824	20,815,172	264,824
Available for sale investments	8	1,025,000	-	1,025,000	-
Other receivables	7	868,000	-	919,000	-
Exploration & evaluation expenditure	4	1,267,375	8,618,533	1,267,375	8,618,533
TOTAL NON-CURRENT ASSETS		23,975,547	8,883,357	24,026,547	8,883,357
TOTAL ASSETS		109,049,871	12,698,761	88,033,394	12,698,761
LIABILITIES					
CURRENT LIABILITIES					
Trade and other payables	9	6,197,751	1,250,907	6,087,550	1,250,907
Provisions	10	69,024	22,107	69,024	22,107
Interest bearing liabilities	11	22,361,360	-	-	-
TOTAL CURRENT LIABILITIES		28,628,135	1,273,014	6,156,574	1,273,014
TOTAL LIABILITIES		28,628,135	1,273,014	6,156,574	1,273,014
NET ASSETS		80,421,736	11,425,747	81,876,820	11,425,747
EQUITY					
Contributed equity	12	88,834,372	15,637,914	88,834,372	15,637,914
Reserves	13	9,430,119	1,308,596	9,430,119	1,308,596
Accumulated losses	13	(17,842,755)	(5,520,763)	(16,387,671)	(5,520,763)
TOTAL EQUITY		80,421,736	11,425,747	81,876,820	11,425,747

The above balance sheet should be read in conjunction with the accompanying notes.

STATEMENT OF CHANGES IN EQUITY
Attributable to members of Galaxy Resources Limited

Consolidated	Notes	Contributed equity \$'000	Reserves \$'000	Accumulated Losses \$'000	Total Equity \$'000
Balance at 1 July 2008		8,218,905	349,458	(1,762,213)	6,806,150
Total comprehensive income attributable to the owners of the Company	13b	-	-	(3,758,550)	(3,758,550)
Contributions of equity, net of transaction costs		7,419,009	-	-	7,419,009
Share based payments	13a	-	959,138	-	959,138
Balance at 30 June 2009		15,637,914	1,308,596	(5,520,763)	11,425,747
Balance at 1 July 2009		15,637,914	1,308,596	(5,520,763)	11,425,747
Total comprehensive income attributable to the owners of the Company	13b	-	-	(12,321,992)	(12,321,992)
Contributions of equity, net of transaction costs		69,958,698	-	-	69,958,698
Exercise of options	12	2,425,151	-	-	2,425,151
Transfer of reserve upon exercise of options	13	812,609	(812,609)	-	-
Share based payments	13a	-	8,934,132	-	8,934,132
Balance at 31 December 2009		88,834,372	9,430,119	(17,842,755)	80,421,736
Company					
Balance at 1 July 2008		8,218,905	349,458	(1,762,213)	6,806,150
Total comprehensive income attributable to the owners of the Company	13b	-	-	(3,758,550)	(3,758,550)
Contributions of equity, net of transaction costs		7,419,009	-	-	7,419,009
Share based payments	13a	-	959,138	-	959,138
Balance at 30 June 2009		15,637,914	1,308,596	(5,520,763)	11,425,747
Balance at 1 July 2009		15,637,914	1,308,596	(5,520,763)	11,425,747
Total comprehensive income attributable to the owners of the Company	13b	-	-	(10,866,908)	(10,866,908)
Contributions of equity, net of transaction costs		69,958,698	-	-	69,958,698
Exercise of options	12	2,425,151	-	-	2,425,151
Transfer of reserve upon exercise of options	13	812,609	(812,609)	-	-
Share based payments	13a	-	8,934,132	-	8,934,132
Balance at 31 December 2009		88,834,372	9,430,119	(16,387,671)	81,876,820

The above statement of changes in equity should be read in conjunction with the accompanying notes.

CASH FLOW STATEMENT
FOR THE SIX MONTHS ENDED 31 DECEMBER 2009

	Note	Consolidated		Company	
		6 months to 31 December 2009 \$	12 months to 30 June 2009 \$	6 months to 31 December 2009 \$	12 months to 30 June 2009 \$
Cash flows from operating activities					
Receipts from customers and debtors		-	592,343	-	592,343
Payments to suppliers and contractors		(4,527,591)	(1,735,756)	(3,227,371)	(1,735,756)
Net cash (outflow) from operating activities	14	(4,527,591)	(1,143,413)	(3,227,371)	(1,143,413)
Cash flows from investing activities					
Interest received		258,361	70,033	258,351	70,033
Purchase of property, plant and equipment		(7,249,071)	(199,273)	(7,249,071)	(199,273)
Proceeds from sale of tenements		175,000	-	175,000	-
Payments for exploration expenditure		(2,089,689)	(4,879,158)	(2,089,689)	(4,879,158)
Outflow for security deposits/performance bonds		(868,700)	(77,380)	(868,700)	(77,380)
Net cash (outflow) from investing activities		(9,774,099)	(5,085,778)	(9,774,109)	(5,085,778)
Cash flows from financing activities					
Net proceeds from issue of shares		71,915,411	7,741,082	71,915,411	7,741,082
Interest paid		(631)	-	(631)	-
Proceeds from borrowings		21,880,251	-	70,000	-
Loans to subsidiaries		-	-	(51,000)	-
Net cash inflow from financing activities		93,795,031	7,741,082	71,933,780	7,741,082
Net increase in cash and cash equivalents		79,493,341	1,511,891	58,932,300	1,511,891
Cash and cash equivalents at the beginning of the financial year		3,441,613	1,929,722	3,441,613	1,929,722
Effect of exchange rate fluctuations on cash held		506,424	-	(12)	-
Cash and cash equivalents at the end of the financial year	6	83,441,378	3,441,613	62,373,901	3,441,613

The above cash flow statement should be read in conjunction with the accompanying notes.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 31 DECEMBER 2009

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

Galaxy Resources Limited (the “Company”) is a company domiciled in Australia. The consolidated financial report of the Company for the financial period comprises the Company and its subsidiaries (together referred to as the “Group”). The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

a. Basis of preparation

This general purpose financial report has been prepared in accordance with Australian Accounting Standards including Australian interpretations, other authoritative pronouncements of the Australian Accounting Standards Board, and the Corporations Act 2001. The consolidated financial report of the Group and the financial report of the Company comply with International Financial Reporting Standards and interpretations adopted by the International Accounting Standards Board. The Company has changed its year end to 31 December to synchronise with its future Chinese operations. Full year comparatives to 30 June 2009 have been presented with 6 month period ended 31 December 2009 financial statements.

Basis of measurement

These financial statements have been prepared under the historical cost convention except for available for sale investments, and share-based payment arrangements which are measured at fair value.

b. Functional and Presentation Currency

These consolidated financial statements are presented in Australian dollars, which is the Company’s functional currency. Galaxy Lithium International Ltd’s functional currency is Hong Kong dollars.

c. Use of estimates and judgements

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

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision effects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

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 financial statements are described in the following notes:

- Note 1(g) Income taxes
- Note 4 Exploration & evaluation expenditure
- Note 23 Measurement of share based payments

d. Principles of consolidation

Subsidiaries

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. 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.

Investments in subsidiaries are carried at their cost of acquisition in the Company’s financial statements.

Transactions eliminated on consolidation

Intra-group balances and any unrealised gains and losses or income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

Interests in joint venture operations

The Group’s interest in its joint venture operations are accounted for by recognising the Group’s share of assets and liabilities from the joint venture, as well as expenses incurred by the Group and the Group’s share of income earned from the joint venture, in the consolidated financial statements.

e. Segment reporting

As of 1 July 2009 the Group determines and presents operating segments based on the information that internally is provided to the Managing Director, who is the Group’s chief operating decision maker. The change in accounting policy is due to the adoption of IFRS 8 *Operating Segments*. Previously, operating segments were determined and presented in accordance with AASB 114 *Segment Reporting*. The new accounting policy in respect of segment operating disclosures is presented as follows.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 31 DECEMBER 2009

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

e. Segment reporting - continued

Comparative segment information has been re-presented in conformity with the transitional requirements of such standard. Since the change in accounting policy only impacts presentation and disclosure aspects, there is no impact on earnings per share.

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 regularly reviewed by the Group's Board of Directors to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Segment results that are reported to the Board of Directors 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.

f. Revenue recognition

Interest income is recognised on a time proportionate basis using the effective interest method.

g. Taxes

Income tax

Income tax expense comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

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

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. The following temporary differences are not provided for: initial recognition of goodwill, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable 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. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend.

Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of goods and services tax (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 sheet.

Cash flows are included in the statement of cash flows 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 subsidiary, Galaxy Lithium Australia Limited were consolidated for tax purposes on 1 July 2008.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 31 DECEMBER 2009

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

h. Exploration expenditure

Expenditure on acquisition, exploration, and evaluation relating to an area of interest is carried forward where rights to tenure of the area of interest are current and:

- i) the area has proven commercially recoverable reserves; or
- ii) exploration and evaluation activities are continuing in an area of interest but have not yet reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves.

At the end of each financial year the Directors assess the carrying value of the exploration expenditure carried forward in respect of each area of interest and where the carried forward carrying value is considered to be in excess of (i) above, the value of the area of interest is written down or provided against.

Capitalised exploration expenditure is considered for impairment based upon areas of interest on an annual basis, depending on the existence of impairment indicators including:

- the period for which the Company has the right to explore in the specific area has expired during the 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 is neither budgeted or 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 Company has decided to discontinue such activities in the specific area; and
- 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 asset is unlikely to be recovered in full from successful development or by sale.

Costs carried forward in respect of an area of interest that is abandoned are written off in the year in which the decision to abandon is made.

i. Mineral tenements

The Group's activities in the mining industry are subject to regulations and approvals including mining heritage, environmental regulation, the implications of the High Court of Australia decision in what is known generally as the "Mabo" case and any State or Federal legislation regarding native and mining titles. Approvals, although granted in most cases, are discretionary. The question of native title has yet to be determined and could affect any mining title area whether granted by the State or not.

j. Cash and cash equivalents

For cash flow statement presentation purposes, cash and cash equivalents includes cash on hand, deposits held at call 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.

k. Trade and other receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. Trade receivables are due for settlement no more than 30 days from the date of recognition. Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. A provision for impairment is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is recognised in the income statement.

l. 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. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

Where 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. When re-valued assets are sold, the amounts included in the revaluation reserve are transferred to retained earnings.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 31 DECEMBER 2009

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

l. Property, plant and equipment - continued

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 consolidated entity and the cost of the item can be measured reliably. All other costs are recognised in the income statement as an expense as incurred.

Mine properties and development

When proved reserves are determined and development sanctioned, capitalised exploration and evaluation expenditure is reclassified as mine properties and development, and is disclosed as a component of property, plant and equipment. All subsequent expenditure is capitalised and classified as mine properties and development. Development expenditure is net of proceeds from the sale of ore extracted during the development phase.

Depreciation

Depreciation is recognised in profit or loss over the estimated useful life of each part or item of property, plant and equipment. Mine assets are 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.

- Land Not depreciated
- Plant and equipment 3 – 16 years
- Mine properties and development units of production

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 income statement in the period the item is derecognised.

m. Trade and other payables

These amounts represent liabilities for goods and services provided to the Company prior to the end of the financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

n. Employee benefits

Share-based payment transactions

The Group provides benefits to employees (including directors) of the Group in the form of share options. The fair value of options granted is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using a Black & Scholes option valuation model, taking into account the terms and conditions upon which the options were granted.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period the relevant employees become fully entitled to the award (“vesting period”). The amount recognised as an expense is adjusted to reflect the actual number that vest.

The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of earnings per share.

Defined contribution superannuation funds

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 superannuation funds are recognised as a personnel expense in the income statement as incurred. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

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 consolidated entity 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 based on the net marginal cost to the consolidated entity as the benefits are taken by the employees.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 31 DECEMBER 2009

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

o. Impairment of assets

Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

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 original effective interest rate.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in profit or loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost the reversal is recognised in profit or loss.

Non-financial assets

The carrying amounts of the Group's non-financial assets, other than deferred tax assets and exploration and evaluation, 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. For intangible assets that have indefinite lives or that are not yet available for use, recoverable amount is estimated at each reporting date.

The recoverable amount of an asset or cash-generating unit 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. For the purposes of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows of other assets or groups of assets (the "cash generating unit"). The goodwill acquired in a business combination for the purpose of impairment testing, is allocated to cash-generating units that are expected to benefit from the synergies of the combination.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a *pro rata* basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, 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.

p. 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.

Site restoration

The Company 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 restoration 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.

The amount of the provision for future restoration costs is capitalised and is depreciated. The unwinding of the effect of discounting on the provision is recognised as a finance cost.

q. Contributed equity

Ordinary shares are classified as equity.

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 31 DECEMBER 2009

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

r. 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 as a separate component of equity. When an investment is derecognised, the cumulative gain or loss in equity is transferred to profit or loss.

s. Earnings per share

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

t. Determination of fair values

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and / or disclosure purposes based on the following methods. Where applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

Share-based payment transactions

The fair value of employee share options is measured using a Black & Scholes option valuation model. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information), weighted average expected life of the instruments (based on historical experience and general option holder behaviour), expected dividends, and the risk-free interest rate (based on government bonds). Service and non-market performance conditions attached to the transactions are not taken into account in determining fair value.

The Board believes the true value of the "g" class options to recipients is \$0.171 each (not \$1.38) being the value at 13 August 2009, the date when the Board approved their issue. AASB 2 *Share Based Payments* requires that the options be valued at the date of the shareholders meeting (14 October 2009). The delay in shareholder approval and the requirements of AASB 2 resulted in the options being valued at \$1.38 per option.

u. New Standards and Interpretations Not Yet Adopted

The following standards, amendments to standards and interpretations have been identified as those which may impact the Group in the period of initial application. They are available for early adoption at 31 December 2009, but have not been applied preparing this financial report:

- AASB 2009-5 *Further amendments to Australian Accounting Standards arising from the Annual Improvements Process* affect various AASBs resulting in minor changes for presentation, disclosure, recognition and measurement purposes. The effect of these amendments, which became mandatory for Group's 31 December 2010 financial statements have not yet been determined by the Group.
- AASB 2009-8 *Amendments to Australian Accounting Standards – Group Cash-settled Share Based Payment Transactions* resolves diversity in practice regarding the attribution of cash-settled share-based payments between different entities within a group. As a result of the amendments AI 8 *Scope of AASB 2* and AI 11 *AASB 2 – Group and Treasury Share Transactions* will be withdrawn from the application date. The effect of these amendments, which became mandatory for Group's 31 December 2010 financial statements have not yet been determined by the Group.

v. 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 Australian dollars at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. 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 Australian dollars at foreign exchange rates ruling at the dates the fair value was determined.

w. Presentation of financial statements

The Group applies revised AASB 101 *Presentation of Financial Statements (2007)*, which became effective as of 1 January 2009. As a result, the Group presents in the consolidated statement of changes in equity all owner changes in equity, whereas all non-owner changes in equity are presented in the consolidated statement of comprehensive income.

Comparative information has been re-presented so that it also is in conformity with the revised standard. Since the change in accounting policy only impacts presentation aspects, there is no impact on earnings per share.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 31 DECEMBER 2009

1. **STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

x. Change in accounting policy

The Group has applied AASB 2008-1 Amendments to Australian Accounting Standards arising from AASB 2 share based payments for the first time from 1 July 2009. Revised AASB 2 specifies more prescriptive treatment for the accounting of share-based payments with non-vesting conditions.

Previously, the Group has expensed the relevant share-based payments over the estimated period to achieving the non vesting condition.

The change in accounting policy was applied retrospectively to share based payments and in accordance with the transitional provisions the comparatives have been restated where applicable.

The change in accounting policy had the following impact on the consolidated and Company financial statements:

	31 December 2009	30 June 2009
	\$	\$
Income Statement for the period		
Increase in share based payments	70,946	1,045,072
Balance sheet		
Increase in equity settled payments reserve	70,946	1,045,072
Remuneration report		
Increase in share based payments to key management personnel and total remuneration	70,946	1,032,878

The change in accounting policy has had an impact of 0.07 cents per share (30 June 2009: (1.78) cents per share) on basic and dilutive EPS.

Consolidated		Company	
31 December	30 June	31 December	30 June
2009	2009	2009	2009
\$	\$	\$	\$

2. **AUDITORS' REMUNERATION**

During the year the following fees were paid or payable for services provided by the auditor:

(a) Audit services

Audit and review of financial reports under the Corporations Act 2001

Total remuneration of auditors

30,000	32,000	30,000	32,000
30,000	32,000	30,000	32,000

The current auditor is KPMG. The previous auditor was Rothsay Chartered Accountants.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 31 DECEMBER 2009

	Consolidated		Company	
	31 December 2009	30 June 2009	31 December 2009	30 June 2009
	\$	\$	\$	\$
3. PROPERTY, PLANT & EQUIPMENT				
(Non-Current)				
Land - at cost	932,000	175,000	932,000	175,000
	932,000	175,000	932,000	175,000
Plant and equipment - at cost	207,441	107,827	207,441	107,827
Less: Accumulated depreciation	(39,165)	(18,003)	(39,165)	(18,003)
	168,276	89,824	168,276	89,824
Assets under construction - at cost	7,304,818	-	7,304,818	-
	7,304,818	-	7,304,818	-
Mine development - at cost	12,410,078	-	12,410,078	-
	12,410,078	-	12,410,078	-
Closing balance	20,815,172	264,824	20,815,172	264,824
Reconciliations				
<u>Land</u>				
Balance at beginning of period	175,000	75,000	175,000	75,000
Additions	757,000	100,000	757,000	100,000
Balance at end of period	932,000	175,000	932,000	175,000
<u>Plant and equipment</u>				
Balance at beginning of period	89,824	6,274	89,824	6,274
Additions	99,614	99,274	99,614	99,274
Depreciation	(21,162)	(15,724)	(21,162)	(15,724)
Balance at end of period	168,276	89,824	168,276	89,824
<u>Assets under construction</u>				
Balance at beginning of period	-	-	-	-
Additions	7,304,818	-	7,304,818	-
Balance at end of period	7,304,818	-	7,304,818	-
<u>Mine development</u>				
Balance at beginning of period	-	-	-	-
Transfer from exploration and evaluation expenditure	8,809,451	-	8,809,451	-
Additions	3,600,627	-	3,600,627	-
Balance at end of period	12,410,078	-	12,410,078	-
4. EXPLORATION AND EVALUATION EXPENDITURE				
(Non-Current)				
Exploration & Evaluation expenditure costs brought forward in respect of areas of interest				
Balance 1 July	8,618,533	5,260,250	8,618,533	5,260,250
Expenditure during year comprising				
Acquisitions	329,821	-	329,821	-
Exploration	1,247,116	4,879,158	1,247,116	4,879,158
Less: Expenditure written off	-	(1,520,875)	-	(1,520,875)
Less: Cost of tenements sold	(118,644)	-	(118,644)	-
Less: Transfer exploration to mine development	(8,809,451)	-	(8,809,451)	-
Balance period end	1,267,375	8,618,533	1,267,375	8,618,533

Exploration & evaluation expenditure is recorded at historical cost on an area of interest basis. Recovery of these costs is dependent upon the commercial success of future exploration and development or realisation by disposal of the interests therein.

There may exist, on the Company's exploration properties, areas subject to National Parks or claim under native title or 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.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 31 DECEMBER 2009

	Consolidated		Company	
	31 December 2009	30 June 2009	31 December 2009	30 June 2009
	\$	\$	\$	\$
5. INCOME TAXES				
(a) Income Tax Expense				
Current tax	-	(592,343)	-	(592,343)
Deferred tax	-	-	-	-
(b) Numerical reconciliation of income tax expense to prima facie tax payable				
Loss from continuing operations before income tax expense	(12,321,992)	(3,758,550)	(10,866,908)	(3,758,550)
Prima facie tax benefit at 30%	(3,696,598)	(1,127,565)	(3,260,072)	(1,127,565)
Add:				
Non-deductible expenses	3,331,610	77,956	3,331,610	77,956
Current year losses for which no deferred tax asset was recognised	-	(931,107)	-	(931,107)
Tax loss not brought to account as a deferred tax asset	596,510	1,388,373	173,385	1,388,373
Adjustments in respect of previous deferred income tax	(231,522)	-	(244,923)	-
Tax benefit	-	592,343	-	592,343

(c) Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	31 December 2009	30 June 2009	31 December 2009	30 June 2009	31 December 2009	30 June 2009
	\$	\$	\$	\$	\$	\$
Consolidated						
Other Current Assets	-	-	70,108	2,449	70,108	2,449
Property, plant & equipment	-	-	2,642,835	-	2,642,835	-
Other Assets (Exploration and evaluation expenditure)	-	-	380,213	3,064,585	380,213	3,064,585
Available for sale investments	-	-	7,500	-	7,500	-
Trade Payables	(9,000)	(10,653)	-	-	(9,000)	(10,653)
Employee Entitlements	(20,707)	(6,632)	-	-	(20,707)	(6,632)
Tax Losses	(3,070,949)	(3,049,749)	-	-	(3,070,949)	(3,049,749)
Tax (assets) liabilities	(3,100,656)	(3,067,034)	3,100,656	3,067,034	-	-
Set off of tax	3,100,656	3,067,034	(3,100,656)	(3,067,034)	-	-
Net tax (assets) liabilities	-	-	-	-	-	-

Movement in temporary differences during the year	Balance 1 July 2009	Recognised in Income	Recognised in Equity	Transfers Out (In)	Balance 31 December 2009
Other Current Assets	2,449	67,659	-	-	70,108
Property, plant & equipment	-	-	-	2,642,835	2,642,835
Other Assets (Exploration and evaluation expenditure)	3,064,585	(41,537)	-	(2,642,835)	380,213
Available for sale investments	-	7,500	-	-	7,500
Trade Payables	(10,653)	1,653	-	-	(9,000)
Employee Entitlements	(6,632)	(14,075)	-	-	(20,707)
Tax Losses	(3,049,749)	(21,200)	-	-	(3,070,949)
	-	-	-	-	-

NOTES TO THE FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 31 DECEMBER 2009

5. **INCOME TAXES - continued**

	Assets		Liabilities		Net	
	31 December 2009	30 June 2009	31 December 2009	30 June 2009	31 December 2009	30 June 2009
	\$	\$	\$	\$	\$	\$
Company						
Other Current Assets	-	-	70,108	2,449	70,108	2,449
Property, plant & equipment	-	-	2,642,835	-	2,642,835	-
Other Assets (Exploration and evaluation expenditure)	-	-	380,213	3,064,585	380,213	3,064,585
Available for sale investments	-	-	7,500	-	7,500	-
Trade Payables	(9,000)	(10,653)	-	-	(9,000)	(10,653)
Employee Entitlements	(20,707)	(6,632)	-	-	(20,707)	(6,632)
Tax Losses	(3,070,949)	(3,049,749)	-	-	(3,070,949)	(3,049,749)
Tax (assets) liabilities	(3,100,656)	(3,067,034)	3,100,656	3,067,034	-	-
Set off of tax	3,100,656	3,067,034	(3,100,656)	(3,067,034)	-	-
Net tax (assets) liabilities	-	-	-	-	-	-

Movement in temporary differences during the year	Balance 1 July 2009	Recognised in Income	Recognised in Equity	Transfers Out (In)	Balance 31 December 2009
Other Current Assets	2,449	67,659	-	-	70,108
Property, plant & equipment	-	-	-	2,642,835	2,642,835
Other Assets (Exploration and evaluation expenditure)	3,064,585	(41,537)	-	(2,642,835)	380,213
Available for sale investments	-	7,500	-	-	7,500
Trade Payables	(10,653)	1,653	-	-	(9,000)
Employee Entitlements	(6,632)	(14,075)	-	-	(20,707)
Tax Losses	(3,049,749)	(21,200)	-	-	(3,070,949)
	-	-	-	-	-

(d) Unrecognised deferred tax assets	Consolidated		Company	
	31 December 2009	30 June 2009	31 December 2009	30 June 2009
Deferred tax assets have not been recognised in respect of the following items	\$	\$	\$	\$
Capital Raising Costs	923,107	183,875	923,107	183,875
Tax Losses	1,165,855	191,250	742,731	191,250
	2,088,962	375,125	1,665,838	375,125

The tax losses do not expire under current legislation. Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profit will be available against which the Company can utilise the benefits.

Tax consolidation

The company and its 100% owned controlled entities have formed a tax consolidated group. Members of the Consolidated Entity have entered into a tax sharing arrangement in order to allocate income tax expense to the wholly owned controlled entities on a pro-rate basis. The agreement provides for the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. At balance date, the possibility of default is remote. The head entity of the tax consolidated group is Galaxy Resources Limited.

Tax Effect accounting by members of the tax consolidated group

Members of the tax consolidated group have entered into a tax funding agreement. The tax funding agreement provides for the allocation of current taxes to members of the tax consolidated group. Deferred taxes are allocated to members of the tax consolidated group in accordance with a group allocation approach which is consistent with the principles of AASB 112 Income Taxes. The allocation of taxes under the tax funding agreement is recognised as an increase/decrease in the controlled entities intercompany accounts with the tax consolidated group head company, Galaxy Resources Limited.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 31 DECEMBER 2009

	Consolidated		Company	
	31 December 2009	30 June 2009	31 December 2009	30 June 2009
6. CASH AND CASH EQUIVALENTS				
(Current)				
Cash at Bank and on hand	\$ 21,999,838	\$ 216,223	\$ 932,361	\$ 216,223
Cash on Deposit (at call) (c)	61,441,540	3,225,390	61,441,540	3,225,390
	83,441,378	3,441,613	62,373,901	3,441,613
(a)	Cash at bank bears interest between nil and 0.01% per annum (2009: 0.01%)			
(b)	Cash on deposit bears interest between nil and 4.82% per annum. (2009: 2.75% per annum)			
(c)	\$25m of the current period balance is secured against the borrowings in Note 11.			
7. TRADE AND OTHER RECEIVABLES				
(Current)				
Other receivables (a)	1,529,899	270,882	1,529,899	270,882
Prepayments	24,967	25,529	24,967	25,529
Security bonds	78,080	77,380	78,080	77,380
	1,632,946	373,791	1,632,946	373,791
(Non-Current)				
Amounts receivable from controlled entities	-	-	51,000	-
Security bonds	868,000	-	868,000	-
	868,000	-	919,000	-
(a)	Includes \$1.19m GST receivable in the current period.			
8. AVAILABLE FOR SALE INVESTMENTS				
(Non-Current)				
Investments in listed entities (a)	1,025,000	-	1,025,000	-
	1,025,000	-	1,025,000	-
(a)	The investment relates to 5,000,000 shares held in General Mining Corporation Limited which is listed on the ASX.			
9. TRADE AND OTHER PAYABLES				
(Current)				
Trade, other payables and accruals (a)	6,197,751	1,040,907	6,087,550	1,040,907
Loans from Directors	-	210,000	-	210,000
	6,197,751	1,250,907	6,087,550	1,250,907
(a)	Trade payables are unsecured and payable on supplier credit terms, usually payable within 30 days of recognition. The Company has financial risk management policies in place to ensure that all payables are paid within the credit timeframe.			
10. PROVISIONS				
(Current)				
Provision for annual leave	69,024	22,107	69,024	22,107
	69,024	22,107	69,024	22,107
11. INTEREST BEARING LIABILITIES				
(Current)				
Bank Loan (a)	22,361,360	-	-	-
	22,361,360	-	-	-

a) US\$20m has been drawn down from RZB as a bridging facility. The loan has been extended to 30 April 2010 and carries an interest rate of 4.77%. This is secured over the Company's cash assets via a performance guarantee. The Company is progressing documentation of a \$130m loan facility with RZB and China Development Bank which will include conditions precedent to drawdown.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 31 DECEMBER 2009

12. CONTRIBUTED EQUITY	31 December 2009		30 June 2009	
	Number	\$	Number	\$
a) Share Capital				
Ordinary shares - Fully paid	149,934,608	88,834,372	76,125,816	15,637,914
Movement in ordinary share capital				
At 1 July	76,125,816	15,637,914	51,412,297	8,218,905
Placements	67,418,182	74,640,000	21,130,019	7,067,507
Exercise of options	6,390,610	2,425,151	3,583,500	725,475
Transfer from share based payments reserve on exercise of options	-	812,609	-	76,365
Cost of issue	-	(4,681,302)	-	(450,338)
At period end	149,934,608	88,834,372	76,125,816	15,637,914

30 June 2009

On 7 October 2008, the Company issued 3,525,000 shares at 20 cents each on exercise of options.
On 31 December 2008, the Company issued 3,360,000 shares at 35 cents each as placement.
On 7 January 2009, the Company issued 110,000 shares at 35 cents each as placement.
On 21 January 2009, the Company issued 14,000 shares at 35 cents each on exercise of options.
On 16 February 2009, the Company issued 650,000 shares at 35 cents each as placement.
On 25 February 2009, the Company issued 950,019 shares at 35 cents each under a share purchase plan.
On 3 April 2009, the Company issued 5,078,333 shares at 30 cents each as placement.
On 9 April 2009, the Company issued 1,481,667 shares at 30 cents each as placement.
On 17 April 2009, the Company issued 100,000 shares at 35 cents each as conversion of loan from a director.
On 27 May 2009, the Company issued 9,400,000 shares at 35 cents each as placement.
On 29 May 2009, the Company issued 36,000 shares at 35 cents each on exercise of options.
On 17 June 2009, the Company issued 8,500 shares at 35 cents each on exercise of options.

31 December 2009

On 3 August 2009, the Company issued 120,000 shares at 35 cents each on exercise of options.
On 27 August 2009, the Company issued 420,000 shares at 35 cents each on exercise of options.
On 8 September 2009, the Company issued 9,600,000 shares at 35 cents each as a placement.
On 23 September 2009, the Company issued 209,000 shares at 35 cents each on exercise of options.
On 23 September 2009, the Company issued 1,000,000 shares at 30 cents each on exercise of options.
On 21 October 2009, the Company issued 51,000,000 shares at \$1.28 each as a placement.
On 19 November 2009, the Company issued 1,315,000 shares at 35 cents each on exercise of options.
On 19 November 2009, the Company issued 731,250 shares at 30 cents each on exercise of options.
On 4 December 2009, the Company issued 300,000 shares at 90 cents each on exercise of options.
On 7 December 2009, the Company issued 200,000 shares at 90 cents each on exercise of options.
On 16 December 2009, the Company issued 6,818,182 shares at 88 cents each as a placement.
On 31 December 2009, the Company issued 2,095,360 shares at 35 cents each on exercise of options.

Terms and conditions of ordinary shares:

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 other shareholders and creditors and are fully entitled to any proceeds of liquidation.

13. RESERVES AND ACCUMULATED LOSSES

	Consolidated		Company	
	31 December 2009	30 June 2009	31 December 2009	30 June 2009
	\$	\$	\$	\$
(a) RESERVES				
Equity-settled payments reserve	9,430,119	1,308,596	9,430,119	1,308,596
Movement:				
Balance 1 July	1,308,596	349,458	1,308,596	349,458
Equity-settled payments	8,934,132	959,138	8,934,132	959,138
Transfer upon exercise of options	(812,609)	-	(812,609)	-
Balance at period end	9,430,119	1,308,596	9,430,119	1,308,596
(b) ACCUMULATED LOSSES				
Balance 1 July	(5,520,763)	(1,762,213)	(5,520,763)	(1,762,213)
Loss for the year after related income tax expense	(12,321,992)	(3,758,550)	(10,866,908)	(3,758,550)
Balance at period end	(17,842,755)	(5,520,763)	(16,387,671)	(5,520,763)

The equity settled share based payments reserve comprises the value of options granted in the period calculated at grant date using a Black-Scholes model. For options with a future vesting period the option value is brought to account progressively over the term of the vesting period.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 31 DECEMBER 2009

14. RECONCILIATION OF LOSS AFTER INCOME TAX TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	Consolidated		Company	
	31 December 2009 \$	30 June 2009 \$	31 December 2009 \$	30 June 2009 \$
Profit (loss) for the year	(12,321,992)	(3,758,550)	(10,866,908)	(3,758,550)
<u>Add (less) non-cash items in operating loss:</u>				
Exploration costs written off	-	1,520,875	-	1,520,875
Depreciation	21,162	15,724	21,162	15,724
Interest income	(483,894)	(78,195)	(483,884)	(78,195)
Provision for employee entitlements	46,917	22,107	46,917	22,107
Profit on sale of tenements	(1,056,356)	-	(1,056,356)	-
Share based payments	8,934,132	1,035,503	8,934,132	1,035,503
Change in fair value of investments	(25,000)	-	(25,000)	-
Interest Expense	631	-	631	-
Unrealised foreign exchange loss	44,683	-	12	-
	7,482,275	2,516,014	7,437,614	2,516,014
<u>Movements in operating assets and liabilities:</u>				
(Increase)/decrease in receivables	(398,599)	(146,569)	(398,599)	(146,569)
Increase/(decrease) in payables	710,725	245,692	600,522	245,692
	312,126	99,123	201,923	99,123
Net cash provided (used) in operating activities	(4,527,591)	(1,143,413)	(3,227,371)	(1,143,413)

15. COMMITMENTS

Mining Tenement Leases

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

	Consolidated		Company	
	31 December 2009 \$	30 June 2009 \$	31 December 2009 \$	30 June 2009 \$
Within one year	523,780	514,480	523,780	514,480
	523,780	514,480	523,780	514,480

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

Operating Lease Commitments

	Consolidated		Company	
	31 December 2009 \$	30 June 2009 \$	31 December 2009 \$	30 June 2009 \$
Within one year	99,132	244,919	99,132	244,919
Later than one year but less than five years	29,407	-	29,407	-
	128,539	244,919	128,539	244,919

Construction Contract Commitments

Within one year	29,540,203	-	29,540,203	-
Later than one year but less than five years	-	-	-	-
Later than five years	-	-	-	-
	29,540,203	-	29,540,203	-

NOTES TO THE FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 31 DECEMBER 2009

16. 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 director*

Ignatius Tan

(iii) *Non-executive directors*

Robert Wanless

b) Other key management personnel

John Sobolewski (CFO)

Terry Stark (GM Operations)

Anand Sheth (GM Marketing & Business Development)

Phil Tornatora (Exploration & Geology Manager)

Michael Tamlin (GM China)

Andrew Meloncelli (Company Secretary)

c) Transactions with key management personnel

(a) Legal fees of \$154,460 paid or due and payable to Allion Legal, a firm in which Mr Readhead has substantial financial interest, for services provided in the normal course of business and at normal commercial rates.

d) Outstanding balances

The following balances are outstanding at the reporting date in relation to transactions with related parties:

i) Current payables

a) Allion Legal \$33,975

e) 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	500,000
R J Wanless	1,432,740	707,753	-	1,250,000
I KS Tan	-	1,200	-	6,000,000

31 December 2009

Name	Balance at the start of the financial period	Changes during the period	Received during the period on exercise of options	Balance as the end of the financial 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
Key Management Personnel				
J Sobolewski	-	(202,000)	300,000	98,000
T Stark	250,286	100,000	-	350,286
A Sheth	40,000	-	-	40,000
P Tornatora	90,000	60,000	100,000	250,000
M Tamlin	-	-	100,000	100,000
A 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 KS Tan	4,000,000	2,000,000	-	6,000,000
Key Management Personnel				
J Sobolewski	2,000,000	800,000	(300,000)	2,500,000
T Stark	2,000,000	800,000	-	2,800,000
A Sheth	2,000,000	800,000	-	2,800,000
P Tornatora	1,200,000	800,000	(100,000)	1,900,000
M Tamlin	-	2,050,000	(100,000)	1,950,000
A Meloncelli	-	-	-	-
Total options	14,300,000	6,750,000	(600,000)	20,450,000

NOTES TO THE FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 31 DECEMBER 2009

16. **KEY MANAGEMENT PERSONNEL DISCLOSURE - continued**

e) **Equity instrument disclosures relating to key management personnel - continued**

30 June 2009

Name	Balance at the start of the financial year	Changes during the year	Received during the year on exercise of options	Balance as the end of the financial year
(1) Shares				
Directors of Galaxy Resources Limited				
C L Readhead	2,055,556	100,000	750,000	2,905,556
M G Fotios	1,463,500	-	750,000	2,213,500
R J Wanless	1,840,492	(199,999)	500,000	2,140,493
I K S Tan	-	1,200	-	1,200
Key Management Personnel				
J Sobolewski	-	-	-	-
T Stark	50,000	200,286	-	250,286
A Sheth	-	40,000	-	40,000
P Tornatora	-	90,000	-	90,000
L A Colless, K E Brown	1,355,555	14,286	-	1,369,841
Total shares	6,765,103	245,773	2,000,000	9,010,876
(2) Options				
Directors				
C L Readhead	750,000	1,600,000	(750,000)	1,600,000
M G Fotios	3,750,000	-	(750,000)	3,000,000
R J Wanless	500,000	1,500,000	(500,000)	1,500,000
I K S Tan	-	4,000,000	-	4,000,000
Key Management Personnel				
J Sobolewski	-	2,000,000	-	2,000,000
T Stark	-	2,000,000	-	2,000,000
A Sheth	-	2,000,000	-	2,000,000
P Tornatora	-	1,200,000	-	1,200,000
L A Colless, K E Brown	-	-	-	-
Total options	5,000,000	14,300,000	(2,000,000)	17,300,000

f) **Key management personnel compensation**

	31 December 2009	30 June 2009
	\$	\$
Short term employee benefits	896,031	989,908
Post – employment benefits	62,467	145,529
Long-term benefits	-	-
Termination benefits	-	-
Share-based payments	8,934,134	1,049,049
	9,892,632	2,184,486

The Company has taken advantage of the relief provided by Corporations Regulation 2M.6.04 and has transferred the detailed remuneration disclosures to the Directors' Report. The relevant information can be found in sections A-C of the remuneration report within the Directors' Report.

g) **Related party transactions**

Other than, the transactions disclosed above there are no other transactions between related parties that require disclosure.

17. **RELATED PARTY TRANSACTIONS**

Directors' transactions with the Company (details of directors' remuneration are set out in Director's report)

		31 December 2009	30 June 2009
		\$	\$
Type of transaction	Related party-directors	Terms and conditions	
Legal Consulting	C L Readhead	Normal commercial	99,155
Consulting fees	M G Fotios	Normal commercial	171,126
Consulting/Supervision fees	R J Wanless	Normal commercial	11,610
			154,460

NOTES TO THE FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 31 DECEMBER 2009

18. **CONTINGENT LIABILITIES AND ASSETS**

No contingent liabilities or assets have arisen during the financial period.

19. **MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR**

On 7 January 2010, Dr Yuewen Zheng was appointed as a Non-Executive Director of the Company and Mr Xiaojian Ren as an Alternate Director for Dr Yuewen Zheng.

On 9 February 2010, Galaxy Lithium Jiangsu Co Limited, a Peoples Republic of China subsidiary of Galaxy Lithium International Limited was established and business licence approved.

On 10 March 2010, The Company issued 6,650,000 unlisted options exercisable at \$1.11 pursuant to the ESOP.

Since period end, The Company allotted 1,968,750 shares as a result of the exercise of options raising \$1,085,625.

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.

20. **SEGMENT INFORMATION**

The Company operates only in one business and geographical segment being predominantly in the area of mining exploration in Western Australia. The Company considers its business operations in mineral exploration to be its primary reporting function. In the near future, the Group will be establishing operations in the People's Republic of China, however at this stage these operations are not yet considered material.

21. **EARNINGS / LOSS PER SHARE**

	Consolidated	
	31 December	30 June
	2009	2009
	Cents	Cents
(a) Basic earnings per share		
Loss attributable to the ordinary equity holders of the Company	(11.91)	(6.40)
(b) Diluted earnings per share		
Diluted earnings per share are not disclosed as they are not materially different to basic earnings per share.		
(c) Weighted average number of shares used as the denominator		
Weighted average number of ordinary shares outstanding during the year used in calculation of basic earnings per share	103,496,924	58,723,816

NOTES TO THE FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 31 DECEMBER 2009

22. FINANCIAL RISK MANAGEMENT

The Company and Group's activities expose it to a variety of financial risks including:

- Market risk
- Credit risk
- Liquidity risk

This note presents information about the Company's and Group's exposure to each of the above risks, their objectives, policies and processes for measuring and managing risk, and the management of capital. Further quantitative disclosures are included throughout this financial report.

The Company and Group do not use any form of derivatives as it is not at a level of exposure that requires the use of derivatives to hedge its exposure. Exposure limits are reviewed on a continuous basis. The Group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

The Board of Directors has the overall responsibility for the establishment and oversight of the risk management framework. Management monitors and manages the financial risks relating to the operations of the Group through regular reviews of the risks.

(a) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the consolidated entity'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.

(i) Foreign exchange risk

The Group is exposed to foreign exchange risk in the form of the US\$20m loan currently held (Note 11). Management has no hedging in place as at period end however closely monitors and manages exposures to foreign exchange risks as and when they arise.

(ii) Price risk

The Group is exposed to price risk as it has an investment in listed shares (Note 8).

(iii) Cash flow and fair value interest rate risk

Although the Group has significant interest bearing assets, the Company's income and operating cash flows are substantially independent of changes in market interest rates. The Group monitors interest rates to obtain the best terms and mix of cash flow.

The Company's main interest rate risk arises from borrowings. Borrowings issued at a variable rate expose the Company to cash flow interest rate risk.

(b) Credit risk

Credit risk arises from cash and cash equivalents and deposits with financial institutions. For banks and financial institutions, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors.

The Company does not have any significant credit risk exposure to a single counterparty or any group of counterparties having similar characteristics. The Company measures credit risk on a fair basis. The cash and cash equivalents are held with major Australian and international banks. The Board reviews the appropriateness of this on an as needs basis.

The carrying amount of financial assets recorded in the financial statements, net of any provisions for losses, represents the Company's maximum exposure to credit risk without taking account of the fair value of any collateral or other security obtained. The Company has no financial assets that are neither past due nor impaired therefore credit qualities have not been disclosed.

The Group's maximum exposure to credit risk at reporting date was:

	Consolidated		Company	
	31 December 2009	30 June 2009	31 December 2009	30 June 2009
	\$	\$	\$	\$
Other receivables	1,632,946	373,791	1,632,946	373,791
Cash and cash equivalents	83,441,378	3,441,613	62,373,946	3,441,613

(c) Liquidity risk

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting arrangements.

	Consolidated 31 December 2009			Consolidated 30 June 2009		
	Carrying amount	Contractual cashflows	6 months or less	Carrying amount	Contractual cashflows	6 months or less
Trade and other payables	6,197,751	6,197,751	6,197,751	1,250,907	1,250,907	1,250,907
Interest bearing Liabilities	22,361,360	22,636,907	22,636,907	-	-	-

NOTES TO THE FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 31 DECEMBER 2009

22. FINANCIAL RISK MANAGEMENT – continued

(c) Liquidity risk – continued

	Company 31 December 2009			Company 30 June 2009		
	Carrying amount	Contractual cashflows	6 months or less	Carrying amount	Contractual cashflows	6 months or less
Trade and other payables	6,087,550	6,087,550	6,087,550	1,250,907	1,250,907	1,250,907

Prudent liquidity management involves the maintenance of sufficient cash, committed credit facilities and access to capital markets. It is the policy of the board to ensure that the Company is able to meet its financial obligations and maintain the flexibility to pursue attractive investment opportunities through keeping committed credit lines available where possible, ensuring the Company has sufficient working capital and preserving the 15% share issue limit available to the Company under the ASX Listing Rules.

Financing arrangements

The Group has arranged a \$130m loan agreement with Creat Group Co Limited for the development of the Mt Cattlin Lithium Project and the Jiangsu Lithium Carbonate Plant. The Group is in the process of finalising documentation to transfer this facility to RZB and China Development Bank.

Maturities of financial liabilities

The Company's exposure to interest rate risk and the effective weighted average interest rate by maturity periods is set out in the following tables:

d) Currency risk

The Group's exposure to foreign currency risk at balance date was as follows:

	31 December 2009 USD
Cash and cash equivalents	21,019,398
Interest bearing liabilities	(22,361,962)
Balance Sheet Exposure	<u>(1,341,962)</u>

The following significant exchange rates applied during the year:

AUD	Average rate 2009	Reporting date spot rate 2009
USD	0.9057	0.8944

The Group had no foreign exchange exposures during the year ended 30 June 2009.

Sensitivity Analysis

A strengthening of the AUD, as indicated below, against the USD at 31 December would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis is based on foreign currency exchange rate variances that the Group considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is not performed for 30 June 2009 as the Group had no foreign exchange exposure in the year to 30 June 2009.

31 December 2009	Consolidated		Company	
	Equity	Profit or loss	Equity	Profit or loss
USD (10 percent strengthening)	-	(120,025)	-	-

NOTES TO THE FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 31 DECEMBER 2009

22. FINANCIAL RISK MANAGEMENT – continued

e) Interest rate risk

At reporting date the interest rate profile of the Company's and Group's interest-bearing financial instruments was:

	Consolidated Carrying amount		Company Carrying amount	
	31 December 2009	30 June 2009	31 December 2009	30 June 2009
	\$	\$	\$	\$
Variable rate instruments				
Financial assets	62,187,366	3,421,825	62,186,866	3,421,825

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates at the reporting date would have increased (decreased) equity and profit or loss by the amounts shown below.

	Profit or loss		Equity	
	100bp increase	100bp increase	100bp increase	100bp increase
31 December 2009				
Variable rate instruments	621,874	(621,874)	-	-
30 June 2009				
Variable rate instruments	34,218	(34,218)	-	-

A weakening of the AUD against the above currency at 31 December 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.

f) Fair values

The carrying amounts of financial assets and liabilities is equal to the fair values.

g) 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 concerns while maximising the return to shareholders through the optimisation of its capital structure comprising equity and cash.

There were no changes in the Company's and Group's approach to cash management during the period.

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 31 DECEMBER 2009

23. SHARE-BASED PAYMENTS

The Galaxy Resources Limited Employee Share Option Plan was approved in April 2009.

The issue to each individual Employee, Key Employee or director is controlled by virtue of the provisions of both the Employee share Option Plan and the ASX Listing Rules.

At 31 December 2009, 750,000 45 cent employee options, 6,950,000 60 cent employee options, and 4,000,000 90 cent employee options have been issued. 11,200,000 remain unconverted to ordinary shares.

Set out below is a summary of the options granted by the Company:

Grant Date	Expiry date	Exercise price	Balance at the start of the year (Number)	Granted/ lapsed, exercised during the financial period (Number)	Balance at end of the financial period (Number)	Vested and exercisable at end of financial period * (Number)
31 December 2009						
19 May 2006	06 Feb 2010	\$0.30	1,500,000	(1,000,000) a	500,000	500,000
19 May 2006	06 Feb 2011	\$0.40	1,500,000	-	1,500,000	1,500,000
5 Feb 2007	30 Jan 2010	\$0.30	750,000	(731,250) a	18,750	18,750
27 Nov 2008	24 Nov 2011	\$0.80	500,000	(500,000) b	-	-
27 Nov 2008	24 Nov 2011	\$1.00	500,000	(500,000) b	-	-
27 Nov 2008	24 Nov 2011	\$1.20	500,000	(500,000) b	-	-
17 Apr 2009	17 April 2014	\$0.45	750,000	-	750,000	750,000
17 April 2009	5 years from vesting	\$0.60	7,100,000	1,250,000 c	8,350,000	8,350,000
17 April 2009	5 years from vesting	\$0.60	5,350,000	-	5,350,000	5,350,000
Various	31 Dec 2009	\$0.35	4,161,500	(4,161,500) d	-	-
23 Nov 09	5 years from vesting	\$0.60	-	3,000,000 e	3,000,000	3,000,000
23 Nov 09	5 years from vesting	\$0.90	-	3,500,000 c	3,500,000	3,500,000
Weighted average exercise price			\$0.53	\$0.74	\$0.62	\$0.62
30 June 2009						
15 March 2005	30 Sep 2008	\$0.20	4,225,000	(4,225,000) f	-	-
19 May 2006	06 Feb 2009	\$0.20	750,000	(750,000) a	-	-
19 May 2006	06 Feb 2010	\$0.30	1,500,000	-	1,500,000	1,500,000
19 May 2006	06 Feb 2011	\$0.40	1,500,000	-	1,500,000	1,500,000
5 Feb 2007	30 Jan 2010	\$0.30	750,000	-	750,000	750,000
27 Nov 2008	24 Nov 2011	\$0.80	-	500,000 c	500,000	500,000
27 Nov 2008	24 Nov 2011	\$1.00	-	500,000 c	500,000	500,000
27 Nov 2008	24 Nov 2011	\$1.20	-	500,000 c	500,000	500,000
17 Apr 2009	17 April 2014	\$0.45	-	750,000 c	750,000	750,000
17 April 2009	5 years from vesting	\$0.60	-	7,100,000 c	7,100,000	7,100,000
17 April 2009	5 years from vesting	\$0.60	-	5,350,000 c	5,350,000	5,350,000
Various	31 Dec 2009	\$0.35	-	4,161,500 c	4,161,500	4,161,500
Weighted average exercise price			\$0.26	\$0.57	\$0.53	\$0.53

a Exercised

b Cancelled

c Granted

d 4,159,360 exercised, 2,140 lapsed

e 4,000,000 granted, 500,000 exercised

f 2,775,000 exercised, 1,450,000 lapsed

* All vested options are exercisable aside from e class options

Options granted carry no dividend or voting rights. When exercisable, each option is convertible into one ordinary share. No options were granted during the financial year.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 31 DECEMBER 2009

23. **SHARE-BASED PAYMENTS – continued**

A) Director option expense

3,000,000 options were issued to Directors during the financial year.

(B) Employee option expense

5,250,000 options were issued to the employees during the financial year.

(C) Expenses arising from share-based payment transactions

Total expenses arising from share-based payments recognised during the financial period as employee benefits expense was:

	31 Dec 2009	30 June 2009
	\$	\$
Director benefits (share options)	4,136,805	465,844
Employee benefits (share options)	4,797,327	595,399
	8,934,132	1,061,243

24. **INVESTMENTS IN CONTROLLED ENTITIES**

	Class	Country of incorporation	Investment at cost	
			31 Dec 2009	30 June 2009
Parent Entity			\$	\$
Galaxy Resources Limited	Ord	Australia		
Controlled Entities				
Galaxy Lithium Australia Limited	Ord	Australia	1	1
Galaxy Lithium International Limited	Ord	Hong Kong	1	-

DIRECTORS' DECLARATION
For The Period 1 July 2009 to 31 December 2009

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 21 to 24 are in accordance with the Corporations Act 2001 including:
 - i. giving a true and fair view of the financial position of the Company and Consolidated Entity as at 31 December 2009 and of its performance for the financial period 1 July 2009 to 31 December 2009; 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 1(a).

The directors have been given the declarations by the chief executive officer 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, 31 March, 2010



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 balance sheet as at 31 December 2009, and statements of comprehensive income, statements of changes in equity and statements of cash flows for the six months ended on that date, a summary of significant accounting policies and other explanatory notes, and the directors' declaration of the Group comprising the company and the entities it controlled at the period's end or from time to time during the financial period.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

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 and fair presentation of the financial report 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 (including the Australian Accounting Interpretations), a view which is consistent with our understanding of the Company's and the Group's financial position and of their performance.

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



Independence

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

Auditor's opinion

In our opinion:

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

- (i) giving a true and fair view of the Company's and the Group's financial position as at 31 December 2009 and of their performance for the period ended on that date; and
- (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001.

(b) the financial report also complies with International Financial Reporting Standards as disclosed in note 1(a).

Report on the remuneration report

We have audited the Remuneration Report included in the directors' report for the period ended 31 December 2009. 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 period ended 31 December 2009, complies with Section 300A of the *Corporations Act 2001*.

KPMG

KPMG

T R Hart
Partner

Perth

31 March 2010

ASX SHAREHOLDER INFORMATION

1. Share Holding at 12 March 2010

(a) Distribution of Shareholders

Share holding	Number of Holders Fully paid ordinary shares
1 - 1,000	1,332
1,001 - 5,000	2,958
5,001 - 10,000	1,209
10,001 - 100,000	1,146
100,001 - over	115
	6,760

(b) Unmarketable Parcels

There are 269 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
Ademsa Pty Ltd	7,677,120

2. Top Twenty Shareholders at 12 March 2010

Shareholder	Number of Shares	% Issued Capital
HSBC Custody Nominees (Australia) Limited	8,106,870	5.35
Ademsa Pty Ltd	7,677,120	5.07
Creat Resources Holdings Limited	6,818,182	4.50
Robert Healy	6,000,000	3.96
National Nominees Limited	5,972,748	3.94
HSBC Custody Nominees (Australia) Limited – GSCO ECA	3,418,538	2.26
HSBC Custody Nominees (Australia) Limited – A/C 2	3,323,830	2.20
UBS Nominees Pty Ltd	3,285,240	2.17
Equity Trustees Limited <SGH PI Smaller Co Fund>	3,150,000	2.08
WSF Pty Ltd <ADH S/F A/C>	2,788,768	1.84
ANZ Nominees Limited <Cash Income A/C>	2,703,540	1.79
Romadak Pty Ltd <Romadak Super Fund A/C>	2,564,286	1.69
Citicorp Nominees Pty Ltd	2,393,173	1.58
J P Morgan Nominees Australia	1,716,033	1.13
State One Stockbroking Ltd	1,650,000	1.09
Simcocks Pensions Ltd	1,600,000	1.06
Mineral Administration Services Pty Ltd	1,294,841	0.86
State One Holdings Pty Ltd	1,272,500	0.84
Robert Wanless	1,160,931	0.77
Hengolo Pty Ltd <C L Readhead Super Fund A/C>	1,133,333	0.75
	68,029,723	44.93

ASX SHAREHOLDER INFORMATION

3. Distribution of Unlisted Options

Distribution	40 cent	45 cent	60 cent	90 cent	\$1.11
1 - 1,000					
1,001 - 5,000					
5,001 - 10,000					
10,001 - 100,000					
100,001 - over	2	1	20	5	15
Total Holders	2	1	20	5	15
Total Units	1,250,000	750,000	16,700,000	2,800,000	6,650,000

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
<u>Boxwood Hill</u>	E70/1988	
	E70/2493	
	E70/2513-E70/2514	
	E70/2547	
<u>Connolly</u>	E69/1878	
<u>Ponton</u>	E28/1317	
	E28/1830	
<u>Shoemaker</u>	E69/1869-1871	1
<u>Ravensthorpe</u>		
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	
Mosaic	M74/136	
West Kundip	M74/133	
	M74/238	
Floater	E74/400	
	P74/307-P74/308	
Sirdar	E74/401	
	P74/309-P74/310	

1) 50% Interest with GMC.

CORPORATE DIRECTORY

Directors

Craig Readhead (Chairman)
Iggy Tan (Managing Director)
Robert Wanless
Yuewen Zheng
Xiaojian Ren (Alternate Director for Yuewen Zheng)

Secretary

Andrew Meloncelli

Executive Management

Terry Stark (General Manager – Australia)
Mark Sun (General Manager – China)
Anand Sheth (General Manager – Marketing and Business Development)
Philip Tornatora (Exploration and Geology Manager)
John Sobolewski (Chief Financial Officer)

Registered Office and Principal Place of Business

Level 2, 16 Ord Street PO Box 1136
West Perth WA 6005 West Perth WA 6872
Australia Australia
P: + 61 8 9215 1700
F: + 61 8 9215 1799
Email: reception@galaxyresources.com.au
Website: www.galaxyresources.com.au

Share Registry

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

Auditors

KPMG Chartered Accountants
235 St Georges Terrace
Perth WA 6000
P: + 61 8 9263 7171
F: + 61 8 9263 7129

Solicitors

Allion Legal
Level 2, 50 Kings Park Road
West Perth WA 60005
P: + 61 8 9216 7100
F: + 61 8 9324 1075

Australian Business Number

11 071 976 442

ASX Code

GXY