

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 www.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, Bob Wanless and Yuewen Zheng. Full details of Galaxy’s Board of Directors and their relevant experience and skills are detailed in the Director’s 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 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 Bob Wanless is the only Director of Galaxy considered by the Board of Directors to be independent for the purposes of the ASX Principles because he:

- Is not a member of management;
- Is not a substantial shareholder of Galaxy or an officer of, or otherwise associated directly with, a substantial shareholder of Galaxy;
- Has not within the last three years been employed in an executive capacity by Galaxy or another Group member, or been a director after ceasing to hold any such employment;
- Has not within the last three years been a principal of a material professional adviser or a material consultant to Galaxy or another Group member, or an employee materially associated with the service provided;
- Is not a material supplier or customer of Galaxy or other Group member, or an officer of or otherwise associated directly or indirectly with a material supplier or customer;
- Does not have a material contractual relationship with Galaxy or another Group member other than as a director of Galaxy (disregarding his one fifth share in the Wanless Royalty interest over the Mt Cattlin Project because it is the subject of a contract with the previous owner of the main Mt Cattlin Project tenement, Red 5 Limited, and not the subject of a contract with Galaxy);
- Has not served on the Board for a period which could, or could reasonably be perceived to, materially interfere with the director’s ability to act in the best interests of Galaxy;
- Does not have any business or other relationship which could, or could reasonably be perceived to, materially interfere with the director’s ability to act in the best interests of Galaxy.

Non-Executive Director Yuewen Zheng is not considered by the Board of Directors to be independent for the purposes of the ASX Principles because:

- he has a material contractual relationship with Galaxy, other than as a director of Galaxy, by virtue of his directorship and shareholding in Creat Resources Holdings Limited and Creat Group Co Limited, Galaxy’s source of debt finance to develop Galaxy’s lithium project; and
- he is an officer of Creat Resources Holdings Limited and Creat Group Co Limited, a substantial shareholder of Galaxy.

Non-Executive Chairman Craig Readhead is not considered by the Board of Directors to be independent for the purposes of the ASX Principles because is currently and has within the last three years been a principal of a material professional adviser to Galaxy, namely Allion Legal (called Pullinger Readhead Lucas prior to 1 July 2009), Galaxy's sole legal advisers in Australia.

Accordingly, Galaxy has a minority of one independent Director, Bob Wanless and a majority of three non-independent Directors.

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.

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 Australian and in the People's Republic of China, and is broadly conversant 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 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.

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 Meloncellit is Secretary to the Committee. Craig Readhead is Chairman of the Remuneration 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 Bob 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 (subject to shareholder approval).

Audit Committee

Galaxy has established an Audit Committee with an established Charter which requires the Audit Committee to have three members of which two must be Non-Executive Directors. The Audit Committee comprises the three Non-Executive Directors, Bob Wanless, Yuewen Zheng and Craig Readhead. Andrew Meloncelli is Secretary to the Committee.

1 meetings of the Audit Committee were held during the reporting period. All members were present at these meetings.

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 in November 2009. The Audit Committee is satisfied that the external auditors were not engaged for non-audit services during the financial year 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;
- Ethical behaviour and fair dealing; and
- Independence from Galaxy.

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
- 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.

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 Remuneration Committee Charter and the Audit 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. A performance evaluation for senior executives took place during the reporting period. A policy on matters reserved for the Board is outlined in this Report and is available on Galaxy's website.	Not applicable.
2	Structure the Board to add value	Galaxy does not comply with the following recommendations: <ul style="list-style-type: none"> • A majority of the Board should be independent directors • The Chairman should be an independent Director Galaxy has three Non-Executive Directors and one Executive Director. However, two of the Non-	Galaxy proposes to appoint one or more independent non-Executive Directors in the near future to address the imbalance of non-independent on the Galaxy Board.

		<p>Executive Directors, Craig Readhead and Yuewen Zheng are not considered to be independent by definition as Craig is a principal of a material professional adviser to Galaxy and has been for the past 3 years, and Yuewen is an officer of a substantial shareholder and a party with whom Galaxy has a material contract.</p> <p>Non-Executive Director Bob Wanless is considered to be an independent director because he is not a substantial shareholder, does not perform an executive role within the organisation, is not a material supplier or customer (including over past 3 years) and has no material contract with Ampella.</p>	
3	Promote ethical and responsible decision-making	Galaxy complies with this principle.	Not applicable.
4	Safeguarding integrity in financial reporting	<p>Galaxy only partially complies with this Principle. Galaxy is non-compliant in the following areas:</p> <ul style="list-style-type: none"> The Audit Committee should comprise three members two of which must be Independent Directors <p>Galaxy does not have more than one independent Director. The Audit Committee has three members, of which Committee members Craig Readhead and Yuewen Zheng are not independent for reasons set out under Principle 2 above. The Audit Committee met on 1 occasions during the Reporting Period.</p>	<p>The Audit Committee deals with the lack of independence of Audit Committee members by reference to third party advice such as the Company Secretary Andrew Meloncelli who has significant accounting experience. The Audit Committee also relies on the Code of Conduct requirements for disclosure of conflicts in order to adequately deal with independence issues when addressing matters before the Audit Committee.</p>
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	<p>Galaxy only partially complies with this Principle. Galaxy is non-compliant in the following areas:</p> <ul style="list-style-type: none"> Non-Executive Directors should not receive options The Remuneration Committee should comprise three members two of which must be Independent Directors <p>All three Non-Executive Directors receive options. The Remuneration Committee has three members, of which Committee members Craig Readhead and Yuewen Zheng are not independent for reasons set out under Principle 2 above.</p>	<p>The Company has separate policies relating to the remuneration of Non-Executive Directors as opposed to senior executives. These policies provide a basis for distinguishing the type of remuneration which is suitable for the two classes. Quantity of options is the main differentiator between remuneration for the Managing Director and for the Non-Executive Directors.</p>