

# QUARTERLY REPORT

For the Three months ending 31 March 2009

Galaxy Resources Limited ("Galaxy") is pleased to provide to shareholders the March 2009 Quarterly Report which provides a summary of progress by your company. During the quarter, the Company completed a pre-feasibility study on the downstream production of lithium carbonate and is now focussing on establishing the value adding lithium carbonate conversion in China due to lower capital and operating costs. Off take arrangements are proceeding positively and the Company is moving rapidly towards project financing.



## SIGNIFICANT EVENTS DURING THE QUARTER

- A pre-feasibility study was completed for downstream processing of lithium carbonate produced at the Mt Cattlin Lithium-Tantalum Project in Ravensthorpe
- The net present value of the project ranges between \$310 million to \$360 million, close to a three-fold increase from "sale of spodumene only" study
- The results indicate that the project economics could be improved by locating the lithium chemical plant closer to lithium carbonate end markets and lower associated capital and operating costs
- The Company received Letters of Intent from potential off take partners for its initial production of Lithium Carbonate (17,000 tpa) commencing 2011
- Mr Anand Sheth was appointed General Manager Marketing & Business Development for the Company
- Mr John Sobolewski was appointed CFO & Company Secretary
- Joint Company Secretaries, Karen Brown and Lindsay Colless also resigned during the quarter
- Mining Leases ML74/155 and ML74/182 were granted during the quarter, which surrounds the Mt Cattlin resource
- Galaxy appointed risk advisory and fund management group, Noah's Rule, to assist in the next stage of project development and corporate debt raising and financial structuring
- A Memorandum of Understanding (MOU) was signed with the Port of Esperance in order to investigate, evaluate and progress the export of Spodumene product
- The Company raised a total of \$2.95 million during the quarter
- The forecast and outlook presented by the top three world lithium producers, as well as independent research groups show world lithium demand is expected to grow three-fold in just over ten years
- Galaxy announced developments to significantly consolidate the Company's tenement holding in WA, after the return of tenements from Pioneer Nickel (ASX: PIO)
- The Company believes that commissioning and start up of the mine and minerals plant within Q3 2010 is still achievable
- Galaxy announced that RC drilling at Mt Cattlin returned significant tantalum results, the best being 5m @ 673ppm Ta<sub>2</sub>O<sub>5</sub>

### Galaxy's Vision

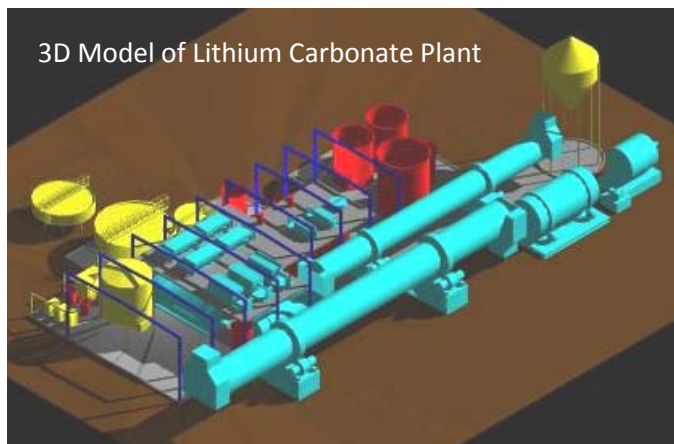
#### World Player in Lithium

- Galaxy will be the second largest hard rock spodumene mine in the world
- Galaxy will be the fourth largest lithium carbonate producer in the world and largest producer in China
- The Company will be one of the lowest cost producers in China and a strategic supplier to the Asian markets

## Lithium Carbonate Pre-feasibility Study

A pre-feasibility study was completed for the downstream processing of lithium carbonate produced at the Mt Cattlin Lithium-Tantalum Project in Ravensthorpe. The net present value of the project ranges between \$310 million to \$360 million, close to a three-fold increase from "sale of spodumene only" study.

After investigating various options, a sulphate processing technique was selected as the most appropriate. The sulphate route is an established and accepted processing method used extensively in China to convert spodumene to battery grade lithium carbonate. Galaxy has developed and established a risk free flow sheet that is very similar to the current operating plants in China.



Capital and operating cost estimates will be released on completion of the DFS stage, however the project Net Present Value (NPV) (real and non-g geared, before tax, discount of 8%, FX \$US:\$A 0.65) is estimated to range between \$A310 million<sup>^</sup> to \$360 million<sup>^</sup> and payback at less than 4 years .

The results indicate that the project economics could be improved by locating the lithium chemical plant closer to lithium carbonate end markets and lower associated capital and operating costs. Developing a wholly owned plant in China is the preferred option as it provides Galaxy with complete control over the process and the quality of the product produced. The Company estimates capital cost for a similar lithium carbonate plant in China to be between 40%-60% of the Australian version. Similarly, operating costs for a Chinese operation is expected to have a 35%-45% reduction of operating costs. Also, access to cement plants for waste residue disposal and detergent plants for sodium sulphate disposal are important factors that drive the economics of a lithium carbonate plant.

It should be noted that by retaining ownership of the carbonate plant, Galaxy will maximise the return flow of benefits to Australia and deliver further upside to the Mt Cattlin project in Ravensthorpe.

## Why China?

Galaxy's strategy is to be a producer and supplier of lithium chemicals rather than selling only the lithium mineral. This adds value to the resource and up side to the project.

Chinese lithium processors have been converting spodumene ore into lithium chemicals from local and Australian (Greenbushes) sources for more than 20 years. The processors achieve high recovery and efficiency rates in the sulphate process and produce battery grades of lithium carbonate, lithium hydroxide, lithium metal and high purity lithium carbonate. China has the technology, experienced personnel and significant demand for lithium products and by-products.



Approximately 15,000 to 20,000 tpa of lithium chemicals are currently produced in China from spodumene based production. The total market demand in China is around 25,000 tpa and this is expected to increase significantly from 2010 with the growth of the hybrid and electric vehicle market.

## China Strategy - Key Points

1. Production of Spodumene has been occurring in China for decades
2. The Chinese end product is accepted for Li battery production
3. China has the technology and experienced people
4. A China-based lithium chemical plant will have lower capital and operating costs
5. Chinese consumption of lithium chemicals is large and expected to grow
6. Galaxy's strategy to move up the value adding chain to bring further upside to the Mt Cattlin project

## Marketing Strategy

Galaxy's vision is to be the leading producer of lithium carbonate in Asia. Its Mt Cattlin Lithium Tantalum mine in Western Australia has the potential to be the second largest hard rock mine in the world. Galaxy's proposed lithium carbonate plant has the potential to be the largest plant and most competitive cost producer in China.

Galaxy has the potential to be the fourth largest producer of lithium carbonate worldwide. If the project goes ahead, Galaxy will be an Australian company controlling a foreign subsidiary in China. The Company plans to use Australian manufacturing standards and experience to ensure consistent product and packaging quality. Galaxy's primary focus is the production of battery grade lithium carbonate and lithium hydroxide. By owning and controlling its own lithium deposit and downstream processing facility, Galaxy has the potential to become a low cost producer due to economy of scale

and provide the necessary product quality, consistency and reliability to customers.

### Off Take Arrangements

The marketing plan is to seek long term off-take sales agreements with Car and / or Lithium Battery manufacturers (end users) that underpin their future requirements for Li chemical feedstock. This would potentially mitigate the risk of selling the Li chemicals in the open market.

The Company has received Letters of Intent from potential off take partners in Europe, Japan and China for its total initial production of Lithium Carbonate (17,000 tpa) commencing 2011. The off take interest amounts to 130% of the initial production rate of 17,000 tpa of lithium carbonate production.

The Company will move to finalise these off take arrangements and partners in the next quarter.

### Appointment of GM Marketing

Mr Anand Sheth was appointed General Manager Marketing & Business Development for the Company. Mr Sheth is highly experienced in the international marketing and global sales of lithium and tantalite mineral products.



For the past 10 years, Mr Sheth has been the Lithium and Tantalum Marketing Manager at Talison Minerals Pty Ltd (ex-Sons of Gwalia Limited). During his time at Sons of Gwalia, he played an integral role in developing the lithium business, growing sales by 150% within 5 years.

At Galaxy, Mr Sheth will be responsible for developing the markets and applications of lithium-tantalum mineral products as well as the long term strategic partnerships and off take agreements for the Company.

### Appointment of CFO & Company Secretary

Mr Sobolewski is a CA qualified accounting professional with ten years experience in the accounting industry, including five years in executive roles with companies within the resources industry in Western Australia. Most recently, Mr Sobolewski was CFO and Company Secretary for Vital Metals Limited. Mr Sobolewski's previous experience also includes positions as Financial Controller and Company Secretary with Croesus Mining NL and Group Accountant and Company Secretary with Titan Resources NL.



Mr Sobolewski has great experience in the financial management of ASX listed companies which will be a real benefit to the company as

it transitions from junior explorer to major lithium miner and producer.

Joint Company Secretaries, Karen Brown and Lindsay Colless also resigned during the quarter. Chairman, Craig Readhead acknowledged both their excellent contribution to the Company. "Karen and Lindsay have played an important part in the development of the Company and their contributions and commitment are greatly appreciated".

### Mt Cattlin Extension Mining Leases Granted

Mining Leases ML74/155 and ML74/182 were granted during the quarter, which surround the Mt Cattlin lithium and tantalum resource. These leases are contiguous with ML74/12, which hosts the bulk of the Mt Cattlin lithium and tantalum resource which already supports a 15 year mine life for a 1m tpa operation. In addition, the recently granted Mining Leases are highly prospective for additional pegmatite-hosted lithium and tantalum mineralisation, and drilling targeting further extensions of the known resource is planned for early next year.

Grant of these leases will enable the Company to proceed with further step out drilling and potentially increase the resource base. The Company believes there is significant potential to expand the resource at Mt Cattlin.

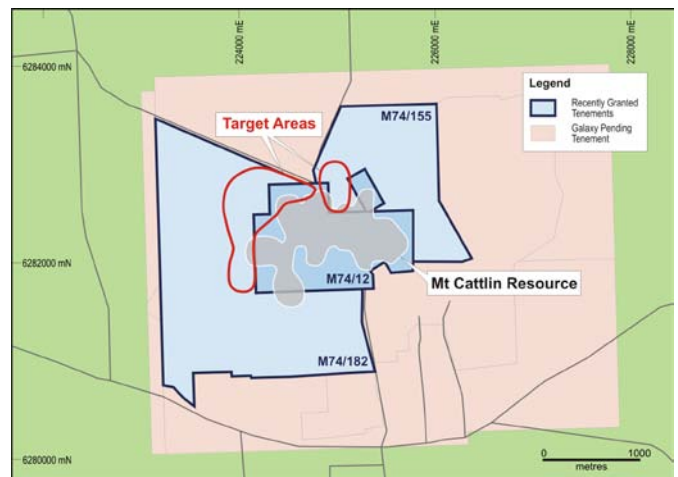


Figure 1 – Grant of Leases

### Financial Advisor Appointed

Galaxy appointed risk advisory and fund management group, Noah's Rule, to assist in the next stage of project development and corporate debt raising and financial structuring. Noah's Rules' debt advisory team will advise Galaxy through the capital raising process for the Mt Cattlin Lithium-Tantalum project. Noah's Rule team of banking, treasury and industry trained professionals have worked with a broad range of resource companies.

## MOU Esperance Port Authority

A Memorandum of Understanding was signed with the Port of Esperance in order to investigate, evaluate and progress the export of Spodumene product. Both parties have formally agreed to enter into preliminary discussions to progress the possible storage, loading and export of the Company's Spodumene product through the port. Approximately 137,000 tonnes of Spodumene is planned to be exported from the Mt Cattlin Lithium Tantalum Project, 2 kms north of Ravensthorpe in Western Australia. The project will employ around 75-100 people and is expected to inject \$60 million to the local region.

Spodumene product which Galaxy is seeking to ship from the Port of Esperance is a mixture of naturally occurring silicates and quartz, making it absolutely inert and non toxic. The product is also insoluble and will be treated through wet screening to remove dust.

## Capital Raising

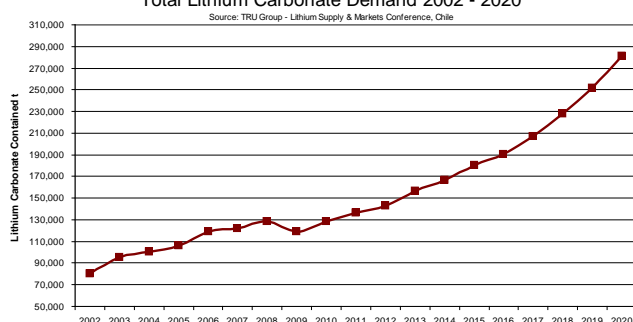
Capital Raising	Amount	Price
Jan 09 Placement	\$0.65M	35 cps (+ option)
Share Purchase Plan	\$0.33M	35 cps
Apr 09 Placement	\$1.97M	30 cps
<b>Total</b>	<b>\$2.95M</b>	

## Lithium Market Outlook

In February, Galaxy attended the inaugural World Lithium Supply and Markets 2009 conference in Santiago, Chile. Based on information presented at the conference and a recently published Economics of Lithium report by Roskill, Galaxy provided a report on the market outlook for lithium. The conference was the first occasion that the world lithium industry gathered collectively to discuss the outlook for the metal. In general, the outlook for lithium consumption appears positive.

The forecast and outlook presented by the top three world lithium producers, SQM<sup>3</sup>, Chemetall<sup>4</sup>, FMC Lithium<sup>5</sup> as well as research groups such as TRU Group<sup>2</sup> and Roskill<sup>1</sup> show world lithium demand is expected to grow around three fold in just over ten years driven by secondary (rechargeable) batteries and Electric Vehicle (EV) batteries. Current demand for lithium, measured as Lithium Carbonate Equivalent (LCE), is around 110,000 tpa. This is expected to rise to around 250,000 to 300,000 tpa in 2020 driven by secondary (rechargeable) batteries and Electric Vehicle (EV) batteries.

Total Lithium Carbonate Demand 2002 - 2020



In general, the industry expects a slowdown in 2009 due to the world financial situation but strong growth of lithium demand is expected on the recovery of the world economy. Galaxy's project is timed to be part of this expected recovery with final lithium battery grade lithium carbonate product available in early 2011.

While all sectors are forecast to grow, the main drivers for growth in the next ten years will be the battery sector and Li alloy production. Lithium is increasingly used in light weight aluminum alloys for the aerospace industry. The battery sector will now include the emergence of energy storage for Electric Vehicles.

## Project Timelines

During the quarter, Galaxy confirmed the timeline for the development of the Mt Cattlin Lithium Tantalum project. On release of the DFS results, the company announced the potential for the commissioning and start up of the mine and minerals plant in Q3 2010. While this is an aggressive plan in the current financial market, the company believes that this milestone is still achievable. Subject to successful financing, the following is a further breakdown of key milestones:

Key Milestones	Timeframe	Status
Completion of DFS	End 2008	Completed
Value Engineering Phase	Q1 2009	In progress
Off-take Partners finalised	Q2 2009	In progress
Project Finance finalised	Q3 2009	
Award of EPCM Contract	Q3 2009	
Construction	Q3 2009	
Plant Commissioning	Q3 2010	
Start up & first shipment	Q3 2010	

The Company has recognised that the value of the Mt Cattlin project could be significantly enhanced by producing the lithium carbonate itself rather than just selling the spodumene concentrate. The Company is currently considering toll treatment options as well as establishing its own lithium carbonate production facility. If a lithium carbonate plant can be established in the same timeframe as the mine and minerals plant, Galaxy intends to pursue this option.

## Consolidation of Tenements

Galaxy announced three developments to significantly consolidate the Company's tenement holding in Western Australia.

### Mt Cattlin Project

Galaxy has secured 100% ownership and control of mining lease applications M74/158 and M74/159 in the Mt Cattlin area, previously part of the Ravensthorpe Joint Venture (JV) and returned by Pioneer Nickel Ltd. Galaxy is currently progressing the grant of these tenements.

### Aerodrome Project

In addition to the Mt Cattlin tenements, Galaxy has secured 100% ownership of two Aerodrome tenements, E74/334 and E74/398, which were previously held within a JV with Pioneer Nickel. Pioneer was focused on the nickel potential of the tenement package, with results not providing sufficient encouragement to continue

expenditure. As a result, Pioneer has elected to forgo its opportunity to earn a 75% interest in the JV.

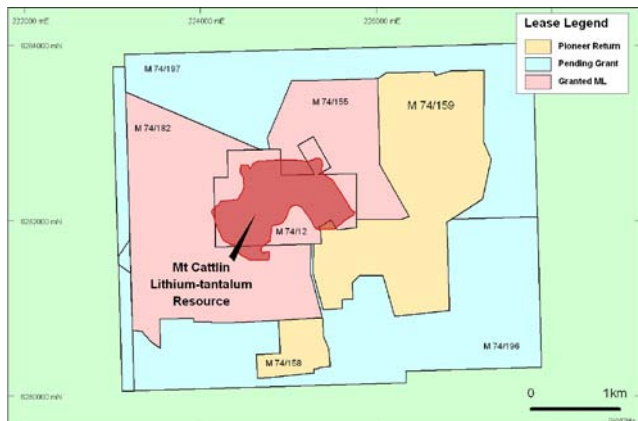


Figure 2 – Consolidation of tenements

**Bakers Hill Project**

Galaxy's tenement application E74/415, which covers a large area (around 3km x 3km) of subcropping pegmatite in the Bakers Hill area was approved by the Department of Mines and Petroleum. The Bakers Hill project is 20km south east of Mt Cattlin. Part of this area was previously held by Galaxy, and work a number of years ago included channel sampling which returned values up to 10m @ 225ppm Ta<sub>2</sub>O<sub>5</sub>, with follow up RAB drilling returning a best intercept of 4m @ 780ppm Ta<sub>2</sub>O<sub>5</sub> (lithium assays were not carried out).

**Significant Tantalum Results**

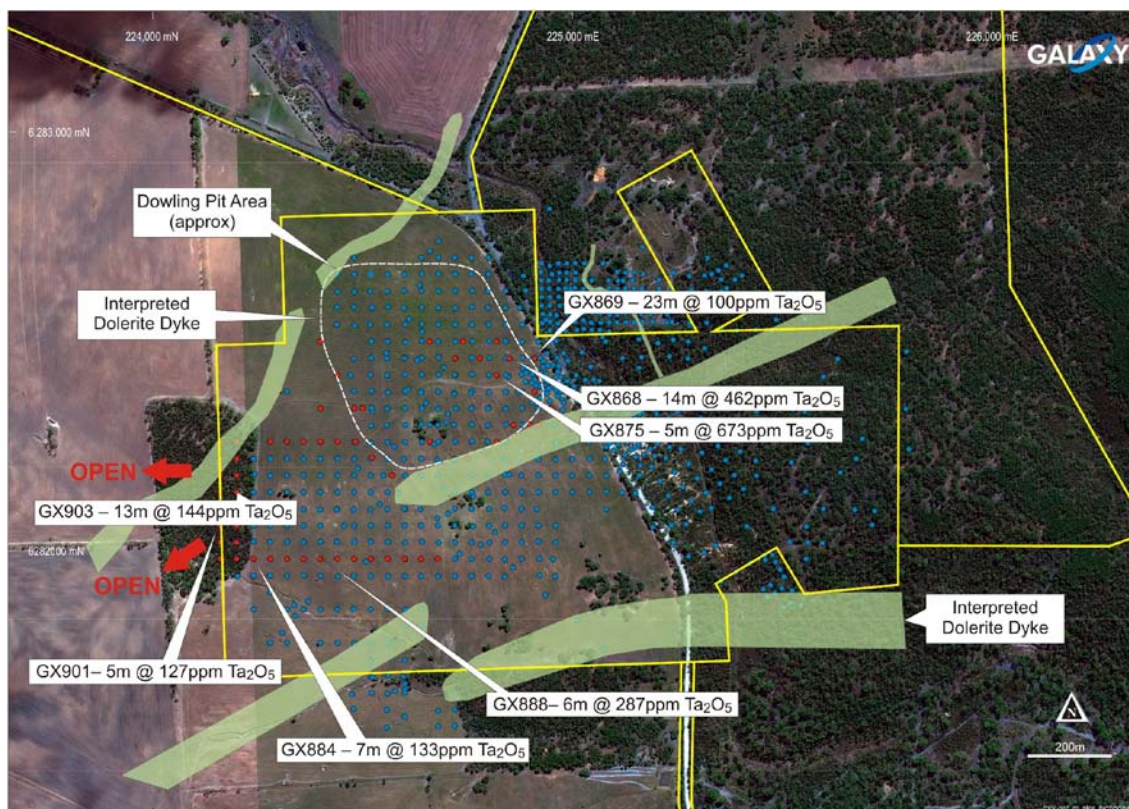
Galaxy announced that RC drilling at Mt Cattlin returned significant tantalum results. The drilling program, which was completed during August-September 2008, was designed to test strike extensions of the known resource, infill portions of the Dowling pit area, and test the potential for repetitions of the lithium and tantalum bearing pegmatite horizons at depth.

Lithium results returned from this work were reported in ASX releases on 4/12/08 and 24/12/08. Tantalum results have only recently been received due to extended laboratory turnaround time for tantalum assays in 2008, although current turnaround times have significantly improved.

The tantalum results show excellent grades with the best intercepts being:

- GX875 - 5m @ 673ppm Ta<sub>2</sub>O<sub>5</sub>, from 1m below surface
- GX868 - 14m @ 462ppm Ta<sub>2</sub>O<sub>5</sub> from 18m below surface

The tantalum results returned from the drilling program had returned grades significantly higher than the average grade assumed in the Company's DFS. With very positive lithium results from the RC drilling program received in December 2008, we're pleased to learn that the tantalum results are equally encouraging. The final results show the potential for further strike extensions to the south west of the deposit and below the known resource which is consistent with the lithium results. These positive results indicate that the deposit has the potential to be significantly larger than the known resource, adding further value to the Mt Cattlin project.



For more information, please contact:

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0421 186 129

Notes:

1. Roskill, Economics of Lithium 2009
  2. TRU Group, Lithium Supply and Markets Conference, Santiago, Chile 2009
  3. SQM Presentation, Lithium Supply and Markets Conference, Santiago, Chile 2009
  4. Chemetall Presentation, Lithium Supply and Markets Conference, Santiago, Chile 2009
  5. FMC Lithium Presentation, Lithium Supply and Markets Conference, Santiago, Chile 2009
- ^ real and non-g geared, before tax, discount of 8%, FX \$US:\$A of 0.65, 15 year mine life.

#### Competent Persons

The information in this report that relates to Mineral Resources and Ore Reserves is based on information compiled by Mr. Robert Spiers who is a full time employee of Hellman & Schofield Pty Ltd and who is a Member of the Australian Institute of Geoscientists. Mr. Spiers 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. Spiers consents to the inclusion in this report of the matters based on his information in the form and context in which it appears.

The information in this report that relates to Exploration Results is based on information compiled by Mr Philip Tornatora who is a full time employee of the Company and who is a Member of the Australasian Institute of Mining and Metallurgy and the Australian Institute of Geoscientists. Mr. Tornatora 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. Tornatora consents to the inclusion in this report of the matters based on his information in the form and context in which it appears.

#### Caution Regarding Forward Looking Statements

Statements regarding Galaxy's plans with respect to its mineral properties are forward-looking statements. There can be no assurance that Galaxy's plans for development of its mineral properties will proceed as currently expected. There can also be no assurance that Galaxy will be able to confirm the presence of additional mineral deposits, that any mineralization will prove to be economic or that a mine will successfully be developed on any of Galaxy's mineral properties. Circumstances or management's estimates or opinions could change. The reader is cautioned not to place undue reliance on forward-looking statements.

## About Galaxy (ASX: GXY)

Galaxy Resources Limited (Galaxy) is an industrial minerals company focusing on lithium and tantalum production. Galaxy has completed a definitive feasibility study (DFS) which supports the development of the Mt Cattlin lithium / tantalum project as a commercially viable enterprise based on a processing rate of 1 million tonnes per annum over a 15 year mine life. The Company is planning to commence the development of the mine and the construction of the processing plant in mid 2009 with first concentrate production scheduled for Q3, 2010.

The company has also commenced a preliminary scoping study into the value adding downstream production of lithium carbonate (Li<sub>2</sub>CO<sub>3</sub>).

Lithium concentrate and lithium carbonate raw materials is forecast to be in short supply and face high future demand growth due to advances in long life batteries and sophisticated electronics in hybrid and electric vehicles, mobile phones and computers.