GXY.AU

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Lithium, Tantalum, Manganese, Iron
Australia (WA), China (Shanghai), Mongolia
Production
Exchanges: ASX:GXY

Galaxy Resources Limited

A$ 1.45

Mt Cattlin began Li concentrate production in Oct '10, with full output expected to be ~8.2ktpa Li_2O. GXY has strenghtened its ties to China, via an A$91m share and bond issue, and listing in Hong Kong, ahead of building the Jiangsu Lithium Carbonate Plant.

Capital Profile

Share price (A$)	1.45		
52 week range (A$/share)	0.91	to	1.66
Number of shares (m)	191		
Options and warrants (m)	24		
Convertible notes (m)*			
Fully diluted (m)	215		
Market capitalisation (undiluted) (A$m)	276.4		
Debt (A$m) - Dec 10F	146.3		
Enterprise value (A$m)	422.7		
Major shareholders: Creat Resources Holdings Ltd (19.9%), HSBC Custody Nominees (12.6%), R Healy (5.8%), National Nom (5.1%)			
Avg monthly volume (m)	31		
Cash (A$m) - Dec 10F	104.8		
Price/Cash (x)	2.6		
Price/Book (x)	2.6		
Listed company options:	GXYO		

* Could raise A$61.5m via bonds 4Q10-1Q11, converting at A$1.56/share

Production and Financial Forecasts

YEAR END: June	Sep-10a	Dec-10F	2010a	2011F	2012F
Lithium Carbonate Production (t)*	na	1063	na	8500	17000
Operating Costs (US$/t LiCarb)*	na	na	na	na	4350
Exploration and Evaluation (A$m)	1.2	0.5	7.1	3.7	2.0
Corporate (A$m)	3.17	2.0	8.9	9.2	4.2
Exploration/(Expl.+ Corporate) (%)	27.0	20.0	44.4	28.6	35.5
Shares on issue (pr end) (m shares)	191	191	191	212	212
Drilling - RAB (m)	0	0	0	0	0
Drilling - Other/Diamond (m)	5,000	5,000	21,760	20,000	20,000
Land holding ('000 ha)*	145	145	145	145	145
Capital Raisings (A$m)	0.0	0.0	111.9	30.0	0.0
Funding from JV partners (A$m)	0	0	0	0	0
Cash (A$m)	96.9	104.8	18.3	138.6	140.1
Cash Backing (Ac/share)	358.8	524.2	41.4	484.6	434.4
Net Asset Backing (Ac/share)	55.8	56.0	55.9	64.6	62.8

Quarters stated on calendar year basis. * Mt Cattlin: produces concentrate6% Li_2O, shipped to Jiangsu for lithium carbonate process.

Investment Points

A near term producer of lithium and tantalum minerals in Australia, and lithium carbonate in China. Target market is the Li-ion battery industry (29% growth 2007-2008).

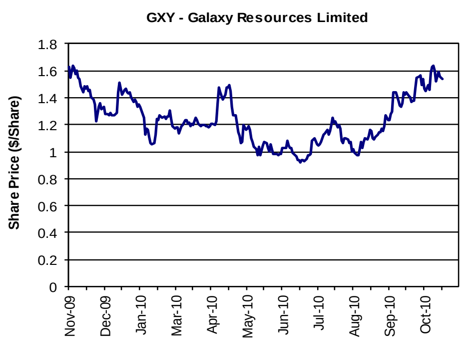
Mt Cattlin (WA): set to be the world's second-largest hard rock lithium operation, producing 137ktpa of 6% Li_2O concentrate, 56klbspa Ta_2O_5. Mining has started.

Jiangsu Lithium Plant (China): will process Mt Cattlin concentrate into lithium carbonate; will be the largest Li producer in China. Processing expected from 2Q11.

Offtake agreements signed for all Jiangsu output (17ktpa Li Carb), customers are Chinese cathode manufacturers and Mitsubishi Corp.

Both projects financed, capex ~A$286m. RCR estimates NPV (@10% nom, post tax, exchange 0.8) as A$243m or A$1.33/share, strong upside to A$2/share.

Ongoing A$91m funding from Chinese investors, including A$30m equity and A$61m in convertible bonds.



Source: Bloomberg

Company Comment

Overview: Galaxy Resources plans to become one of the world's leading producers of lithium. It has two Li projects under construction, the Mt Cattlin Mine in WA and a value-adding Li carbonate plant at Jiangsu in China. Li is an essential component of some batteries, of the type used to power electric and hybrid vehicles.
Mt Cattlin Spodumene Project (Li, Ta; WA):: will be the world's second largest hard rock producer of lithium. The mine is 2km north of Ravensthorpe (WA). Mineralisation is spodumene ($LiAlSi_2O_6$) and tantalite in a flat lying pegmatite. Mining will be open cut, to produce a spodumene concentrate and tantalite by-product. Ore processing will be at a rate of 1mtpa averaging 1.1% Li_2O (or 3.4mtpa including waste at strip ratio 2.4:1) and produce 137ktpa of spodumene concentrate at 6.0% Li_2O (upgrade x6) and 56klbspa of contained tantalum (Ta_2O_5) in concentrate. Mine life is 16 years, with a reserve of 11.37mt @ 1.05% Li_2O and 147ppm Ta_2O_5. Capital cost is A$79m and cash operating cost is expected to be A$41/t ore (DFS revenue projection A$71/t ore). Spodumene concentrate production began early Oct '10. First shipments via Esperance to China, for processing at the company's lithium carbonate plant (see below) are expected Nov '10 (first two shipments to be processed at third party facility while plant is made ready). Tantalum concentrate will be shipped from Fremantle. There is resource and exploration upside in the project area..
Jiangsu Lithium Plant (China): Designed to add value to the Mt Cattlin concentrate, the plant will be close to the Zhangjiagang Port in Jiangsu Province near Shanghai. Nameplate output will be 17ktpa 'EV' battery grade (99.9%) lithium carbonate (Li_2CO_3), plus some 'EV Plus' grade (99.99%) making GXY the largest lithium producer in China. Capex is expected to be A$72.5m (AU/RMB 6.6). Production expected 2Q11. GXY has a feasibility study for adding a Li ion battery plant to the complex, producing 350kpa units for E-bikes in China.
Offtake agreements: These are in place for 100% of Jiangsu output. Customers are Chinese Li cathode producers and Mitsubishi Corporation. GXY says the former are increasing capacity over the coming 12-24 months, and appreciate the security of supply offered by Jiangsu. Terms are commercially confidential.
Corporate: A share issue to Creat Resource Holdings in April 2010 raised A$33m. A loan of A$130m (US$105m) was drawn down from Austrian Bank RZB and the China Development Bank in September 2009, for Mt Cattlin and Jiangsu capex (combined A$151.5m including working capital). Further Jiangsu funding should come from an A$61.5m convertible bond issue at A$1.56 conversion, and share placement of A$30m at A$1.39/share, to China-based investors (including Fengli Group, and a founder of Geely Auto Holdings). Tranche 1 of bonds (A$32m) expected Nov '10 and the remaining funds in Jan '11. A Hong Kong listing is planned for 1Q11 and four new directors with Chinese corporate experience have been appointed.
Investment Comment: Galaxy is now a Li producer. It is well funded and supported in China, a major Li market. Its share price is highly leveraged to the price of battery grade (i.e high quality) lithium carbonate. Prices are forecast to increase due to technological advances, and strong environmental policies in China. Li-ion battery output increased 29% year-on-year from 2007 to 2008. World Li Carb demand is ~100ktpa, with 20-25ktpa in China; price is US$5,500-$6,000/t, or higher for better grades (added US$3k/t for 99.9% pure). GXY estimates revenue from the Cattlin-Jiansu operations will be A$143mpa for 16 years, with pre-tax net of A$69mpa. At 17ktpa this indicates GXY is expecting LiCarb at US$8,412/t costing US$4,353/t. At capex A$151.5m, RCR estimates NPV (@10% nominal exchange 0.8) is A$286m or A$1.33/share, close to the current sp, and value of bond and share issues. Further progress at Jiangsu, shipments from Mt Cattlin and an increase in Li prices towards US$10,000/t could see the stock approach A$2.00.

Reserves and Resources/Mineralised Material

Code for reporting mineral resources - Australian: (JORC)

Iron (Fe)	Classification	Project Equity	Ore Mt	Li2O %	Cut off %	Ta2O5 ppm	Li2O kt
Reserves							
Mt Cattlin	Proved, probable	100%	11.4	1.05	0.4	**147**	**119.4**
Resources							
Mt Cattlin	Meas, Ind, Inf	100%	15.9	1.08	0.4	**161**	**171.5**
Mineralised Material (est., non compliant with JORC)						**0.0**	**0.0**

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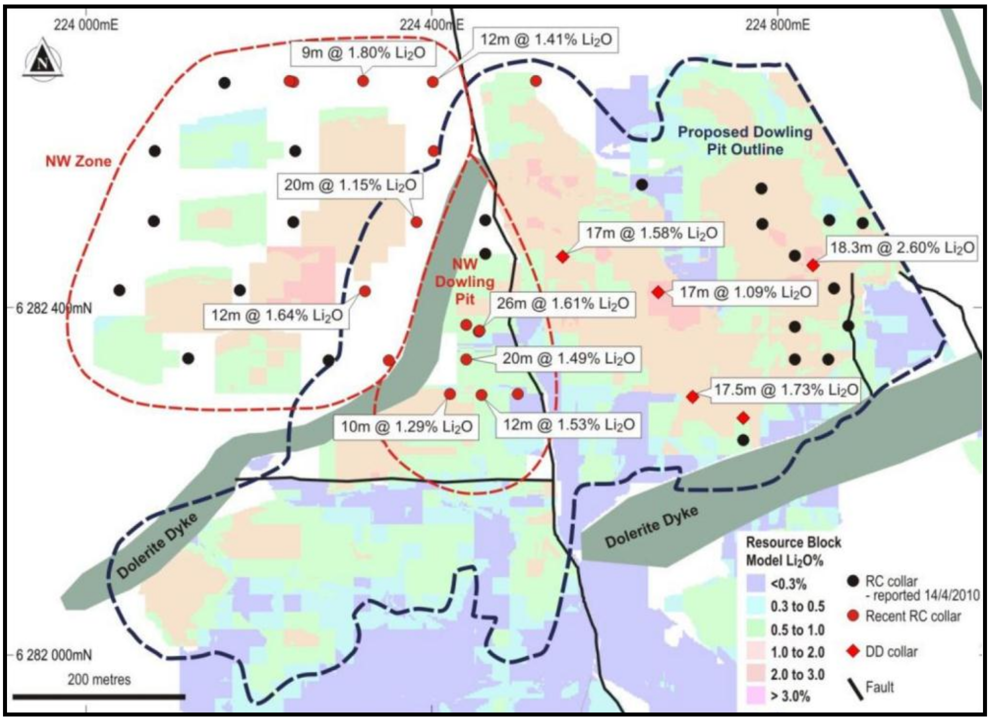
Key Projects

Project	Ownership/ Option	Metal	JV Partner	Target Type	Process Route	Project Status	Location
Mt Cattlin Spodumene	100%	Li, Ta	na	Pegmatite	Crush, HMS	Construction	Aus (SA)
Jiangsu Li Carb Plant	100%	Li	na	na	na	na	China
Shoemaker	50%/20%	Fe, Mn	GMC	BIF	na	Mid Expl	Aus (WA)
Ravensthorpe	100%	Li/Ta,Mn,Au	na	Various	na	Early/Mid Expl	Aus (WA)
Ponton	100%	U,REE,Base	na	Palabora	na	Early Expl	Aus (WA)

Plan of Mt Cattlin Spodumene Mine: proposed pit outline, lithium resource blocks and drill intercepts. Production has commenced, with ramp up to 137ktpa concentrate grading 6% Li_2O and ~0.02% Ta_2O_5.



Galaxy Resources, valuation of the Mt Cattlin Mine and Jiangsu Lithium Carbonate Plant: sensitivity analysis is for the Li Carb price; GXY base case for price is US$8,412/t.

Galaxy Minerals valuation based on operating Mt Cattlin mine and expected Jiangsu lithium carbonate plant

		Equity			Sensitivity		
LONG TERM LITHIUM CARBONATE PRICE^	:US$/t		4,000	6,000	8,000	10,000	12,000
EXCHANGE RATE	:AUUS		0.80	0.80	0.80	0.80	0.80
MT CATTLIN/JIANGSU NPV @ 10% NOMINAL*	:A$m	100%	-125	59	243	427	611
MT CATTLIN/JIANGSU NPV @ 10% NOMINAL*	:US$m	100%	-100	47	195	342	489
NPV/SHARE	**:A$/share**		**-0.58**	**0.27**	**1.13**	**1.99**	**2.85**

* Includes a discount of 15% of the project valuation (Jiangsu development discount): 15%

^Mt Cattlin produces ~56klbs/pa Ta_2O_5 in concentrate. Tantalum price forecast is US$85/lb to 4Q13, thence US$65/lb long term.

Key Assumptions*

RESOURCE ESTIMATES	Mt Cattlin Li-Ta spodumene mine, WA	Lithium (Li_2O) Mt	Lithium (Li_2O) %	Lithium (Li_2O) kt	Tantalum (Ta_2O_5) ppm
	Current Mt Cattlin Reserve	*11.4*	*1.05*	*120*	*147*
	Current Mt Cattlin Resource (incl reserve)	15.9	1.08	172	161
	Resource upside for 20 years prod'n	4	1.08	43	161
	Total conceptual resource	**20**	**1.08**	**216**	**161**

MINING METHOD	Open pit		
PROCESS METHOD	Spodume mineral concentration		At Mt Cattlin, WA
	Lithium carbonate production		Expected at Jiangsu, China (or interim 3rd party plant)
PRODUCTION RATE	:mtpa	1.0	Head grade 1.1% Li_2O. 3.4mtpa including waste (strip 2.4:1)
	:contained metal	8.22ktpa Li2O	As concentrate grading 6% Li_2O, with 56klbspa Ta_2O_5
	:lithium carbonate	17ktpa	Expected at Jiangsu
CAPITAL COSTS	:A$m	79	Plus expected A$72.5m for Jiangsu
OPERATING COSTS	:A$/t	41	Mt Cattlin only, tonne ore
	:US$/t	4,353	Li Carb at Jiangsu, backed out from GXY revenue projections
TAX	:%	30	Australia
ROYALTY	:%	4	WA
MINE LIFE	:Years	16	Conceptual 20 year resource modelled
COMMISSION DATE	:	3Q10	Mt Cattlin Mine. Jiangsu from 2Q11.

* These figures are preliminary and may be refined with ongoing production at Mt Cattlin and the announcement of final costs for the Jiangsu LiCarb plant.

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